Final Press Conference involving the Gazprom Board of Directors Chairman and the Gazprom Management Committee Chairman

June 27, 2014

Participants:

– Viktor Zubkov, Chairman of the Gazprom Board of Directors;

– Alexey Miller, Chairman of the Gazprom Management Committee.

MODERATOR: Good afternoon. The first meeting of the newly-elected Board of Directors has taken place. Viktor Zubkov is elected Chairman of the Board of Directors, Alexey Miller – Deputy Chairman.

I suggest that we should start our Press Conference. The format will be usual. I'd like to ask those who have questions to send them to me via SMS so that we don't repeat ourselves and fly from topic to topic. There are quite a few regional media representatives today, that's why we'll start with them.

QUESTION: Sergey Brutman, Novaya Novgorodskaya Gazeta newspaper. I have a question for Mr. Zubkov. Could you please say how the economic outlooks of the contract with China are estimated at Gazprom? Many specialists think that this deal will yield profit only years from now. What is the role of this contract in Russia's economy then?

VIKTOR ZUBKOV: A considerably growing demand in Asian countries, especially in China and India, is the dominant factor of the global gas market development through to 2030. This should be definitely borne in mind. It should also be borne in mind that energy shortage in the majority of Asia-Pacific countries will lead to higher dependence on imported energy sources. Thus, by 2030 the competition for natural gas supply will be observed mainly between the European and Asian markets. In this situation the advantageous geographic location of the mineral resources base, production infrastructure, the possibility of organizing the supply of both pipeline gas and LNG creates additional competitive advantages for the Russian Federation to export natural gas both to the European and Asian markets.

Concerning the contract with China: as I've already mentioned, gas demand in China is growing. Over the previous year it grew 14 per cent up to 170 billion cubic meters of gas. By 2020 gas consumption in China is expected to increase 2.5 times and, therefore, may reach 420 billion cubic meters. That is why the contract signed with China is actually a historic event. The Chinese contract became the biggest one in the gas industry history. The total supply volume will exceed the aggregate annual consumption of such three countries as the USA, Russia and China. The aggregate annual consumption in these three countries equals the volume to be supplied to China during 30 years.

Does Russia have resources for it? They are sufficient. The investments into the gas infrastructure under this contract, as Mr. Miller has mentioned in his address, come up to USD 55 billion. The Power of Siberia gas transmission system will be constructed to cover almost 4,000 thousand kilometers: a 3,200 kilometer section from Yakutia to Khabarovsk and 800 kilometers – between the Yakutia and Irkutsk gas production centers.

I'll answer your question now. The gasification level in Eastern Russia will grow substantially. Today Yakutia, the Amur Region and the Jewish Autonomous Region are highly undersupplied with gas (gasification level slightly exceeds 12 per cent). But this figure will grow to 70 per cent. Almost 500 towns and villages will receive gas. This figure alone shows how large the scale of this project is. It will be for the first time for grid gas to come to the Amur Region and the Jewish Autonomous Region. There is no doubt that this is important for the people's quality of living.

New jobs will be created. Twelve thousand specialists will be engaged in constructing the first stage of the Power of Siberia gas pipeline. The facilities that will be constructed under the contract with China will become the driving force for improving a lot of industries: metallurgy, pipe industry, machine building. The construction of the Power of Siberia first stage alone will require over one million 700 thousand tons of pipes. Moreover, I believe that 99.9 per cent of these pipes will be manufactured domestically. The gas processing and gas chemical industries will be given a fresh impetus. Gazprom will construct the Amur Gas Processing Complex and SIBUR, which actively cooperates with Gazprom – a gas chemical complex. This will mean new jobs, new products.

Not only will the project strongly influence the regions, but the growth of the Russian GDP in general, and the Ministry of Economic Development will manage this. That is why the contract with China is crucial and highly significant for our country.

I would like to wish you, Mr. Miller, success in your work. I suppose that there will be a lot of questions here today. But I guess that you'll answer every question clearly as usual. Thank you.

QUESTION: Elena Gordeeva, Russia Today agency. Have the talks with China been resumed, concerning supply via the western route and LNG supply?

ALEXEY MILLER: The talks on the western route started right after signing the contract on the eastern corridor.

A historic contract for supplying 38 billion cubic meters of gas annually during 30 years was signed within the visit of Russian President Vladimir Putin to China. The contract is worth USD 400 billion. Within the visit, right after signing the contract, our Chinese colleagues and we entered into the talks on the western route. Large-scale groundwork had been laid for the western route several years ago, before the priorities were set: the eastern route – first and then the western route. That is why we hope for the agreements on the terms and conditions of supply via the western route to be reached in the near future.

The Chinese companies also expressed their interest in the Vladivostok LNG project. We will go on negotiating this project with them, too.

QUESTION: Anastasia Goreva, Argus Media agency. Mr. Miller, which of Gazprom's fields in the east will provide for the annual production of 38 billion cubic meters by 2023–2024?

What is Gazprom's stance on the access of independent producers to the Power of Siberia gas pipeline?

Is the access to the gas pipeline of the Sakhalin II project being discussed with Rosneft?

ALEXEY MILLER: About the eastern route and the resource base: gas for the Power of Siberia gas pipeline in 2023 and 2024 will be supplied from two fields – Chayandinskoye and Kovyktinskoye.

Concerning independent producers in relation to gas supply via the Power of Siberia gas pipeline: export gas supply to China is meant only for Gazprom's resource base.

Now, Rosneft and the Sakhalin Energy pipeline, the Sakhalin II project. This gas pipeline is not a part of the Unified Gas Supply System; it is the property of Sakhalin Energy, where the shareholders are represented by Shell, Mitsui and Mitsubishi. Rosneft sent such a request to Gazprom. Sakhalin Energy plans to develop its gas liquefaction capacities within the Sakhalin II project and hopes that the capacities of this gas pipeline will be needed for the new projects of this company.

QUESTION: Denis Pinchuk, Reuters agency. Mr. Miller, yesterday at Gazprom's Press Conference it was said that Gazprom found it expedient to increase domestic gas prices in the years to come to surpass the inflation rate in order to finance the investment projects, including the Power of Siberia. Today the Ministry of Economy stated that it didn't find it viable and the rates would be frozen at the level of five per cent a year. Therefore, if the rates do not grow in the way Gazprom wants them to, how will the Company finance its investment projects, particularly the Eastern Gas Program?

ALEXEY MILLER: I can say that I totally support the stance of the Ministry of Economy that has been stated today. Gazprom didn't apply to anyone with proposals to finance the Power of Siberia gas pipeline through increasing the rates. Such an issue hasn't been raised at all, we haven't forwarded any requests either to the Government or the relevant ministries.

It regards providing a certain preferential regime for the project. Here I can say what taxes are meant. First of all, it concerns slashing the severance tax to zero. We'll also look into the possibilities of providing preferences on other taxes. But I'll stress it, never have we forwarded an issue of increasing gas rates to the Government or relevant ministries with regard to the Power of Siberia gas pipeline or our investment program.

QUESTION: Vadim Davydov, Pravda newspaper. Hello, Mr. Miller. China is becoming more and more significant for our country. We wear Chinese clothes, eat Chinese food, use Chinese appliances and will soon ride the underground constructed by Chinese builders. The gas pipeline and the contract are of major importance both for Gazprom and Russia in general. We are eager to know the share of Russian and Chinese companies bids for pipeline construction. If China also occupies the leading position within these pipeline contracts, like it does in all other sectors, it won't be very logical. As we understand, they receive Gazprom's gas not at a very high price and they profit from these pipelines as well.

And in the context close to that of domestic supply security – I've wanted to ask this question for quite a while – it is not even my wish, it is a request of a renowned scientist who has passed away, unfortunately, but for his whole life he had been working on the issues of human safety and survival in aggressive gaseous media. Sadly, today people die not only in Ukraine but in Russia, too. They die both of household gas explosions and explosions of gas delivered to apartments. The only indisputable possibility of controlling such leaks to a hundred per cent is adding odorants to the gas distribution system, because in our country all the gas sensors and valves, perhaps, due to corrupt practices are not quite operative. In the end, the one who examines the meter in the wrong way, is always the one to blame. Why doesn't Gazprom add odorants to household gas? Is it due to their high price? How to evaluate such tragedies that happen when gas explodes?

ALEXEY MILLER: Your question turns out to be pretty big. There were quite a lot of judgements in your question. It contains your personal opinion rather than a question.

For instance, you think that the gas price is not very high. Firstly, you don't know the gas price, so I can't see how you form your opinion. The price is a commercial secret and I'd like to tell you at once that I will not reveal it today like I haven't done it at any of the previous meetings. You will not know it. The price is such that it meets all of Gazprom's corporate economic efficiency standards of gas production and transmission projects. I'll stress it: all the corporate economic efficiency standards.

About the contractors: I'd like to draw your attention to the fact that Gazprom hasn't planned to involve any companies in the Power of Siberia construction. That is why those were only personal judgements again, we had no such plans.

About the domestic gas consumption: Gazprom operates up to the boundaries of population centers. Therefore, according to the gasification program, gas supply to households, intra-settlement gas grids, consumer gas pipes, boiler houses and so on, are beyond Gazprom's responsibility. There are certain issues that we resolve within the gasification program – we are engaged in geological exploration activities as well as gas production, transmission, storage and distribution up to the population center boundaries.

But let us return to China. The question was mostly about the Chinese issue. It is really a very big contract. The volume of finance for the Power of Siberia project is estimated at USD 55 billion. Certainly, this means a huge number of orders. No doubt, those are the orders for Russian companies. For sure, these are the companies of our relevant competitive industries in the global market, such as metallurgy, pipe industry, machine building. That's why I can say that this contract will give a major and serious impetus to the Russian economy development.

QUESTION: Timofey Dzyadko, RBK daily newspaper. Mr. Miller, the Indian press has published some rather fantastic articles stating that India suggested that Russia should extend the Chinese gas pipeline to the Indian border. Was this discussed with you? Is such a project interesting for you in general?

ALEXEY MILLER: First of all, we in Gazprom also paid attention to this information. Secondly, this idea is familiar to us. I can say that it is a bold idea, even a beautiful one. But there are a number of project concerns, including the technical ones, which remain open.

One of the concerns is that such a gas pipeline will have to cross high-mountain areas. Yes, currently Gazprom is the Company which has constructed and now operates the world's highest-altitude gas pipeline (3,184 meters) with an elevation difference of 2,500 meters. Just a week ago we went to the Stavropol Territory and communicated there with the specialists who operate this high-altitude gas pipeline, understanding that in the foreseeable future the construction of a high-altitude gas pipeline of a kind may be in demand.

Speaking of the Indian market, of course we are interested in it. We have a contract for liquefied natural gas supply to the Indian market. But the opportunities offered by a gas trunkline are simply incomparable with the opportunities offered by LNG. Should such a project be discussed in practice, we would be interested in it.

The Indian market as well as the Chinese one is exceptionally receptive, dynamic and rapidly growing. If we start supplying pipeline gas to India, too, we'll reach the level of gas supply to Asian markets comparable to the supply volumes of our gas to Europe. Therefore, at a very swift rate, i.e. by multiple times, we'll exceed the volume of supply to Europe already in the foreseeable future.

But I'll stress it once again: so far it's only an idea, an idea we are aware of, as I've already said, a bold and beautiful one.

QUESTION: Dmitry Bandura, Nikkei newspaper. What is the current state of negotiations with the Japanese partners concerning Vladivostok LNG, particularly buying its gas and investing into the project? When are some final agreements to be achieved? Is there a possibility of the Japanese party changing the membership of negotiating partners? Is the membership structure currently the same?

ALEXEY MILLER: First of all, I'd like to mention the business model that we implement within the Vladivostok LNG project. Gazprombank entered the project as a shareholder with a 49 per cent stake and assumed an obligation of fully financing this project. Within its investment program, Gazprom won't spend a single dollar or ruble on the Vladivostok LNG project. So, there is such a way of financing as raising of debt capital. Such a form of financing is also likely to be used, but it will be through selling the share of Gazprombank.

The negotiations with Japanese customers are underway. The main legally binding supply conditions are expected to be signed with a number of major Japanese customers by the end of 2014. The final shareholding structure is expected to be formed by the end of 2014. Currently there are two partners: Gazprom holding a 51 per cent stake and Gazprombank with a 49 per cent stake.

QUESTION: Pavel Krasnov, Channel One television company. Mr. Miller, today is the twentieth day since gas hasn't been supplied to Ukraine. It is enough for some statistics to accumulate. Could you please say what has happened during this period: is gas being lost in Ukraine on its way to Europe or not? If it is, how much gas hasn't reached Europe so far?

ALEXEY MILLER: Today there are no problems with Russian gas transit via Ukraine. There are reasons for this.

The first reason is that the level of consumption in the Ukrainian industry is considerably lower than the standard consumption level in June, much lower – multiple times. And the second thing: Ukraine uses the so-called reverse gas supply. Although in reality everyone understands that it means Russian gas resting in the Ukrainian pipe.

The problem which exists today is masked; consumers in Europe and Ukraine can't feel it yet. The problem is that Ukraine doesn't inject gas into underground storages to the full. What danger does it present? The danger is that the so-called gas siphoning from the pipe – sometimes they refer to it as stealing, at times other words are used – may happen this autumn. This scenario is highly likely to develop. At present Ukraine fulfills the transit request to a full extent. But the problem of incomplete gas volumes injected into UGS facilities which at present can't be sensed either by the general public or consumers, will become very acute just in several months to come.

QUESTION: Valentina Milyukina, Golos Belogorya newspaper. I believe this issue concerns everyone, but I am personally concerned because we live just 40 kilometers away from the Ukrainian border. What is your vision of the future development of partnership relations between Russia and Ukraine? Taking into account the information provided by the official media, it seems that Russia makes all kinds of concessions and wants to settle the situation somehow, while Ukraine pursues only its own vested interests.

ALEXEY MILLER: I guess I'll agree with your impressions you have just voiced. The outlooks for relations with Ukraine in the gas sector are very simple – first of all Ukraine has to pay us for the supplied gas. It should settle its debts first. The outstanding debt is USD 4.5 billion, the volume of supplied gas unpaid for is 11.5 billion cubic meters. It's absolutely clear for everyone that these are enormous numbers. This is the first necessary step Ukraine has to take.

QUESTION: Vladimir Soldatkin, Reuters agency. Mr. Miller, when do you expect the talks with Ukraine to resume? What price do you consider fair for Ukraine, taking into account its geographic proximity?

ALEXEY MILLER: As for resuming the talks. Today the subject of the talks does not exist anymore. Ukraine has been switched to prepayments. There is a debt, which should be settled at first. Let our Ukrainian colleagues try to pay it off.

The fair price. I'd like to draw your attention: they do not ask whether it is high or low. Just or unjust. You know, the price is actually fair. Why is it fair? Because it is contracted. It is outlined in the contract. There is a contract and an absolutely clear and transparent price formula. Ukraine had paid following the price formula and it must go on paying. Should any controversy between the parties arise, there is an international arbitration court where such controversies are resolved. But I'd like to draw your attention that before the court brings in its verdict the other party to the contract should fulfill its obligations as outlined in the contract. This is an internationally accepted business practice.

QUESTION: Maria Tatevosova, ITAR-TASS agency. Have you started injecting gas into UGS facilities in Europe in compliance with the initial plan, in the context of the Ukrainian crisis? Where will this gas come from: Russia or Central Asia?

ALEXEY MILLER: Gazprom has already started injecting its gas into European UGS facilities. I can say that Gazprom's operating gas reserve in the European Union exceeds 2.6 billion cubic meters. How much will we be able to inject? I think we'll be able to inject over five billion cubic meters. There is an estimate of a daily withdrawal rate that we'll be able to provide using our own gas in European UGS facilities – 54 to 55 million cubic meters a day at the maximum.

Actually, this is not much because the historic maximum of gas transit via Ukraine is a bit over 400 million cubic meters a day. I'll stress it: this concerns only gas transited via Ukraine and supplied beyond the FSU. Thus, if you compare this figure to the volumes of gas withdrawal from UGS facilities that we'll be able to secure, you'll see that it is about one-to-seven. But it is better than nothing.

We are currently working on it. I can say that we are addressing the possibilities of raising the volumes of gas injected into the UGS facilities in the European Union, but this doesn't totally eliminate Ukraine's transit risks in the forthcoming winter of 2014–2015.

QUESTION: Nadezhda Rodova, Platts agency. Mr. Miller, recently we've heard that Naftogaz was going to file a lawsuit. Anyway, it was said that Ukraine could file a lawsuit in order to revise the contract for gas transit. Could you please tell us what it is all about, what the demands are and whether you're negotiating the matter? How can this controversy affect an increase in risks? Or will this controversy have no significant impact, since the contract is in force?

ALEXEY MILLER: I've heard about such a stance of Naftogaz of Ukraine from the media. But they didn't appeal to Gazprom's executives or the Chairman of the Management Committee with this problem. I keep in touch with Director General of Naftogaz of Ukraine Mr. Kobolev and we didn't discuss this matter with him. He didn't put such questions to me, neither did he appeal to me in writing.

If we suppose that Ukraine starts challenging the transit contract – it will be very bad news. Currently we are discussing here the risks related to the contract for gas supply to Ukraine, the problems which occur due to insufficient volumes of gas injected into Ukraine's UGS facilities, we're discussing different half-fraudulent reverse schemes and so on. But the issue of the transit contract is a direct blow on the reliability of gas transit from Russia to Europe. But I'll stress it once again: there were no official appeals to Gazprom's executives or the Management Committee Chairman; and no talks were held, even on the phone.

QUESTION: Roman Tsymbalyuk, UNIAN agency. Mr. Miller, Ukraine is going to upgrade its GTS independently with its American and European partners, without Russia. What is your attitude to this? Is it possible that Gazprom will return to this project? Are you interested in it? And most important: if it happens, how much gas will Gazprom transit via Ukraine's upgraded GTS?

ALEXEY MILLER: The question runs "…transit via Ukraine's upgraded GTS…" All the same, it has to be upgraded at first. That's the first thing.

Secondly, as for Gazprom's attitude to upgrading Ukraine's gas transmission system with Americans, Europeans, etc. Presently we are not interested in this project at all. This ship has sailed and not yesterday. We won't take part in upgrading Ukraine's gas transmission system.

There is a whole number of serious property issues. There is information in the press that a bill was introduced for reorganizing Naftogaz of Ukraine as well as a lot of interesting news on how Ukraine's gas industry is to be reorganized. I'd like to draw your attention to the fact that Naftogaz of Ukraine doesn't own Ukraine's GTS, it is not on the books of Naftogaz of Ukraine. It is the Ukrainian Government that owns it. Before discussing partnerships, upgrades and so on, Ukraine's gas transmission system should be put on the books of this or that business unit. So far it hasn't been done. We know how politically charged the issue of Ukraine's gas transmission system is, and how largely it is discussed in the Supreme Rada. That is why legal issues concerning Ukraine's GTS should be resolved first. Only after that, once all those issues are resolved, and about a dozen Ukrainian laws are amended by the Rada – only then it will be possible to discuss whether there will be partners or not, which business entity will own this gas transmission system and so on. Today it doesn't belong anywhere or anyone. Ukraine's GTS has no owner. The gas pipeline is not on the books of Naftogaz of Ukraine.

Concerning such a project in general: the assessments we've made indicate that actually the Ukrainian gas transmission system is not worth too much. Ukraine's gas transmission system costs very little. But I'll stress it: primarily, it is a legal issue that has to be resolved.

About the Russian gas: there is no doubt that Ukraine won't make do without Russian gas and Ukraine's politicians admit it. That is why there will be Russian gas in the Ukrainian pipe. Time will show how much gas will be there and in what state this pipe will be.

QUESTION: Yury Barsukov, Kommersant newspaper. Mr. Miller, a question about reverse supply to Ukraine. So far, Gazprom hasn't taken any steps in this respect, since the supply volumes haven't been too large. Presently Ukraine is engaged in active talks on increasing the volume of reverse. What is the turning point at which Gazprom will take any measures in this connection and what measures will they be?

ALEXEY MILLER: Right now we are keeping a close eye on the situation. We have comprehensive information on how it is done, what is being done, what has been screwed on, what has been additionally constructed to arrange this circular reverse. In fact, our Russian gas stays in Ukraine. Ukraine disposes our Russian gas as if it were its own. There is no physical reverse.

Now, as for what will or might happen next. Apparently, in the foreseeable future a moment will come when we impose restrictions on Russian gas supply to those gas metering stations where reverse supply is registered with all that it entails for the companies that receive Russian gas through these gas metering stations. I mean the European companies. I'll say it once again – it is a half-fraudulent scheme. Ukraine has no right to dispose our gas in its pipe. Delivery points are located abroad, beyond Ukraine.

QUESTION: Csilla Kedes Kissne, MTI agency. I'd like to know your opinion on Gunther Oettinger, European Commissioner for Energy threatening on Thursday the EU countries that will support the South Stream project in its current state. It is said in the article written by Gunther Oettinger for the German Handelsblatt newspaper. According to him, the European Commission can't put up with a number of EU countries signing a contract with Russia for gas pipeline construction, which offends the jointly enacted European law, Mr. Oettinger says. He appealed to the European countries to shelve the project until it complied with the European law.

ALEXEY MILLER: Yesterday I spent some time and read Mr. Gunther Oettinger's article in Handelsblatt, and those were not some quotations of news agencies. I read it from the beginning to the end.

First of all, I'd like to say that we have a common objective with the European Commission which is gas supply diversification. Mr. Oettinger says that the EU energy security should be maintained as well as the reliability of supply. It is our common goal. Those are the tasks we have been resolving and we'll go on resolving together. But it should also be pointed out that speaking of energy security and reliable supplies to Northern Europe, the level of energy security there is presently higher than in Southern Europe due to diversified gas transmission routes. Maybe some steps and measures should be taken and the same way should be chosen which was chosen to mitigate the threats to reliable and uninterrupted gas supply to Northern Europe, the same open way – clear and efficient – with a view to provide the same level of energy security in Southern Europe. But it’s up for the European Commission, the European Union to decide. The European Union and its member countries should decide themselves where the level of energy security should be higher and where it may be lower. But today – I’m just stressing an objective fact – it’s obvious for everyone that Southern Europe is more vulnerable.

About the South Stream gas pipeline: all the South Stream member countries signed intergovernmental agreements with the Russian Federation. The Company’s moves and projects activities in these countries are regulated and based on these intergovernmental agreements. In addition, in compliance with the Vienna Convention on the Law of Treaties (1969), it should be understood that an international agreement prevails over the national legislation of both separate countries and economic unions, particularly the European Union. Such agreements can’t be amended or denounced unilaterally.

That is why the South Stream project and the intergovernmental agreements which form the basis of Russia’s work with partner countries are protected by the international law.

QUESTION: Sergey Pravosudov, Gazprom corporate magazine. It is known that the South Stream construction in Bulgaria and Serbia can’t start so far. What are the possible risks of construction falling behind the schedule?

I would also like to make it clear: when you say that first gas will be supplied via South Stream in late 2015, do you mean that it will come to Bulgaria? Or will it already come to Italy in late 2015?

ALEXEY MILLER: In late 2015 gas will come to Bulgaria. It will be the first string out of four. Thus, gas will be supplied to Bulgaria, Turkey and Serbia. As for Italy, it will happen when the gas pipeline reaches its full design capacity of 63 billion cubic meters, which is scheduled for December 2017.

I’d like to remind you of the commissioning schedule for offshore gas pipeline sections: first string – late 2015, late 2016 – second and third strings, late 2017 – fourth string. Consequently, the construction and commissioning of capacities at onshore sections are brought in line with this offshore sections commissioning schedule. Today we do not see any critical or problematic issues that may cause failure to meet the schedule.

QUESTION: Jack Farchy, Financial Times newspaper. In case South Stream bypasses Italy, will Eni keep its share in the offshore section? If not, who will finance this share?

ALEXEY MILLER: In fact the question about Eni should be passed, because Italy has been and will remain South Stream’s target market, and the bulk of gas via South Stream will be delivered to Italy. But Italy is not our partner country within the South Stream project. Italy and Russia didn’t sign an intergovernmental agreement on the project because we were not going to construct gas transmission capacities in Italy. Eni is a shareholder in the offshore section. In addition, it is well-known that Eni is also a shareholder in a renowned company Saipem which is the project contractor. Italian companies, including those where Eni is a shareholder, received multibillion contracts.

QUESTION: Yulia Utkina, Stavropolskaya Pravda newspaper. Mr. Miller, you visited the Stavropol Territory a week ago and, as you’ve already said, a lot of crucial decisions (at least for the region) were announced. In connection with the Southern Corridor construction which will transit gas via our

Territory and further via South Stream to Europe, do you plan to develop a major gas transmission hub in the Stavropol Territory, which would only be logical?

ALEXEY MILLER: That is true, within the visit to the Stavropol Territory a lot of crucial decisions were announced – crucial not only for the region, but for the Russian gas market and our traditional markets, too. For instance, it concerns the Stavropol gas transmission hub. Predictability of partners is of major importance for the gas business. That is why the plans stated by Gazprom are known to our partners, the more so as it concerns huge supply volumes. In particular, in the mid-term, i.e. by late 2017 – and our partners should be aware of it – we are planning to export 81 billion cubic meters of gas from this region through the Stavropol gas transmission hub.

During the visit we discussed the operating practices of the Stavropolskaya compressor station. It is the main compressor station of Blue Stream, a gas trunkline from Russia to Turkey. There are prospects for boosting gas supply to Turkey via Blue Stream. In addition, which is also quite important, we addressed the issues of reconstructing the linear section and the compressor station, since the Stavropol gas transmission hub supplied gas to twelve Russian Federation constituents. But I'll stress it once again: speaking of the new meaning, new vision of the Stavropol gas transmission hub, first of all, it will become a major export-oriented gas distribution center – 81 billion cubic meters by late 2017.

QUESTION: Maria Tatevosova, ITAR-TASS agency. Are you planning to accept OMV's offer concerning the purchase of a share in Austrian gas exchange Central European Gas Hub?

ALEXEY MILLER: Have we received such an offer?

MODERATOR: OMV Head Gerhard Roiss announced it on Tuesday.

ALEXEY MILLER: Speaking of our participation in exchange trade in Baumgarten, Europe's major gas transmission hub, we were interested in it. We had discussed this matter earlier, before documents for OMV's participation in the South Stream project were signed – that is, for the Austrian section of the South Stream project. Apparently the negotiations we had on South Stream also gave an impetus to going on discussing our participation in the gas hub. We have such an interest and I suppose we may address a specific participating stake.

QUESTION: Alexey Novikov, Interfax agency. Mr. Miller, you've already told us that journalists shouldn't voice their conclusions or judgements. That is right, so I would like to share some of my observations, which are especially illustrative in winter.

As we know, not only does Gazprom sell gas, it also purchases it, for example, in Central Asia and Transcaucasia. Uzbekistan, for instance, exports gas only when it doesn't need it for itself: in winter the supplies are reduced several times as compared to the contracted volumes to be supplied, or they stop completely. I reckon that last year Uzbek gas was not supplied to Gazprom for 40 days.

At the same time, Turkmen gas supply through Uzbekistan is also interrupted – last year alone some 120 million cubic of Turkmen gas didn't reach Gazprom. It is almost equal to the amount of foreign gas daily received by Ukraine on a winter day. This year Azerbaijan hasn't been supplying gas to Russia for almost six months. They say they were busy with repairs, but hardly can any repairs last for such a long time.

I'd like to ask you: does Gazprom need such gas suppliers, the more so regarding the price Gazprom pays for their supplies as well as their export profile?

ALEXEY MILLER: Once again you've shown that you are well aware of the gas balance and the market situation in general. The question you asked is very profound.

We face the issue of short supply of Central Asian gas annually. You've named the figures – those for this year, concerning the situation with the Uzbek gas, Turkmen gas, etc. In addition, in your question you've noted: "It is equal to the volume received by Ukraine daily." The problems which exist with Central Asian gas supply to Gazprom's portfolio appear in a whole new light in the context of the situation we forecast for Ukraine.

Predictability has been mentioned already. We can be absolutely sure predicting that in the coming winter the gas suppliers of this region will fail to deliver dozens of millions cubic meters of gas. What does it mean? It means that if in the meantime we have an acute situation with gas transit via Ukraine, we should meet the situation head-on and have every opportunity to fill these gaps in the gas balance with Russian gas. To do so, new gas transmission capacities have to be created as well as gas transportation facilities need to be reconstructed.

As the situations both in Central Asia and Ukraine are predictable, we hope that Ukraine will start paying and we'll establish a stable relationship. But as we understand, we should be ready for more severe scenarios, too. That is why we can't allow ourselves to count solely on Central Asian gas and then miss dozens of millions cubic meters on our daily balance not delivered by the Central Asian suppliers.

Even now Gazprom already takes all the required steps and measures, performs all the necessary activities, so that by early winter it has all the possibilities, I'm stressing it – the possibilities to fully substitute Central Asian gas supplies by the supplies of Russian gas. This situation is particularly relevant in the context of the situation in Ukraine. Such capacities will be created before the year end and repair operations will be completed. During our visit to the Stavropol Territory we extensively discussed this issue, too, since the risks of gas supplies shortfalls from Central Asia primarily cause the problems with gas supply to Russia's south.

QUESTION: Elena Khodyakova, Vedomosti newspaper. Mr. Miller, I have a small question. At the St. Petersburg International Economic Forum you signed an Addendum to the contract with Eni. The Italian party stated that they obtained a new price link – 100 per cent spot, 100 per cent market. I keep track of Gazprom's announcements. Here it is said that a 100 per cent link to petrochemical prices remains and nothing has changed. Should we understand this as basically some kind of Gazprom's movement towards hybrid contracts, when maintaining an oil link, on the one hand, a possibility presents itself for enjoying the advantages of spot trading during certain time periods? What does it look like, could you give some details?

ALEXEY MILLER: You put your question as "Should we understand…" No, you shouldn't. I answered your question. Gazprom told you all the truth in its information announcements.

About the spot trading in general: the European market is struck by the spot philosophy. Unfortunately, among other things, it caused liquefied natural gas from the European market flowing off to Asia presently with no return. It abandoned the spot market and came to the Asian market under long-term contracts. This spot philosophy leads to such consequences.

ELENA KHODYAKOVA: Mr. Miller please don't get me wrong, by no means am I trying to offend you or provoke a certain answer from you. Your contract with Gazprom terminates on March 31, 2016. It is a well-known fact and there are rumors both in the market and in the media that you may decide to terminate the contract earlier. May you decide to do some other business? What may cause such a decision?

ALEXEY MILLER: I really like it that at the Press Conference dedicated to Gazprom's performance, its operating results in 2013, it is this question that interests you in the first place. Delightful as it is.

Now, do not believe any rumors at all. Are you familiar with the art of Vladimir Vysotsky? Remember, he wrote, “Rumors travel homes like insects, spreading in minds…”?

QUESTION: Alexander Vertyachikh, St. Petersburg Vedomosti. What is your opinion, may liquefied natural gas drive pipeline gas out of the global market in the nearest 10 to 15 years? If not, why?

ALEXEY MILLER: During the last several decades they have been saying that there is just a little step to make for liquefied natural gas to take up the whole global market.

Firstly, there is no global market as there has never been. As we know, there are three megamarkets – Asian, European and American.

Secondly, the share of liquefied natural gas in the global market hasn’t changed, despite its supply volumes growing in absolute terms. The ratio is 30 to 70, with 30 per cent accounting for LNG and 70 per cent – for pipeline supply. There is no reason for thinking that this ratio will change. First of all, this is explained by the fact that liquefied natural gas is just a means of transport. It is the same methane which is first liquefied, then regasified, and in the end consumers receive the same pipeline gas.

What does it mean when we say that LNG and pipeline gas are just different means of transport? It means different economy of supply at different distances for different volumes. If we start reasoning of what is more effective – to construct a gas trunkline (maybe an offshore one) from Yamal to South America or supply LNG there, it is clear that supplying LNG would be much more efficient, while implementing a metal- and capital-intensive construction project for a pipeline to such a remote market would be inefficient. That is why there exist diagrams of dependence of volumes on means of transportation.

But I would like to draw your attention that in different megamarkets the situation regarding the LNG-to-pipeline gas ratio shapes up differently. Particularly, this depends on the remoteness from the resource base. Speaking of our number one market – the European one – the distance at which we supply gas doesn’t exceed 4,000 kilometers. This distance is totally competitive for such large volumes of gas supply to Europe. With the account of such large volumes of our supply and such a distance, pipeline gas will always be more competitive compared to LNG.

We see what happens with LNG in the European market. During the recent decade Europe has created considerable LNG regasification capacities – 100 million tons. Last year these terminals were only 23 per cent loaded, while in 2003 this figure equaled 90 per cent. Furthermore, in absolute terms – just fancy! – last year’s LNG supply to the European market was lower than ten years ago.

There are many reasons for that. But one of them is what we’ve called spot philosophy today. Because of the spot philosophy, Europe, the European Union has lost the battle for liquefied natural gas. It is the Asia-Pacific which has won this battle. In the same way the Americans constructed LNG regasification capacities – over 100 million tons. But LNG hasn’t come to the American market either, so they’ve lost the battle for LNG, too.

The Asia-Pacific Region is largely an LNG market. Though the situation is starting to change now. For instance, it may be exemplified by our contract with China on annual pipeline gas supply in the amount of 38 billion cubic meters a year. In the near future we’ll sign a contract for the additional supply of 30 billion cubic meters via the western route. In addition, there are calls we are starting to hear that Japan is interested in the issue of constructing an offshore gas pipeline for gas supply to Japan.

But on the global scale the consumption structure will not change and the 30 to 70 ratio will be maintained for a long time.

QUESTION: Vladimir Kondratyev, NTV television company. Mr. Miller, is there a possibility of totally stopping gas transit via Ukraine if in the winter Ukraine starts siphoning off gas?

Against the background of Washington's and its allies' persistent attempts to do harm to and destroy Gazprom's business, what gives you confidence that in the future you'll be able to maintain and strengthen Gazprom's position?

ALEXEY MILLER: As for this possibility: what happened once is a regularity, there are no coincidences in life. We witnessed the events of 2009, when gas supply via Ukraine totally stopped. Unfortunately, we are well aware of such events.

What gives me confidence? It is very simple, regarding our position in the market. Firstly, we are a reliable sustainable supplier. We fulfill our obligations to the full and always in due time. Moreover, we understand how the situation shapes up for other gas producers. All the traditional gas producers that supply gas to Europe had a considerable drop in gas supply volumes last year. The only supplier that boosts its volumes is Gazprom. There is simply no alternative to Russian gas.

I'll stress it: we value our reputation of a reliable supplier, we've been developing it for decades and we treasure it. We'll make every effort to further consolidate it. This is what our confidence is based on.

MODERATOR: There are some more questions, but we'll answer them personally. Thanks a lot.

ALEXEY MILLER: Thank you very much.