

Excerpts of Alexei Miller's speech, Valdai Conference, Berlin, 13 April 2015

- For Gazprom the vector of development is about **moving from the European to the Eurasian strategy**. The new Eurasian mega-market is currently being formed. Gazprom has started to build Eastern Route which will unite the gas systems of the East and West, creating one big resource base – Western Siberia. Gazprom will realise this new Eurasian strategy with new partners.
- The Eurasian strategy is not momentary, it grows from our existing business strategy, including in Europe. We base ourselves on the market realities.
- **The Asian market will be the price-forming factor on the energy market in the coming years.**
- The changes are serious. In the past years the energy model was based on mutual dependence with elements of diversification. But recently this model is fading into the past. The model of full diversification is taking its place. From the European side we hear about diversification of resources, producers, pipelines, downstream systems etc. We see serious energy security risks in this model.
- But Energy Union has this model in its heart and Gazprom can work with it too. We will abide by the rules of the European market. We believe that the Energy Union has a lot of good ideas. And some aims are rather common with our own.
- Fair price of gas is a serious question. Gazprom is usually blamed for setting different prices for gas in different markets. We hear that the European market should move towards equal pricing. But the market is split. The prices depend on the energy mix in each country, on how much the companies are responsible for energy security in each market. For example, German prices are among the lowest and we know that gas plays a very important role in the German market.
- One has to see how the prices are formed to understand why they are different. If the EC tries to make the prices equal, it will be not the lowest but the highest price which will act as a base price.
- We hear that the markets are not transparent enough. But **Gazprom's price is 45-50% of the final price**. The rest is margins. Consumer has to know that Gazprom's price forms only half of the final price. Consumers need to know what subsidies are paid for renewables. It has to be an open discussion. Would Germany be ready to have a price which is not based on energy security? It has to be an honest conversation.
- In moving from one model (mutual dependence) to another (diversification) a misbalance occurred between the risks borne by consumers and suppliers. All risks, regulatory, transit etc are now borne by suppliers. Risks of capacity generation are the most important among those. Everyone knows that Gazprom has problems collecting take-or-pay fines. Financial difficulties are the most common reason. But take-or-pay is a payment for supplied capacities. Gazprom created capacities which meet annual supply contracts. Who pays for them? – Gazprom. We constantly pay to maintain these capacities. We have capacities of 617 bcm. We can supply this much gas for Europe but there is no demand. These extra capacities we can then use for other markets. Otherwise **the EU has to say clearly that they need these capacities, which we created as part of long-term contracts**. However no one gives us these guarantees today. We continue bearing the risks ourselves.

- We have created new capacities like Bovanenkovo-Ukhta. They were created for Europe. Europe should give us a clear answer if they need these resources.
- The new model is making transit risks graver. We had to abandon South Stream. Turkish Stream being realised now is based on a new – diversification – model. Diversification of transport routes.
- Transit risks are growing. **The Ukrainian GTS is the weakest link in Gazprom-EU relations.** It has a great confrontational potential. Transit to Europe was a present from the USSR to Ukraine. But when the present is being used as a manipulation instrument, it cannot last long. The complaints that Ukraine is now being circumvented are unfounded. We have started it long time ago with Yamal-Europe, then Blue Stream. Turkish Stream is nothing new in this sense. South Stream is also nothing new: we were earlier not allowed to implement Yamal-Europe II.
- There is a single conclusion - we are fulfilling our capacity obligations. The Turkish Stream capacities will be created. All risks on creating capacities from Greece onwards will be for the EU to bear. Building has to start now in order to be ready for 2019. This is not happening so far but there is still a chance to do it. We have warned Europe.
- We are often asked whether we are ready to invest in such capacities (Greece onwards). The Turkish Stream is already an advantage for the European market as the continent lacks transportation capacities. Now Easting has appeared, ideas to build links from Serbia to Baumgarten, from Greece to Baumgarten etc. **If we are invited, we will consider such projects.** It could happen that we participate, if it is beneficial for us. **Gazprom will work strictly in accordance with the Third Energy Package.** When we decided to abandon South Stream there was a lot of speculations that we didn't want to abide by the Package. This is nonsense. We know very well the TEP rules. We understand how Gazprom can work in its framework.
- Blocking Turkish Stream would be a grave mistake. These volumes would go to other markets.
- The gas market is currently very volatile. In Q2 we have seen sharp raise of export to Europe (more than 11%). This is explained by the current price levels, as well as empty storages. Plus consumers understood the risks of the Ukrainian transit and are preparing for the winter season. The Q3 prices will probably be lower than in Q2 but **in Q4 we forecast higher price than in Q2-3.** Our exports will grow in 2015. Analysts give even more optimistic forecasts than our own. We expect 2013 levels or higher.
- The price for Ukraine is much lower than for Europe. This reflected immediately on reverse. Reverse for Ukraine has dropped by 15% in Q2. The one that is still going on is probably due to contracts concluded for longer terms.
- **The 2009 contract with Ukraine works.** We adhere to it strictly. It will be fulfilled up to 2019. There are no questions or uncertainties with regards to it. The discounts have been made and the future discounts will be discussed. The take-or-pay fine is not taken. The situation is normal. No unresolved questions that would require extra negotiations.
- We are optimistic that the EU's current policy can be corrected. Projects that are based on mutual dependence and energy security remain. Our open honest work will continue. The trust has been damaged but we hope it will be restored. Gazprom remains an important supplier. Nothing can stay in the way of Russia and Europe being energy partners. **Russian**

gas will stay an irreplaceable element of the European energy market. Even with all the obstacles, our share in European supplies grows. This is underpinned by more than 40 years of common work. This experience is precious. I have all the grounds to be optimistic about our common future.