

Press Conference

Gazprom in Eastern Russia, Entry into Asia-Pacific Markets

June 17, 2009

Moderator: Good afternoon, colleagues. Let's proceed with the work. Today we will speak about the strategy of Gazprom in Eastern Russia.

Participating in the Press Conference are:

- **Alexander Ananenko**, Deputy Chairman of the Management Committee, Gazprom;
- **Alexander Medvedev**, Deputy Chairman of the Management Committee, Gazprom; Director General, Gazprom export;
- **Vasily Podyuk**, Member of the Management Committee, Head of the Gas, Gas Condensate and Oil Production Department, Gazprom;
- **Sergey Alimov**, First Deputy Head of the Gas Transportation, Underground Storage and Utilization Department, Gazprom;
- **Sergey Pankratov**, Deputy Head of the Strategic Development Department, Head of the Prospective Development Directorate, Gazprom;
- **Viktor Timoshilov**, Head of the East-Oriented Projects Coordination Directorate, Gazprom.

I give the floor to Mr. Ananenko, after that we will pass on to the questions. The work duration is one hour. You are welcome.

Alexander Ananenko: Good afternoon. "Colleagues" was the right word because mass media representatives and gas workers of the Russian Federation are colleagues as long as we all work for the benefit of Russia, for the benefit of the economy and population of our country.

I would like to say that the Eastern Gas Program and the gas industry development in the East are the challenges Russia's gas industry, together with the oil industry, are facing today. This makes other industries start developing. We are capable of meeting these challenges as significant changes occurred in 2002 on the top level of the Russian government system when the Russian Federation Government began practical implementation of a special goal-oriented approach to governing the country and regulating the economy. The year of 2003 saw the adoption of the Russian Federation Energy Strategy. The so called Eastern Gas Program was endorsed on September 3, 2007 by the Industry and Energy Ministry. This document initiated the gas industry development activities in the East.

Eastern Siberia and the Far East comprise 60 per cent of the Russian territory with the gasification level of only 6 to 7 per cent, while the identical indicator throughout Russia exceeds 60 per cent. This territory is absolutely unsuitable for

the unified gas supply system (UGSS) or its large elements. Certain elements of the gas supply systems do exist there – these are the regional systems that have been created yet in the Soviet period. This is the group of gas facilities in Norilsk, Yakutia and the collection system for associated petroleum gas available on Sakhalin in small quantities. However, natural gas as the energy component with higher environmental efficiency and technologically more acceptable had not been supplied to the Far East and Eastern Siberia until recently when the Eastern Gas Program was approved and started working.

Eastern Siberia and the Far East, both offshore and onshore, contain immense resources, though poorly explored. The geological exploration level here is approximately 8 to 10 per cent – not to be compared with Western Siberia's level which is much higher (the scale of difference is even more than by an order of magnitude). Thus, Eastern Siberia and the Far East have great potential that can be untapped only after full-scale geological exploration work. Meanwhile, in addition to the Eastern Siberian and Far Eastern resources required for the gas industry development, there are reserves, as well. That is why I would like to start from the resource base development in Eastern Siberia and the Far East. Then we will talk a little about the plans on the unified gas supply system development and on gasification, taking into account gas supply to the Asia-Pacific region.

According to the policies adopted by Gazprom for the purpose of the mineral and raw material base development for the Eastern Siberian and Far Eastern gas industry, execution of promising natural gas production, transportation and marketing projects is an important area of the Company's activity. Among the strategic objectives for Russia's East is the deployment of new gas production centers in the Krasnoyarsk Krai, Irkutsk and Sakhalin Oblasts, and the Republic of Sakha (Yakutia).

At the same time, I would like to add Kamchatka to these four regions as Gazprom will soon start operations in Kamchatka and initiate exploration work within subsurface use areas in Western Kamchatka, thus enabling deployment of one of the Far Eastern gas production centers in Kamchatka.

The basic document determining the gas supply and gasification strategy for Eastern Siberia and the Far East is the state-run Program for creating the unified gas production, transportation and supply system. The Program solves the problem of coordinated involvement of the four gas production centers mentioned earlier in the development of the East. Moreover, the Program envisages gradual creation of a separate gas supply system in Eastern Russia and its further connection to the UGSS. The point of connection between the eastern and western systems of the UGSS will probably be located near Proskokovo.

The Russian Government Directive appointed Gazprom as the Program execution coordinator. You know, as I have said it before, that Gazprom had initiated

practical implementation of the Program a year and a half before it was adopted. In accordance with the Program for creation of the unified gas production, transportation and supply system in Eastern Siberia and the Far East taking into account potential gas exports to China and other Asia-Pacific markets, we are planning to produce the following gas volumes by 2020 (these figures should be taken as a forecast though they are accurate to one digit after the decimal point): the Sakhalin center – 59.4 billion cubic meters, the Yakutia center – 34.6 billion cubic meters, the Irkutsk center – 39.5 billion cubic meters, the Krasnoyarsk center – 11.6 billion cubic meters. These figures are from the Eastern Gas Program; however, they are forecast.

The natural gas demand for technological purposes in Eastern Russia is estimated to be equal to 27 billion cubic meters by 2020 and 32 billion cubic meters by 2030. This data was provided in the studies performed as of the date of the Eastern Gas Program compilation and submission to the Russian Government. Now I should say that these estimates have changed. Even the regional leadership and businesses running their commercial operations in Eastern Siberia and the Far East have come to understanding that the demand is higher. Even the expectation of gas makes the announced regional demand higher.

The initial gas resources of Eastern Siberia and Far East amount to 52.4 trillion cubic meters onshore (it is not a forecast but the official figure of the Russian Federation Ministry of Natural Resources and Ecology) and 14.9 trillion cubic meters offshore. As you may see, the resource potential is rather high. It is approximately equivalent to the resource base of the Yamal Peninsula and the surrounding offshore areas.

The Eastern Siberian resource potential amounts to 32.4 trillion cubic meters: 25 trillion cubic meters in the Krasnoyarsk Krai and 7.4 trillion cubic meters in the Irkutsk Oblast. As you see, the Krasnoyarsk Krai is the richest region of Eastern Siberia and the Far East in terms of gas resources. It is the largest gas store in Eastern Russia.

The prospective and forecast onshore gas resources in the Far East are estimated at 11.9 trillion cubic meters, 10.4 of which are located in the Republic of Sakha (Yakutia). The resource potential of the Kamchatka Krai and the Chukotka Autonomous Okrug with the adjacent offshore areas amounts to 2.7 trillion cubic meters in total.

The explored free gas reserves onshore Eastern Siberia and Far East amount to 3.7 trillion cubic meters. The bulk of C1 gas reserves are concentrated in the Irkutsk Oblast – 1.6 trillion cubic meters and in the Sakha Republic (Yakutia) – 1.3 trillion cubic meters, while considerable reserves are explored in the Krasnoyarsk Krai – 0.8 trillion cubic meters and the Sakhalin Oblast – 0.9 trillion cubic meters. C1 reserves of the Kamchatka Krai are estimated at 16 trillion cubic

meters.

The poorly explored gas potential of Eastern Siberia and the Far East – 7.3 per cent onshore and 6 per cent offshore – as well as favorable geological prerequisites for large oil and gas fields discovery indicate good prospects for reserves preparation and gas production in this region.

Since 2002 Gazprom has been implementing the Mineral and Raw Material Base Development Program until 2030. In order to supply gas to East Siberian and Far Eastern regions of the country and to arrange an eastern gas export flow to the Asia-Pacific region the Board of Directors and the Management Committee of Gazprom have made decisions that the Management Committee and Gazprom's experts should intensify work on creating the Company's own resource base and expanding the scope of geological exploration performed as part of this Program in Eastern Siberia and Far East.

Gazprom carries out geological exploration activities in the Krasnoyarsk Krai, the Irkutsk Oblast, the work has been started in Kamchatka, Yakutia and offshore Sakhalin. Thus, you may see that we are taking large-scale efforts almost in every place where considerable gas resources are contained.

One of the top-priority objectives of Gazprom is building up the mineral and raw material base offshore Sakhalin in order to feed the Sakhalin – Khabarovsk – Vladivostok gas pipeline. We are closely working with the Ministry of Natural Resources to obtain licenses for the Sakhalin III blocks. I would like to say that in fact the Russian Government made a decision to provide Gazprom with the licenses for the Kirinsky, Vostochno-Odoptinsky, Ayashsky blocks of Sakhalin III and for Western Kamchatka. The decision has been made and in the near future we will obtain the licenses in order to arrange work there.

Within the frame of the Sakhalin III project a reserves increase amounting to 589 million tons of fuel equivalent, including approximately 500 billion cubic meters of gas. As a matter of fact, that will be enough to provide gas to Russian regions of the Far East at the first stage. It is planned to explore 4 thousand square kilometers with 3D seismic surveying and drill 27 exploratory wells with the total depth of more than 85 thousand linear meters in order to achieve this goal.

In the Krasnoyarsk Krai Gazprom owns 18 licenses with the total gas reserves of 147 billion cubic meters with more than 9 million tons of condensate. The Sobinskoe oil, gas and condensate field with approximately 139 billion cubic meters of C1 gas reserves is the largest in this region. Work is performed in the Beryambinsky, Omorinsky licensed areas, the Sobinskoe oil, gas and condensate field, as well as a number of the adjacent plots: Biryusinsky, Tchunsky, Troitsky, Abakansky, etc.

Almost in every area the geological exploration work is currently at the stage of

prospecting or exploration activity startup. In the period from 2002 to 2008 about 70,000 meters of rock was drilled, which primarily resulted in discovering the Beryambinskoye oil, gas and condensate field and Kamovskoye oil field at the Omorinsky licensed area. In order to intensively increase the reserves of commercial categories in the region, it is necessary to increase the scope of drilling operations up to 100 thousand linear meters per year. Such a rate is to be achieved by Gazprom in the nearest 5 years. Despite the considerable difficulties related to organizing geological exploration in this region, the absence any infrastructure, Gazprom continues and expands this activity. In 2009–2011 Gazprom and its subsidiaries are planning to drill about 145 thousand meters of rocks within the licensed areas in the Krasnoyarsk Krai, thus building up the reserves by some 160 million tons of fuel equivalent.

In the Irkutsk Oblast geological exploration is concentrated in the Angaro-Lenskaya oil and gas bearing province and is aimed at searching for and exploring the fields bordering on the Kovyktinskoye gas and condensate field with its unique reserves. The prospecting activity was started in the Yuzhno-Kovyktinsky area in 2004. The main result of geological exploration was discovering a large Chikanskoye gas and condensate field with approximately 100 billion cubic meters of C1+C2 reserves in 2006. From 2004 up to 2008 about 21 thousand linear meters of rocks were drilled in Irkutsk Oblast; in 2009–2011 Gazprom is planning to drill about 46 thousand linear meters within the licensed areas in the Irkutsk Oblast. An increase of some 70 million tons of fuel equivalent is expected there.

The Republic of Sakha (Yakutia). Geological exploration activities are carried out within the Chayandinsky licensed area, Gazprom is planning to cover 500 square kilometers with 3D seismic surveying before 2011 and accomplish construction of at least four exploratory wells in the Chayandinskoye field. In 2009 detailed seismic surveying and preparations for exploratory wells drilling are underway.

The Kamchatka Krai. Gazprom is getting ready for geological exploration of the onshore Kshuuskoy and Kolpakovsky licensed areas on the Kamchatka Peninsula. In the late 1980s within these areas four gas and condensate fields were discovered: Kshuuskoye, Nizhne-Kvakchikskoye, Sredne-Kunzhinskoye and Severo-Kolpakovskoye with the aggregate discovered reserves of some 16 billion cubic meters, most unfortunately. On the basis of these fields we are starting the gasification of Kamchatka, and subsequently, Western Kamchatka will ensure not only local gas supply, but gas sales beyond Kamchatka in the long run. Geological exploration program for 2009–2011 has been developed, preparation for its execution is underway. These activities will cost about RUB 1 billion in 2009 – for Kamchatka.

As part of the Program for Gas Supply to Kamchatka Oblast, it is planned to put the above mentioned fields into operation for gas supply to the combined heat and power plant (CHPP) in Petropavlovsk-Kamchatsky. However, according to the

available estimates for today's resource base, this gas will be enough for about ten years. Therefore, Western Kamchatka is very useful and in the near future we'll start geological exploration of Western Kamchatka, discover reserves there and launch the fields development. In 2009–2011 we are going to drill exactly two wells within the Western Kamchatka block with the estimated total length of 8.4 thousand meters and gas reserves buildup of some 200 billion cubic meters during this period. The difference is as follows: 16 billion cubic meters are available onshore today and 200 billion cubic meters – in case we build the reserves up, this resource base will be suitable at the first stage to start the gas industry development in Kamchatka.

In 2009–2011 onshore and offshore Eastern Siberia and the Far East we are planning to drill some 264 thousand meters of rock, cover 14.6 thousand linear kilometers with 2D seismic surveying and 7 thousand square kilometers with 3D seismic surveying, and build up some 1 billion tons of fuel equivalent. These activities will yield in 2009–2011 the Company's feedstock base growth in the East to 1.5 trillion cubic meters. The most significant growth is expected in the Sakhalin Island shelf.

Let me say a few words about the work which is performed in addition to the resource base development, though the resource base is the backbone of the gas industry development. It is clear: no resource base – no gas industry at all.

As part of the Eastern Gas Program, Gazprom is planning stage-wise development of the Unified Gas Supply System elements, which will be unified in a single complex later on. The top-priority projects of the Eastern Gas Program, apart from production, are gas transmission projects. The Sakhalin – Khabarovsk – Vladivostok project is the first one being implemented by the gas industry. Accomplishment of this project pursues the strategic objective of gas supply to and gasification of the Far Eastern regions.

Among the priorities of the Eastern Gas Program, one of the criteria determining the priorities is preferential gas delivery to Russian consumers. This is definitely related to the fact that the gasification level in Eastern Russia is 6 to 7 per cent only. Therefore the challenge faced by the gas industry is to meet the demand of Russian consumers, not only population, but industrial enterprises and private business facilities for the Far Eastern and Eastern Siberian economy development.

The Sakhalin – Khabarovsk – Vladivostok project is the first one. The 1,220-millimeter gas pipeline length will be in excess of 1,800 kilometers and the pressure – 100 atmospheres. The first startup complex comprising a main compressor station on the Sakhalin Island and a 1,220-millimeter gas pipeline will be 1,370 kilometers long. Meanwhile, the first startup complex capacity will be around 7 billion cubic meters of gas per annum. When fully deployed [Yakutian gas inclusive] the system throughput will be equal to 47 billion cubic meters of

gas. That means the system is capable of delivering almost the entire amount of gas produced on the Sakhalin Island to the domestic consumers in the Far East, particularly in the Sakhalin Oblast, Khabarovsk and Primorsky Krai, Jewish Autonomous Oblast, as well as supplying gas from the Primorsky Krai for creation of gas chemical complexes and both CNG and LNG transportation after the Yakutian gas is received.

At the next stage the Yakutia – Khabarovsk – Vladivostok gas transmission system will be created. We'll start practical implementation of this system in 2012 when the feasibility study or the investment rationale are accomplished for the gas processing and gas chemical projects. That's because the fields in Yakutia and Eastern Siberia, Irkutsk Oblast, Krasnoyarsk Krai contain quite a lot of valuable components, such as ethane, propane, butane and a very helpful component for high technologies and hi-tech industries development – helium. As you may know, Russia holds more than one-third of the world's helium reserves. Nearly 80 per cent of them are concentrated in the Irkutsk Oblast and Yakutia. Therefore, the Chayandinskoye and other Yakutian fields included in the federal pool of strategic fields, as well as fields in the Irkutsk Oblast and Krasnoyarsk Krai can not be developed without extracting helium, without arranging of this product supply to the market; we know that this product will not be demanded in such volumes in the near future. Thus, we need to store this product in order to ensure large-scale production and delivery of gas. These issues are inter-related: the issues of chemical production, gas chemistry and field development shall be tackled simultaneously. Therefore, in Eastern Russia, particularly Eastern Siberia, these challenges will be faced comprehensively – simultaneous development of gas chemical production facilities instead of gas production or gas transportation only.

At present, Gazprom, R&D and engineering institutions are investigating the matter. It is expected that around 2010 the gas chemical facilities location will be defined precisely. This will be done with due regard to optimization, as there are numerous options – about ten of them – however, we should select the most suitable one, the most feasible option taking into account Russian consumers and those in Asia-Pacific. Therefore, all the interests should be considered, including commercial and economic. We'll have to investigate sales markets for the gas chemical products. And we are really interested in the participation of foreign companies in gas chemistry projects, they are welcome. It is well-known that infrastructural projects of the gas industry in terms of capital investment account for 85 per cent of the Unified Gas Supply System costs. Therefore, foreign partners, primarily, shall pay close attention to potential involvement. In order to speed up the execution of the Eastern Gas Program we are ready to cooperate with companies in gas chemical production development, in gas chemical products marketing in third countries, as well as the countries supposed to receive methane as an energy product.

A project is underway in Kamchatka today. The project on gas supply to and

gasification of Kamchatka was initiated in September 2007 in pursuance with the Russian Federation President assignment. Since 2008 we have been working there, we have moved considerable workforce and resources there in order to start up gas delivery to Petropavlovsk-Kamchatsky as soon as in the fourth quarter of 2010. The deadline for gas supply to Petropavlovsk-Kamchatsky is scheduled for the fourth quarter of 2010. The project is at the stage of intense execution. This year some 370 kilometers of the gas pipeline out of 392 kilometers will be placed with approximately 22 kilometers remaining for the next year. The drilling issues are tackled. It is expected that in the near future, around July, we'll drill the first production well in the Nizhne-Kvakchikskoye field to supply gas to Petropavlovsk-Kamchatsky. Other fields will be pre-developed. As soon as in 2009 we are going to launch geological exploration of Western Kamchatka. This will be done once we obtain licenses, since we are not allowed to do that without a respective permit.

In the Irkutsk Oblast. Execution of the project for gas supply to and gasification of the Irkutsk Oblast was launched before the approval of the Eastern Gas Program by the Government – in fact we started implementing this Program back in 2006. We promised the citizens of the Irkutsk Oblast that before the end of 2007 the first gas will be delivered to local facilities. In cooperation with independent gas producers we accomplished that task: the Bratsk fields was put into operation, a 26-kilometer long gas pipeline was constructed from the field to the 45th residential district of the city of Bratsk and the first gas was delivered before the end of 2007. We accelerated the pre-development and development of the Chikanskoye field almost immediately after its discovery and the approval of initial reserves, we put it into pilot commercial operation. We are currently dealing with engineering and starting up the gas pipeline construction to feed Sayansk, Angarsk and Irkutsk with gas from the Chikanskoye field. We signed contracts on gas supply to and gasification of the Irkutsk Oblast and another eight Russian regions. In fact, this work is deployed in nine constituents of the Russian Federation in Eastern Siberia and the Far East. We are going to supply the first gas to the Yugo-Zapadnaya CHPP on the Sakhalin. It is natural that once gas is delivered in the third quarter of 2011 upon the construction of the Sakhalin – Khabarovsk – Vladivostok gas transmission system the first gas before the end of 2011 will be supplied to Vladivostok – the first consumers in Vladivostok and those located in the vicinity of the gas pipeline will be supplied with the first gas. The first gas will be delivered to power generating facilities in Vladivostok including those that are supposed to service the APEC summit in 2012. It is not an end in itself, but a kind of impetus for speedy accomplishment of work within the preset timeframe and in any case this strategic objective will be pursued by Gazprom for the benefit of the Far Eastern consumers.

That's it in brief. I can speak much about the Eastern issues. I said little about the Krasnoyarsk Krai, cooperation with our partners, potential export supplies and ongoing negotiations, as well as a lot of other issues, including our partners within the Sakhalin II project, our friends and partners within the Sakhalin I project, the

decisions taken by the Government in relation to the royalty share of the Russian Federation in the Sakhalin I and Sakhalin II projects. These decisions have been taken by the Government and they will be executed in the nearest future. There is much to say about it, but the main thing is that Gazprom has set to creating the large-scale eastern vector of the Unified Gas Supply System of the Russian Federation with potential gas supplies to Asia-Pacific and beyond.

Question: Eugenia Sokolova, RIA Novosti. The first question is to Mr. Ananenko. In May, during the visit of the Russian Prime Minister to Japan, Gazprom and the Japanese consortium agreed to construct an LNG plant in Vladivostok. Could you, please, specify the deadlines for this project? And the second question is to Mr. Medvedev. Could you, please, speak about the progress with gas exports from the Sakhalin II project? Thank you very much.

Alexander Ananenko: As I have already mentioned, the issue of exports and the issue of the domestic market are quite significant and sensible for the East. I provided you with the information on the resource base and its development on purpose. Resources are immense, reserves are available. Today the aggregate reserves allow us to say that the gas industry in Eastern Siberia and the Far East may actively and intensely evolve. However, these reserves are located far from consumers and they are scattered. Of course, this influences to a certain extent the stages of our activity within the Eastern Gas Program execution.

It is obvious that your question is mainly related to the delivery of a big amount gas from Yakutia and to a smaller extent – to the Sakhalin resource base due to the fact the Sakhalin resource base is almost completely distributed: Sakhalin II – contracted in full, Sakhalin II, Stage 1 – in fact, the same, except for the physical volume of the royalty share owned by the Russian Federation as a share in kind or in value. As for Sakhalin III – the Kirinskoye field with the C1+C2 reserves amounting to 75 billion cubic meters with the potential annual output of 3.5 billion cubic meters of gas. Sakhalin I, Stage 2 – approximately 8 billion cubic meters of gas per annum. Even if we add 8 billion cubic meters to 3.5 billion cubic meters – we'll get the figure that does not meet the Far Eastern regions' demand to be equal to some 19 billion cubic meters by 2020. So far, the demand has grown even more as everybody sees that Gazprom is launching the construction of the high-capacity Sakhalin – Khabarovsk – Vladivostok gas transmission system. It is natural that the private business is closely tracking the progress with it today and many account for gas delivery. It proves that the resource base in Sakhalin is currently not enough even for meeting the demand in the Russian Far East.

Therefore, when we are speaking about the LNG plant construction, which was generally discussed with Japanese and South Korean companies, potential LNG or CNG supplies from the Primorsky Krai (for the regions located not far from there – up to 2.5 thousand miles – CNG delivery, according to estimates, is more efficient than LNG production and delivery) – potential CNG supplies to the Japanese

market, to a greater extent to the South Korean market, potential gas supplies to the eastern coast of China – these are real.

However, the resource base is, certainly, Yakutia. Yakutian gas will be supplied through the Yakutia – Khabarovsk – Vladivostok gas pipeline in this very direction, and, certainly, a portion of this gas may be routed via the pipeline to, let's say, China or the Korean Peninsula. In order to diversify gas supply routes, for example to Japan, there is no way save as gas liquefaction or compression capacities construction. We know that Japan traditionally imports LNG only. Everything is ready there – Japanese consumers are technically ready to use this very energy product. Therefore, we'll be working with Japanese companies, we have discussed it with the Natural Resources Agency and signed a Memorandum during the visit of Russian Prime Minister Vladimir Putin to Japan. We have discussed potential delivery of Russian energy carriers to Japan from the Primorsky Krai, from around Vladivostok. We are currently working on that.

Alexander Medvedev: During the crisis it is especially pleasant to speak about successful projects, such as Sakhalin II, which is successful in each and every aspect. Everybody remembers that in April 2007 Gazprom has become the majority stake holder in the Sakhalin Energy company and since then a series of key technological and environmental issues have been solved within the project. So far, Gazprom is playing an active role in the routine corporate management, on the level of Sakhalin Energy as well, and our subsidiary company Gazprom transgaz Tomsk is a an operator of the oil and gas pipeline. In this context, the project actually exemplifies the optimal international cooperation when every party contributes what it has and the combination of contributions gives a synergetic effect.

As for exports – both the production program and the exports program are ahead of schedule. Initially, it was planned to export 15 standard LNG batches according to the approved schedule. So far, 17 batches have been shipped, which is some 1 million tons. Initially, we were planning to send 3 million tons, however, taking into account the current trends and the fact we have no problems with LNG in the region, it is forecast that the exported gas volume may exceed 5 million tons, which is some 90 batches of LNG to be shipped this year. There is no doubt that in 2010 the project will reach the projected capacity of 9.6 million tons of LNG per annum. Out of 17 batches sold, two LNG carriers were sent to Korea, six – to India, three – to China and six – to Japan.

It is very important to emphasize that it was not only Sakhalin Energy that was selling LNG, but it was Gazprom as well through its subsidiary company Gazprom Global LNG that sold four LNG batches – to India and China. Before the year end at least three LNG carriers will be sold by Gazprom on the markets providing the most optimal conditions. We have a chance to sell LNG via the Baha terminal to the North American market – the US market, we are entitled to reroute LNG

carriers ensuring the highest cost-effectiveness. In general, Gazprom will have the access to 1 million tons of LNG per annum starting from the next year. Therefore, our agreement with Shell, providing us with the same access to the commodity as Shell Eastern (a trading company of Shell Group), allows us to capture a significant market share before we launch our own LNG production in Shtokman. 1 million tons of LNG – this is the amount we have in hand, it is neither a spot nor a swap deal.

Let me say a few words about oil export. The year-round oil export terminal was commissioned last December (oil was exported on a seasonal basis before) enabling to reach the production peak, plateau production – 150 thousand barrels per day. Since December this terminal has exported some 2 million tons of oil – 23 crude oil carriers shipped. That means the entire system from production to marketing operates according to the schedule and even ahead of it.

Question: Anastasia Lyrchikova, RBC agency. I would like to ask Mr. Pankratov a question. Mr. Ananenko in his speech stated that the projects of the Eastern Gas Program – exact and specific – will emerge in 2010. May be Gazprom has a clear understanding of where and what gas processing facilities, gas chemical facilities will be located in Eastern Siberia, for example, in Yakutia? And what specific projects has Japan paid attention to, if any? You were talking about the German concern BASF, about its interest in joint programs execution in Eastern Russia.

And the second question for Mr. Ananenko about the Yakutia – Khabarovsk – Vladivostok gas pipeline: are there any exact dates planned for the construction startup at least, its throughput capacity, will this gas pipeline carry gas from the Chayandinskoye field only, are there any plans to tie the Kovyktinskoye field in? Thank you.

Sergey Pankratov: In his speech Alexander Ananenko has mentioned that we are planning to develop gas processing facilities comprehensively due to its complex composition. Therefore, marketing studies are currently underway, firstly, in relation to the market and potential production outputs. As Alexander Ananenko said, there are numerous options, therefore the exact dates of these facilities commissioning and deployment, as well as the capacity and product types will be defined in pursuance with the investment rationales being elaborated so far. It is still very difficult to specify the exact timeframe.

Alexander Ananenko: I may add something to your answer. Actually, how can we answer the question related to what will be available no sooner than in 2010?! This is a question for fortune tellers. One can not put the cart before the horse. We can say something once the engineering and R&D institutions investigate each and every aspect, carry out multi-factor analysis, elaborate an optimal model of the gas chemical facilities deployment and their capacity. In addition, we should take into consideration, when preparing a feasibility study, the potential participation of our

partners, foreign capital, and potential delivery of the products to specific target markets. Therefore, the deployment locations and capacity of facilities, as well as the range of gas chemical products – these are not simple questions to answer. Therefore, we are talking about the year of 2010.

A few words about the Yakutia – Khabarovsk – Vladivostok gas pipeline. We can speak about the estimates of the system throughput capacity until the investment rationale is prepared. The capacity of the first string (a single string) from Yakutia to Khabarovsk and Vladivostok will be circa 32–35 billion cubic meters of gas per annum. The diameter – 1,420 millimeters, probably 1,220 millimeters, the pressure is likely to equal 100 atmospheres, the length – some 3,000 kilometers to Khabarovsk and approximately 3,900 kilometers to Vladivostok. The reason why I specify approximate figures is that the pipeline route is not defined. There are a number of options with different figures. We are going to place the Yakutia – Khabarovsk – Vladivostok gas pipeline as close to the VSTO oil pipeline as possible. This will ensure maximum utilization of the bases created by construction teams when laying the VSTO pipeline: welding and assembly sites, power generating facilities, infrastructure – in order to save project costs. We have agreed upon that with Transneft and our institutions are solving this task jointly with Transneft. The potential startup year is 2012 when we are likely to launch construction and assembly operations at the gas chemical facilities and the transmission system, as well as pre-development operations. This will be close to the completion date of the Sakhalin – Khabarovsk – Vladivostok. We'll use the resources and capacities of our eastern construction group, which is being built up so far, some of resources will be relocated from the Yamal project: heavy equipment, welding complexes and construction work contractors are currently being concentrated along the Sakhalin – Khabarovsk – Vladivostok pipeline route. Welding will be started up in the near future.

In 2012 some of these facilities will be relieved and they may be used for the Yakutia – Khabarovsk – Vladivostok gas pipeline construction. We wouldn't like to lose the forces that will be concentrated there – several thousand people and about two thousand units of heavy equipment. Therefore, these units, instead of being idle, should consecutively execute huge projects there.

Question: Vladimir Soldatkin, Reuters agency. Could you, please, speak about the progress with negotiations on gas purchase by Exxon from the Sakhalin I project?

Alexander Ananikov: These negotiations are ongoing and there is a positive trend – we have exchanged price parameters. Exxon is considering our proposals, we are considering those of Exxon with due regard to the fact that they are related to Phase 2 of almost the entire gas supply amount within the Sakhalin I project to Gazprom and acquisition of the entire gas amount by Gazprom. Therefore, I think we are at the stage of active talks with Exxon taking into account the parties' intention to settle the issue.

Question: Ivan Donchakov, FC Otkrytiye. The issue of gas supply to China – formerly it was said that they were planned for 2011, not liquefied, but pipeline gas. What is the progress with it? It would be interesting to hear about Kovykta, the license purchase from TNK-BP?

Alexander Ananenkov: As you know, in March 2006 when the Russian leadership voiced two vectors for potential gas supply to China: the western “gate” and the eastern route. The eastern route is Eastern Siberia, namely the Yakutian resource base, first of all. The western route is the Altai project. The Altai project stipulates gas delivery from the existing Unified Gas Supply System, the resource base is available, Western Siberia and the northern regions of Western Siberia possess an immense base for this project execution. Therefore, this project was named as a top priority for implementation.

The eastern direction will be used later on due to the necessity to develop the resource base and to create gas chemical complexes. Therefore, the Russian leadership said that it would be used at a later stage since we have to ensure simultaneous gas chemistry development, fields pre-development and the gas transmission system construction. The negotiations with the Chinese party are underway, however, we have not agreed upon the price. As soon as the gas price is agreed upon with the Chinese party, we’ll launch the project. Pipeline gas supply to China in 2011 is not discussed. We have proposed the Chinese party to speed up the negotiations. Meanwhile, the price issue is not easy as the seller wants it to be high, and the purchaser – to buy much at a low price. We are working on this issue; however, it will be settled beyond 2011.

A few words about the Kovyktinskoye field. As part of the Eastern Gas Program the Kovyktinskoye field commissioning year is 2017. The global economic crisis made a certain impact on the commissioning of some facilities, including the Kovykta project, may be. In pursuance with the gas balance adjustments being elaborated, the Kovykta gas may be demanded at a later stage, after 2017. Since the Kovykta gas supply as part of the Eastern Gas Program was planned in the western direction, at the connection point of the Unified Gas Supply System (UGSS) of Russia in the vicinity of Proskokovo in order to expand the UGSS resource base in the western direction. As for the gas balance, we can observe that consumption has decreased on the market so far. It seems that after 2012 it would be possible to define more exact commissioning dates for the facilities to be operated in the western direction and expand the UGSS resource base. Actually, the Kovyktinskoye field may be used for the eastern direction as well. The Eastern Gas Program stipulates the possibility of connecting the Kovyktinskoye field to the Yakutia – Khabarovsk – Vladivostok gas pipeline with the route running north of Lake Baikal. The Krasnoyarsk gas production center resources will also be connected with the gas pipeline system from Kovyktinskoye to the UGSS in the western direction.

Question: Alexey Grivach, Vremya Novostey newspaper. The first question for Mr. Medvedev is about the gas prime cost within the Sakhalin II project. The second one for Mr. Ananenko is about the forecast gas production prime cost within new projects – Kamchatka, Yakutia and the Sakhalin shelf.

Alexander Medvedev: It is very important to answer this question. You can calculate, at least roughly, the production prime cost. I have said that despite the growth in capital expenses for the Sakhalin II project and a drop in regional oil and LNG prices, with regard to the adjusted production and sales plan, the project payback period equals 10 years from the startup date, and the prime cost allows for highly efficient oil and gas sales.

Alexander Ananenko: There is no feasibility study, as I have mentioned. Once we obtain the investment rationales, we'll be able to answer this question exactly.

Alexey Grivach: One more question to Sergey Pankratov – how much money is Gazprom planning to spend on eastern projects in 2009, 2010 and 2011?

Sergey Pankratov: I don't have exact figures due to the uncertainty in the rate and dynamics of the global economy evolution, and the Russian economy, accordingly. It is not clear how things will be going on with the crisis and, therefore, how the finance sources will be shaped, so the exact figures can not be specified now.

Alexander Ananenko: As for the prime cost, expenditures, think about it, it is very difficult to calculate them even for those projects which are at the stage of implementation during the global economic crisis when we are intensely working on the cost reduction and there is an assignment to cut capital construction costs by some 20 per cent – this is the work with contractors and suppliers, etc.

As for the work with suppliers, for example, suppliers of machinery, a Russian gas pumping unit or other items of complex equipment. We understand that machine builders may save costs as a result of certain organizational and technical measures being managed and directly influenced by them. At the same time, we can see that 50 per cent of spare parts for this complex package have been manufactured abroad. Then we start calculating who will benefit from that. Will the ruble exchange rate change? When our machine builders are ready to reduce prices for their products and imported spare parts lead to boosting the ruble price.

Thus, it is a complex process. We are working with every supplier of domestic goods, domestic products... The pipes are different. For instance, the Vyksa Steel Works is mainly using the skelp manufactured abroad and the Izhora Pipe Plant – domestic plates manufactured by Severstal for their pipes production. The Chelyabinsk Pipe Rolling Plant utilizes domestic plates for pipe products manufacturing. And so forth. Who will win the tender? And with what parameters? The market determines the value, price and prime cost; therefore, it is now quite

difficult, especially in this period of rather high volatility of prices, to specify the cost parameters. A feasibility study is ready, in the newly-emerged situation it is quite prognostic with a wide gap between profit and loss.

Question: Elena Mazneva, Vedomosti newspaper. Before the year end Gazprom is to elect its nominee for the Sakhalin Energy management. Are there any candidates, I wonder? And the second question is about the Western Kamchatka shelf. Joining the project, Gazprom, as officials said, has to compensate for the expenditures of Rosneft. When Gazprom closes the deal, will the Korean KNOC stay involved, and what expenses will be compensated for by Gazprom?

Alexander Medvedev: Gazprom is really entitled to that and we are going to enjoy this right. We are selecting the candidates, which is a real challenge, as a vertically-integrated company from upstream to downstream requires shareholder relations management: with Gazprom, its Japanese counterparts and Shell. So, the requirements are stringent. The appointment will be made before the year end, and present Director General Mr. Yan Kraig will share his experience with the newly-appointed director general. We believe that it will take the new director general at least 3 to 4 months to be involved in the working process of the company management. He may be either an independent person or an employee of Gazprom.

Alexander Ananikov: Again I am asked a difficult question. I am not sure how to answer it since we are claimed compensation before we obtain the license. Things don't happen like this. First, give us a license, then we'll see what's on. As you may know, the coordinates and subsurface use objects in the license to be granted to Gazprom are different from those of Rosneft and its Korean counterparts. Their accords and expenditures are subject to bilateral negotiations – Gazprom has nothing to do with it. Once we obtain the license – we'll examine the issues available there, the accords, the relations of the partners. In fact, Gazprom does not push away any foreign investors, on the contrary, we suppose it is good when they approach and help us. When they really help. Therefore, we'll work with Korean partners or other companies including the group of Korean companies which have already been involved in some projects. For example, we are going to drill the first well in the Kirinskoye field and Korean companies have been contracted for that. South Korean companies will drill the first well in the Kirinskoye field. There are many other projects that may potentially involve various foreign investors on very beneficial, good terms and conditions. All of these will be taken into consideration after we obtain the license, the subject of talks.

Moderator: Thank you. The Press Conference is over.