Press Conference

Mineral and Raw Material Base Development. Gas Production.
Gas Transmission System Development

May 14, 2018

Moderator: Good afternoon, colleagues.

Taking part in the Press Conference are:

- Vitaly Markelov, Deputy Chairman of the Management Committee;
- Oleg Aksyutin, Member of the Management Committee, Head of Department;
- Vsevolod Cherepanov, Member of the Management Committee, Head of Department;
- Andrey Skrepnyuk, Head of Department;
- Vasily Nikitin, First Deputy Head of Department.

VITALY MARKELOV: Good afternoon, esteemed colleagues. It's a pleasure to see you here. A year ago, we convened to address global and sectoral developments in the gas industry in Russia and beyond. Today, we also have information to share with you.

What has changed over the past year? First of all, Gazprom has been recognized as the number one company. This, I believe, is the most important, landmark accomplishment that was achieved thanks to Gazprom's leadership positions in all of its activities, and the combination of all these factors made Gazprom the top performer. This is not just our opinion but also one shared by experts. Everyone in Gazprom has long known that we are the number one company. Now, the rating agencies know this too, as does the world community. We are the world's biggest gas producer and exporter. We have the most extensive gas transmission system on the planet. We provide reliable gas supplies to our consumers in Russia and abroad like no other company.

Gazprom has endured a harsh winter period without limiting supplies to any of its consumers, despite the fact that this winter was a month longer than the one before last. Gazprom provided as much gas to Russian and foreign consumers as they requested, setting the daily record for foreign exports at 713.4 million cubic meters of gas. This figure was reached on the second day of March, which was a cold winter month in Russia and in Europe. But we are always ready for a cold spell in March, unlike foreign consumers and gas transmission companies that operate underground gas storage (UGS) facilities. As a result, we started the injection season with empty UGS facilities abroad and in Russia, having met the needs of all our European and domestic gas consumers in full. I consider this a crucial achievement of the past winter. Gazprom once again proved its flexibility in responding to gas demand fluctuations in Russia and abroad.

This year's challenge is to get ready for the autumn/winter period. As we see, the gas demand is on a steady upward trend. The bottom line figures recorded this winter and the one before differed considerably from the target figures. We hope that the gas demand will be at least on the level of last winter. In 2018, we will once again fully meet the gas demand of domestic and foreign consumers and will at the very least try to reach the level of supplies set in 2017, a record year for gas exports. This is the main objective pursued by Gazprom at the moment.

QUESTION: Evgenia Sokolova, TASS agency. A traditional question on the gas production plan for this year. The approved amount is currently 475.8 billion cubic meters. However, you say there are some very positive trends. Could the plan be revised upwards after the second quarter?

The second question relates to the gas transmission system, i.e., the TurkStream route and its second string. When are you planning to decide on its direction?

VITALY MARKELOV: As regards the production plans, you were correct to say that the Gazprom Management Committee and Board of Directors approved the amount of 475.8 billion cubic meters.

But I have already mentioned in my opening speech that the last winter was somewhat different from

the previous one. By now, we have produced 16 billion cubic meters of gas in addition to the planned amount. That is, we see the growing momentum in the last two quarters, and we are contemplating an upward revision because, considering the factors I have just noted – UGS facilities in Europe and Russia need more gas than they did last year – we clearly see that the output should be bigger, at least by this amount.

As for TurkStream: let me reiterate that today we have gas trunklines with the capacity of 31.5 billion cubic meters, including their linear parts and compressor stations, built in Russia with the aim of supplying gas to Turkey.

In respect to offshore operations: the first string of TurkStream in deep-water areas is nearly complete. We only have the Turkish part left: the pipeline segment in shallow waters, the landfall and the receiving terminal. The second string is almost finished: its Russian part has been built. As for the Turkish part, all permits have been issued and we can proceed to the second string.

Regarding the gas trunkline crossing Turkey: we are conducting negotiations on the project with the Turkish side.

QUESTION: Anton Khlyshchenko, Interfax – Severo-Zapad agency. How soon will the LNG receiving terminal come onstream in Kaliningrad? When will the Marshal Vasilevskiy vessel depart from the Korean shipyard and arrive in Russia? The vessel was expected in Kaliningrad late last year. What happened to it, what has caused such a delay?

VITALY MARKELOV: Indeed, the project deadline has been extended. Construction and installation of the terminal is currently in full swing. The works are performed by Stroytransneftegaz and MRTS. The terminal will be completed in the fourth quarter of this year. I can't tell you the exact date yet, it largely depends on weather conditions.

As for the Marshal Vasilevskiy floating regasification unit, it was ready by the end of last year. There was a gas blast at a regasification boiler during start-up, which resulted in the destruction of the boiler. The boiler had been supplied by Mitsubishi, which also provided the start-up technicians. After an examination carried out by Gazprom together with Hyundai, it was decided to replace the boiler. The replacement work is in progress now. Mitsubishi is manufacturing and assembling the boiler. Hyundai undertook a commitment to bring the Marshal Vasilevskiy onstream in proper condition before November.

QUESTION: Maria Grabar, RIA Novosti. Has RusGazDobycha submitted a development plan for the Tambey group of fields? What amount of investments does the plan specify? Are you going to enter into a binding development agreement with RusGazDobycha? If so, when?

VSEVOLOD CHEREPANOV: The development plan for the Tambey group hasn't been drafted yet, as the full cycle of exploration activities is not finished. The memorandum signed with RusGazDobycha last year lists the following obligations: we have to explore the ways to jointly develop the Tambey group of fields and present a concept.

The work continues, as we were expanding reserves in Tambey throughout last year – as you know, we have already posted the figures. These major changes in the resource base give us reason to strengthen the technological aspects.

We are still not quite certain on the gas supply destination. There are many options. The first option envisages feeding gas into the Unified Gas Supply System after 2030. Currently, we have other options as well.

This is why we are at the conceptual stage now, as the project doesn't exist yet. However, we have set up a joint working group, and we regularly work together under a schedule. I hope that we will produce tangible results by the end of the year.

A more advanced project with RusGazDobycha is the development of the Semakovskoye, Parusovoye and Severo-Parusovoye fields. The development plan has been drafted and is awaiting approval by the

Central Development Commission of the Federal Agency for Mineral Resources (Rosnedra)[1]. The investment decision for the Semakovskoye field and the Parusovoye group of fields is due in October-November this year.

It's still too early to comment on Tambey. At the end of the year, we expect to select the most viable option out of those available and, together with RusGazDobycha, determine in what way we should develop the project design. This is my expert judgement. We continue exploration in Tambey with around seven wells at the moment, of which some are being tested and some are being drilled.

QUESTION: Artur Toporkov, Vedomosti newspaper. I would like to ask a clarifying question building on the previous one. If there is a gas supply option that doesn't involve the gas transmission system, does this mean that you are going to produce liquefied natural gas in Tambey?

VSEVOLOD CHEREPANOV: I am not ruling out this option.

ARTUR TOPORKOV: The Chairman of the Gazprom Management Committee said last year that you were going to gradually phase out capacities in the central corridor because gas transit through Ukraine would decline. What has been decommissioned by now?

VITALY MARKELOV: Alexey Miller announced at a Press Conference that we were phasing out the central corridor capacities that would no longer be needed as we had rerouted our gas flows in a certain way. We started that work last year, the phase-out program was developed. It concerns mostly such gas transmission companies as Gazprom Transgaz Moscow, Gazprom Transgaz Nizhniy Novgorod, Gazprom Transgaz Tchaikovsky, and Gazprom Transgaz Yugorsk. The first stage will cover a period until 2019. After that, we plan to put into effect a program for decommissioning excess capacities in the central corridor. Maintaining them is quite expensive for Gazprom. The purpose of this work is to save costs and increase the Company's efficiency.

VASILY NIKITIN: The program provides for phasing out up to 60 compressor shops. In 2017, shop No. 3 was put out of service at the Dolzhanskaya compressor station (CS) of Gazprom Transgaz Moscow. This year, the compressor shops of the Kurskaya and Valuyki CSs at Gazprom Transgaz Moscow are being phased out.

Preparations are being made for decommissioning 23 compressor shops, of which 16 are located within the area of operations of Gazprom Transgaz Yugorsk. This is an old underused corridor, which essentially serves a distribution function these days. Seven compressor shops are located within the area of operations of Gazprom Transgaz Nizhny Novgorod.

The program is not progressing as rapidly as desired because compressor stations are classified as hazardous industrial facilities. To shut them down, one needs a specially designed and reviewed project, which takes a long time.

VITALY MARKELOV: I will add that the program provides for the decommissioning of up to 60 compressor shops with a capacity of 3,200 MW, as well as 430 kilometers of the linear parts of gas trunklines.

As we have stated before, our production center is moving from Nadym-Pur-Taz to Yamal. Accordingly, we are developing the northern corridor. This includes Bovanenkovo – Ukhta, Bovanenkovo – Ukhta 2, Ukhta – Torzhok, Ukhta – Torzhok 2 and, additionally, we have Nord Stream and Nord Stream 2. We provide central Russia with gas via this thoroughfare. In this way, the corresponding capacities are released and transferred from the central corridor to Nord Stream. Today, the northern corridor is the most efficient gas transmission route both in Russia and abroad because it is a system of gas trunklines for 100 and 120 atm, with fewer compressor stations. The route is shorter, and maintaining these facilities will be cheaper than those that were built 30 or more years ago.

ARTUR TOPORKOV: I am seeking clarification on the move of the resource base from Nadym-Pur-Taz to the Bovanenkovskoye field. If we look at the construction project for a gas processing plant in Ust-Luga and the possibility that 45 billion cubic meters of rich gas from Nadym (the time horizon

[1] Central Commission for Approval of Engineering Design for Hydrocarbon Development and Other Project Documentation (Central Development Commission) under the Federal Agency for Mineral Resources.

beyond 2025, apparently) may be delivered to the plant and, additionally, you intend to pump about 60 billion cubic meters of rich gas from Bovanenkovo to the same plant because Nord Stream 2's starting point is located there. Do you have the technical capability to reroute excess gas from Bovanenkovo to the central regions of Russia without building new pipes after both projects are completed? Will the local infrastructure allow you to transmit about 40 billion cubic meters of gas from the Ust-Luga area?

VITALY MARKELOV: We would not have announced this project in Ust-Luga without addressing the issues related to production and routing. Of course, there is a possibility to designate gas transmission infrastructure that will carry ethane-containing gas from Nadym-Pur-Taz, and we explored this issue. The resource base in Yamal will be developed along with the development of long-distance gas transmission capacities. An important benefit of Gazprom's transmission network is that it provides various options for conveying gas.

Of course, the Yamal gas, with its lower content of heavier components, will be delivered to its consumers, and ethane-containing gas will be transmitted to Ust-Luga. We looked into the matter. Today we are preparing the investment rationale for gas production and transportation facilities, and we plan to complete this work before the year's end. This will be followed by investment decision-making.

EVGENIA SOKOLOVA: Have I got it right that, by the year's end, you will make the investment decision regarding the gas processing plant in Ust-Luga?

VITALY MARKELOV: No, it covers a whole complex of production and transmission facilities, including the gas processing plant.

QUESTION: Anastasia Goreva, Argus Media agency. What was the maximum output of Gazprom this past winter? What was the highest production rate at the Bovanenkovskoye field?

What is the expected maximum daily production rate this year across the Company and in Bovanenkovo specifically? Will these figures change with the commissioning of the Chayandinskoye field?

You are going to put onstream the remaining production capacities designed for 30 billion cubic meters of gas at Bovanenkovo. How will this impact the potential annual production? What is the maximum potential output of Bovanenkovo this year? You produced over 82 billion cubic meters of gas there in 2017.

VITALY MARKELOV: Indeed, the Bovanenkovskoye field is the most promising one in Gazprom's portfolio and we are ramping up our gas production capacities there. Today, its annual production capacity stands at 90 billion cubic meters of gas due to gas production facilities No. 1 and No. 2, which were brought to their design capacity. The output of 82.8 billion cubic meters is explained by the seasonal swings in the operation of the Bovanenkovskoye field last summer.

At the end of the year, we are launching gas production facility No. 3 and thereby aiming for peak output with an additional 30 billion cubic meters of gas per year, as you correctly said. According to the development plan, the annual gas production from the Bovanenkovskoye field will be 115 billion cubic meters by 2023. During the winter period of 2017–2018, we produced 264 million cubic meters daily at the most. After the launch of gas production facility No. 3, we will attain 315 million cubic meters in daily output by the next winter.

How much gas are we going to produce from Bovanenkovskoye? I will reiterate that we are looking into issues related to the revision of our production plans. First of all, we will examine our performance during this winter period, with account for the newly-launched gas production facility No. 3. It will be ready by the year's end, which is why we are going to continue operating the existing capacities, with the maximum daily output of 264 million cubic meters of gas. Next year, it will be 315 million cubic meters of gas per day.

VSEVOLOD CHEREPANOV: I would like to add something about peak production: 1.512 billion cubic meters of gas was the maximum achieved this winter. The target figure was 1.515 billion cubic meters of gas. The planned peak level for the next winter is 1.528 billion cubic meters of gas.

ANASTASIA GOREVA: What is the plan for ramping up the UGS capacities? How will this impact

the maximum daily output? What UGS facilities will you use to achieve this goal by the next autumn/winter period?

VITALY MARKELOV: This winter, our UGS facilities proved their value by meeting peak demand. Throughout a cold March, gas supplies were secured via the UGS facilities. This proved that the monthly gas reserve for March was in demand, and the gas inventories in our storages were at their lowest over the last few years. So, now we are replenishing them to 72 billion cubic meters of gas.

We are also developing the UGS system. Last year, we brought onstream two reservoirs at the Kaliningradskoye UGS facility, and now we are injecting gas into them. After that, the capacities of Kaliningradskoye will more than double. This year, we are putting onstream the Volgogradskoye UGS facility and developing the gas transmission system to carry gas from the Kasimovskoye UGS facility. All this will allow us to increase the peak daily deliverability of our underground storages to more than 847 million cubic meters (including UGS facilities in Armenia and Belarus) by the beginning of the 2018–2019 withdrawal season. A major boost this year can be attributed to two UGS facilities – Kaliningradskoye and Volgogradskoye – based in salt caverns and capable to deliver maximum performance on daily withdrawal rates.

ANASTASIA GOREVA: In which month do you plan to start production drilling at the Yuzhno-Kirinskoye field? How deep will you drill? And who will be your main contractor for the pre-development of the Yuzhno-Kirinskoye field?

VITALY MARKELOV: We are going to start drilling operations at the Yuzhno-Kirinskoye field from our semi-submersible drilling rigs Polyarnaya Zvezda and Severnoye Siyaniye. They will commence drilling on June 15. The drilling period is rather short, so the two rigs will operate simultaneously. We plan to begin with four wells.

VSEVOLOD CHEREPANOV: This year, four wells will be drilled to the top of the pay zone, without completion. That is, the wells will be appropriately cased, the wellhead equipment will be installed on the seabed. The schedule is designed so that the platforms could drill two wells and then proceed to a new site. The ship logistics is carefully planned to ensure that the platforms do not interfere with each other and comply with the requirements of industrial navigation and safety. We will finish the drilling season sometime in October.

Next year, the drilling rigs will get back to the same wells, drill them to the producing horizon, and complete or suspend them. This will depend on the calculations of the investment cycle. These are our plans.

VITALY MARKELOV: As for the pre-development of the field, we are currently completing the design work. A decision will then be made on further implementation of the project.

QUESTION: Vitaly Sokolov, Energy Intelligence portal. If you decide to complete the wells, when will you determine the supplier of wellhead and other equipment for bringing the well into operation?

VSEVOLOD CHEREPANOV: Our decision-making concerning the pay zone largely depends on the availability of equipment, namely, subsea X-mas trees. If we manage to purchase this equipment from the right supplier, we will install it next year. If not, we will continue to follow through with the aforementioned drilling plan, i.e., to the top, until we get the equipment.

I anticipate your question about who the equipment supplier will be. I daresay that we will choose a Russian company. As for the equipment manufacturer, we have already said that the contract for the first pilot project with around 8–12 wells will be probably awarded to a foreign manufacturer.

VITALY SOKOLOV: Do you mean that the invitation to tender for the supply of equipment has not yet been issued?

VSEVOLOD CHEREPANOV: No, it hasn’t.

QUESTION: Oksana Kobzeva, Reuters agency. My question concerns the suspension of production at a number of fields. What fields are awaiting suspension, if any? Last year and the year before, for example, it was Kirinskoye, where production was halted for half a year.

VITALY MARKELOV: As regards the fields, I have already stated that our plans have slightly

changed from last year. We can't tell you right now what fields of the Unified Gas Supply System will be suspended. But I can say for sure that operations will be halted for planned maintenance in accordance with the schedule. By the way, the first overhaul activities involving production and transmission facilities will start tomorrow.

As for the Kirinskoye field, you are right, it is meant to supply consumers in the Far East during the winter period. At present, the field is not operational because there is no demand for its gas in the summer period. In winter, the field will resume producing gas for consumers in the Far East.

QUESTION: Lyudmila Podobedova, RBC newspaper. Will you allow third-party gas to be fed into Power of Siberia, at least associated gas? Or do you still believe that it should only convey gas from Gazprom? If you do not, please name the suppliers, the volumes, and the end consumers.

VITALY MARKELOV: I have nothing new to say. The contract signed by Gazprom and the Chinese company CNPC stipulates that gas supplies will come from Gazprom. They will start on December 20 next year.

You are talking about offers to Gazprom regarding gas supplies to Power of Siberia. These issues are under consideration. We can't disclose the specific results yet.

ANASTASIA GOREVA: How will you determine the number of wells to be drilled at the Yuzhno-Kirinskoye field by 2023? You said there would be 8–12 wells. What can make you settle upon 8 wells or raise their number to 12?

Could you expand on the action plan for the development of Semakovskoye and the Parusovoye group of fields? Will you start with the Parusovoye group or with Semakovskoye, which is located in the shallow waters of the Ob and Taz bays? What year are you planning to start production?

VITALY MARKELOV: The Yuzhno-Kirinskoye and Kirinskoye fields are intended to serve the needs of Far Eastern consumers. Within the ongoing projects, we are contemplating possible gas supplies from these two fields. The reserves have been calculated and recorded in the gas balance for the Far East.

VSEVOLOD CHEREPANOV: The Yuzhno-Kirinskoye development project envisages certain production dynamics and a number of production wells to be drilled. It all depends on the timing of well commissioning.

If we put onstream, say, 12 wells at the end of the year, it means that less produced gas will be accounted for this year, that is, it will be carried over to the next year. If we tie in and commission the wells in the middle of the season, in the summer, then a smaller number of wells will suffice. It is a purely commercial matter. And the readiness of wells for start-up is a technological matter. We will probably have a certain number of wells drilled. But there will be fewer wells fit for gas production. That's why I said 8–12 wells, the question is, which of these wells will be operational.

VITALY MARKELOV: The fact is that, in contrast to the Unified Gas Supply System in the western part of the country, the gas production and transmission system in the Far East has limits. Accordingly, we need to provide gas supplies by the time when gas consumers in the Far East are ready to receive them. So, we keep track of the market environment, monitor the situation, follow the projects in progress, and we are going to connect wells depending on the market needs.

VSEVOLOD CHEREPANOV: I will say a few words on the joint project with RusGazDobycha. When the draft development plan is approved by the Central Development Commission, we will have a clear understanding of the situation and provide all the details. In theory, the primary development target is Semakovskoye, the most prolific field with proven reserves. Since offshore development is a rather expensive process, it will be necessary to locate ice-resistant unmanned satellite platforms there, so the first drilling operations will be carried out from the coast. It is a cross-border field that allows us to accumulate some of the reserves via onshore facilities.

ARTUR TOPORKOV: As the decision on the third train of Sakhalin II should be made soon – I mean the LNG plant – are you ready with the expansion project for the Trans-Sakhalin gas pipeline? At the moment, it is clearly incapable of pumping the sufficient amount of gas, i.e., 18.2 billion cubic meters per year. Will this expansion be carried out separately or within the project for the third train of

the LNG plant? How much will it cost? To what extent do you plan to expand it?

VITALY MARKELOV: Yes, the pipeline is designed for two trains, and today's capacity is 18 billion cubic meters of gas. The third train requires an expansion. Sakhalin Energy has completed the investment rationale for the design and development of the gas transmission system and received a positive opinion from the Russian State Expertise Agency. It also issued a positive opinion for the LNG plant expansion, the third train. The gas transmission system project involves the construction of two new compressor stations, which were previously envisaged in the project, as well as a scale-up of the existing compressor stations.

As for the construction of a third train at the LNG plant, we decided together with the shareholders that it would be similar to the first two trains to make its operation easier.

ARTUR TOPORKOV: Concerning the delivery of ethane-containing gas to Ust-Luga: have you determined the list of fields where you are going to extract this gas for Ust-Luga? What delivery route have you outlined?

VITALY MARKELOV: We are developing an investment rationale for gas production and transmission facilities and we plan to complete it before the end of this year. The Nadym-Pur-Taz fields will be connected to the gathering system and then to a gas transmission system that will be designated among other supply capacities. We have examined them all. The document I've mentioned will provide details on gas production and transmission issues.

VSEVOLOD CHEREPANOV: We will use primarily the Urengoyskoye field, the Achimov and Valanginian deposits. They lie deeper than the Cenomanian ones. This gas is being extracted now. It is then fed into the common pipeline and mixed with conventional gas. The main concept that gave rise to the project was about gaining extra profit from this gas by stripping its rich components.

MARIA GRABAR: At what stage is the development project for the Vaneyvisskoye and Layavozhskoye fields? Both Gazprom and LUKOIL confirmed the possibility of a joint venture. How do you view this prospect, is it possible? How will you monetize gas? Do you have LNG production in mind?

VSEVOLOD CHEREPANOV: We have obtained the appropriate license, in which the Vaneyvissky and Layavozhsky subsurface areas are included in one license block. Under the current license obligations, we should carry out a follow-up appraisal of the existing reserves by conducting exploration activities. The exploration project will be approved this July. Based on the indicators already embedded in the project, we plan to start drilling the priority well in 2019 and perform a large scope of 3D seismic surveys. Once the work is completed, and I think we will finish exploration by 2022, we will be able to reappraise the reserves and book them once again. According to the license terms and conditions, we don't have to bring the fields into production immediately. We are dealing with exploration and appraisal now. We have enough time to carry out the activities before the deadline and, using the earmarked funds, put the field onstream after 2022.

Of course, we planned to engage partners in the development process. We have made headway in discussing this project with LUKOIL, we prepared a general feasibility study on how to develop the fields. We examined LUKOIL's infrastructure to formulate the method of using oil reserves. And we looked at the possible ways of feeding gas into the Bovanenkovo – Ukhta gas pipeline near the Syninskaya CS.

We are currently studying a number of technical features of this field and its economic appeal in terms of engaging new partners. We are not completely sure that we can use the exact concept that was developed. So, we now have our own scheme of possible gas supply via the gas pipeline system connected to the Vuktylskoye field. We are attempting to bring the field back to life and assess its capabilities in order to determine if it is fit for storing gas so as to convert it into a regional UGS facility. In order to attain technologically acceptable performance – it is characterized by low pressure and a large quantity of gas – perhaps we will allot this gas to Vuktyl capacities and the Sosnogorsk Gas Processing Plant. These concepts emerge in real time, so the question of whether we will cooperate with our colleagues, our partners, or develop the fields by ourselves is being explored now.

ANTON KHLYSHCHENKO: Gazprom was going to study the dependence of ground movement in

the area of the Urengoyskoye field on the production process. Is there any dependence? Will you have to use a special production mode to limit ground movement in Novy Urengoy and other northern cities?

VITALY MARKELOV: Are you referring to the Groningen field in the Netherlands?

We operate in accordance with the development plan, and all issues you are talking about are taken into account in the plan. Moreover, in accordance with the terms of the current license and the industrial safety law, we are obliged to continue this work. In this regard, Gazprom has an excellent opportunity to use state-of-the-art diagnostic tools. I mean the SMOTR aerospace system for remote sensing, which was introduced by Gazprom Space Systems. Using satellites, we monitor the Earth's surface in the areas of our development operations. There is nothing critical at the moment.

In addition to the gas fields, we monitor gas trunklines, we observe the state of pipes and soil – we can see and forecast that as well. We also watch out for trespassing of specially protected gas trunkline areas via the satellite constellation of Gazprom Space Systems.

VSEVOLOD CHEREPANOV: Gazprom has been monitoring the deformations of the Earth's surface for as long as the gas industry has existed. This is one of the basic requirements; it is embedded in license agreements, that is, every year we are obliged to sign contracts with companies that carry out this monitoring.

The dynamic changes that have been observed for over 30 years are in no way related to the gas production processes at the Urengoyskoye field. The regional changes meet the requirements in terms of stability of foundations, structures, buildings, and so on. They are all linked solely to permafrost and man-made-impacts on the surface. There are no problems with the global geodynamic and tectonic processes. We regularly place geotags, they are geographically referenced, we observe and measure them on an annual basis. The deformation is minimal there.

VITALY MARKELOV: Gazprom has a perfect opportunity to carry out these activities via the satellite constellation – this is how we differ from other companies. Gazprom has it all.

ARTUR TOPORKOV: There are two gas pipeline sections: the Gryazovets – Slavyanskaya CS gas pipeline scheduled to be completed in 2021 and Ukhta – Torzhok 2 due in 2020. Am I right in supposing that they will be put onstream in stages to enable gas deliveries via Nord Stream 2 by the end of 2019? What capacity will be attained there by the end of 2019? Do you need to raise it to 55 billion cubic meters by the end of 2019, given that there might not be any distribution capacities in Germany by that time? Construction of EUGAL hasn't started yet. According to the most tentative estimates, it will take at least two years to build the pipeline of the same size and capabilities as OPAL.

VITALY MARKELOV: We are not going to assess European or German infrastructure. As for the Ukhta — Torzhok 2 gas pipeline, we built and commissioned 570 kilometers of its linear part last year. Today, we are completing construction and installation, with 4.5 kilometers of the linear part to be welded. This year, we put into operation the whole linear part of the gas pipeline – about 970 kilometers. The capacities will be developed further. Compressor stations will be built in 2019–2020 according to the expansion schedule for consumers of the northwestern region and for gas supplies via Nord Stream 2. All the project documentation is ready.

I am focusing on the northwestern region because quite a lot of projects will be launched there. One of them is the project of EuroChem due to come onstream this year, so we should supply EuroChem facilities with gas. To this end, we are running a project entitled the Red Chain, a complex project aimed at developing the Belousovo – Leningrad, Serpukhov – Leningrad and Kohtla-Jarve – Leningrad gas trunklines, as well as the Novgorod compressor station. The construction and assembly of the linear part is almost done, work is underway on interconnectors and block valves, that is, there is no doubt that all activities will be completed by the third quarter. But this relates to the first stage. And the second stage provides for additional gas supplies from Bovanenkovo to prospective consumers in the northwestern region.

ANTON KHLYSHCHENKO: Last year, Gazprom terminated contracts worth RUB 12 billion with several building contractors, mostly small enterprises. This year, several contracts with a total value of RUB 10 billion were put out to tender for small- and medium-size enterprises, but they were not

awarded. How can you explain that? Was it an initiative of Gazprom or contractors?

VITALY MARKELOV: I can only say that Gazprom's projects are large in scale and they can be implemented by few companies. The same is true for Rosneft and Transneft. One needs to have certain capacities to be able to work for Gazprom. We don't allow our construction projects to be fragmented. Otherwise, who will be responsible for all the work? There is a general rule in Gazprom: someone has to take overall responsibility.

EVGENIA SOKOLOVA: Tell us about the investment plans for this year's exploration activities – in Russia, abroad, or in total.

VSEVOLOD CHEREPANOV: Last year, the Gazprom Group, including Gazprom Neft, spent a total of RUB 86.7 billion on exploration activities. The Group's gas business accounts for RUB 65.6 billion. Accordingly, RUB 21.1 billion is attributable to Gazprom Neft.

Similar amounts are planned for 2018, the total amount will be about RUB 83 billion.

VITALY SOKOLOV: It is expected that gas for the future gas processing plant in Ust-Luga will be supplied from the Urengoyskoye field. If I'm not mistaken, you are not going to increase the local production to 45 billion cubic meters per year. Am I to understand that at some point on the northern route, in Ukhta or somewhere else, this ethane-containing gas will be mixed with Yamal gas? If so, could you tell us in what proportion approximately this will occur? To what extent will the ethane content decrease in this mixture?

VSEVOLOD CHEREPANOV: The contractual obligations for ethane content are set out in the documents. These are clearly defined parameters for a certain composition of gas. The average planned ethane content is 10.9 per cent. Some deposits contain more ethane – over 12.5 per cent, some contain less, like Valanginian deposits with 9.3 per cent. This makes up a total average of 10.5–10.9 per cent. The technology is based on these figures, with a constant composition of gas, including rich gas.

As for mixing the gas, we do not intend to add methane. I have already stated that a separate pipeline system will be used for this rich gas. It will be carried from Urengoy to the Novourengoyskaya CS and flow by two strings to the vicinity of the Peregrebnaya CS. Subsequently, it will be pumped towards Ukhta, where gas will be gathered in one string and delivered further along the northern corridor to Ust-Luga.

VITALY SOKOLOV: You mean that all 45 billion cubic meters will be supplied by the Nadym-Pur-Taz region?

VSEVOLOD CHEREPANOV: Absolutely.

ANASTASIA GOREVA: A question about the Bovanenkovskoye field. When you bring the field to its design capacity in late 2022, what will be the maximum daily output by that time? That is, how much will you produce in addition to those 315 million cubic meters?

VITALY MARKELOV: We are targeting the design capacity of 115 billion cubic meters per year and the daily capacity will be 365 million cubic meters of gas.

ARTUR TOPORKOV: In the second slide of the presentation, you have marked, among other things, Kamchatka as one of the main exploration regions. However, Sergey Donskoy, Russian Minister of Natural Resources, said last December that you had requested to suspend the license for the western shelf of Kamchatka. Have you revised your plans? Do you want to conduct development operations there?

A question about the wear and tear of your gas transmission system. Over 60,000 out of 172,000 kilometers of your gas pipelines are 40 years old or older. As far as I know, you have a program that allows you to replace gas pipelines out of schedule as opposed to by necessity, and climatic conditions vary in different regions. Where are those 60,000 kilometers of 40-year-old gas pipelines predominantly located? Are they located in southern regions with nice climatic conditions?

VSEVOLOD CHEREPANOV: Speaking about Kamchatka, it was not the western Kamchatka subsurface area for which we requested to suspend the license, but rather the blocks located onshore – Noyabrsky 1 and Noyabrsky 2. These are new blocks we received from Rosnedra and we are going to

carry out exploration activities there for gas supply purposes. We need to maintain the ongoing production level, and with this in mind we are accelerating our exploration activities. And we are requesting that the western Kamchatka area be suspended.

VITALY MARKELOV: We also plan to build a booster compressor station in Kamchatka and to develop and retrofit a comprehensive gas treatment unit.

As for the aging of the gas transmission system, Gazprom is performing reliability assurance operations. The accident rate at Gazprom is quite low, even compared to gas transmission systems in other countries. In my opinion, we are the leaders in terms of reliability. Last year, there were only 3 accidents at gas trunklines, whereas 10 years ago there were more than 20. That is, we have made significant progress in improving gas transmission system reliability.

We are committed to the reliability assurance strategy, which includes such activities as overhaul, retrofitting and construction of new facilities. All this produces results.

We do have a large number of gas trunklines built over 40 years ago, with block valves and 90-degree laterals that are not suited for in-line inspections. But we are working to eliminate these bottlenecks to enable diagnostics and subsequently maintain these gas pipelines in operating condition.

VASILY NIKITIN: According to our data, over 45,000 kilometers of gas pipelines have been in operation for 41 years or more. These are mostly the Central Asia – Center gas pipelines running to Yekaterinburg and Moscow and old sections near St. Petersburg and Ukhta. One of the most essential facilities, however, is the Circular Gas Pipeline in the Moscow Region, which is being retrofitted and repaired in order to ensure its reliability. This is our fundamental, backbone element providing gas not only to Moscow and the Moscow Region, but also to the adjacent areas of central Russia. The work is quite intense. Some of those gas pipelines, i.e., the aforementioned 432 kilometers, will be decommissioned under the capacity reduction program.

It is a comprehensive task that needs to be handled accordingly. Where possible, we are switching consumers to new gas pipelines and only remove some of the old sections. In some cases, we change the intended use of a gas pipeline by simply converting it from a trunkline to a distribution facility with a corresponding reduction in pressure. We carry out a set of measures in this area, and they deliver every year: as Mr. Markelov has said, the accident rate is going down.

VITALY MARKELOV: I have mentioned the project aimed at stepping up gas supplies to the Leningrad Region, in connection with gas deliveries to EuroChem. But this is not just about feeding gas to EuroChem. The project is focused on the reliability of gas supplies in the Leningrad Region at large. And the facilities I have mentioned will help strengthen reliability, including through gas supplies to EuroChem.

We have similar projects in the southwestern area of the Krasnodar Territory, where we are making efforts to improve reliability, as well as in the Moscow Region with the Circular Gas Pipeline. It is one of our priorities, as this pipeline conveys gas to Moscow and the Moscow Region, and we have an obligation to maintain it in operational condition.

MODERATOR: Thank you. The Press Conference is over.