Address by Yaroslav Golko,
Member of the Management Committee –
Head of the Investments and Construction Department of Gazprom

at the meeting of Gazprom's top executives
with chief editors of Russian regional mass media

Moscow, December 12, 2011

Gazprom Investment Policy

Good afternoon, ladies and gentlemen!

Good afternoon, ladies and gentlemen! Dear representatives of the mass media! The purpose of our meeting today is to tell you, so that you could tell our citizens, about the investment policy of Gazprom, about our main goals and objectives. We would like to tell you about the progress with Gazprom's main strategic projects and about the ways to raise the investment efficiency in Gazprom.

Slide 1

It's no secret that Gazprom is one of the largest energy companies worldwide.

A singular characteristic and one of the advantages of Gazprom is that the Company is at the same time a producer and a supplier of energy resources, as it possesses a strong resource base and a well-developed gas transmission infrastructure (Unified Gas Supply System).

Reliable operation of the Unified Gas Supply System (UGSS) requires substantial investments, particularly in the complicated environment of Russia.

Gazprom's investment policy rests on the principles of unconditional and timely solution of strategic goals aimed at implementing future projects for social and economic development of Russian regions.

The scope and vectors of Gazprom's investments are predetermined by its existing obligations to supply natural gas to consumers in Russia and beyond it, by the geography of accessible reserves, the need to retrofit and update the available infrastructure.

Slide 2

Gazprom defines its investment programs pursuing the following strategic goals and objectives:

- ensuring target volumes of natural gas production;

- ensuring reliable gas supplies to Russian consumers and meeting obligations under export contracts;
- ensuring reliable and safe operation of the UGSS;
- increasing the range of gas chemistry products, advanced extraction of valuable components from gas and increased outputs of deep-processing products;
- ensuring performance of social obligations.

Slide 3

Between 2007 and 2010 the total investments realized by Gazprom exceeded RUB **3** trillion! And it will be for the first time that the total annual investments will exceed RUB **1** trillion – in this year 2011! The growth dynamics of investments during the period is clearly represented in this slide.

For your information:

	2007 (actual)	*2008 (actual)*	*2009 (actual)*	*2010 (actual)*	*2011 (planned)*
Total investments realized	*737.05*	*777.31*	*803.69*	*895.37*	*1,276.48*
Including:					
SFR target	*328.26*	*495.96*	*533.76*	*737.67*	*1,150.03*
LTI target	*388.11*	*271.15*	*268.31*	*142.01*	*89.76*
COA target	*20.68*	*10.20*	*1.62*	*15.69*	*36.69*
Total financial investments	*762.64*	*796.12*	*745.51*	*793.74*	*1,274.26*

Slide 4

The figures representing the capacities commissioned between 2007 and 2011 are shown below. This slide clearly shows the growth of commissioned gas trunklines and branches. Gas production infrastructure is also developing in a stagewise manner: it is projected to connect as many as 120 gas wells in 2011, which is well above the figures of the recent years.

Slide 5

To ensure the planned gas production and reliability of gas supply to consumers inside and outside of the Russian Federation, the Company envisages implementation of the following top-priority projects given on the slide.

Pre-development of the Cenomanian-Aptian deposits of the Bovanenkovo field, which together with the **Bovanenkovo – Ukhta and Ukhta – Torzhok gas pipelines** will supply gas to consumers in the central regions of the Russian Federation.

The Gryazovets – Vyborg gas pipeline is designed for gas supply to consumers in northwestern Russia and for filling the North Stream gas pipeline.

The Pochinki – Gryazovets gas pipeline will initially provide additional gas supplies to northwestern Russia and, inter alia, convey gas to the North Stream gas pipeline. Later on, when natural gas deliveries from Yamal fields are started, the gas pipelines will be switched to reverse flow and gas will be rerouted to the Central region.

The SRTO – Torzhok gas pipeline (additional compressor stations to be commissioned) is intended for increasing gas supplies to northwestern Russia and for securing gas exports via the Yamal – Europe gas pipeline.

Slide 6

Implementing the top-priority projects under the **Eastern Gas Program** is of strategic importance for Gazprom as part of Russian regions gasification objective. The key projects of the Program are given in the slide.

In September 2011, the Company commissioned the first startup complex of the **Sakhalin – Khabarovsk – Vladivostok gas transmission system** that will create the necessary conditions for large-scale gasification of the Khabarovsk Krai. The system as a whole will supply gas to the majority of consumers in the Khabarovsk and Primorye Krais, the Sakhalin Oblast and the Jewish Autonomous Oblast.

Pre-development of the Kshukskoye and Nizhne-Kvakchikskoye gas and condensate fields is underway to supply gas to the majority of social facilities in the Kamchatka Krai and to increase the overall natural gas penetration in the region (prior to the project inception the regional gasification level was below 1 per cent).

In addition, the **Kirinskoye gas and condensate field (GCF) is being pre-developed** as part of the Eastern Gas Program. In order to supply gas from the Kirinskoye GCF to the Sakhalin – Khabarovsk – Vladivostok gas pipeline a gas pipeline from the onshore processing facility of the Kirinskoye GCF to the Sakhalin main compressor station is being build. The gas pipeline is to be commissioned in 2012.

Timely implementation of the above mentioned projects will guarantee replenishment of gas balance throughout Russia, reliable and uninterrupted gas supplies to the industrial and population sectors – the necessary prerequisites of social development in Russian constituents.

Slide 7

Underground gas storage (UGS) has been an integral part of the gas supply system for 50 years now. During the period a well-developed underground storage system has been created in the country. Nowadays it is the main mechanism to level out seasonal fluctuations in gas consumption. All UGS facilities are either close as possible to main domestic consumers or located at nodal points of the gas transmission system. This allows promptly redirecting gas flows from UGS facilities.

By 2015 we plan to increase the potential maximum daily deliverability of UGS facilities by 40 per cent.

First of all, we are planning to expand and retrofit the existing UGS facilities to boost their potential. This includes the Kasimovskoye, Kushchevskoye, Punginskoye, Sovkhoznoye and Stepnovskoye UGS facilities. They will be re-equipped: the obsolete and worn out equipment will be replaced by the new equipment that is more efficient in terms of both economy and environment.

In addition, Gazprom is currently building three new UGS facilities in Russia:

- The Udmurtia reserving complex in an aquifer;
- The Kaliningrad UGS facility in rock salt deposits;
- The Volgograd UGS facility in rock salt deposits.

Between 2012 and 2015 the Company is going to start the construction of the Bednodemyanovskoye, Novomoskovskoye and Shatrovskoye UGS facilities as well as UGS facilities in the Republic of Tatarstan.

Slide 8

Along with production, transmission and storage, processing of natural and associated gas is of crucial importance for Gazprom. Its development enables the Company to manufacture products with a high added value as well as to diversify its business.

Gazprom seeks to expand the range of gas chemical products, increase the recovery of valuable components from gas, increase the turnout of deep-processing products, as well as increase the load of processing capacities. The plans include retrofitting the gas processing capacities, establishing new gas processing facilities to produce GTL, dimethyl ether and other products.

Special attention should be paid to Russian regions gasification efforts. These activities follow two directions:

first – building of gas laterals and gas distribution stations is financed by Gazprom;

second – building of gas distribution networks is carried out by Gazprom mezhregiongaz.

In June 2011 construction of **Dzhubga – Lazarevskoye – Sochi (offshore option), a vital gas pipeline** was completed. The gas pipeline will allow intensely developing gasification of the Sochi city and the Tuapse district of the Krasnodar Krai as well as raising the living conditions and giving a powerful impetus to the resort business development. For instance, it will enable to transit the Black Sea health resorts to year-round operation.

Besides, it is planned to commission in 2011 a number of gas laterals in the Leningrad, Novgorod, and Kursk Oblasts. Large-scale gasification the Volgograd Oblast is scheduled for 2012.

Slide 9

As part of its investment program Gazprom not only creates new production capacities, but also **public facilities**. For example, the facilities and events under the Program for Construction of Olympic Venues and Development of Sochi as a Mountain Climate Resort are represented by the following investment projects being implemented:

- The Mountain Tourist Center of Open Joint Stock Company Gazprom including aerial ropeways and ski tracks, related engineering and transportation infrastructure;
- The Combined Biathlon and Ski Complex for ski and biathlon races, the Mountain Olympic Village (1,100 places), an access road and the Psekhako Ridge.

As part of its investment program, Gazprom is taking efforts **to create, develop and operate the necessary transportation infrastructure** in the regions of its activity, namely: railroads, transshipment terminals, air terminals, helipads, motor roads and offshore platforms with floating helipads.

Slide 10

Construction of gas facilities in Russian regions not only creates jobs, but also contributes to the local infrastructure development.

Under the Gazprom to Children purpose-oriented program the subsidiary companies build and reconstruct sports facilities in more than 60 regions of the Russian Federation. As of January 01, 2011 the total amount of allocated funds under the **Gazprom to Children** program exceeded RUB 10 billion.

The total number of completely built and commissioned facilities and facilities after reconstruction has reached 659, whereof:

- 579 sports grounds, tennis lawns, and football fields;
- 33 health and fitness centers, healthcare sports facilities and stadiums;
- 47 children's sports centers, bases, culture-sports centers, swimming pools.

As we consider the large scale of Gazprom's investment activities and the trend towards investment growth, we also need to emphasize the important and urgent need to make the Company's investment program even more efficient.

Slide 11

By way of an example, let me compare some of Gazprom's investment projects with those of major international and domestic oil and gas businesses.

As we compare Gazprom's capital investments with others, we should not overlook the following:

as I mentioned above, Gazprom owns a huge gas transmission system (GTS) that is 161.7 thousand kilometer long;

Gazprom's investment projects are implemented in high-latitude environments and related climatic conditions, with extensive pipelines in sparsely populated areas.

At the same time, an average transmission distance of Gazprom's gas from main production areas to its European consumers exceeds 3,300 kilometers; and gas from the North Sea must travel 800-1,000 kilometers to the Central Europe.

Therefore, such factors must be considered as Gazprom is compared to other Russian and international companies.

Gazprom's total capital investment considerably exceeds those made by other major Russian companies. For the sake of comparison, all figures are taken from IAS-compliant consolidated reports filed by those companies for 2010.

Compared to foreign oil and gas producers, Gazprom is among global leaders by its total capital investments.

Slide 12

Let us see how capital investments compare with production in respective companies.

If for some years an oil and gas company has reported growth of financial performance, and ensured replenishment of reserves, we can say that the company's capital investments are efficient enough; the **lower** the specific ratio "total capital investment to total hydrocarbons production", the **higher** the efficiency of its capital investments.

This slide shows specific ratios "total capital investment to total hydrocarbons production" calculated based on corporate reports of Russian companies in 2010.

It must be said that the ratios consider capital investments in the GTS and storage that make up over 50.0 per cent of Gazprom's total capital investment. Russian oil and gas companies do not even have a separate item to register the segment of hydrocarbons transmission and storage in their reports.

Slide 13

Here is the ratio of capital investment to total production in Gazprom compared to major international oil and gas companies. According to the 2010 reports, Gazprom has the lowest figure, which means two or three times better than that of foreign companies and even 4-6 times better as compared to two companies. If compared without the total capital investment made by Gazprom in hydrocarbons transmission, the difference must be doubled.

And here is the general conclusion from the given reference data:

Compared to major global oil and gas producers, Gazprom is making largest capital investments to ensure its future growth. At the same time, stable financial and business performance is ensured in the Company by relatively low capital investments per ton of product.

Slide 14

The given conclusions do not underplay at all the importance to seek ways to raise efficiency of investments in Gazprom. The scale of the Company's investment program only makes this objective more important.

It must be mentioned that the activities to make its investment program more efficient is not new for the Company, but ongoing, and to be continued in future.

Main ways to raise the efficiency of the Company's investment program are proposed as follows:

1. Optimizing plans to commission capacities in Gazprom;
2. Raising economic efficiency of Gazprom's investment projects through optimization of engineering and cost parameters of construction at the stage of project documentation evaluation in the Company;
3. Cutting the implementation costs of investment projects by optimizing prices of vital logistic supplies and tenders to purchase products, works and services as well as by monitoring the implementation of investment projects to control their compliance with the performance targets of approved project documentation;
4. Continuing interaction with federal executive authorities, to settle prices of

gas on a level that ensures mobilization of internal sources of investments needed to operate and develop the gas industry as well as equal revenues from supplies to international and domestic markets;

5. Wider use of the project financing method to implement the Company's investment projects;
6. Switching to government-assisted financing for public programs.

Slide 15

In conclusion, I would like to say the following.

Active development of all investment activities in Gazprom ensures the Company's competitiveness in the long run, and this guarantees success of the strategy to establish Gazprom as a leader among global energy companies.

Thank you for your attention!