Press Conference Background

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

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Mineral and raw material base development

In 2009 Gazprom Group replenished its resource base with 468.8 billion cubic meters of natural gas through geological exploration. Thus, it was the fifth consecutive year that the Company's natural gas reserves increment rate exceeded the extraction rate.

Nowadays, Gazprom Group's license blocks contain around 70 per cent of discovered gas reserves in Russia and some 20 per cent worldwide. As of December 31, 2009 Gazprom Group's A+B+C1 reserves (Russian classification) totaled 33.6 trillion cubic meters.

In 2009 DeGolyer and MacNaughton evaluated 89 per cent of gas reserves and 84 per cent of liquid hydrocarbon reserves of Gazprom Group according to PRMS international standards. The evaluation showed that Gazprom's proven and probable reserves amounted to 21.9 trillion cubic meters of natural gas and 1.9 billion tons of liquid hydrocarbons currently worth USD 241.4 billion.

In 2009 Gazprom Group's geological exploration activities resulted in the discovery of 7 hydrocarbon fields and 14 new deposits in previously discovered fields.

Along with geological exploration of Russia's onshore and offshore areas, in 2009 Gazprom continued prospecting and exploration activities offshore Vietnam, India, Venezuela and in the Mediterranean Sea, as well as onshore Libya, Algeria, Uzbekistan, Kirghizia and Tajikistan. Jointly with Kazakhstan Gazprom continues developing the Caspian Sea shelf.

Gas production

In 2009 Gazprom Group produced 461.5 billion cubic meters of gas, which is 16 per cent lower as compared to 2008 (549.7 billion cubic meters).

The gas production decline stemmed from the slump in demand on the international and domestic markets having been provoked by the global economic crisis. Responding to demand changes in the first half of 2009, Gazprom imposed limits on natural gas production amidst the global financial and economic crisis. At

the same time, the Company was supplying the required amount of gas to consumers in Russia and abroad in a reliable and uninterrupted manner.

Starting from mid-2009 the demand on key markets and, subsequently, the Gazprom Group production indicators began to recover. In November the average daily gas output exceeded the respective value of 2008. The trend continued in the first quarter of 2010.

In 2009 Gazprom produced 10.1 million tons of gas condensate and 31.6 million tons of oil demonstrating a decrease in liquid hydrocarbons production versus 2008 (by 0.8 and 0.4 million tons accordingly).

In 2009 Gazprom proceeded with the Yamal megaproject execution. Developing Yamal's resources is the largest energy project in the contemporary history of Russia, unparalleled in terms of complexity. This significant project resembles large-scale Western Siberia development in the 1970s. It lays the foundation required for natural gas production buildup in Russia.

Development of the Bovanenkovo field with the richest gas reserves on the Peninsula is the first step in the Yamal megaproject execution. The field's explored and provisionally estimated gas reserves stand at 4.9 trillion cubic meters. Projected at 115 billion cubic meters, the annual gas output is expected to grow up to 140 billion cubic meters in the long run. The first startup complexes of the Bovanenkovo field and the Bovanenkovo – Ukhta gas trunkline system are planned for commissioning in the third quarter of 2012.

A new Obskaya – Bovanenkovo – Karskaya railroad is among the Yamal megaproject's key facilities. The railroad commissioning will ensure year-round, rapid, cost-effective and all-weather delivery of cargoes and personnel to the Yamal fields in the severe polar climate.

In September 2009 the Yuribey River bridge crossing at the Obskaya – Bovanenkovo railroad was put on stream. This unique bridge, unprecedented in the global construction practice, is the longest one beyond the Polar Circle. Its operating life is 100 years.

The rapid pace of construction and installation activities made it possible to start regular operation of the Obskaya – Bovanenkovo section in January 2010.

Last year Gazprom also launched its first stand-alone project for gas production from the Achimov deposits featuring a more complex geological structure if compared to the conventional Cenomanian and Valanzhinian deposits. A comprehensive gas treatment unit was brought into pilot commercial operation in order to develop the second pilot area of the Achimov deposits in the Urengoy oil, gas and condensate field.

In general, the bulk of 2009 investment in gas production was allocated for the Bovanenkovo, Shtokman and Prirazlomnoye fields development, as well as for pre-development of the second pilot area of the Achimov deposits in the Urengoy oil, gas and condensate field, for installation of two compressor stations to utilize associated petroleum gas (APG) in the said field. 64 new gas production wells and 115 reactivated gas wells were brought on stream.

Gas transmission and underground gas storage systems development

Gazprom's gas transmission system comprises a wide gas trunkline network, compressor stations and underground gas storage (UGS) facilities. Due to centralized management, a branched structure and parallel transmission routes the Company's gas transmission system (GTS) has a high margin of safety and is capable of uninterrupted gas delivery even during seasonal peak load periods. The overall length of Gazprom's GTS is 160,400 kilometers.

By 2030 it is planned to create a next-generation gas transmission system unique to Russia as part of the Yamal megaproject. Yamal's gas will be conveyed via the 1,100-kilometer-long Yamal – Ukhta gas pipeline and further via the Ukhta – Torzhok gas pipeline. The annual throughput capacity will be equal to 140 billion cubic meters. New gas pipelines with the total length of more than 2,500 kilometers will be used for gas delivery from Yamal. The new gas transmission system will become a key component of Russia's Unified Gas Supply System (UGSS) and convey more than 300 billion cubic meters of gas annually.

Under construction is the first element of the Yamal GTS: the Bovanenkovo – Ukhta gas trunkline system with its most complex part – a submerged Baidarata Bay crossing. High-strength 1,420-millimeter pipes with a smooth internal coating and designed for the operating pressure of 11.8 MPa (120 Ata) are used for construction. More than 450 kilometers of the Bovanenkovo – Ukhta trunkline have been constructed by now including the first string of the Baidarata Bay crossing.

Construction of the Gryazovets – Vyborg gas pipeline continued in 2009 as well. This pipeline will supply gas to the Nord Stream gas pipeline and to consumers in Northwest Russia. More than 600 out of 900 kilometers have already been constructed.

In November 2009 Gazprom commissioned the Kasimovskoye UGS – Voskresensk CS gas pipeline capable of providing consumers in Moscow and the Moscow Oblast with up to 130 million cubic meters of gas per day.

A total of more than 865 kilometers of gas trunklines and two linear compressor stations were commissioned in 2009 as part of gas transmission projects implementation.

17,700 kilometers of gas pipelines were tested using non-destructing in-line inspection methods and 17,000 kilometers – electrometric and engineering inspection methods in 2009. These diagnostic measures resulted in overhauling around 2,400 kilometers of gas pipelines. 282 gas-distribution stations (GDS) were repaired. More than 550 kilometers of gas pipelines and 6 GDS were reconstructed.

Gazprom consistently builds up its UGS capacities in order to enhance their flexibility and optimize the system load. The Company's 2005–2010 Work Program for Underground Gas Storage in the Russian Federation is currently in force.

In the meantime, due to the economic crisis and the gas demand drop in Russia and abroad Gazprom had to temporarily suspend increasing the volume of marketable gas and the daily send-out capacity of the UGS facilities under operation in 2009. Thus, the main objective of 2009 in underground gas storage was to maintain the potential achieved (total working gas capacity – 65.2 billion cubic meters, maximum daily send-out capacity – 620 million cubic meters, average daily send-out capacity from December to February – 500 million cubic meters per day) and a high level of the operating UGS facilities reliability through their reconstruction and reequipment.

However, crisis developments in the economy are temporal. The inevitable recovery and the projected growth of gas demand predetermine further UGSS development. Therefore, the long-term UGS facilities development strategy remained intact. According to Gazprom's forecasts, the maximum daily send-out capacity of Russian UGS facilities will increase to 1 billion cubic meters by 2020.

At the same time, Gazprom stores gas in UGS facilities in Latvia, Germany, Austria, Great Britain and holds stakes in the companies that operate UGS facilities – ArmRosGazprom (Armenia), Latvijas Gaze (Latvia), Wingas (Germany), VNG AG (Germany).

The long-term demand for new gas transmission capacities is determined by:

- their effective loading periods;
- maintenance of the optimal productivity of the existing gas-transmission system.

This approach allows to avoid excessive facilities commissioning, to efficiently use the Company's investment resources and to optimize gas transmission costs.

Commissioning of new gas transmission facilities after 2010 will depend on the geographic scope of gas production and gas exports. In addition to the Bovanenkovo – Ukhta and Ukhta – Torzhok gas trunklines to convey gas from new gas production regions, the Company is planning to construct the Murmansk –

Volkhov gas pipeline and the pipelines from the Ob Bay and Taz Bay gas fields. For the purpose of creating new gas export routes Gazprom is implementing the Nord Stream project and compiling a feasibility study for the South Stream gas pipeline construction.