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

As of December 31, 2018, the explored A+B1+C1 (under the Russian classification) natural gas reserves of Gazprom amounted to 35.2 trillion cubic meters,[1] which equated to 71 and around 17 per cent of the Russian and global reserves, respectively.

In 2018, Gazprom added 796.6 billion cubic meters of gas to its A+B1+C1 reserves thanks to geological exploration performed in Russia. The reserve replacement ratio stood at 1.6. Thus, Gazprom has ensured that its gas reserve addition rates surpass its production rates for 14 consecutive years. Last year, most of the gas in the A+B1+C1 categories was added by the Leningradskoye field (667.4 billion cubic meters) in the Kara Sea and the Yuzhno-Kirinskoye field (100.9 billion cubic meters) in the Sea of Okhotsk.

Over the course of 2018, Gazprom conducted 2D and 3D seismic surveys in Russia covering 5,700 linear kilometers and 9,500 square kilometers, respectively. The Company drilled through 157,600 meters of rock formations and constructed 25 prospecting and exploratory wells, with three fields and 12 deposits discovered as a result. The exploration spending reached RUB 86.4 billion.

Gazprom continues to implement exploration projects outside Russia. Throughout 2018, geological and geophysical studies were performed in the former Soviet Union, Europe, Southeast Asia, Africa, the Middle East, and South America. The investments in exploration projects abroad totaled RUB 4.7 billion.

Every year, Gazprom undergoes an independent reserve assessment in accordance with international standards. In 2018, DeGolyer and MacNaughton carried out an international standards-based audit of explored reserves covering 93 per cent of gas, 94.1 per cent of gas condensate, and 93.9 per cent of oil. The Gazprom Group's proven and probable reserves of hydrocarbons were estimated at 24.3 trillion cubic meters of gas, 1.1 billion tons of condensate, and 1.3 billion tons of oil.

[1] The significant change in natural gas reserves compared to the estimate from December 31, 2016, can be attributed to the adoption in January 2016 of a new national Classification of Reserves and Resources of Oil and Flammable Gases using gas recovery factors (GRFs). As of December 31, 2018, the Company completed the GRF estimation for fields containing 19 per cent of the Gazprom Group's A+B1+C1 reserves. However, the GRFs did not cause any significant changes in the reserve estimates as of 2018, since the reappraisal only concerned the fields that do not make up a substantial part of the Group's overall gas reserves. The new system will continue to affect the Group's figures in the transitional period set by the Russian Ministry of Natural Resources as GRFs are calculated and new projects for field development are approved.

GAS PRODUCTION

In 2018, Gazprom extracted 497.6 billion cubic meters of gas,[2] which was 26.6 billion cubic meters more than in 2017.

The scale of gas production grew further at Bovanenkovskoye, the largest field in the Yamal Peninsula in terms of explored gas reserves. In 2018, the field produced 87.4 billion cubic meters of gas, an increase of 4.6 billion cubic meters versus 2017.

Liquid hydrocarbon production in 2018 remained at 56.8 million tons, including 15.9 million tons of gas condensate. The Group's oil production amounted to 40.9 million tons in 2018.

GAS TRANSMISSION SYSTEM DEVELOPMENT

The overall length of Gazprom's gas transmission system in Russia reached 172,600 kilometers.

In 2018, Gazprom continued to actively develop the system. As part of the expansion of the northern gas transmission corridor, the Company connected the Ukhta – Torzhok 2 gas trunkline to the Unified Gas Supply System. Workshops at four compressor stations (CSs) with the aggregate capacity of 371 MW were brought into operation within the Bovanenkovo – Ukhta 2 gas pipeline. Two more CSs with the overall capacity of 200 MW are planned to come onstream in 2019. Before the end of this year, Gazprom is going to put into operation new gas transmission capacities in the northwestern region between Gryazovets and the Slavyanskaya CS.

Construction of the Power of Siberia gas trunkline continued in the eastern part of Russia.

In order to improve the flexibility of the gas transmission system and ensure an optimal load distribution, especially during peak loads in the autumn/winter period, Gazprom makes efforts to enhance its underground gas storage (UGS) system. As of October 15, 2018, the working gas inventories in the Russian UGS facilities totaled 72.2 billion cubic meters. By the start of the 2018–2019 autumn/winter season, the maximum daily deliverability of UGS facilities hit a record of 812.5 million cubic meters of gas, an increase of 7.2 million cubic meters against the previous season.

The performance boost was made possible by the renovations and expansions in a number of active UGS facilities. 2018 also saw Gazprom bring into operation the Volgogradskoye UGS facility, which had been built in salt caverns.

In 2019, renovation and expansion efforts are in progress at, among others, the Kanchurinsko-Musinsky UGS Complex and the Punginskoye UGS facility, with new capacities

[2] Here and below, the Gazprom Group's hydrocarbon production data do not include the Group's share in the production by the companies investments wherein are classified as joint operations.

under construction at the Kaliningradskoye and Volgogradskoye UGS facilities, as well as at the Udmurtia Reserving Complex. New areas are being explored in the Northwestern, Siberian and Far Eastern federal districts. Construction of the Arbuzovskoye, Novomoskovskoye and Shatrovskoye UGS facilities is expected to start in 2020–2023.

In order to enhance energy security in the Kaliningrad Region taking into account the geographical setting, Gazprom carried out an alternative gas supply project focused on liquefied natural gas (LNG) deliveries by sea. An LNG receiving terminal and a floating storage and regasification unit (FSRU) called Marshal Vasilevskiy were brought into operation in January 2019. The terminal and the FSRU provide opportunities for receiving natural gas by sea and will be able to, if necessary, meet the current and future needs of the Kaliningrad Region.