

## **Press Conference Background**

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

**June 16, 2009**

#### **Mineral and Raw Material Base Development**

In 2008 Gazprom Group increased its resource base by 583.4 billion cubic meters of natural gas through geological exploration. Thus, for the fourth consecutive year the Company has been securing the advanced increment of natural gas reserves versus its extraction rates.

At present, 69 per cent of Russian discovered gas reserves and 17 per cent of the global gas reserves are accumulated at the licensed blocks of Gazprom Group.

As of December 31, 2008 Gazprom Group's A+B+C1 reserves (according to the Russian classification) accounted for 33.1 trillion cubic meters.

In 2008 DeGolyer & MacNaughton performed according to PRMS international standards an evaluation of Gazprom Group's 88 per cent of gas reserves and 85 per cent of liquid hydrocarbon reserves (exclusive of Gazprom neft). Based on the assessment results, the proven and probable reserves of Gazprom Group (exclusive of Gazprom neft) totaled 21 trillion cubic meters of natural gas and 1,013.2 million tons of liquid hydrocarbons. Their present value is estimated at USD 206.4 billion. At the same time, the proven and probable reserves of Gazprom neft totaled 0.2 trillion cubic meters of natural gas and 994.9 million

tons of liquid hydrocarbons. Their present value is estimated at USD 23.7 billion.

In 2008 exploration works at the licensed blocks of Gazprom Group (exclusive of Gazprom Neft) resulted in the discovery of the Kamovskoye, Zapadno- Rozhdestvenskoye, Tsentralnoye (Tsentrcaspneftegaz, with Gazprom holding 50 per cent of shares) fields as well as four oil and gas condensate deposits in the previously discovered fields. In addition, Gazprom Neft Group discovered the new Valyntoyskoye oil field and 18 deposits.

In addition to the above mentioned discoveries, the plenary meeting of the State Commission for Mineral Reserves assessed and approved in 2008, within the pilot coalbed methane production project, the C1+C2 reserves of the Taldinskoye coalbed methane field estimated at 45.8 billion cubic meters.

Alongside with geological exploration in the Russian Federation and Russian continental shelf, Gazprom continued prospecting activities offshore Vietnam, India, Venezuela, Libya, Uzbekistan, Kyrgyzia and Tajikistan in 2008. In cooperation with Kazakhstan Gazprom continues developing the Caspian Sea offshore areas.

### **Gas Production**

In 2008 Gazprom Group companies produced 549.7 billion cubic meters of gas, which represents a 0.2 per cent rise versus 2007 (548.6 billion cubic meters).

In 2008 gas condensate and oil production accounted for 10.9 million tons and 32 million tons accordingly, showing a decline in liquid hydrocarbon production versus 2007 (11.3 and 34 tons).

In 2008 Gazprom launched the Comprehensive Development Program for the Yamal Peninsula and the adjacent offshore areas (Yamal megaproject). Yamal development is the largest energy project in the contemporary history of Russia and the most sophisticated one. In terms of scope and significance the project is equal to the development of Western Siberia's fields in the 1970s. It lays the necessary foundation for ensuring gas production growth in Russia.

Developing the Bovanenkovo field, Yamal's largest one in terms of gas reserves, is the first step towards the Yamal megaproject execution. The field's explored and provisionally estimated reserves account for 4.9 trillion cubic meters of natural gas. Gas production from the field is projected at 115 billion cubic meters per annum to be increased to 140 billion cubic meters in the long term.

In December 2008 production well drilling was launched at the Bovanenkovo field and the first joint of the Bovanenkovo – Ukhta gas trunkline system was welded.

Last year Achimgaz, a joint venture of Gazprom dobycha Urengoy and the German Wintershall Holding AG launched the pilot production at area A1 of the Achimovsk deposits in the Urengoy oil, gas and condensate field. This event marks a fundamentally new stage of Gazprom resource base and production potential development:

Achimovsk deposits are located at the depth of 3,600-3,800 meters and

featured by a much more complicated geological structure if compared to Cenomanian and Valanginian deposits that are being currently developed.

In general, the major gas production investments were allocated in 2008 for the pre-development of the Bovanenkovo, Shtokman and Prirazlomnoye fields as well as for the pre-development of the second pilot section of the Achimovsk deposits in the Urengoy field, the Zapadno-Pestsovaya area, the Kharvutinskaya area of the Yamburg field, the Zapolyarnoye, Novoportovskoye and Yen-Yakhinskoye fields. At the same time, pre-development of the Yuzhno-Russkoye field was continued.

In 2008 a gas processing facility (UKPG) was put onstream at the Chikanskoye field, two booster compressor stations with 160 MW in total capacity were put into operation at the Yamsoveyskoye and Zapadno-Tarkosalinskoye fields, 177 new and 103 idle wells were commissioned.

### **Gas Transmission and UGS System Development**

The gas transmission system of Gazprom includes a vast network of gas trunklines, compressor stations and underground gas storage (UGS) facilities. Due to its centralized management, highly ramified structure and availability of parallel transmission routes, Gazprom's gas transmission system (GTS) has a considerable reliability margin and is able to continuously deliver gas even during seasonal peak demand.

As part of the launched Yamal megaproject it is projected to create before 2030 a unique new-generation GTS unparalleled in Russia. Gas

from Yamal will be transmitted via some 1,100-km-long Yamal – Ukhta section (5-6 lines) and further along the following direction: Ukhta – Gryazovets, Gryazovets – Torzhok, Gryazovets – Yaroslavl and Ukhta – Pochinki. The overall distance of Yamal gas transportation via the new pipelines will exceed 2,500 km. The new gas transmission system that will be subsequently a key element of the UGSS of Russia will annually convey over 300 billion cubic meters of gas from the Yamal Peninsula fields.

In 2008 construction of the first element of the Yamal GTS was launched: the Bovanenkovo – Ukhta gas trunkline system including its most complicated section, the submerged crossing via the Baidarata Bay. The pipeline is being constructed with the use of 1,420-mm high-resistant flow-coated pipes made of K65 (X80) grade steel designed for the operating pressure of 11.8 MPa (120 atm).

In 2008 the construction of the Gryazovets – Vyborg gas pipeline and expansion of the Urengoy gas transmission hub continued. The Kasimovskoye UGS – Voskresensk gas pipeline was put onstream to supply gas from the Kasimovskoye UGS to the Circular gas pipeline of the Moscow Oblast. The Barnaul – Biysk – Gorno-Altaysk gas pipeline with a lateral to Belokurikha was commissioned. The gas pipeline will lay the foundation for further gasification of the Altai Krai and the Republic of Altai.

Around 1.4 thousand km of gas trunklines and laterals and seven main compressor stations with 528 MW in total capacity were brought onstream in 2008 as part of the gas transmission projects execution.

In 2008 in-line diagnostics of 19.8 thousand km and inspection and electrometric survey of 25.6 thousand km of gas pipelines was conducted. Based on the diagnostics results around 2.8 thousand km of gas pipelines were overhauled. 274 gas distribution stations were repaired.

The Comprehensive Program for the modernization and upgrading of GTS facilities for 2007-2010 is underway. The Program contemplates modernizing 5,000 km of gas pipelines, replacing or upgrading over 500 gas pumping units and renovating 300 gas distribution stations. This will result in a 32 billion cubic meters increase in the throughput capacity of the gas trunkline system and simultaneously save 3.5 billion cubic meters of gas per annum during the transportation process. Special emphasis is placed on gas conveyance from the Nadym – Pur – Taz region including the gas from independent producers and gas transportation from the Yamal Peninsula.

Gazprom continues implementing the Energy Saving Program for 2007 through 2010. Over the reported period Gazprom's subsidiaries outstripped the plan for accumulative saving of fuel and energy resources by 17.3 per cent, i.e. about 2.8 million tons of fuel equivalent.

In order to raise the flexibility and ensure optimum loading of the system Gazprom expands UGS capacities. In 2008 the aggregate active capacity of UGS facilities was increased to 65.2 billion cubic meters, the average daily send-out capacity – by 12 million cubic meters up to 620 million cubic meters, while the average daily send-out capacity in

December-February grew by 7.6 million cubic meters up to 500 million cubic meters.

At present, Gazprom is implementing the 2005-2010 Work Program for Underground Gas Storage in the Russian Federation which envisages further build-up of UGS performance.

Gazprom stores gas in UGS facilities in Latvia, Germany, Austria and the UK. The Company holds shares in UGS facilities operators and owners, namely, ArmRosGazprom (Armenia), Latvijas Gaze (Latvia), WINGAS GmbH (Germany) and VNG AG (Germany).

The demand for new gas transmission capacities in the long term is defined with due regard to the following prerequisites:

- duration of efficient loading period;
- necessity to maintain the optimal performance of the existing gas transportation system.

This approach enables to avoid introduction of redundant capacities, ensures reasonable utilization of the corporate investment resources and optimization of gas transportation costs. After 2010 introduction of new gas transportation capacities will be governed by gas production development in the untapped areas and by new gas export routes.

In addition to the Bovanenkovo – Ukhta gas trunkline system, it is projected to construct the Murmansk – Volkhov gas pipeline and branch pipelines connecting the Ob and Taz Bays fields etc. in the aim of securing gas transportation from new gas provinces. For the purpose of developing new gas export routes the Nord Stream project is being

implemented and the feasibility study for the South Stream gas pipeline is underway.