Press Conference

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

May 13, 2014

MODERATOR: Hello, colleagues. We are starting a new series of meetings of Gazprom's Management with journalists and representatives of financial and investment companies. As you know, these traditional meetings are held before the Shareholders Meeting. As usual, the first Press Conference is dedicated to the activities of the production sector. Today we'll talk about the raw material base, production and gas transmission system development.

Participating in the Press Conference are:

— Vitaly Markelov, Deputy Chairman of the Management Committee;

— Oleg Aksyutin, Member of the Management Committee – Head of the Gas Transportation, Underground Storage and Utilization Department;

— Dmitry Lyugai, Member of the Management Committee – Head of the Prospective Development Department;

— Sergey Prozorov, First Deputy Head of the Investment and Construction Department;

— Sergey Akhmedsafin, Deputy Head of the Gas, Gas Condensate and Oil Production Department.

We are ready to answer your questions now.

QUESTION: Dmitry Sokurenko, Russia Today Agency. Mr. Markelov, I examined the presentation and here, on the last pages UGS performance indicators are shown. In the light of the recent events I am very eager to know how much gas Ukraine should store in order to secure uninterrupted transit? How much time will it take the gas transmission system to accumulate this amount? I mean, is there some kind of a point of no return, passing which Ukraine won't be able to store the necessary amount? Thank you.

VITALY MARKELOV: Thank you for your question. We supply gas to Western Europe via Ukraine. It passes through the Ukrainian gas transmission system, including the UGS facilities. We track and monitor underground storage. According to our Ukrainian colleagues, some 9 billion cubic meters of gas has been injected by now. We estimate the required volume for Ukraine – I'll stress it, for Ukraine to normally pass the autumn-winter period to be 18.5 billion cubic meters of gas. And some 9 billion cubic meters more has to be injected for Ukrainian consumers to feel secure enough.

I'll say it once again: we supply Ukraine with gas in compliance with the contract and this gas is intended for Ukraine's domestic consumption.

DMITRY SOKURENKO: Should gas transit through the UGS facilities be secured anyhow or…?

VITALY MARKELOV: It is for domestic consumption purposes.

QUESTION: Maria Tatevosova, ITAR-TASS Agency. And what should base gas volumes be in Ukraine's UGS facilities, considering that they say they currently have some 9 billion cubic meters now?

VITALY MARKELOV: We estimate the total volume at 18.5 billion cubic meters of gas.

MARIA TATEVOSOVA: Does this include base gas?

VITALY MARKELOV: Yes.

MARIA TATEVOSOVA: What should its share be? Ten per cent, five per cent? What is the minimum amount?

VITALY MARKELOV: We estimate the aggregate volume. And the share of base gas is a factor that depends on weather conditions, on the throughput capacity, I think. That is why it is difficult to distinguish between the working and cushion gas volumes, as you put it. It is the total volume of injected gas that matters.

QUESTION: Dina Khrennikova, Platts Agency. On page seven there is a 2014 production forecast of 496.4 billion cubic meters. This figure appeared earlier already. I'd like to know, under the worst-case scenario, if the volume of gas transited to Europe will be decreased due to some introduced sanctions or tension in relations with Ukraine, what minimum volume of annual production do you forecast?

VITALY MARKELOV: Our budget is approved on the basis of the production estimate, which is 496 billion cubic meters of gas, and we haven't changed our forecasts. So far, we have no grounds for it. We see the current consumption volumes and accordingly we adjust production to these volumes. We do not see any good reasons for reviewing the production forecast.

QUESTION: Olga Dedyaeva, Interfax Agency. I am interested, whether oil production will start this year in the Chayandinskoye field, as provided for in the license conditions.

Is there a general understanding of reserve structure in the Yuzhno-Kirinskoye field? Is oil produced separately from gas? And how many wells are you going to drill within the geological exploration activities?

SERGEY AKHMEDSAFIN: Let us start with the Chayandinskoye field. The plans are the same: the first appraisal well will be drilled and oil production will start.

As for the Yuzhno-Kirinskoye field, this year the reserves data were submitted to the State Committee. The C1 reserves buildup totaled 115.2 billion cubic meters of gas, recoverable condensate – 15.9 million tons and recoverable oil – some 3.1 million tons. At present, the aggregate C1+C2 reserves of the Yuzhno-Kirinskoye field amount to 636.6 billion cubic meters of gas, 97.3 million tons of condensate (recoverable) and, correspondingly, 6 million tons of oil (recoverable).

The plans for Yuzhno-Kirinskoye are the following: between 2014 and 2016 we are going to drill five more exploratory wells. The current model is represented by the Upper-Daginsk deposits, the top layer is gas condensate, the lower layer is condensate with an oil rim. The Yuzhno-Kirinskoye reserves are to be finally inventoried in 2017 in full compliance with the license agreement.

DINA KHRENNIKOVA: Will gas production start in 2019 then?

VITALY MARKELOV: We are planning to start gas production in the Yuzhno-Kirinskoye field in 2019. Originally we planned to start it in 2018. But due to some relevant changes resulting from the geological exploration activities, we needed some time to review the design documents for field development.

QUESTION: Anastasia Goreva, Argus Media Agency. I have a clarification question on the Chayanda project. Did I get it right that this year only a test well will be drilled? And when will commercial oil production start in the Chayandinskoye field? How much oil are you going to produce in the Chayandinskoye field and during what period? Will you construct a separate pipeline to ESPO or will you connect to some field?

And a question about the maximum daily gas production: what maximum daily production growth are you going to achieve in 2014 and 2015?

What are the plans for the maximum daily production in the Bovanenkovskoye field? And will the Bovanenkovskoye field development plans be reassessed in case you'll have to accelerate the Chayandinskoye field development?

VITALY MARKELOV: As for the Chayandinskoye field, it is integrated into a single scheme with the Power of Siberia gas pipeline, that's why we consider them in package. The field development action plan has been devised. Now it all depends on signing a relevant contract for us to start the operations.

As for the daily gas production, we haven't changed our plans and we expect to produce from 1.680 to 1.690 billion cubic meters of gas daily.

ANASTASIA GOREVA: And what about the maximum daily production in the Bovanenkovskoye field?

VITALY MARKELOV: We do not consider the maximum rates. We consider the volume fixed in our balance sheet. This year the expected daily amount for the Bovanenkovskoye field is 218 million cubic meters of gas.

ANASTASIA GOREVA: Can you tell us please, will commercial oil production from the Chayandinskoye field start together with gas production then?

VITALY MARKELOV: Field development is a comprehensive process.

ANASTASIA GOREVA: So, will it be in 2019 then?

VITALY MARKELOV: We can't say for sure yet.

ANASTASIA GOREVA: Will you have to change your investment plans for developing Western Siberia, including the Bovanenkovskoye field, in case you'll need to accelerate operations in Eastern Siberia?

VITALY MARKELOV: Our industry is very capital-intensive. It is actually really difficult to accelerate the construction of such large-scale infrastructure, that's why we work according to the plan, according to our capabilities and approved balance sheets for gas production and sales.

You know what our Eastern projects are: the Yuzhno-Kirinskoye field, which serves as a resource base for gas supply to the Far East and the Vladivostok LNG plant, and the Power of Siberia gas pipeline. These are the two major projects we need to complete in the East.

Speaking of the fields in Western Siberia, we are considering a whole set of issues for their development. As for Nadym-Pur-Taz, we understand pretty well that currently it is a rather developed Russian gas province. And the issues related to retrofitting, detailed exploration and further construction of our facilities are our priority for today, as well as our plans for expanding gas production, in particular, from the Bovanenkovskoye field. These are the projects we are engaged in now, I suppose you know them quite well too.

QUESTION: Tatiana Yakovleva-Ustinova, Oil&Gas Journal Russia. Could you please, provide more details on the geological exploration in the Sakhalin shelf? Where and in what blocks were they carried out? And what are the plans for this year? You said that between 2014 and 2016 five exploratory wells would be drilled there – will it be in the Kirinsky block, am I right? How many wells are planned for this year?

SERGEY AKHMEDSAFIN: We are planning two wells for this year, if you mean the Yuzhno-Kirinskoye field. Geological exploration preceded by geophysical surveys will be also conducted in the Adoptinsky and Ayashsky blocks. The scope of work will be some ten thousand square kilometers of 3D seismic surveys. For this year, if I'm not mistaken, it is five thousand square kilometers.

TATIANA YAKOVLEVA-USTINOVA: Have you drilled wells there this year?

SERGEY AKHMEDSAFIN: We haven't done it yet in the Ayashsky and Adoptinsky blocks.

QUESTION: Elena Mazneva, Bloomberg Agency. I have a small clarification question on Power of Siberia. Keeping in mind that the contract for pipeline gas supply to China is to be signed on May 20, what is the Power of Siberia construction schedule? When will the construction to Blagoveshchensk or to the Chinese border start and finish, and what is the estimated construction cost, at least, specific figures for the section running to the Chinese border?

VITALY MARKELOV: I suppose we shouldn't run ahead. Let's wait a bit. We'll tell you everything about our construction plans.

QUESTION: Pavel Kushnir, Deutsche Bank. You said that you expected the daily production from the Bovanenkovskoye field to be 218 million cubic meters of gas. It is some 80 billion cubic meters of gas a year – as I understand, it is a rather considerable growth compared to the last year.

VITALY MARKELOV: I am talking about this year's peak output.

PAVEL KUSHNIR: Then could you please say how much gas is to be produced this year?

VITALY MARKELOV: The Bovanenkovskoye field currently yields some 115 million cubic meters of gas a day.

PAVEL KUSHNIR: And how much gas is expected to be produced from the Bovanenkovskoye field this year?

VITALY MARKELOV: This year we are going to produce 40 billion cubic meters of gas. Just so that you understand – we are getting ready for the next winter. Therefore, 218 million cubic meters of gas is to be extracted by the 2014 year-end.

PAVEL KUSHNIR: The question is actually caused by the fact that Gazprom increases the share of its gas purchases from independent producers, in particular from SeverEnergia, and rather substantially. This provokes a question: will Gazprom be able to boost production in its own fields?

VITALY MARKELOV: We work in accordance with the balance method and look at how much gas comes from independent producers and, accordingly, we regard our own production comprehensively. We used this method last year, and this year we go on working in compliance with the agreements for gas supply by independent producers.

QUESTION: Maria Tatevosova, ITAR-TASS Agency. I have two questions. My first question is about the contract with China, which we do not discuss today, however, CNPC and other Chinese companies show interest in Russian production projects in the course of negotiations. What fields are being considered? As far as I know, that might be the Chayanda project satellite fields.

The second question relates to the Shtokman project, as there are certain rumors that Shtokman Development will be dissolved in a month or two. Is it true? Thank you.

VITALY MARKELOV: We are not going to dissolve Shtokman Development. The company still exists; it is focused on adjusting the project and making corrections in the Investment Rationale.

As for Power of Siberia and Chinese companies’ activities in Gazprom’s fields, we do not look into the cooperation with Chinese within the projects for developing gas fields in Russia.

QUESTION: Elena Mazneva, Bloomberg Agency. No fields at all or any specific fields?

VITALY MARKELOV: It is gas supply that we currently discuss with Chinese companies.

QUESTION: Dina Khrennikova, Platts Agency. Do you mean, you do not consider the possibility of cooperating within gas production projects?

VITALY MARKELOV: No, we do not.

QUESTION: Anastasia Goreva, Argus Media Agency. Could you, please, say where exactly you are planning to drill two exploratory wells in Yuzhno-Kirinskoye? You said that the top layer was mostly represented by oil and condensate, and the lower layer – by gas with an oil rim. What is more important to you at the moment? Where will you drill these two wells in the Yuzhno-Kirinskoye field?

Are you panning drilling operations in the Mynginskaya structure at all? When will they be performed?

SERGEY AKHMEDSAFIN: I will start with the last question. Certainly they are planned in compliance with the geological exploration plan.

As for the Upper-Daginsk deposits, as I’ve already mentioned, the top layer is gas condensate, the lower layer – gas condensate with an oil rim. The drilling site is determined by the project, investigation procedures are currently underway. And it is probably not quite appropriate to say at what level we are going to drill, since these exploratory wells are intended for meeting a lot of additional challenges associated with activities to refine the field geological model.

Today we are facing the only task: to get a clear and distinct idea of the Yuzhno-Kirinskoye geological model. It was due to this, as Mr. Markelov has already told you, that the start of field development was postponed from 2018 to 2019.

QUESTION: Tatiana Yakovleva-Ustinova, Oil&Gas Journal Russia. Is it possible to know what amount of investments Gazprom directed to the investigations in the shelf this year, what investments are planned in 2014 and which blocks will get most money?

VITALY MARKELOV: The bulk of investments today are intended for the Kirinskoye and Yuzhno-Kirinskoye fields.

TATIANA YAKOVLEVA-USTINOVA: Could you provide the figures?

SERGEY AKHMEDSAFIN: We do not announce the figures yet.

VITALY MARKELOV: We also bear in mind that we need to drill a production well in the Kirinskoye field in order to supply gas to consumers in the Far East. And, consequently, to do what Mr. Akhmedsafin told you about, concerning further geological exploration activities in the Yuzhno-Kirinskoye field.

TATIANA YAKOVLEVA-USTINOVA: Will you go ahead with it this year? Will the most money be directed to the Sakhalin shelf?

VITALY MARKELOV: Yes, it will be channeled to the Sakhalin shelf for pre-development of the Yuzhno-Kirinskoye field.

TATIANA YAKOVLEVA-USTINOVA: And how much is it in percentage?

SERGEY AKHMEDSAFIN: Right now I wouldn't like to announce the figures. You know that we obtained 17 new licenses for offshore blocks. The plans are ambitious; each license will be dealt with individually. Gazprom has always been noted for executing a great scope of studies under obtained licenses.

That is why it is important to distribute the funds properly. But major expenditures will be related to the Sakhalin shelf, you are right. There, as Mr. Markelov has mentioned, an exploratory well will be drilled in the Kirinskoye field and the Yuzhno-Kirinskoye field will be developed.

QUESTION: Dina Khrennikova, Platts Agency. I also have a question about the shelf. Recently Gazprom announced a bidding procedure for carrying out surveys in the Kara Sea shelf with possible LNG plant construction in the long term. If I'm not mistaken, the bidding procedure was to take place on May 6 and its results were to be summed up. The focus was laid on the Rusanovsky and Leningradsky blocks. I would like to know about the outlooks, I mean, some kind of an operation schedule, when can a decision be made: will there be an LNG plant or not, how will the blocks be developed? So, in general, I'm interested in the outlooks for the Kara Sea shelf. Thank you.

VITALY MARKELOV: Speaking of LNG plants, today we are involved in two projects – Baltic LNG and Vladivostok LNG. As for Baltic LNG, we are currently working on the Investment Rationale. We'll complete this work in the first half of the year. As for Vladivostok LNG, at present we are engaged in design activities and preparations for the plant construction.

Speaking of the Kara Sea shelf, the Kara Sea fields, they are included in our plans for carrying out geological exploration and subsequent development operations in compliance with the balance sheet.

MODERATOR: Thank you very much, the Press Conference is over.