Press Conference

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

June 1, 2011

Moderator: Good afternoon, colleagues. We have calculated the number of times we conducted our series of Press Conferences on the threshold of the Gazprom Shareholders Meetings. It has turned out that this year is a jubilee one – the tenth anniversary – and we are here with you for the eleventh time. Traditionally, we begin with the production block. We'll speak about the production, the gas transportation system and the mineral and raw material base development.

Participating in the Press Conference are:

- **Alexander Ananenkov**, Deputy Chairman of the Management Committee;
- **Sergey Alimov**, First Deputy Head of the Gas Transportation, Underground Storage and Utilization Department;
- **Nikolai Kabanov**, First Deputy Head of the Gas, Gas Condensate and Oil Production Department;
- **Vyacheslav Sorkin**, First Deputy Head of the Investment and Construction Department;
- **Zenovy Lutsik**, Head of the Comprehensive Capacity Development Projections Directorate, Strategic Development Department.

I give the floor to Alexander Ananenkov for his presentation, and after that you are welcome to ask questions.

Alexander Ananenkov: Good afternoon, esteemed ladies and gentlemen. Today we'll speak about the results achieved by Gazprom's production sector, and may be just a little bit about the Russian gas industry, with some data, in order to give an overall picture of Russia. This will include the geological exploration, production, gas transmission system, underground gas storage and, by all means, the way we see the development of these projects as well as the outlook of production indicators for the years to come.

Gazprom is the largest global company with the richest natural gas reserves in the world. Gazprom's share in the world's gas reserves is 18 per cent with 70 per cent in Russia. As of January 1, 2011 the A+B+C1 reserves owned by Gazprom Group, including Gazprom neft, amounted to 33.1 trillion cubic meters; the C2 reserves – 8 trillion cubic meters.

Every year Gazprom performs audit by an independent company. In 2010 the company, which was chosen as a result of a tender, evaluated 93 per cent of gas reserves and 88 per cent of A+B+C1 reserves of liquid hydrocarbons. Compared to

the previous year, gas reserves increased by 607 billion cubic meters, liquid hydrocarbon reserves – by 20 million tons. At present, these reserves are valued at USD 269.6 billion, which is USD 28.2 billion more compared to the previous year.

Though the overall volume of the raw material base is large, its component resources are unequal and differ in depth, remoteness from the regions with the mature infrastructure, the complexity level of production development and the environmental constraints:

- 5.9 trillion cubic meters of resources support sustainable production in the geographical area of the operational Unified Gas Supply System: that is, mainly, the Nadym-Pur-Taz region;
- 6.5 trillion cubic meters of resources are accumulated in declining fields: these are Cenomanian deposits of Urengoyskoye and Medvezhye fields and the central part of the Yamburgskoye field. This is the cheap gas which has been spoken about. The beginning of its production dates back to the mid-1970s – 1980s. And we still extract it in Nadym-Pur-Taz;
- 4.4 trillion cubic meters of resources are deep and complex, which are the Achimov deposits of the Urengoyskoye, Neocomian (Valanginian) deposits of the Zapolyarnoye and Pestsovoye fields, Eastern Siberia, etc.;
- 13.9 trillion cubic meters of resources are concentrated in the fields which are distant from the mature infrastructure zones, and in the offshore fields, namely Yamal, the Shtokman, Severo-Kamennomysskoye, Kamennomysskoye-Sea, Kirinskoye and Yuzhno-Kirinskoye fields;
- 2.4 trillion cubic meters of resources in the Astrakhanskoye field where environmental constraints are limiting the volume of production. It is clear that a high content of hydrogen sulfide in the Astrakhanskoye field does not allow us to extract the volumes, which we otherwise could traditionally extract from the fields without hydrogen sulfide.

Gazprom Group is vested with the subsurface use right with the aim of geological survey, exploration and production of hydrocarbon feedstock within 407 licensed blocks in the Russian Federation and abroad.

In 2010 Gazprom Group companies obtained 10 licenses, including:

- one license for the right to use the Kharasaveyskoye-Sea field of federal significance offshore the Kara Sea;
- one license confirming the fact of the Chugoryakhinskoye field discovery offshore the Taz Bay in the Kara Sea;
- seven licenses confirming the fact of fields discovery in Western Siberia, the Republic of Komi, the Stavropol Krai and the Orenburg Oblast;
- one license confirming the results of a tender on the Severo-Romanovsky block with Gazpromneft-Noyabrskneftegaz being the license holder.

The Company is in the process of permanent development of the mineral and raw material base. Beginning from 2002 Gazprom has been implementing the Mineral and Raw Material Base Development Program until 2030. Every year we adjust the parameters of the Program, its results are reported to the Management Committee and to the Board of Directors of Gazprom. An updated version of the Program is currently being developed for the period up to 2035.

In line with the Program, geological survey is being conducted by the Company in regions with a developed infrastructure in order to maintain the production output in operational gas producing regions (northern Taz Peninsula, Ob and Taz Bays, Nadym-Pur-Taz region, Northern Caucasus, Republic of Komi) and in new regions in order to create new gas production centers: the Yamal Peninsula, the Krasnoyarsk Krai, the Irkutsk Oblast, the Republic of Sakha (Yakutia).

Much attention is being paid to the continental shelf exploration in the Kara, Pechora, Barents Seas and the Sea of Okhotsk. Between 2002 and 2010 offshore resources were replenished with 2.9 billion tons of oil equivalent. Particularly, in the Sea of Okhotsk the discovered and forecasted fields of the Sakhalin III project licensed blocks are top-priority targets for geological exploration, that are, primarily the Kirinskoye and Yuzhno-Kirinskoye fields, as well as the Mynginskaya prospective structure. Further exploration activities are connected with the Ayashsky and Vostochno-Odoptinsky blocks. Offshore exploration is to be carried out in the Western Kamchatka offshore structures: Pervoocherednaya, Krutogorovskaya and Kalavayamskaya.

In 2010 Gazprom Group has undertaken a large scope of geological exploration work in the Russian Federation. The results are shown in the slide (No. 8). To be specific, three new fields were discovered, including the large Yuzhno-Kirinskoye gas and condensate field offshore the Sea of Okhotsk.

Gazprom Group's A+B+C1 reserves were replenished with 547.7 billion cubic meters of gas and 115.5 million tons of liquid hydrocarbons [in 2010]. The replenishment ratios were equal to 108 and 288 per cent for gas and liquid hydrocarbon reserves in 2010, respectively. In other words, we incremented almost three times as much as we produced.

It should be mentioned that offshore geological exploration, especially as part of Sakhalin III, was conducted with most expeditious methods and discovered rather good reserves within two years only. In mid-2009 we obtained a license (for the Kirinsky block), and as early as by the end of 2010 we've replenished reserves. Nowadays, gas resources of the Kirinskoye and Yuzhno-Kirinskoye fields amount to some 400 billion cubic meters.

Gazprom executes geological exploration operations outside the Russian Federation in Republics of Uzbekistan, Kyrgyzia, Tajikistan, offshore Vietnam, India, Venezuela and in Algeria. Apart from that, the work is being done on

geological and economic assessment of prospective areas in Turkmenia, Malaysia, Egypt, Bolivia, Angola, Argentina, Iran, Nigeria, Brazil and some other countries.

In 2010 Gazprom produced 508.6 billion cubic meters of gas, that is 10 per cent or 47.1 billion cubic meters more than in 2009. Gas producing companies ensured reliable, sustainable gas supplies to consumers in Russia and gas export deliveries in the required quantities. Beginning from December during the cold snap period in Russia as well as in European countries, gas production was carried out in accelerated modes of fields operation and exceeded 1,614 million cubic meters a day.

Gas production volumes of subsidiary companies in 2010 are shown in the slide (No. 10). In 2010 gas condensate and oil production amounted to 11.3 and 32 million tons accordingly, with 30.2 million tons of oil produced by Gazprom neft.

In 2010 CGTU-2C (comprehensive gas treatment unit) in the Zapolyarnoye field and CGTU in the Kshukskoye gas and condensate field as well as 128 production wells were put on stream.

In 2011 production of 505.6 billion cubic meters of gas is being planned. But we need to note that during the first five months of strong demand for gas the target figure is overrun by more than 9.1 billion cubic meters surpassing those parameters which were projected late last year. Gazprom is planning to build up gas production volumes with the following reference figures: in 2011 we estimate the production level to increase to 519 billion cubic meters, in 2012 – 512 billion cubic meters, in 2013 – 249.2 billion cubic meters, in 2014 the major increase is going to take place and we'll be able to reach 570 billion cubic meters of gas.

We also need to note that we are planning to reach the pre-crisis level around 2013. You know that in 2006 Gazprom produced 556 billion cubic meters of gas and this was the most prominent result over the last 10 years. In 2007 market demand solicited production of 548.6 billion cubic meters, in 2008 – 549.7 billion cubic meters. In 2009 the crisis cut the production volume to 461.5 billion cubic meters. And we see that in 2010 the production volume rose, naturally, to meet consumers' needs as we produce based on the market demand, not on the capacity of gas production assets. In 2010 508.6 billion cubic meters were produced.

To achieve our targets of increasing production and meeting consumer demand during the post-crisis period we plan to bring Cenomanian deposits in the Zapolyarnoye field to the projected capacity, start development of Valanginian deposits in the Zapolyarnoye field, the Nydinskaya area in the Medvezhye field as well as the Bovanenkovskoye field beginning from 2012.

Development priorities offshore the Russian Federation are the Prirazlomnoye oil field with the maximum annual capacity of 6.5 million tons, the Kirinskoye gas

and condensate field with the capacity of some 4.2 billion cubic meters of gas per year. Right now we are checking calculations which may lead to a slightly higher volume, up to 5 billion cubic meters, that we will be able to produce from the Kirinskoye field. That is in line with the need to have "the more the better" resource base in the Far East to ensure potential production of this product for Russian consumers and, further on, anyway, the demand in Asia-Pacific will grow. And it's no secret that consumers in Japan are likely to demand more than was projected earlier.

Nowadays, construction of the offshore ice-resistant stationary platform for the Prirazlomnoye field is being completed. The plans are to install it at the field in the third quarter of 2011. It is currently in Murmansk undergoing ballasting and we are preparing to tow it and install it in the predetermined offshore location.

As for the gas transmission system development, Gazprom accomplishes a series of large-scale projects listed in the slide (No. 15).

Nord Stream. The project is targeted to build a new gas export route to Europe across the Baltic Sea. The project involves an offshore section running from the Russian coast near Vyborg to Germany near Greifswald. Its length is 1,200 kilometers, but we have spoken about that for quite a while, the parameter is not a new one, it neither grows nor shrinks – 1,200 kilometers, the same as it was. Moreover, it has been constructed. The working pressure is 22 MPa. Construction of the first string with the annual throughput of 27.5 billion cubic meters of gas in total will be completed in the third quarter of 2011. The second complex – in 2012. Upon commissioning of the second string of the offshore section, its throughput will be 55 billion cubic meters of gas per annum.

Indeed, for the offshore fields, primarily for the Shtokman field and other fields (and the Shtokman field is not the only one situated offshore the Barents Sea) this transmission line provides very favorable conditions. To say the least, it is the shortest route to Europe for transportation of gas from Arctic seas.

The length of the Gryazovets – Vyborg gas pipeline is 898.8 kilometers, the pipe diameter – 1,420 millimeters, the working pressure – 9.8 MPa (that is 100 atmospheres). The project envisages construction of seven compressor stations, including a unique one – Portovaya, at the coast of the Gulf of Finland near Vyborg.

I have to say that we are building not just an ordinary compressor station over there. There, we create a whole complex, specifically with construction of the world's most powerful system of gas dehydration. The dehydration unit will dehumidify 55 billion cubic meters of gas per annum. After the upgrade of the dehydration unit 1C in the Zapolyarnoye field, the unit has become the most powerful one – 42 billion cubic meters of gas per annum. That means the Portovaya compressor station unit is the most powerful and technologically unique,

as the dehumidifying process here will be provided by a solid desiccant – silica gel. And we'll achieve a very high level of dehydration.

The Portovaya compressor station will provide for gas transmission through Nord Stream without intermediate compressor stations. At present, on the compressor station construction site gas compressor units and pipelines are almost assembled, test runs have been conducted at the first unit that will feed gas into the offshore gas pipeline. In several days this unit will be completely ready to begin filling up the offshore gas pipeline.

A multi-string gas transmission system from the Yamal Peninsula will support gas transmission from the new gas producing region into the Unified Gas Supply System (UGSS) of Russia, to the vicinity of the Ukhtinskaya compressor station and further on in the direction of Ukhta – Gryazovets – Torzhok. The new gas transmission system length will exceed 2,400 kilometers. In the future, by 2030 the volume of gas conveyed from the Yamal Peninsula may reach 280 to 315 billion cubic meters of gas per annum.

This system will also accomplish another very important mission – it will create favorable conditions to increase the reliability of the Russian Federation gas transmission system in general. The age of the Russian gas transmission system averages some 30 years. Naturally, this system is in need for large-scale modification and major overhaul. That is the very thing we are doing. Indeed, by constructing a new gas transmission system – the Northern Corridor – we support an increase in the reliability of gas supply to the consumers in the Russian Federation and to the consumers buying our gas abroad.

Commissioning of the first startup complexes in the Bovanenkovskoye field with the capacity of 7.9 billion cubic meters per annum and the Bovanenkovo – Ukhta gas trunkline system is slated for 2012. The capacity of Phase 1 system consisting of two pipeline strings will be 115 billion cubic meters per annum with a further increase to 140 billion cubic meters per annum. This capacity fits the project of the Bovanenkovskoye field development. But there is also the Kharasaveyskoye field and the Kruzenshternskoye field, there is also the Tambey group of fields and so on, there are offshore fields in the coastal waters of the Yamal Peninsula. That is why we say, 280 to 315 billion cubic meters per annum is the possible volume of gas production in Yamal, which, eventually, may be a bit more.

Construction of tie-in gas pipelines in the Ob and Taz Bays will provide for delivery of gas from these fields into the UGSS (in the vicinity of the Yamburgskaya compressor station) in the amount of 75 billion cubic meters per annum. The total length of the tie-in gas pipelines with diameter up to 1,000 millimeters will be over 500 kilometers. Gas delivery from the Ob and Taz Bays fields will allow to use the idle capacity of the transmission system providing gas deliveries from the Nadym-Pur-Taz region.

The South Stream project will support deliveries of Russian natural gas to Southern European countries via the Black Sea employing the best engineering solutions and techniques in gas pipeline systems. The projected throughput is 63 billion cubic meters per annum at full capacity.

New gas pipelines will not only diversify Russian gas export routes and decrease transit risks, but will provide additional capacities for boosting gas supplies. The design work is currently underway in line with the approved schedule.

To deliver gas from Western Siberia to China, a new pipeline system, Altai, is planned for construction within the existing transmission corridor with follow-up extension via the mountains to the western part of the Russian-Chinese border. The 1,420-millimeter pipes will be used for the pipeline, its length will be 2,600 kilometers, the working pressure will be 75 atmospheres at the initial section and 100 atmospheres at the sections adjacent to the pipeline system which will be laid across Altai. Gas deliveries are likely to begin in late 2015. You understand that construction start depends on signing of the contract on gas purchase. Unless the contract is signed we can not really start the construction. The volume of gas supply at maximum capacity is 30 billion cubic meters per annum.

The Murmansk – Volkhov pipeline will ensure gas supplies from the Shtokman field to consumers in Northwestern Russia as well as gas export via the Nord Stream gas pipeline. The Murmansk – Volkhov gas pipeline length will be 1,365 kilometers, the diameter – 1,420 millimeters, the working pressure – 9.8 MPa with ten compressor stations. The projected pipeline capacity, including gas supplies to consumers in the Murmansk Oblast and the Republic of Karelia, will be equal to 50 billion cubic meters per annum depending on production volumes and LNG output. It is planned to put the Shtokman field on stream and begin pipeline gas deliveries in 2016.

As you know, Eastern Russia possesses immense hydrocarbon resources. The Government of the Russian Federation pays special attention to the development of the gas industry in Eastern Siberia and the Far East. That is why the Eastern Gas Program has been developed and approved. Its strategic goal is to organize several new gas production centers which will be united by a system of gas trunklines. These centers are: Sakhalin, Irkutsk Oblast, Krasnoyarsk Krai, Yakutia and Kamchatka, the last one emerging as the fifth region capable of producing some 20 billion cubic meters of gas. It is planned that as early as by 2020 some 110 billion cubic meters will be produced in these regions in total, and by the end of the Program (that is by 2030) – some 200 billion cubic meters of gas at maximum.

The most important project in the Eastern Gas Program being implemented by Gazprom nowadays is the Sakhalin – Khabarovsk – Vladivostok gas pipeline. Its first startup complex construction will be completed in the third quarter of 2011.

The next important step will be creation of the Yakutia – Khabarovsk – Vladivostok gas transmission system (GTS). Owing to the mentioned projects implementation natural gas in required volumes will be provided to the Russian regions in the Far East and necessary preconditions will be created for arranging and boosting natural gas supplies from Russia to China and other Asia-Pacific countries, including LNG and CNG supplies from the Primorsky Krai coast.

Gazprom is pre-developing the Kshukskoye and Nizhne-Kvakchinskoye fields on the western coast of the Kamchatka Peninsula. In 2010 construction of the Sobolevo – Petropavlovsk-Kamchatsky gas trunkline was completed. Its length is 392 kilometers, the diameter – 530 millimeters, the capacity – 755 million cubic meters per annum – the very same projected demand of the whole Kamchatka which had been calculated and reported to Gazprom. The project also stipulates developing gas distribution networks in Petropavlovsk-Kamchatsky and gas supply to and gasification of other facilities in Kamchatka.

As of January 1, 2011 there were 25 operational underground gas storage facilities in the Russian Federation. 8 out of them had been constructed in aquifers and 17 – in depleted fields. The work to construct two UGS in salt caverns – Volgogradskoye and Kaliningradskoye – is underway. The last year performance (daily deliverability) was 620 million cubic meters of gas. We have designed additional measures, an additional program with the aim to bring the overall Russian Federation UGS facilities up to one billion cubic meters a day for the withdrawal period.

In conclusion, some words on the results of Gazprom's investment program and capital construction plan implementation in 2010. The investment program for 2010 was approved by the Gazprom Board of Directors; it stipulated RUB 905.2 billion of investments with the capital construction plan amounting to RUB 740.5 billion. On average, 99 per cent of the investment program was implemented in 2010 with capital construction making up 99.5 per cent of the capital investment amount.

It should be noted what sums were earmarked across the structure: for production, transmission, processing. I will voice the following parameters: in 2010 RUB 206.2 billion was spent in the course of production projects implementation, RUB 476.1 billion was spent in transmission and underground storage. You are certain to see the proportion. Indeed, the gas transmission system in terms of the capital assets value is far more expensive than, so to say, other assets of Gazprom, because the gas transmission system makes some 80 per cent of the fixed production assets.

In general, the investment program of Gazprom in 2010 supported attainment of the indicators of resources replenishment, production assets availability and operability for extraction, transmission, underground gas storage, execution of every major project in the form of long-term financial investments within the limits

of investment resources. One has to understand that the lion's share of the long-term financial investments is slated for implementation of the projects like Shtokman. It is carried on using the very same source, as well as other projects accomplished jointly, like Nord Stream, which is financed from this element of our investment program.

Moderator: Thank you, Mr. Ananenkov. Questions, please.

Question: Anastasia Goreva, Petroleum Argus. I have a number clarifying questions. Did I get it right that the production plan for this year is 519 billion cubic meters? And that Cenomanian deposits in the Zapolyarnoye field are to reach full capacity, that is 115 billion cubic meters per annum this year?

Alexander Ananenkov: The production plan for 2011 is 505.6 billion cubic meters. Actually, with regards to the momentum we have gained during the first five months (I've already told you, that we are surpassing the plan by 9.1 billion cubic meters, that is by the end of May we produced that amount in excess of the plan) by the end of the year we forecast the overall production of Gazprom Group in 2011 to reach 519 billion cubic meters of gas. The planned parameter being, as I've told you, 505.6 billion cubic meters.

Anastasia Goreva: As for the Zapolyarnoye field: did I understand you right, you are going to bring Cenomanian deposits to full-scale production this year?

Alexander Ananenkov: This depends on the auxiliary facilities which we are going to put on stream: these are several wells, a compressor station which is going to be utilized field-wide. And further on – there are Neocomian deposits. Anyway, the overall output of the Zapolyarnoe field will be 114.5 billion cubic meters as is envisaged by the development plan. This volume is composed of Cenomanian and Neocomian deposits.

Anastasia Goreva: You've said that 5.9 trillion cubic meters of resources are needed to ensure primary production of Gazprom. Will you, please, tell us (if you think that by 2013 you are to reach the pre-crisis level of production) what are Gazprom's plans in relation to the volume of this constant production, about the amount of investments to be slated for production to reach these results? Thank you.

Alexander Ananenkov: Well, it's quite a good thing to make forecasts. One must understand that this is not a sharpshooter's shot: you aim at, let's say, mark 12, but hit, say, mark 6, depending on the amount of resources you take.

Anyway, the reference point is 2013. Gazprom has to reach those parameters which were before the crisis. And the pre-crisis parameter was, as we see it, 550 billion cubic meters. We'll have approximately the same volume in 2013.

What has to be done? We need to put on stream the Yamal fields. This is the first and the foremost thing. Because the traditional producing fields we were operating late in the last century (the major fields in the Nadym-Pur-Taz region which I've mentioned: Cenomanian deposit of the Medvezhye field, Cenomanian deposit of the Urengoyskoye field and Cenomanian deposit of the Yamburgskoye field) entered the declining production stage. So far, the Zapolyarnoye field (which is not that old: we commissioned it on September 30, 2001) and seven other fields commissioned by 2007 in the very same Nadym-Pur-Taz region are actively producing gas. These eight assets put on stream within a short period of time – just five to six years – have the overall production volume of 200 billion cubic meters per annum. These are the resources which are involved in exploitation, they create a sustainable situation with the level of production.

But it is compulsory to put Yamal on stream in 2012. And if we need to have quite an impressive volume increase in 2014 (and I've told you the 2014 figure, it's rather big: 570 billion cubic meters), then we can not do without Yamal, that's for sure. A decline in dynamics, offsetting the declining production plus the need to make an increase are telling us that we have to put on stream much larger assets, such as the Bovanenkovskoye field first of all. And the Kharasaveyskoye will follow, with all of its prospects. And the whole of their output will be transported via Bovanenkovo – Ukhta, a unique northern gas transmission system. And by this we do not create a dead-end situation, a bottleneck for conveying gas from the Nadym-Pur-Taz region, including independent producers' gas. We take their gas as well.

And if we are to speak about independent producers' gas, you may see good dynamics: independent producers are gaining momentum. And we are happy to see that independent production in Russia is also increasing. According to the maximum prospective production scenario in the Russian Federation by 2030 we estimate the overall production (by Gazprom and by independent producers) of some one trillion cubic meters of gas. As a matter of fact, there is a more precise figure – 1,017.9 billion cubic meters. But I don't mention 17 million as this is a too accurate a forecast, I've just said that the one trillion cubic meter level may be reached in Russia given those resources availability, those capacities availability, which may be developed by that period.

Question: Anna Shiryaevskaya, Bloomberg. I have two questions, Mr. Ananenkov. The first one. You are now in the process of the Kovyktinskoye field license reissue. Do you have any reference points: production plan, confirmation of the field development start? Are you going to engage Chinese partners in this project? Don't you revise the plan of the Chayandinskoye field development plan in connection with the Kovyktinskoye plan? And the second question on your new fields offshore Sakhalin: which of these fields, of new licenses are you ready to propose to foreign investors (Shell, for example) for joint development? Thank you.

Alexander Ananenkov: You know that the story of the Kovyktinskoye field came to a happy end. We are awaiting a license issuance, as in line with the Russian Federation laws the holder of a title deed obtained on a tender basis receives a license for the Kovyktinskoye field.

Now, here is an answer to your question. In the Eastern Gas Program the timeframe for the Kovyktinskoye field commissioning is set as 2017 and later on, that is post-2017. Nobody is able to implement this project either in this country or abroad, even if a positive investment decision is taken today. And the reason for that is very simple: the Kovyktinskoye field, like the Chayandinskoye field, possesses quite a lot of valuable components (primarily helium, ethane, propane), which need gas chemical treatment. The development of these fields – Kovyktinskoye and Chayandinskoye – is linked to the need for gas chemistry assets deployment. Everything besides that would be an absolutely ignorant way of these fields development and operation, or the use of our national wealth. That is why, irrespective of the fact that Gazprom has obtained the license for the Kovyktinskoye project, or RUSIA Petroleum was implementing this project, anybody should have done the same thing: they should have included the deployment of gas chemistry assets in the feasibility study.

Helium won't appear in the market in such volumes: the Chayandinskoye and Kovyktinskoye fields together make 80 per cent of Russia's aggregate helium resource base. And Russian helium resources account for approximately one-third of the world's resources. Surely, one can utilize this wealth in many different ways, can't he? But helium is a feedstock used in the hi-tech industry: these are thermonuclear processes, high speed processes, electronics, laser technologies, etc. This is the power industry and other hi-tech industries. That is why we should tackle the issue of helium extraction and initially helium storage. This is a realistic task, this is technically possible. But there are no fully designed projects: what will be the processes, where helium will be stored, how it will be extracted, how these will be combined with the gas chemistry assets. All these issues are currently being addressed as a whole by Gazprom' institutions. They have been addressed previously as well, irrespective of the fact if it was Gazprom that had the license for Kovyktinskoye, or not, because Gazprom on the order of the Russian Government is the coordinator of the Eastern Gas Program execution. We were obliged to undertake such studies irrespective of the ownership of this or that subsurface asset. I think there might be various options, as this system is multifaceted.

Indeed, the fact that Gazprom has obtained additional resources… By the way, not a very large volume of resources: the Kovyktinskoye field provides a possibility to produce 40 billion cubic meters of gas [per annum]. We have commissioned the Pestsovoye field (some 30 billion cubic meters) – no one did joyfully clap hands. And in case of Kovyktinskoye, for 10 years running in every mass media they wrote what a giant field it was, how urgent it was to put it into operation. Alas, it is

not that big, and it is not that very important. The Chayandinskoye field yields 25 billion cubic meters of gas and the Kovyktinskoye field – 40 billion cubic meters. These two fields aggregately give less than the Medvezhye field has given. The Medvezhye field alone used to give 72 billion cubic meters of gas per annum. Saying nothing about the Urengoyskoye field which has reached a 300 billion cubic meters mark, or Yamburgskoye field which has reached 180 billion cubic meters or the Zapolyarnoye field producing 115 billion cubic meters. One should pay attention to the figures we are speaking about in every single case.

Will we engage anybody in the Kovyktinskoye field development? Well, you're asking about that and we even don't have the license handed over to us. Moreover, they name these, they name those, let us call for these, let us call for those. In our opinion there is not a single need for this. When we are in need for this – we will engage somebody.

We need to attract foreign investments to gas chemistry. Gas chemistry is in the need for these. Expeditious formation of these assets will allow for accelerated commissioning of these two fields as it is not possible to develop them competently without gas chemistry. We should like to invite foreign investments here. And we are engaged in talks with foreign companies on possibilities for their participation, but participation in gas chemistry projects. Along with that we talk about the possibilities for them to participate with investments in development of the facilities aimed to manufacture gas chemistry products and to distribute these products, including in Asia-Pacific markets. We hold talks about that with our Japanese partners, and with our Chinese partners, and with Korean partners. In other words, we tell them, "Well, please, let us do a detailed design and we are ready to establish joint ventures with you in this field." But to be a buyer of just gas – as a fuel, or as a commodity, a product – it is not necessary to enter production projects. We'll just sign a contract, sell the amount of gas – and that is all. But if somebody really wants to help us, he is welcome to make joint investments into gas chemistry assets. This is the right case to utilize joint investments, including the purpose to open the market for these products.

Now, about Sakhalin III. As part of the Sakhalin III project Gazprom is operating the Kirinskoye field with its C1+C2 reserves of 75 billion cubic meters of gas. At present, there are 137 billion cubic meters in the field. We added the reserves just in no time: we obtained the license in 2008, performed geological exploration and added them as early as in 2010. And as for the Yuzhno-Kirinskoye field, we simply discovered it. There had been no gas field, there was a pure subsurface use block. In 2009 we've got a license (for the Kirinsky block) and began geological exploration, discovered the field and 260 billion cubic meters of gas resources have been rubberstamped so far.

We continue geological exploration over there. The second semi-submerged drilling rig which was constructed at the Vyborg Shipbuilding Yard has arrived to

Sakhalin. We're building up drilling capacities and exploration capacities over there. We expect a major resources increment in the Kirinsky block which may amount up to 700–800 billion cubic meters of gas. But this is a geological matter: the forecast may be of the amount which will deprive me from hitting a bull's eye. Anyway, we do understand that those are the most effective resources to be used for gas supplies to Russian consumers in the Far East.

Today, our portfolio in the Far Eastern region contains 12 billion cubic meters of requested gas which is not underpinned by resources and transmission capacities. These are only the requests that refer to a high degreed of readiness for contract signing, which means the buyers will be more than happy to sign a contract today. Further outlook on the aggregate requested volumes (it may be different) in our opinion is as follows: by 2020 the demand of the Russian Far East in the zone of the Sakhalin – Khabarovsk – Vladivostok gas trunkline may well reach some 20 billion cubic meters.

There are no resources for such a great volume of supply in Sakhalin today. Sakhalin II has been contracted out, I may say it again. Well, there is just the share of the Russian Federation left only – royalty – which is estimated as 1.6 billion cubic meters of gas per annum. The Russian Federation is not yet firm on how to sell this share because the decisions adopted by the Ministry of Finance do not match the product sharing agreement (PSA), which had been signed by the Russian Government. The royalty could not be sold in line with the formula which has been proposed by the Ministry of Finance. More than that, Gazprom is not the authorized organization and has nothing to do with selling of this royalty. This is an issue. So, the above mentioned volume is the amount which may be obtained (by adhering to the PSA), and may not be obtained (by violating the PSA).

The Sakhalin I project may supply 8 billion cubic meters of gas during Phase 2 only, and Phase 2 implementation is realistic in the late 2016 – early 2017. Because nothing has been done with it, even the investment decision on Phase 2 commissioning has not been taken yet. That is why the realistic timeframe is late 2016 – late 2017, as there is no project, there is nothing.

The only gas which will be produced in Sakhalin is the gas of Gazprom. We'll start production in the Kirinskoye field next year. We set an objective to streamline production in 2012 in order to reach full capacity of the Kirinskoye field in approximately between 2014 and 2015. This field is to produce some 4.5 billion cubic meters of gas. Further on we have to accelerate the start of the Yuzhno-Kirinskoye field development. We are currently working over an issue to put this asset into pilot commercial operation with the resources which are available so far. This means 260 billion cubic meters of gas will be developed in an accelerated manner as the Russian Far East is short of gas.

And you are quite aware of the fact that it is necessary to supply gas to the combined heat and power plants smoking in cities nowadays. In Vladivostok (it was you who showed it over TV) soot is covering the city, it's hard to breathe over there, the reason being coal-fired power generation. I may tell you the parameters of gas and coal combustion, and brown coal is widely utilized in the Far East. So, compared to gas combustion, coal combustion produces particulates contamination which is 30,000 times greater. In other words, the ecological load of coal is 30,000 times more than that of gas. Of course, gas ought to be used in megacities and cities. Well, where there is a possibility, where there is no damage to citizens' health coal may be used, I suppose. Meanwhile, the coal combustion technique should be improved. The terrible situation when soot covers the whole city and people are breathing with it should be eliminated. Therefore, this demand should be met to reach at least the minimum environmental level in the Far Eastern cities, and to support other projects which are being discussed over there. They have just finished construction of an automobile plant and as soon as we announced that we were going to build the Sakhalin – Khabarovsk – Vladivostok pipeline, they were here with their request. They say, "Give us gas". The plant asks for nothing less than 50 million cubic meters. And I would not dwell on the Asia-Pacific Economic Summit, every single energy facility of which will operate on gas, and coal generation is out of question.

Now, will we engage foreign companies in Sakhalin III? There is no need for that so far. Indeed, even if we have such a necessity, I'm quite sure that with foreign companies we would not be able to put this field on stream in 2012, that early. We would have talked for two years, we would have discussed the conditions of a business model two years running… This should be undertaken in case of a sophisticated project where we need technological aid or, may be, a foreign partner's participation or, may be, entry into a market with gas chemistry products. In such a case investments should have been really needed. But to choose this option and, as a matter of fact, to slow down the job where we need to work fast – this would be a defective decision.

This is my personal opinion. Somebody else may have another one, somebody is fond of foreign companies, likes to work with them, likes to have talks with them. But today we have actually lost time, especially on the Sakhalin projects. We all have lost time, because in 2006 as you all know, I asked the Government of the Russian Federation to hand over the Sakhalin III licenses to Gazprom, for us to go over there and explore the area. If in 2006 the Government (Mr. Mikhail Fradkov was the Prime Minister at that time) had made such a decision, the Kirinskoye field would have been in operation already. We would have put it on stream in 2009 and by now Gazprom would have proprietary gas and we would not be talking about royalty with anybody.

Do you agree with me? I'm interested in this: do you agree with my answer?

Anna Shiryaevskaya: Not exactly. I won't go into discussion as there are other colleagues who want to ask questions.

Question: Svetlana Savateeva, Interfax. Alexander Georgievich, I also have several questions. The first one is about the Sakhalin VI block. Are you interested in it? And dealing with the investment program: as far as is known, the possibility to increase the investment program in 2011 is being discussed now. Can you tell us, which sector is involved? Is this production or processing? And what is the amount? And, generally speaking, is Gazprom satisfied with the quality of construction services provided for the gas industry these days? Don't you think that you have been sort of captured by monopolistic dependency on them? Thank you.

Alexander Ananenkov: As for the 2011 investment program increase. The most investment heavy periods are 2011, 2012, 2013 and, probably, part of 2014. Why? Because the whole Russian Federation gas industry, not solely Gazprom, is switching to the new resource base, to the new strategic area. We are moving from the Nadym-Pur-Taz region to Yamal, to the region which is more remote from the Unified Gas Supply System, more challenging in terms of natural and climatic aspects, with a more compound geo-cryological structure. These will naturally entail much more costs, including capital costs while implementing the project.

We have directed ourselves to the East at full scale. As for the Eastern Gas Program, its initial value was more than USD 100 billion, and for the period up to 2030 its value was estimated at some RUB 2.5 trillion (in historical prices). But the parameters seem to have changed so far.

Why have the parameters changed? In 2003 the average cost of pipe products was RUB 33,000 per ton. In 2008 the same ton was priced at RUB 98,000 – this was an average price including the VAT, weighted average transportation tariff and so on, meaning all expenses per ton of pipe. From 2003 to 2008 (during the five year period) the cost of pipe products grew nearly three times. And the cost of metal rose in an equivalent manner. The whole oil and gas sector – oil companies and gas companies – got an increase in the investment project value. Nevertheless, we have to reach the volumetric parameters, i.e. to produce a certain amount of gas. And we say: in 2030 this parameter will be 1,000 billion cubic meters of gas, which is also included in the General Scheme of Gas Industry Development. This amount is relevant to the whole national gas industry, to Gazprom and to independent producers.

So, 2011 investment program. The projected amount was to be equal to some RUB 1,400 billion. This year it will amount to approximately RUB 1,180 billion, so the fact is the increase of investment is really needed. But this doesn't mean that we were wrong when we adopted the investment program: we didn't see the gas consumption increase. There was no need for that.

But consumption has significantly been boosted in Europe, actually… I may give you parameters. Currently, we daily produce and convey to foreign countries only, excluding the FSU, 120 to 140 million cubic meters more than in the previous year. Per day! And to see what it comes to per year – you just multiply the amount by, say, 300 days. And you'll see what capacities are engaged additionally to meet this extra demand in Europe. Today, the Russian Federation daily consumes 70 to 90 million cubic meters more than in the last year. Just two weeks ago we recorded the excess consumption of 100 million cubic meters of gas per day compared to the last year. And this capacity makes some 30 billion cubic meters per annum for Russia only. And for Europe, approximately 35 to 37 billion cubic meters per annum: additional capacity which was operational to meet this additional demand.

Of course, drastic changes which took place in the market forced us to radically review the investment program shaping. That is why respective decisions were taken expeditiously and we will report them to the Gazprom Board of Directors which approves the investment program based on the results of the first half of the year, as we ought to support the escalating dynamics of the consumer market. Between 2012 and 2013 the amounts of investment program may be equal to the level of 2011: some RUB 1,200 to 1,300 billion in order to support implementation of the projects I've told you about earlier, plus some other projects which were omitted from my report.

The quality of construction work in our country is persistently medium and this is linked to many factors. This is due to an insufficiently developed system of vocational education and training, due to insufficient training of qualified work force by a construction contractor, insufficient quantity of qualified welders. This problem is not yet solved for good. Although the efforts which are done by Gazprom – engineering supervision, virtually total inspection of the work done every day and by every shift, quality check techniques, including pigging and non-destructive inspections – all of these eventually provide for reliability of the work. But if the contractors have done the work in violation of Gazprom's rules, which are consistent with the approved standard, then they simply make the work over: this is called a fault in workmanship and they fix it. And surely, Gazprom never accepts low quality work or somewhat faulty work, this is out of question.

Question: Michael Kravchenko: Russia Today TV. As for the investment program, you've told us about the next three years, but you didn't say a word about the state willingness (and most probably, they will execute this before long) to increase severance tax among other things. How will this tax change be reflected in your investment program in the near future? By what degree did you address any tax increase in your investment program?

Alexander Ananenkov: This question should better be addressed to the state: will it increase taxes or not. Yes, it would like to. The Ministry of Finance wants to raise the severance tax rate. To my opinion, an increase in the severance tax rate,

primarily, will cause a decrease in the oil and gas extraction rate in the whole petroleum industry, with every single producer of oil and gas. It goes without saying. More oil will remain in the reservoir, more gas will remain in the category of low pressure gas, and the producer will wait for more comfortable conditions of extraction from the low pressure field. Here is an example of the Medvezhye field which is in operation for quite a long time and its rate of extraction has reached 70 per cent – so, this is low pressure gas. When they raise the severance tax – the extraction becomes non-profitable. Why should you bother? But we are within the framework of market economy, we have left the system in which adopted decisions are imperative for execution. Today, we have to consider, if a decision is effective or not.

Gazprom proposed a differential approach to the severance tax. In other words, to determine if these are stranded resources (e.g. coal bed methane) what kind of severance tax can be used when there are enormous costs? But we are working over there, providing for the safety of miners, draining gas out of coal beds in order for miners not to be killed in those coal mines. Do you know how many people were killed in those tragedies?

Low pressure gas. The Nadym-Pur-Taz region features large, giant gas fields. The overall volume of the remaining low pressure gas will amount to several trillion cubic meters. If the severance tax is raised – as long as this uncomfortable situation with taxes persists – this low pressure gas won't reach the market, it's unrealistic.

That is why we say: a differentiated approach is needed. If the field is a new one, if it is close to the Unified Gas Supply System, if its economics allow to raise its severance tax – let them do it, we agree. Another field which, on the contrary, is operated with no profit – if the tax system is turned the worst side to it – this is the last thing to do. Quite the reverse, it is imperative to act in such a way that more hydrocarbons be extracted from the subsurface as this zone is already developed, roads are built and infrastructure is deployed. Why spend money to develop a new facility, to build roads, to build power station, to construct all engineering facilities in order to extract the same amount which can be extracted in the region with everything having been developed? Economics should lead the way, a certain consideration should take place.

That's why I think that the most prudent thing was the proposition to differentiate the severance tax against each asset of subsurface use. It's nothing else but the use of a certain methodology; a clear and understandable methodology must be developed. Gazprom took up time to develop such approach, we have suggestions on that.

The second part of it: will it be or will it not be? It's hard to say. The amount which appears in it may be guaranteed by additional funds from additional gas sales. This is not a cure-all solution – to increase the severance tax and that is all.

We all see the market changes taking place now: the volume of sales increasing, including increased export supplies, and this amount may well be formed not only by means of the severance tax increase.

Moderator: Thank you very much! Now, it is time to adjourn the Press Conference.