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, 2013 Gazprom's A+B+C1 explored natural gas reserves (Russian classification) amounted to 35.7 trillion cubic meters representing around 72 per cent of the Russian or nearly 17 per cent of the global reserves.

In 2013 the gas reserves replenishment level totaled 646.9 billion cubic meters as a result of geological exploration carried out by Gazprom in Russia. The gas replenishment to extraction ratio amounted to 133 per cent. Thus, for the ninth consecutive year the rates of the Company's reserves growth exceeded natural gas extraction rates.

In 2013 Gazprom performed 2D seismic survey of 1.8 thousand linear kilometers and 3D seismic survey of 10.3 thousand square kilometers in Russia. 96.5 thousand meters of rocks were drilled and 42 prospecting and exploratory wells were built. The exploration related costs stood at RUB 44.5 billion.

In 2013 geological exploration resulted in the discovery of the Mangazeev field in the Tomsk Region and seven new deposits with C1+C2 reserves totaling 31.3 million tons of standard fuel equivalent.

Gazprom continues exploration projects beyond the Russian Federation. In 2013 the bulk of exploration work was concentrated offshore Vietnam, onshore Algeria, Bolivia and Tajikistan. RUB 4.1 billion was invested in geological exploration beyond Russia. One thousand meters of rocks was drilled and one well was built. 0.39 million tons of oil were added at the ZERN field (El Assel area) in Algeria.

Gazprom annually carries out independent evaluation of its feedstock base in accordance with the international standards. In 2013 DeGolyer and MacNaughton audited 93 per cent of gas, 88.5 per cent of condensate and 87.8 per cent of oil reserves of A+B+C1 category according to PRMS standards. Gazprom's proven and probable hydrocarbon reserves accounted for 23.2 trillion cubic meters of gas, 832.4 million tons of condensate and 1,254.2 million tons of oil. Their net present value is estimated at USD 299.6 billion.

GAS PRODUCTION

In 2013 Gazprom produced 487.4 billion cubic meters of natural gas showing a 0.4 billion cubic meters rise compared to 2012 (487 billion cubic meters). Due to demand the maximum daily gas production rate amounted to 1,648 million cubic meters.

In autumn 2013 first gas was delivered from the Kirinskoye field offshore the Sakhalin Island and its transmission system was tested. Kirinskoye was the first offshore field

where subsea gas production technologies were applied, with no platforms or other above-water facilities. Commercial gas production is scheduled for this year.

Liquid hydrocarbons production increased by 2.3 million of tons in 2013 versus 2012 and made up 48.5 million tons, including 14.7 million tons of gas condensate and 33.8 million tons of oil.

In December 2013 Gazprom launched oil production at the Prirazlomnoye field in the Pechora Sea. A one-of-a-kind Russian project for hydrocarbons development in the Arctic shelf marked the startup of Gazprom's large-scale efforts to set up a big hydrocarbons production center in the region. The Company plans to offload over 300 thousand tons of oil this year.

GAS TRANSMISSION SYSTEM DEVELOPMENT

The Unified Gas Supply System of Russia stretches for 168.9 thousand kilometers (gas trunklines and gas branches).

In 2013 Gazprom made great efforts for its development.

The construction of a new-generation Bovanenkovo – Ukhta gas trunkline system in particular, its second string, continued as part of the Yamal megaproject. This string (as well as the first string) will consist of unique domestically manufactured 1,420 millimeter pipes designed for the operating pressure of 11.8 MPa – the world's record for onshore gas pipelines. Compressor shops were built at six compressor stations of the gas trunkline system.

The large-scale construction of the Southern Corridor gas transmission system was in full swing in order to secure gas delivery into the South Stream gas pipeline as well as to supply additional gas volumes to Russia's central and southern regions. By now, 589 kilometers of pipes (67 per cent of pipeline's total length) have been welded and laid within Phase 1 of the project (western route). In October 2013 the Kubanskaya compressor station was put into operation.

Gazprom is expanding the underground gas storage (UGS) system with a view to ensure flexibility and optimal loading of the gas transmission system. As of December 31, 2013 the working gas capacity of UGS facilities located in the Russian Federation totaled 70.4 billion cubic meters (versus 68.2 billion cubic meters as of December 31, 2012).

The Company significantly increases the potential deliverability of UGS facilities in Russia by each withdrawal season. Over the last five autumn/winter periods the maximum daily deliverability by the beginning of a withdrawal season rose by 17.4 per cent to 727.8 million cubic meters and the average daily deliverability in December-February – by 16 per cent to 579.6 million cubic meters.

In September 2013, by the forthcoming heating season, Gazprom commissioned Phase 1 of the Kaliningradskoye UGS facility by launching two tanks with the aggregate working

gas capacity of 52 million cubic meters and maximum daily deliverability of 4.8 million cubic meters. This underground gas storage (Gazprom's first facility made in a salt cavern) considerably increased the energy security of the Kaliningrad Region.

In 2013-2014 withdrawal season the maximum daily sendout of Russian UGS facilities was recorded on January 31, 2014 – 725.2 million cubic meters. This is a new deliverability record over the entire history of UGS facilities operation in Russia. It nearly corresponds to the maximum possible daily sendout in the beginning of the withdrawal season (727.8 million cubic meters). The peak gas withdrawal rate of Russian UGS facilities exceeded 40.6 per cent of gas consumption within the Unified Gas Supply System area.

At present, Gazprom is constructing new UGS facilities –Volgogradskoye in salt caverns (Volgograd Region) and Bednodemyanovskoye in an aquifer (Penza Region). The construction of several new UGS facilities (Arbuzovskoye in the Republic of Tatarstan and Shatrovskoye in the Kurgan Region) is under consideration. The Udmurtia reserving complex and Novomoskovskoye UGS facility (Tula Region) are at the design stage, while the Arkhangelskoye and Skalinskoye UGS facilities are being explored.

Geological exploration activities are underway in order to explore the possibilities of natural gas and helium concentrate storage in the Far East. Possible reconstruction and expansion of the Abovyanskoye UGS facility (Armenia) is being studied.