

Press Conference Background

GAZPROM IN EASTERN RUSSIA, ENTRY INTO ASIA-PACIFIC MARKETS

June 16, 2015

Gazprom carries on the projects under the Development Program for an integrated gas production, transportation and supply system in Eastern Siberia and the Far East, taking into account potential gas exports to China and other Asia-Pacific countries (Eastern Gas Program).

Resource Base Buildup

At present, Gazprom performs geological exploration offshore the Sakhalin Island, in the Republic of Sakha (Yakutia), the Irkutsk Region and the Kamchatka Territory.

In 2015 two exploratory wells will be drilled in the Yuzhno-Kirinskoye field within the Sakhalin III project. Geological exploration is underway in the Vostochno-Odoptinsky and Ayashsky blocks of the project.

In 2015 3D seismic survey was completed in the Chayandinskoye field in Yakutia, the obtained data is being treated. 3D seismic survey is in progress at the Verkhnevilyuchanskoye, Tas-Yuryakhskoye, Sobolokh-Nedzhelinskoye and Srednetyungskoye licensed blocks.

Gazprom continues geological exploration of 15 licensed blocks in the Krasnoyarsk Territory. Prospecting & appraisal and exploratory wells are being built, subsurface studies are being conducted there.

Gazprom is developing the Kovyktinskoye and Chikanskoye fields as well as the Khandinsky and Yuzhno-Ust-Kutsky licensed blocks in the Irkutsk Region. Construction of exploratory wells and 3D seismic survey are scheduled at the Kovyktinskoye field for 2015 to 2018.

With a view to secure sustainable gas supply to consumers in the Kamchatka Territory in the long term, geological exploration activities onshore and offshore the Kamchatka Peninsula are scheduled for 2015 to 2025.

Developing Production and Gas Transmission Capacities

In late 2014 commercial gas production was launched at the Kirinskoye field of the Sakhalin III project. Presently preparations are underway for the construction of three exploratory wells in the 2015 season, it is also planned to complete the construction of one well.

The project documents has been completed and is awaiting expert review for the infrastructure to be involved in development of the oil rim and gas deposit of the Chayandinskoye field, including the Chayanda – ESPO oil pipeline. In 2015 it is planned to drill nine exploratory wells, three of which will be built this year.

In the Kamchatka Territory Gazprom operates in the Kshuuskoye and Nizhne-Kvakchikskoye fields. Project documents for connecting three additional wells at the Kshuuskoye field were developed, they are now undergoing an expert review. In 2015 one well will be built. A booster compressor station is being designed for the Kshuuskoye field.

In September 2014 the construction of the Power of Siberia gas trunkline started. At present, construction and installation operations are in process at the Chayanda – Lensk section. The design of the Lensk – Blagoveshchensk section is nearing completion.

Hydrocarbon Feedstock Processing

In January 2015 the main engineering solutions were approved for the construction of the Amur gas processing plant (GPP). The design and survey operations are in progress.

With a view to launch the export of liquefied petroleum gases (LPG) and helium produced in the Amur GPP, Gazprom is looking at the ways of constructing an LPG transfer terminal and a helium logistics center in Russia's Far East.

Sakhalin II Project

17.6 billion cubic meters of gas and 6.4 million tons of oil & gas condensate mixture was extracted within the project in 2014; 10.7 million tons of LNG was produced. Gas supplies to Russian consumers in the Primorye Territory and the Sakhalin Region exceeded 1.5 billion cubic meters.

Arranging Natural Gas Supplies to Asia-Pacific within Eastern Gas Program

Asia-Pacific is still one of the most promising natural gas consumption regions in the world. Limited domestic production and rapid development of gas infrastructure in the region allow for expecting high rates of pipeline gas and LNG import growth in the long term.

Gazprom is active within the projects for pipeline gas supply to one of the most fast-growing and largest gas markets of the region – the Chinese one.

China, as a brand-new market for Gazprom, is strategically important. The gas purchase and sale contract for the eastern route signed by Gazprom and CNPC in May 2014 was the first step towards export diversification to the east. In May 2015 Gazprom and CNPC inked the Heads of Agreement for pipeline gas supply from Russia to China via the western route. The project provides for supplying 30 billion cubic meters of gas from Russia to China through the western part of the Russian-Chinese border during 30 years.

The above-mentioned projects will help Gazprom to firmly establish itself in the Chinese market.

Asia-Pacific is Gazprom Group's traditional market in the LNG sector as well: in the last ten years up to 60 per cent of the Group's LNG supplies were channeled to this region. In 2014 the Company supplied the Asia-Pacific market with 30 LNG cargoes in the total volume of some 2.1 million tons.

The Company pays much attention to enhancing its LNG trading portfolio. In this context, the year of 2014 saw a more than twofold increase in the amount of LNG cargoes supplied to customers versus 2013 as well as the conclusion of new agreements.

Early in 2015 a long-term contract was signed for the supply of up to 2.9 million tons of LNG a year from the Yamal LNG project based on the Heads of Agreement signed in 2014. In 2014 Gazprom Group also entered into mid-term LNG supply contracts with TEPCO and RWE. A long-term contract with Indian GAIL came into effect.

In addition, Gazprom implements its own LNG projects targeted at the Asia-Pacific markets. The Company's priority is boosting its trade volumes through constructing the third process train of the LNG plant within the Sakhalin II project as well as an LNG production plant in Vladivostok.

Measures of State Support for Eastern Gas Program

Gazprom goes on with the activities on adopting measures of state support for projects in Eastern Siberia and the Far East. By now, the following measures have been taken:

The Russian Federation Government Directive No. 308 dated April 15, 2014 approved the state-run Program for Socioeconomic Development of the Far East and the Baikal Region.

Federal Law No. 366-FZ dated November 24, 2011 was adopted, providing for the following (starting from January 1, 2015):

- zero severance tax rate for natural gas from fields in the Republic of Sakha (Yakutia) and the Irkutsk Region for a 15-year term since the start of commercial production with further severance tax growth from 0.1 to a full rate during ten years;
- zero corporate property tax rate for gas trunklines and constructions being their essential process part, gas production facilities, helium production and storage facilities located in the Republic of Sakha (Yakutia), the Irkutsk and Amur Regions until January 1, 2035.

Federal Law No. 473-FZ 'On Areas of Advanced Socioeconomic Development in the Russian Federation' (hereinafter – APSED) dated December 29, 2014 was adopted. The Ministry for the Development of the Russian Far East set to establishing such APSEDs in Russia's Far East. The Russian Federation Government supported Gazprom's proposal on creating an APSED in the Svobodny District of the Amur Region and granting the Amur GPP project the APSED residency status.

The issue of maintaining the following measures of state support to gas projects in the Far East and Eastern Siberia in terms of taxation is still pending:

- providing equitable taxation for offshore projects in southern and northern parts of the Sea of Okhotsk;
- severance tax and export customs duty incentives for oil produced from oil rims of the Far East and Eastern Siberia fields;
- property tax exemption for onshore process facilities and hydrocarbons shipping terminals used by offshore hydrocarbon development projects.

Besides, it is Gazprom's opinion that prices for newly gasified Russian Federation regions, inter alia, in Russia's East should be formed with due account of:

- level of return from investments channeled into the development of local gas sector and projected load of gas pipelines;
- cost of fuel substituted by gas in the substitution point within the gasified area;
- confirmed solvent gas demand of end consumers;
- possibilities for funding or other measures of state support to consumers and regions;
- singling out the export-oriented production segments into a separate category of consumers, with a possibility to set negotiable gas prices for them (due to a considerable gap between domestic gas prices and prices for gas and gas-based

products in Asia-Pacific).