

Press Conference Background
Gazprom in Eastern Russia, Entry into Asia-Pacific Markets
(June 8, 2017)

Gazprom continues to implement 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 development

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

As part of the Sakhalin III project, geological exploration continues in the Kirinsky and Vostochno-Odoptinsky blocks. In September 2016, a new field was discovered at the Yuzhno-Lunskaya structure within the Kirinsky prospect.

After successful pre-development, follow-up exploration is in process at the oil rim of the Chayandinskoye field, which forms the basis for the Yakutia gas production center. 3D seismic surveys are underway at the Verkhnevilyuchansky, Tas-Yuryakhsky, Sobolokh-Nedzhelinsky, and Srednetyungsky licensed blocks.

Geological exploration continues within 15 licensed blocks in the Krasnoyarsk Territory, with the construction of appraisal and exploratory wells and the geological studies of subsurface resources in progress.

Exploratory wells are being built and 3D seismic surveys are being conducted at the Kovyktinskoye field, which forms the basis for the Irkutsk gas production center.

In order to ensure stable gas supplies to consumers in the Kamchatka Territory for the long term, the Company intends to carry out geological exploration onshore and offshore the Kamchatka Peninsula before 2026.

Production and gas transmission capacity development

In 2016, two development wells were constructed at the Kirinskoye field within the Sakhalin III project. Design documentation is being prepared for the pre-development of the Yuzhno-Kirinskoye field.

Also in 2016, the Company started to build development gas wells at the Chayandinskoye field. As of today, 66 wells have been drilled. In addition, pilot operations have been completed for eight wells drilled in the field's oil rim. An oil treatment facility is under construction, with preparations concluded at the main construction sites for a comprehensive gas treatment facility.

Construction of the Power of Siberia gas trunkline is in full swing. The pipeline will convey gas from the Yakutia and Irkutsk gas production centers to consumers in Russia's Far East

and China. Construction and installation is underway along the whole trunkline. As of early 2017, 445 kilometers of its linear part were built, with 663.5 more kilometers scheduled to be constructed before the end of the year.

In September 2016, Gazprom and CNPC inked the EPC contract to build a crossing under the Amur River within the cross-border section of the Power of Siberia gas pipeline. Construction in the Chinese territory commenced in April 2017.

Hydrocarbon feedstock processing

In line with its systematic policy for sustainable mining, Gazprom will process gas from the Chayandinskoye and Kovyktinskoye fields at the Amur gas processing plant (GPP). The GPP will have an annual design capacity of 42 billion cubic meters of gas. It will also include a helium production facility (up to 60 million cubic meters per year).

The design works for the Amur GPP have been completed, with approvals granted by the Russian State Expertise Agency (Glavgosexpertiza) and construction permits issued. 2016 saw land planning operations carried out for the facilities of the first start-up complex, as well as the start of construction for a wharf on the Zeya River and for railroad communications and structures.

Natural gas deliveries to Asia-Pacific under Eastern Gas Program

Asia-Pacific is among the world's most promising regions in terms of natural gas consumption. Due to limited indigenous production potential and rapid gas infrastructure development in the region, Asia-Pacific is expected to show a high rate of growth in pipeline gas and LNG imports in the long term.

Gazprom takes active efforts to implement projects for pipeline gas deliveries to China, the fastest growing and potentially largest gas market in the region. The project for Russian gas supplies via the eastern route (Power of Siberia) is running on schedule. In May 2015, Gazprom and CNPC signed the Heads of Agreement for pipeline deliveries of natural gas from Russia to China via the western route (Power of Siberia 2 gas pipeline).

In September 2015, Gazprom and CNPC inked the Memorandum of Understanding for the project of pipeline gas supplies to China from Russia's Far East. It is planned to agree on the delivery terms before late 2017.

Asia-Pacific is a traditional LNG market for the Gazprom Group: between 2005 and 2016, over 75 per cent of the Group's LNG was shipped to this region. In 2016, the Company supplied 2.8 million tons of LNG to Asia-Pacific.

Gazprom pays considerable attention to the expansion of its LNG trading portfolio in general and supplies to Asia-Pacific in particular.

Early 2015 saw the conclusion of a long-term contract for annual delivery of up to 2.9 million tons of LNG, which will be produced within the Yamal LNG project and delivered primarily to the Indian market.

In addition, in October 2015 Gazprom Marketing & Trading Singapore and Pavilion Gas (Singapore) signed a 10-year sales and purchase agreement for LNG supplies.

Gazprom is also implementing its own new LNG projects oriented toward the Asia-Pacific markets. The Company's priority is to expand its trade in the region by constructing the third production train of the LNG plant within the Sakhalin II project.

Sakhalin II project

In 2016, the Sakhalin II project produced 17.45 billion cubic meters of gas and 5.51 million tons of oil and condensate. The output of the LNG plant within the project stood at 10.93 million tons of LNG, exceeding the plant's design capacity by over 1.3 million tons.

In June 2015, Gazprom and Shell signed the Memorandum to construct the third production train of the LNG plant on Sakhalin Island.

The project envisages the construction of a new production train of the LNG plant within the Sakhalin II project, similar to the two existing trains (annual capacity of up to 5.4 million tons of LNG), an additional LNG storage facility, and port facilities, as well as the expansion of compressor capacities of the trunkline running from the Onshore Processing Facility in the northern part of the island.

In December 2015, Sakhalin Energy, operator of the Sakhalin II project, started to develop the project documentation.

Gas condensate deliveries to Asia-Pacific

In 2015–2016, Gazprom Export delivered a total of about 1 million tons of gas condensate to northwestern Europe and Asia-Pacific. Since late 2014, gas condensate has been exported from the Kirinskoye field (Sakhalin III project). As of late May 2017, the company's gas condensate exports to Asia-Pacific (China, Japan, and South Korea) totaled some 300,000 tons.

In the Kamchatka Territory, Gazprom is developing the Kshuuskoye and Nizhne-Kvakchikskoye fields. In 2016, Gazprom Export started to deliver gas condensate from Kamchatka to foreign consumers. The company had shipped 12,000 tons as of late May 2017. It is planned to bring this figure to 30,000 tons by the end of the year. The shipments go to South Korea.

Oil and condensate consumption in Asia-Pacific's key consuming countries (China, Japan, and South Korea) will remain consistently high in the near term, standing at about 80 million tons of gas condensate equivalent per year, of which only half can be secured by indigenous production. There will be continuing demand for petroleum feedstock and gas condensate among main Asia-Pacific consumers in the near and medium term, which guarantees steady sales for Russian feedstock.