

## Press Conference Background

### **MINERAL AND RAW MATERIAL BASE DEVELOPMENT. GAS PRODUCTION. GAS TRANSMISSION SYSTEM DEVELOPMENT**

**(May 14, 2018)**

#### **MINERAL AND RAW MATERIAL BASE DEVELOPMENT**

As of December 31, 2017, the explored A+B1+C1 (under the Russian classification) natural gas reserves of Gazprom amounted to 35.4 trillion cubic meters,<sup>1</sup> which equated to 72 and around 17 per cent of the Russian and global reserves, respectively.

In 2017, Gazprom added a record 852.9 billion cubic meters of gas to its reserves thanks to geological exploration performed in Russia. The reserve replacement ratio stood at 1.82. Thus, Gazprom has ensured that its gas reserve addition rates surpass its production rates for 13 consecutive years. Last year, most of the gas in the A+B1+C1 categories was added by the Tambeykoye<sup>2</sup> (395.5 billion cubic meters) and Malyginskoye (201.1 billion cubic meters) fields located in the Yamal Peninsula, as well as the Achimov deposits of the Urengoykoye field (194.9 billion cubic meters). Taking into account all commercial categories, including estimated reserves (B2+C2), the Tambey cluster (Tambeykoye and Malyginskoye) added over 5 trillion cubic meters of gas, with the aggregate reserves in the cluster skyrocketing from 2.6 trillion cubic meters to 7.7 trillion cubic meters.

Over the course of 2017, Gazprom conducted 3D seismic surveys in Russia covering 18,700 square kilometers. The Company drilled through 85,900 meters of rock formations and constructed 36 prospecting and exploratory wells, with four fields (including Yuzhno-Lunskoye, a rich gas and condensate field in the Sea of Okhotsk) and 47 deposits discovered as a result. The exploration spending reached RUB 82.6 billion.

Gazprom also continues to implement exploration projects outside Russia. Throughout 2017, geological and geophysical studies were performed in the former Soviet Union, Europe, Southeast Asia, Africa, the Middle East, and South America. The investments in exploration projects abroad totaled RUB 4.1 billion.

Every year, Gazprom undergoes an independent reserve assessment in accordance with international standards. In 2017, DeGolyer and MacNaughton carried out a PRMS-based reserves audit covering 94.1 per cent of gas, 92.7 per cent of gas condensate, and 93.5 per cent of oil in A+B1+C1 categories. The Gazprom Group's proven and probable reserves of hydrocarbons were estimated at 24.1 trillion cubic meters of gas, 1.1 billion tons of condensate, and 1.4 billion tons of oil.

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<sup>1</sup> The significant change in natural gas reserves compared to the estimate from December 31, 2016, can be attributed to the adoption in January 2016 of a new national Classification of Reserves and Resources of Oil and Flammable Gases using gas recovery factors (GRFs). As of December 31, 2017, the Company completed the GRF estimation for fields containing 19 per cent of the Gazprom Group's A+B1+C1 reserves. The new system will continue to affect the Group's figures in the transitional period set by the Russian Ministry of Natural Resources as GRFs are calculated and new projects for field development are approved.

<sup>2</sup> As a result of research, the Severo-Tambeykoye, Zapadno-Tambeykoye and Tasiyskoye fields are no longer considered individual fields but a single field known as Tambeykoye (as recorded in the State Register of Mineral Reserves under the protocol of the State Reserves Commission).

## **GAS PRODUCTION**

In 2017, Gazprom extracted 471<sup>3</sup> billion cubic meters of gas, which was 51.9 billion cubic meters more than in 2016.

The scale of gas production grew further at Bovanenkovskoye, the largest field in the Yamal Peninsula. In 2017, the field produced 82.8 billion cubic meters of gas, an increase of 23 per cent versus 2016.

The beneficial utilization rate of associated petroleum gas across Gazprom's fields stood at 98.4 per cent.

Liquid hydrocarbon production rose by 1.9 million tons in 2017 against 2016 to 56.9 million tons, including 15.9 million tons of gas condensate. The Group's oil production climbed to 41 million tons in 2017, exceeding the 2016 level by 1.7 million tons.

## **GAS TRANSMISSION SYSTEM DEVELOPMENT**

The overall length of Gazprom's gas transmission system in Russia reached 172,000 kilometers. The Company also owns and operates some 10,000 kilometers of gas pipelines in Armenia, Belarus, and Kyrgyzstan.

In 2017, Gazprom continued to actively expand the northern gas transmission corridor. Compressor capacities were built at the Bovanenkovo – Ukhta 2 gas pipeline. This year, workshops with the overall capacity of 371 MW will be brought into operation at four compressor stations. Construction of the Ukhta – Torzhok 2 gas pipeline progressed as well, its linear part slated to be completed in 2018.

The Power of Siberia gas pipeline project advanced further in the eastern part of Russia.

In order to improve the flexibility of the gas transmission system and ensure an optimal load distribution, especially during peak loads in the autumn/winter period, Gazprom makes efforts to enhance its underground gas storage (UGS) system. As of October 15, 2017, the working gas inventories in the Russian UGS facilities totaled 72.184 billion cubic meters. By the start of the 2017–2018 autumn/winter season, the potential maximum daily deliverability of UGS facilities hit a record of 805.3 million cubic meters of gas.

In 2018, it is planned to bring into operation the Volgogradskoye UGS facility, which is being built in salt caverns. Construction of the Novomoskovskoye (Central Federal District) and Shatrovskoye (Ural Federal District) UGS facilities will start in 2021 and 2024, respectively.

Renovation and expansion efforts will continue from 2018 through 2022 at the active UGS facilities, such as Punginskoye, Kushchevskoye, Nevskoye, the Kanchurinsko-Musinsky UGS Complex, and the Udmurtia Reserving Complex. In addition, the Company explores new areas with a view to creating UGS facilities in the Northwestern, Siberian and other federal districts.

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<sup>3</sup> Here and below, the Gazprom Group's hydrocarbon production data do not include the Group's share in the production by the companies investments wherein are classified as joint operations.