



News Release

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Gazprom to continue shale gas market investigation

The Gazprom Board of Directors took notice of the results of a survey on the shale gas sector development throughout the globe.

It was mentioned that the core structural units of Gazprom Group continued investigating the progress with shale gas production.

The meeting participants affirmed that at the moment shale gas production in Russia would be inexpedient due to the abundance of conventional gas reserves with their recovery cost being considerably lower than the estimated cost of shale gas production. In addition, it was pointed out that shale gas production was related to considerable environmental risks.

Meanwhile, active media coverage of the said issue resulted in the popularization of natural gas in the world, which is a favorable factor for Gazprom being a reliable supplier of this fuel.

The Management Committee was tasked to continue the investigation of the shale gas sector development throughout the globe and to report the results to the Board of Directors in the fourth quarter of 2014.

Background

Between 2012 and 2013 commercial shale gas production was still underway in the USA and Canada only. In 2012 shale gas production in the USA amounted to some 270 billion cubic meters. The share of shale gas in the national gas output continued to grow.

Meanwhile, over the past period of time more than a half of total shale gas output from North American fields remained loss-making, which is proved by the considerable reduction of the number of drilling rigs meant for constructing gas production wells in the USA as well as by major gas companies selling their shale assets.

According to experts, the increase in shale gas production may contribute to turning the USA into the LNG exporter. However, it is impossible to implement export LNG projects without relevant permits issued by the US federal agencies which are interested in maintaining energy security in the country and keeping



the domestic market prices low. Under such conditions the implementation of all the announced export LNG projects in North America seems unrealistic.

Certain factors continue constraining the organization of commercial shale gas production in Europe. In particular, these include limited resource potential of the region, high population density and absence of public access to drilling and services. Pilot operation of a number of exploratory wells in Europe, most notably in Poland, turned out to be unsatisfactory despite government support and tax benefits.

In Asia it is the People's Republic of China that is considered as the most promising country in terms of shale gas production development. However, in China this industry develops slower than it was planned due to a more complex geological structure of local shale gas deposits, poorly developed infrastructure, water and energy shortage as well as very high population density in the Chinese regions most promising in terms of shale gas production.

Shale gas industry development is related to certain environmental risks because it demands drilling a great number of wells and injecting considerable amounts of water mixed with sand and chemicals into the stratum. Therefore, there is a danger of polluting the land surface and the subsurface waters. At present, the moratorium on hydraulic fracturing is imposed in European countries (France, Bulgaria, Germany, the Netherlands, Spain and others) and some Australian states. In addition, the moratorium is preserved in the state of New York where a part of Marcellus, one of the major US shale basins is located.