

Press Conference Background

GAS SUPPLY TO DOMESTIC MARKET. EXECUTING RUSSIAN REGIONS GASIFICATION PROGRAM

(May 23, 2017)

In 2016, the Gazprom Group sold 214.9 billion cubic meters of natural gas in the domestic market (according to the International Financial Reporting Standards (IFRS), excluding intra-Group supplies), which is 2.8 per cent less than in 2015. The existing regulatory framework continues to facilitate the increased competitiveness of other gas producers that offer more flexibility to consumers.

The Gazprom Group's revenue from gas sales in the Russian market amounted to RUB 819.9 billion under IFRS (a 1.8 per cent increase compared to 2015).

With the purpose of developing the Russian gas market, Gazprom is ramping up its gas sales at the St. Petersburg International Mercantile Exchange (SPIMEX). In 2016, Gazprom traded 10.7 billion cubic meters of gas (compared to 4.3 billion cubic meters in 2015) there, gaining a 64 per cent share in total sales at SPIMEX. Regional consumers express considerable interest in organized trading on SPIMEX: Gazprom supplied its gas to 45 Russian regions in 2016 (against 39 regions in 2015).

Over the course of 2016, the Gazprom Mezhhregiongaz Group marketed 246.3 billion cubic meters of gas supplied by Gazprom and other producers (including via trading on SPIMEX).

Efforts continue to implement the Russian Regions Gasification Program. Between 2005 and 2016, Gazprom invested therein some RUB 295.2 billion in total. Over that period, the Program resulted in the construction of 2,046 gas pipelines stretching over 28,000 kilometers in length (including 163 gas pipelines with an overall length of some 1,425 kilometers built in 2016) and the creation of conditions for converting 5,060 boiler houses to gas and connecting around 815,000 households and apartments to gas lines.

Thanks to the Gasification Program, Russia's average gas penetration level surged from 53.3 per cent in 2005 to 67.2 per cent in 2016, going up from 60 to 70.9 per cent in urban areas and from 34.8 to 57.1 per cent in rural areas.

One of the main obstacles to the execution of the Program is that Russia's regional administrations fail in their obligations to prepare consumers to receive gas. Since 2005, only 11 Russian constituent entities (Belgorod, Kemerovo, Kursk, Omsk, Penza, Tyumen and Yaroslavl Regions, Republics of Kalmykia and Mordovia, Chuvash Republic, and the city of St. Petersburg) have fully met their obligations.

The lagging performance of regional authorities as regards preparing consumers to receive gas, coupled with excessively high estimates for potential consumers during planning, are some of the main reasons for the low utilization of the Gazprom Group's gas distribution networks. Based on the results of a monitoring study of gas distribution organizations conducted in 2016, the average utilization rate for gas distribution

networks in Russia's federal districts ranges from 43 per cent to 77 per cent, with highest rates in the Southern, North Caucasus and Siberian Federal Districts and lowest in the Far Eastern Federal District.

Another urgent issue hampering the execution of gas supply and gasification programs is the non-payment by consumers for gas deliveries. Gazprom takes comprehensive measures to improve financial discipline through, among other things, collaborating with law enforcement agencies. In 2016, the Gazprom Mezhhregiongaz Group stepped up its legal measures, filing claims against debtors and collecting a total of RUB 86.8 billion, an almost 20 per cent increase from 2015. In addition, cutoffs and restrictions in gas supplies were imposed on more than 12,400 legal entities (+23.2 per cent versus 2015) and 222,600 individuals (+1.6 per cent).

In order to strengthen financial discipline with regard to gas payments, Gazprom actively cooperates with Russian authorities at all levels to, among other things, further improve the national legislation.

Thanks to Gazprom's efforts, the rate of debt accumulation has considerably slowed down. Whereas in 2015 the outstanding debt payable to the Gazprom Mezhhregiongaz Group by all consumer groups added 18.5 per cent, reaching RUB 150.1 billion, the said debt added as little as 7.1 per cent in 2016, amounting to RUB 160.8 billion.

The North Caucasus Federal District still accounts for more than 80 per cent of the consumer debt in the country. Work is underway in the region to increase the credibility of consumer databases, with a pilot project being implemented to provide consumers with gas meters equipped with telemetry systems.

Among legal entities, the biggest offenders in terms of gas payments are heat supply businesses: individual electric utilities, heat supply entities, and state-financed organizations, including the ones under the Russian Defense Ministry.

Gas supply and gasification programs until 2021 are currently awaiting final approval for 66 Russian regions. During that period, if the regional authorities fulfill their obligations on preparing the consumers and addressing the debts for gas deliveries, gas will be made available to about 600,000 households and apartments, as well as 3,000 boiler houses and industrial, public utility and agricultural facilities in 3,500 localities.