

## **Press Conference Background**

### **Gas Supply to Domestic Market. Executing Russian Regions Gasification Program**

**June 15, 2012**

#### **Gas Supply to Domestic Market**

In 2011 Gazprom Group delivered 265.3 billion cubic meters of its gas resources (exclusive of gas supplies within the Group) to Russian consumers under supply contracts, thus showing a 1.2 per cent increase versus 2010.

Gazprom Group's proceeds from gas supplies to the domestic market (net of excise duty and VAT) reached RUB 723 billion surpassing the 2010 level by 17.6 per cent.

The average gas sales price in Russia rose by 16.2 per cent to RUB 2,725.4 per 1,000 cubic meters (net of excise duty and VAT).

In 2011 Gazprom Mezhhregiongaz Group sold 306.9 billion cubic meters of gas using the resources of Gazprom and other suppliers, which is 1.8 per cent more as compared to the 2010 level. 27 billion cubic meters were sold on the conditions set forth in the Russian Government Directive No. 333 (dated May 28, 2007).

The highest natural gas demand was observed in the cement industry (11.6 per cent increase in Gazprom Mezhhregiongaz Group's supplies) and agrochemistry (7.3 per cent increase).

In 2011 Gazprom Mezhhregiongaz Group supplied 88.8 billion cubic meters of gas to the socially significant consumer groups – population, utility companies and public sector (versus 87 billion cubic meters in 2010). Higher gas consumption by these groups is mostly explained by the gas supplies growth in the population sector provided, inter alia, by the Russian Regions Gasification Program.

The level of payments among the socially significant consumer groups made up 93.8 per cent (versus 95 per cent in 2010) in 2011.

The total level of payments by utility companies was retained at 95 per cent. A decrease in the current payments among this consumer group was noticed in the Republics of Adygea, Dagestan, Kabardino-Balkaria, North Ossetia – Alania, Kalmykia, the Krasnodar Territory, the Vladimir, Moscow, Smolensk and Astrakhan Regions. An optimistic situation with payments by utility companies was in the Republic of Udmurtia, the Kaluga, Kemerovo, Nizhny Novgorod, Lipetsk Regions and Moscow.

The payment level among the population totaled 92 per cent in 2011 (versus 96.1 per cent in 2010). The decline in this parameter is conditioned by the anomalously cold November and December days in some of the Russian regions, which called for extra payments that were settled in 2012 according to the law.

The Northwestern Federal District is the best in terms of gas payments by the population (99 per cent), while the Northwestern Caucasus Federal District shows the worst result (68 per cent).

The overdue debt among all types of consumers to Gazprom Mezhrefiongaz Group grew by RUB 14.1 billion in 2011 versus 2010 and reached RUB 57.7 billion as of December 31, 2011. At that, the utility companies' arrears usually reach the peak by the end of the heating period and the bottom – by the start of the heating period.

Legal actions were intensified to recover debts for gas supplies in an effective way. In 2011 Gazprom Mezhrefiongaz Group filed more than 4.7 thousand claims. The courts decided on collection of debts in the amount of some RUB 13.3 billion in favor of gas suppliers.

### **Executing Russian Regions Gasification Program 2011**

Since 2001 Gazprom has been compiling and approving the annual gasification programs for Russian constituents based on a systemic approach to selection of facilities to be constructed.

Starting from 2005, when Gazprom resolved to significantly increase the amount of investments, Gazprom Mezhrefiongaz was charged with the responsibility for investing, coordinating and arranging activities within the Russian Regions Gasification Programs.

During 11 years (since 2001) a total of RUB 156 billion was allocated under these programs and over the 2005–2011 period – more than RUB 146 billion net of the funds channeled for engineering and construction of gas laterals and gas distribution stations being an integral part of regional gasification.

The investments made between 2005 and 2001 enabled to construct 1,292 gas pipelines stretching for more than 18.5 thousand kilometers. At the same time, gas was supplied to 2,524 population centers, 3,150 boiler houses and more than 546 households and apartments.

Gazprom meets its obligations in full.

More than RUB 29 billion of investments were made for the Russian Regions Gasification Program in 2011. The money was used for design and survey activities, developing and adjusting general gas supply and gasification schemes for Russian

regions as well as constructing gas distribution networks in 65 Russian constituents.

Besides, the Russian Regions Gasification Program has considerably expanded a range of tasks since 2011. The autonomous gasification option is being considered for some constituents (Republic of Buryatia, Tyva, Khakassia and Altai). In addition to gas networks construction, projects for independent LNG (liquefied natural gas) supply have been launched in the Perm Region (design and survey operations are to be completed this year, construction and installation operations are to be launched) and in Nikolaevsk-on-Amur, Khabarovsk Territory (a project for an LNG plant construction is being developed).

With a view to step up gas delivery to ultimate consumers residing, inter alia, in the Far East the investment projects started to be developed and implemented as unified process complexes (gas laterals, gas distribution systems and inter-settlement gas pipelines connected with them).

The activity is underway within federal programs for building the Olympic venues and facilities needed for the Asia-Pacific Economic Cooperation Summit (APEC 2012) in the Primorye Territory. For instance, the first string of the unique crossing under the navigable Eastern Bosphorus Strait was completed last year to ensure gas supply to consumers on the Russky Island and to CHPP-2 in Vladivostok. The gas pipeline was placed with the use of a unique directional drilling technology resulting in no disruption of the maritime traffic and the ecosystem in the Strait. The builders spanned a great distance (almost 3 kilometers) featuring a considerable elevation difference (140 meters).

In 2011 Gazprom and regional administrations continued joint signing of synchronization schedules for gasification programs to fix the parties' obligations.

In compliance with the schedules, 221 gasification facilities were completed in 49 Russian constituents. Besides, at the request by eight regional administrations and taking into account consumer readiness for gas supplies, the Company built 23 inter-settlement gas pipelines ahead of schedule. Thus, Gazprom Group completed 244 inter-settlement gas pipelines with the total length of around 2.5 thousand kilometers.

In 2011 considering the obligations met by administrations of Russian constituents on consumer preparation, gas was supplied to more than 390 population centers, 570 boiler houses, around 74 thousand apartments and households were switched to natural gas.

The obligations of administrations on consumer preparation for gas supply were met according to schedules in 17 regions. In 16 regions the local administrations fell behind with their obligations. In 12 regions the administrations fall considerably behind the synchronization schedules: the Arkhangelsk, Kaliningrad, Kostroma, Moscow, Pskov, Samara and Saratov Regions as well as the Republics of Dagestan,

Kalmykia, Karelia, Karachaevo-Cherkessia and Udmurtia.

At the same time, the Arkhangelsk, Kaliningrad, Kostroma Regions, the Republics of Dagestan and Karelia had failed to meet their obligations in the previous years.

Taking into account the way Russian constituents meet their obligations on consumer preparation for gas supplies, Russia's average forecasted gas supply level grew by 9 per cent in the early 2012 (versus the early 2005) and made up 63.2 per cent including 70 per cent in cities and towns and 46.8 per cent in the rural area.

In 2012 the large-scale gasification of Russian regions will be furthered. As compared to RUB 29.070 billion of Gazprom's investments in 2011, this year's investments increased almost by 30 per cent – to the record high amount of RUB 37.660 billion.

Gazprom keeps prioritizing the following regional gasification activities:

- further gasification development in Russian regions: aimed at attaining the maximum economically viable gasification level, meeting the solvent gas demand, improving the living conditions of the population mainly in the rural area and the economic growth of Russian constituents;
- streamlining the joint efforts of Gazprom and Russian constituents administrations: aimed at synchronized creation of the “gas pipeline – consumer” complex and loading of capacities once they are built and commissioned;
- gasification and gas supply to the Far East and southern Russia, particularly within the federal programs as related to the gasification facilities construction needed for the APEC 2012 Summit and the 2014 Winter Olympic Games in Sochi.

Pursuant to the decision by the Gazprom Board of Directors (November 29, 2011) to significantly increase the intensity of natural gas supplies to the residential, industrial and agricultural sectors, Gazprom Mezhhregiongaz shaped programs for the gas supply and gasification development in 69 Russian constituents involved in the Gasification Program between 2012 and 2015. They are currently being coordinated with regional authorities. Later on, Gazprom Mezhhregiongaz will start shaping the development programs until 2020. This will extend the planning horizons and help further improve the efforts on attaining the maximum economically viable level of gasification.