



GAS SUPPLY TO DOMESTIC MARKET. EXECUTING RUSSIAN REGIONS GASIFICATION PROGRAM

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PRESS CONFERENCE AS PART OF GAZPROM'S
ANNUAL GENERAL SHAREHOLDERS MEETING

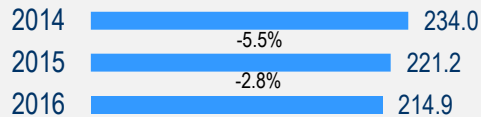
Natural Gas Sales by Gazprom Group in Russia

Gazprom: largest gas supplier in Russian market

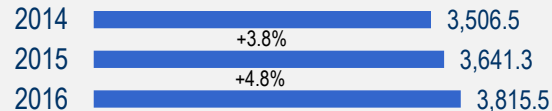
Regulatory environment continues to facilitate competitiveness of independent gas producers

Gazprom Group's gas sales in Russia¹

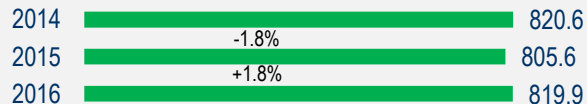
Sales volume, bln m³



Average selling price, RUB/1,000 m³

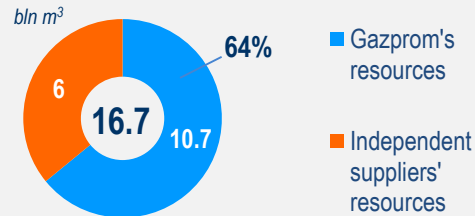


Proceeds from sales, RUB bln

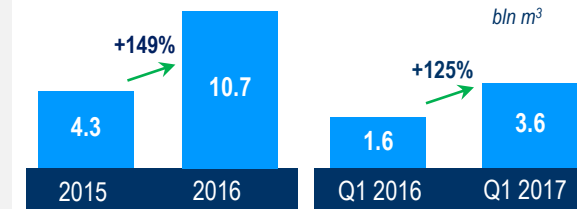


Gazprom ramps up gas sales through organized trading at SPIMEX

Gas sales breakdown at SPIMEX in 2016



Gazprom's gas sales at SPIMEX



Gazprom supplied natural gas to 45 Russian regions through trading at SPIMEX in 2016

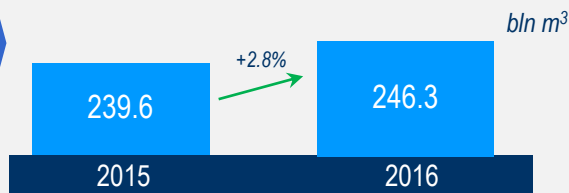
Top 10 regions in terms of gas volumes purchased from Gazprom at SPIMEX in 2016 (total gas purchases exceeding 0.3 bln m³ per year): Republics of Tatarstan and Bashkortostan, Belgorod, Kirov, Kurgan, Leningrad, Tver, Tula and Vologda Regions, and Perm Territory.

¹ Excluding intra-Group sales. These performance indicators of Gazprom were calculated in accordance with IFRS principles; they may differ from similar indicators in accounting documents prepared in compliance with management accounting methodology.

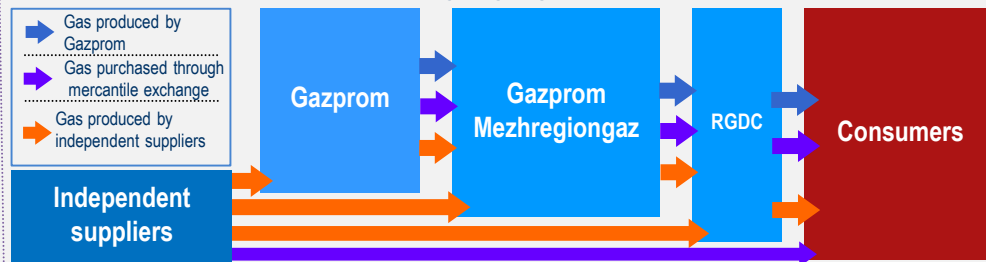
Key Operating Results of Gazprom Mezhrefiongaz Group in Ensuring Reliable Gas Supplies to Russian Consumers in 2016

Gas sales¹

Gazprom Mezhrefiongaz Group's total sales of gas supplied by Gazprom Group and other producers (including exchange trading)

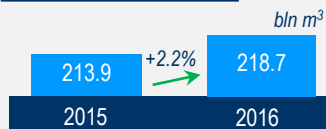


Gazprom Mezhrefiongaz gas distribution scheme

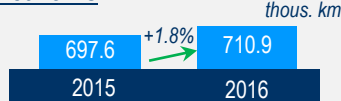


Gas distribution²

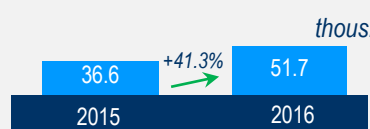
Rate of transmission



Length of gas distribution networks



Number of new gas connections



25.4 mln households and apartments, 30.700 industrial entities, 287.400 public utility facilities, 6.700 agricultural facilities connected to gas networks

Gas grid coverage

163 gas pipelines with total length exceeding 1,425 km built

Conditions created in 254 population centers for supplying gas to around 25,400 households and apartments, as well as 175 boiler houses

Total gas consumption by connected facilities exceeds 250 mln m³ per year

¹ Management accounting data; may be inconsistent with IFRS indicators

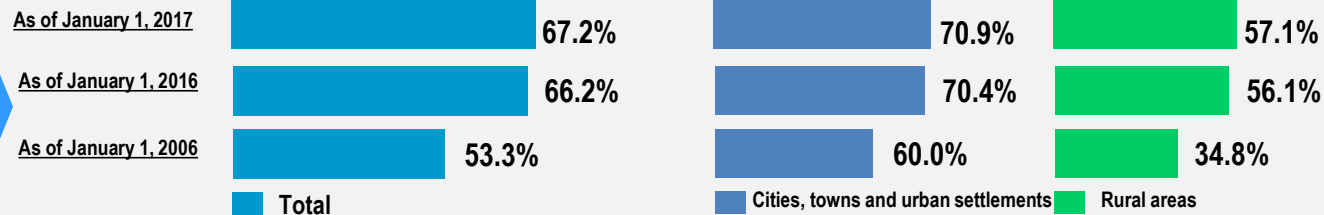
² Including performance indicators of Gazprom Gazoraspredeleniye's subsidiaries and affiliates, with exception of Gazprom Transgaz Kazan and Chechengaz

Results of Russian Regions Gasification Program

	<u>Gazprom's investments (RUB bln)</u>	<u>Gas pipelines built (units)</u>	<u>Gas pipeline length (km)</u>	<u>Conditions for converting boiler houses to gas (units)</u>	<u>Conditions for connecting households and apartments to gas lines (thous.)</u>
2005–2016	≈ 295.2	2,046	> 28,000	5,060	≈ 815.1
including 2016	25	163	> 1,425	175	≈ 25.4

572 gas distribution networks, gas branches and gas distribution stations were under construction, with 350 facilities under design and survey in 67 Russian constituent entities last year

Gas penetration level in Russian regions



Obligations Fulfilled by Regional Authorities with Regard to Building Inter-Settlement Gas Pipelines in 2005–2016 under Work Synchronization Plans

47 regions involved in Program are fulfilling obligations on preparing consumers for gas supplies according to schedules or with **slight** delays

Obligations fulfilled completely only in 11 regions: Belgorod, Kemerovo, Kursk, Omsk, Penza, Tyumen and Yaroslavl Regions, Republics of Kalmykia and Mordovia, Chuvash Republic, and St. Petersburg

12 regions are considerably behind schedules in preparing consumers to receive gas supplies

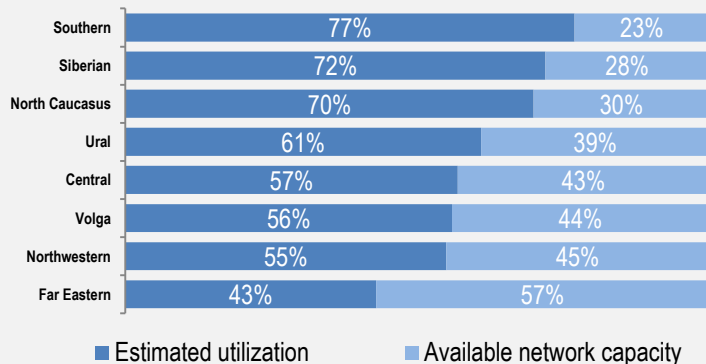
Region	Gas distribution (city) networks (fulfillment rate, %)	Households (apartments) (fulfillment rate, %)	Boiler houses (fulfillment rate, %)	Region	Gas distribution (city) networks (fulfillment rate, %)	Households (apartments) (fulfillment rate, %)	Boiler houses (fulfillment rate, %)
Volgograd Region	93.2	75.4	98.6	Perm Territory	87.1	66.8	68.1
Kaliningrad Region	100.0	80.3	68.3	Primorye territory	-	-	87.5
Kamchatka Territory	0.0	0.0	55.6	Pskov Region	73.1	77.0	84.2
Kostroma Region	83.1	59.9	66.7	Altai Republic	89.7	57.2	94.1
Krasnodar Territory	93.8	38.8	91.2	Sakhalin Region	100.0	64.0	92.6
Moscow Region	76.0	52.1	66.7	Khabarovsk Territory	44.3	22.2	81.5

7 regions fall short of obligations to prepare consumers for gas supplies

Region	Gas distribution (city) networks (fulfillment rate, %)	Households (apartments) (fulfillment rate, %)	Boiler houses (fulfillment rate, %)	Region	Gas distribution (city) networks (fulfillment rate, %)	Households (apartments) (fulfillment rate, %)	Boiler houses (fulfillment rate, %)
Republic of Karachay-Cherkessia	19.5	31.7	28.6	Republic of Ingushetia	71.2	68.7	-
Orel Region	96.1	47.9	48.8	Republic of Karelia	49.2	50.2	68.0
Republic of Adygea	77.7	51.1	56.0	Republic of North Ossetia - Alania	32.5	17.8	66.7
Republic of Dagestan	85.8	24.3	7.4				

Potential for Increasing Gas Supplies via Gazprom Mezhrefiongaz Group's Networks

Estimated utilization of networks in federal districts (FDs) in 2016



Over 118,000 specifications for connecting consumers to gas networks issued in 2016

14.5 bln m³ – possible increase in supply volumes:

- Central FD – 4.0
- Southern FD – 0.8
- Volga FD – 4.0
- Siberian FD – 0.7
- Northwestern FD – 2.5
- North Caucasus FD – 0.4
- Ural FD – 1.6
- Far Eastern FD – 0.4

bln m³

≈0.45 bln m³ per year – volumes not supplied due to refusal to grant specifications in 2016

Main reasons for refusal	Efforts aimed at lifting restrictions
Insufficient throughput capacity in existing gas distribution networks	Renovation of gas distribution facilities under programs of gas distribution companies
Lack of gas distribution networks near populated areas	New construction under Russian Regions Gasification Program and gas distribution companies' projects

Reasons for low utilization of networks:

- Need for new inter-settlement gas pipelines technologically connected to existing gas pipelines;
- Failure of regional authorities to fulfill obligations to build networks in rural areas and convert consumers to natural gas;
- Inflated number of consumers set in regional Gas Supply and Gasification Schemes under which gas distribution networks were constructed

Efforts aimed at increasing utilization of networks:

- When developing and updating Programs for Gas Supply to and Gasification of Russian Regions, priority is given to off-grid population centers that have technological connections to existing pipelines;
- Interaction with regional authorities aimed at prevention of non-fulfillment of obligations on their part;
- Cooperation with regional authorities to avoid overestimation of potential gas consumption in preparing baseline data for regional Gas Supply and Gasification Schemes



Russian Regions Gasification Program in 2017 and Plans until 2021

RUB 25.7 bln

Gazprom's planned investments for 2017

Over 570 facilities –

for construction to finish, continue and start in 2017

Around 1,000 facilities –

to be designed in 2017

Updating and developing **18** general gas supply and gasification schemes for Russian regions and **8** general gas supply and gasification schemes for federal districts (including Amur and Jewish Autonomous Areas, taking into account gas supply from Power of Siberia gas pipeline) in 2016–2017

Programs aimed at developing gas supply and gasification until 2021

At present, Gazprom Mezhrefiongaz is finalizing 2016–2020 gas supply and gasification programs for **66** Russian constituent entities involved in gasification efforts. Republic of Sakha (Yakutia) and Amur Region are covered by corresponding 2016–2025 programs. **39** programs have been approved by Gazprom and regional authorities, and approval process for **27** programs is almost completed.

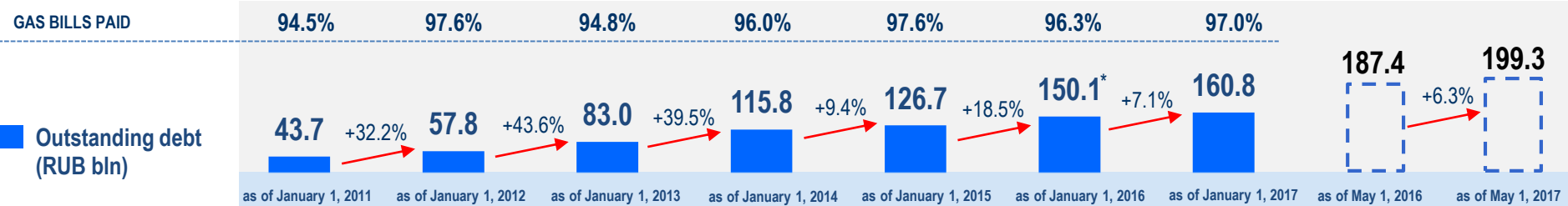
24,000 km of gas pipelines to be built

Conditions to be created in **3,500** population centers:

- for connecting over **600,000** households and apartments to gas lines
- for converting some **3,000** boiler houses, municipal, agroindustrial and industrial facilities to gas

Consumers' Debt to Gazprom Mezhrefiongaz Group

Gazprom's enhanced efforts to reduce debt and streamline regulatory framework helped slow down debt accumulation



Consumers' share in total debt (as of May 1, 2017)

Consumer Category	Share (%)	Gas bills paid		Outstanding debt as of May 1, 2017
		as of May 1, 2016	as of May 1, 2017	
Electricity industry	11%	97.9%	98.9% ↑	RUB 21.1 bln
Heat supply companies	35%	80.0%	84.2% ↑	RUB 70.4 bln
Public institutions	4%	85.7%	69.0% ↓	RUB 8.0 bln
Population	37%	85.6%	83.5% ↓	RUB 73.9 bln
Other consumers	13%	97.6%	97.0% ↓	RUB 26.0 bln

* Adjustment of outstanding debt against data provided in 2016 is mainly due to write-off of indebtedness that is impossible to recover in Republics of Ingushetia and Kabardino-Balkaria

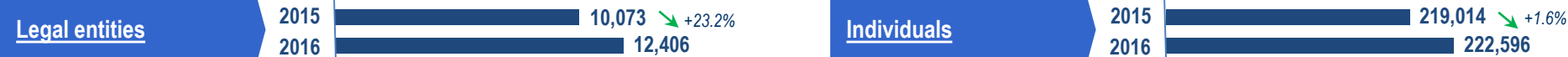
Measures Taken to Streamline Gas Supply Legislation

Several regulatory acts drawn up jointly with Gazprom came into effect in 2016–2017 with a view to strengthen financial discipline and make gas supplies more reliable

Regulatory Act	Improvements made
<p>Federal Law No. 307-FZ, dated November 3, 2015, on Making Amendments to Certain Legal Acts of Russian Federation for Enhancing Financial Discipline</p>	<ul style="list-style-type: none"> ▪ Increasing amount of penalties (fees) for improper fulfillment of payment obligations ▪ Consumer's duty to provide supplier with assurance of payment obligations (guarantee) ▪ Strengthening administrative liability for unauthorized connections (tie-ins) to gas supply networks, laying groundwork for criminalization of such activity ▪ Establishing administrative liability for violations of supply restrictions or shut-offs and for failure to provide financial guarantee
<p>Russian Government Directive No. 1245, dated November 25, 2016, on Procedure for Imposing Restrictions on Gas Delivery (Supply) and Offtake</p>	<ul style="list-style-type: none"> ▪ Lists of grounds for supply restrictions or shut-offs ▪ Procedure and timelines for sending notifications of restrictions to consumer, as well as cases when notifications are not required ▪ Incorporation of illicit (unsanctioned) gas offtake concept in gas supply rules
<p>Russian Government Directive No. 139, dated February 4, 2017, on Making Amendments to Certain Legal Acts of Russian Government Regarding Fulfillment of Energy Payment Obligations</p>	<ul style="list-style-type: none"> ▪ Criteria for establishing consumer's duty to provide gas supplier with assurance of payment obligations (guarantee) ▪ Procedures for determining such consumers and notifying them of need to provide assurance ▪ Procedure for listing consumers obliged to provide assurance (to be prepared by top executive of Russian constituent entity)
<p>Federal Law No. 412-FZ, dated December 5, 2016, on Making Amendments to Code of Administrative Offences and Certain Legal Acts of Russian Federation</p>	<ul style="list-style-type: none"> ▪ Imposing administrative sanctions on citizens for evading conclusion of agreements on maintenance and repair of gas equipment, or neglecting to replace gas equipment and to conclude agreements on gas equipment inspection, or refusing visits by representatives of specialized companies aimed at maintaining or repairing gas equipment
<p>Federal Law No. 269-FZ, dated July 3, 2016, on Making Amendments to Article 13 of Federal Law on Energy Saving and Energy Efficiency Improvement and on Making Amendments to Certain Legal Acts of Russian Federation</p>	<ul style="list-style-type: none"> ▪ Time limit during which gas supply and transmission companies should install gas metering devices in housing facilities is extended until January 1, 2019, for all homeowners who did not do so before January 1, 2015 (amendments made to Section 12, Article 13 of Federal Law No. 261-FZ on Energy Saving and Energy Efficiency Improvement and on Making Amendments to Certain Legal Acts of Russian Federation)

Measures Taken to Improve Financial Discipline in 2016

I. Restrictions on/shut-off of gas supply to non-payers



II. Claims

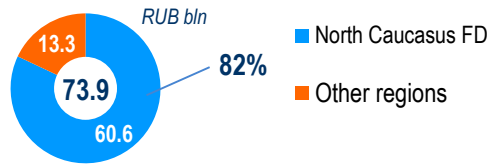
Legal measure	Number / Amount (RUB bln)	Legal entities		Individuals		Total	
		2015	2016	2015	2016	2015	2016
Claims (notices) sent to debtors	Number	145,100	137,800	6,435,000	7,486,700	6,580,100	7,624,600
	Amount	236.95	252.67	33.27	35.5	270.2	288.2
Claims filed against debtors and applications for issuance of court orders	Number	13,900	13,200	308,500	331,600	322,400	344,760
	Amount	92.6	83.47	6.6	7.6	99.2	91.1
Court rulings and judgments made	Number	11,500	11,500	245,400	266,600	257,000	278,100
	Amount	69.6	66.2	3.4	4.0	73.0	70.1
Debts recovered (following court rulings and claims)	Amount	67.4	80.4	5.0	6.4	72.5	86.8
incl. sanctions	Amount	0.6	1.5	0.023	0.034	0.7	1.5

III. Cooperation with law enforcement agencies in 2016

- 22,436 petitions on revealed offences in gas supply sector filed to law enforcement agencies
- 10,456 criminal and administrative proceedings initiated
- 8,473 court rulings made under Code of Administrative Offences and Criminal Code of Russian Federation
- 153 offenders prosecuted
- 18,143 instances of unsanctioned gas offtake revealed and terminated
- 611 companies struck with administrative and legal sanctions for non-payment
- 58 criminal proceedings initiated
- judgments made for 27 initiated proceedings
- 28 heads of defaulting companies sentenced
- 6 persons sentenced with 1 to 6 years of imprisonment

Measures to Improve Financial Discipline among Private Customers in North Caucasus FD

Share of North Caucasus FD in total debt owed by Russian population (as of May 1, 2017)



Payments made by Russian population



Payments made by Russian population (excluding North Caucasus FD)



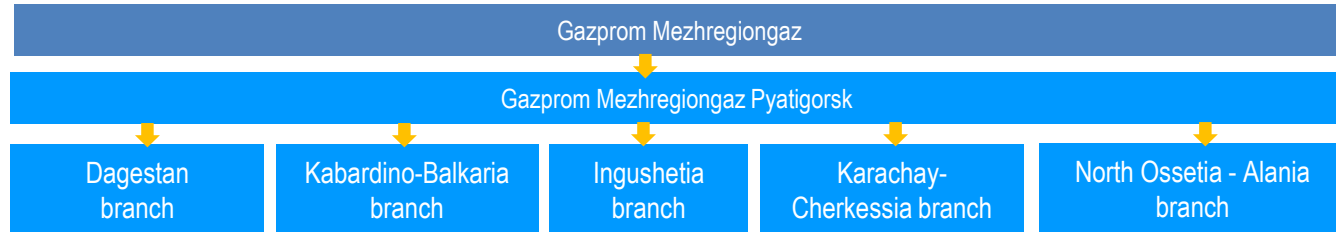
Payments made by North Caucasus population



I. Optimization of organizational structure

With a view to increase control over gas sales, 5 new regional gas marketing companies directly accountable to Gazprom Mezhregiongaz were set up in North Caucasus FD in 2016 and started functioning in 2017.

Before restructuring:



After restructuring:



Measures to Improve Financial Discipline among Private Customers in North Caucasus FD

II. Inventorying of customer bases

Additional **105 mln m³** of gas worth some **RUB 516 mln** supplied to customers in follow-up of measures aimed at enhancing credibility of customer databases. The measures continue in 2017.

III. Pilot project is currently underway in 32 population centers of four North Caucasus republics: installation of customer gas meters equipped with telemetry systems

Project is expected to reduce gas losses by **69 mln m³**

Project stages and number of gas meters to be installed

	Republic of Kabardino-Balkaria	Republic of North Ossetia-Alania	Republic of Dagestan	Republic of Ingushetia	Total per stage	Deadlines
1st stage	2,100	2,307	1,663	2,627	8,697	July 31, 2017
2nd stage	3,464	4,936	6,395	11,101	25,896	October 15, 2017
Regional total	5,564	7,243	8,058	13,728	34,593	

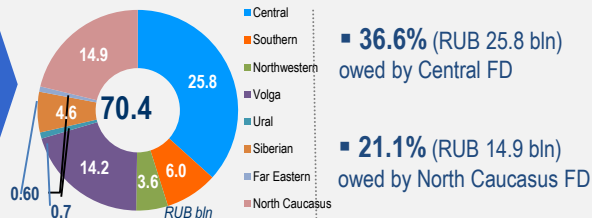
IV. Cooperation with law enforcement agencies

Company	Petitions filed to law enforcement agencies		No court ruling made		Petitions dismissed		Criminal/administrative proceedings initiated	
	2015	2016	2015	2016	2015	2016	2015	2016
Gazprom Mezhrefiongaz Pyatigorsk	15,992	16,583	5,880	7,319	1,302	1,553	46/7,967	104/6,168
Gazprom Mezhrefiongaz Grozny	1,058	1,073	332	350	30	52	28/668	45/583
Gazprom Mezhrefiongaz Stavropol	136	207	76	89	0	101	10/50	15/103
Total for North Caucasus FD:	17,186	17,863	6,288	7,758	1,332	1,706	84 / 8,685	164 / 6,854

Default in Payments by Heat Suppliers, Generating Companies, and Public Institutions

Heat supply companies

Outstanding debts of heat suppliers by federal districts (as of May 1, 2017)



Compliance with debt repayment schedules for heat supply companies by regions as of January 1, 2017

Debt repayment schedules in 2016:

- SIGNED with 24 regions for RUB 13.2 bln
- PERFORMED only by 34%
- RUB 3.3 bln out of RUB 9.7 bln repaid as of January 1, 2017

Regions that keep up with schedules

Kaliningrad Region	91.2%
Stavropol Territory	93.4%
Novgorod Region	124.2%

Regions that fail to comply with schedules

Republic of Kalmykia	0%
Pskov Region	0%
Orenburg Region	0%
Astrakhan Region	0%

Generating companies

Debts of TGC-2¹



Debts of T Plus (KES Holding)

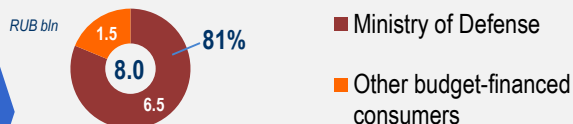


Debts of Tsentralnaya CHPP (Novokuznetsk)



Public institutions

Debts of Ministry of Defense entities² as of May 1, 2017



Debts of Ministry of Defense entities over time



Main Directorate for Housing & Utilities was dissolved on April 1, 2017. New entity of Russian Defense Ministry – Central Housing and Utility Directorate – was established.

Gazprom is interacting with federal executive authorities to achieve following goals:

- Transition to direct budget financing for gas supplies
- Separation of single government contract for natural gas from integrated government contract (for all types of energy resources)
- Introduction of monitoring system enabling Russian Government to ensure that Ministry of Defense receives budget funds for gas payments in full, on time and as intended

¹Including debts of Tver-based companies set up by TGC-2

²Maintenance and Repair Directorate and Main Directorate for Housing & Utilities

Gazprom continues to cooperate with authorities to streamline gas supply legislation

Initiative	Required regulatory act	Status
Introduction of system for signing direct agreements with users of public utility services	Draft of Federal Law on Making Amendments to Housing Code and Certain Legal Acts of Russian Federation	Proposals were submitted to Russian Ministry of Construction. Ministry of Construction prepared draft federal law taking into account Gazprom's proposals. Draft law was passed on to Executive Office of Russian Government in late December 2016. Finalization is underway.
Criminalization of unsanctioned connections to gas pipelines (Section 215.3 of Criminal Code of Russian Federation)	Draft of Federal Law on Making Amendments to Criminal Code and Criminal Procedure Code of Russian Federation	Proposals were submitted to State Duma. Draft Law No. 117982-7 On Making Amendments to Criminal Code and Criminal Procedure Code of Russian Federation was passed on to relevant committee of State Duma on March 10, 2017. Draft law was sent back for improvement in compliance with Russian Constitution and State Duma Regulations.
Enhancing transparency of procedure for establishing connections to gas distribution networks, cutting down costs for connecting structures to gas distribution networks, shortening timelines for establishing technological connections to gas distribution networks	Amendments to Russian Government Directive No.1314, dated December 30, 2013, Concerning Rules for Connection (Technological Connection) of Structures to Gas Distribution Networks, as well as on Updating and Revocation of Certain Legal Acts of Russian Federation	Proposals were submitted to Russian Ministries of Construction and Energy. Cooperation with Ministry of Construction, Ministry of Energy, as well as with Executive Office of Russian Government is in process. On May 12, 2017, proposals were forwarded to Department of Industry and Infrastructure of Russian Government to address draft Directive of Russian Government on Making Amendments to Certain Legal Acts of Russian Government with regard to standardization of procedures and timelines for connecting structures to gas distribution networks.
<p>Authorizing gas suppliers to provide consumers with supplier-owned gas meters and additional seals</p> <p>Streamlining of procedure for sending notices on temporary shut-off of gas supply (delivery) to non-payers</p>	Draft Directive of Russian Government on Making Amendments to Directive of Russian Government No. 549, dated July 21, 2008, on Procedure for Supplying Gas for Public and Household Use	Proposals were submitted to Russian Ministry of Energy. Work is underway to prepare application and develop draft Directive of Russian Government authorizing gas suppliers to provide consumers with supplier-owned gas meters and promoting preferential use of gas meters to calculate amounts of consumed gas.

THANK YOU FOR YOUR ATTENTION!