

**Press Conference Background**  
**GAS SUPPLY TO DOMESTIC MARKET. EXECUTING RUSSIAN REGIONS**  
**GASIFICATION PROGRAM**  
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**GAS SUPPLY TO DOMESTIC MARKET**

Gazprom Group is the largest gas supplier to the domestic market and operates exclusively in its regulated segment. In 2012 Gazprom Group's share in the domestic gas market accounted for 73.1 per cent.

At present, independent producers have more favorable conditions for gas sales to domestic consumers and this results in an increase of their Russian market share. The bulk of their gas is sold in the non-regulated sector to solvent industrial consumers in the Russian constituent entities close to production areas. In 2012 the average distance of gas transmission by Gazprom Group exceeded by over 1.8-fold that of independent producers. At the same time, Gazprom is responsible for uninterrupted and failsafe supply to all Russian consumers irrelevant of their location and industry affiliation.

In 2012 Gazprom Group sold 249.7 billion cubic meters of gas – a 5.9 per cent fall versus 2011 (265.3 billion cubic meters). Gazprom's proceeds from gas sales in Russia (net of VAT and excise duty) reached RUB 740.3 billion in 2012 surpassing the 2011 level by 2.4 per cent. Gazprom's average gas sales price rose by 8.8 per cent in 2012 to RUB 2,964.2 per 1,000 cubic meters.

Last year Gazprom Mezhrefiongaz Group sold 291.2 billion cubic meters of Gazprom and other suppliers' gas, which is 5.1 per cent less as compared to the 2011 level. 31.9 billion cubic meters was sold in 2012 at the prices set in the Russian Government's Directive No. 333 (dated May 28, 2007) – an 18.1 per cent rise versus 2011 (2013 target – 33.8 billion cubic meters). The socially significant consumer groups – population, utilities and budget-financed companies – were supplied with 82.9 billion cubic meters of gas, which is 3 per cent less as compared to the last year.

The gas sales decrease in 2012 is mostly explained by the growth of gas deliveries by the independent suppliers and the cessation of gas deliveries by Gazprom Mezhrefiongaz Group to the Chelyabinsk Region consumers.

On the back of an increasing gas market share of the independent producers and a number of factors limiting Gazprom's competitive abilities, the Company takes a set of measures aimed at retaining and strengthening its positions in the domestic market. These include purchasing gas from the independent producers for on-selling in the Russian market, developing gas supply to and gasification of the Far Eastern and Eastern Siberian regions as well as executing the Russian Regions Gasification Program for the sake of the steady annual growth of gas consumption by households and utilities.

For the purpose of developing the gas market and increasing natural gas sales Gazprom carries out the work to connect new customers to gas networks and further tap into the Far Eastern regions. In 2012 natural gas sales to consumers in the Far Eastern Federal District surpassed 1.3 billion cubic meters.

Gazprom and Mezhhregiongaz joined efforts to update projected gas consumption in the Far Eastern Federal District: by 2030 a total of 22.5 billion cubic meters of gas is expected to be annually consumed in the Khabarovsk, Kamchatka and Primorye Territories, the Jewish Autonomous, Sakhalin and Amur Regions as well as southern territories of the Republic of Sakha (Yakutia).

The 2012–2015 Gas Supply and Gasification Programs were developed and approved for the Primorye, Kamchatka and Khabarovsk Territories. The 2010–2014 Gasification Program was endorsed for the Sakhalin Region.

## **EXECUTING RUSSIAN REGIONS GASIFICATION PROGRAM**

Gazprom's priority in developing the domestic gas market is gasification of and gas supply to Russia's regions. From 2005 the functions of the investor, coordinator and organizer of Russian regions gasification programs were entrusted to Gazprom Mezhhregiongaz.

Between 2005 and 2012 some RUB 180 billion was allocated under the Gasification Program, excluding over RUB 100 billion channeled by Gazprom for the construction of gas branches and gas distribution stations being an integral part of the regional gasification process.

Gazprom meets its obligations in full. Last year 235 inter-settlement gas pipelines stretching for more than 3,380 kilometers were constructed in 40 Russian constituent entities, including 7 inter-settlement gas pipelines built ahead of schedule in five Russian constituents (Penza, Orel and Rostov Regions, Republics of Bashkortostan and Mari El). Considering the consumer preparation obligations met by the authorities of Russian constituents, gas was supplied to a

further 54 thousand apartments and households in 429 population centers, with 473 boiler houses switched to natural gas.

Overall, during the last eight years 1,527 inter-settlement gas pipelines with a total length of 22 thousand kilometers were constructed and gas reached 3,623 boiler houses, 600 thousand apartments and households in 2,953 population centers.

As a result of the Russian Regions Gasification Program executed between 2005 and 2012, Russia's average gasification level increased from 53.3 to 64.4 per cent, including from 60 to 70.1 per cent in cities & towns and from 34.8 to 53.1 per cent in the rural area.

Provided that the regional authorities meet their obligations, by early 2014 Russia's average gasification level may increase to 65.3 per cent, reaching 70.9 per cent in cities & towns and 54 per cent in the rural area.

By now, the authorities of only 11 out of 40 regions with gas facilities constructed in 2012 fulfilled their consumer preparation obligations fully in line with synchronization schedules for gasification programs. In 14 regions the authorities are behind these schedules.

In some regions (Bryansk, Vladimir, Volgograd, Vologda, Kaluga, Leningrad, Orel, Rostov, Smolensk and Ulyanovsk Regions, Krasnodar and Stavropol Territories, Republics of Adygea and Dagestan) the authorities did not meet their obligations in 2012. Moreover, the Leningrad and Volgograd Regions, the Republics of Dagestan and Adygea as well as the Krasnodar Territory also failed to meet their obligations in the previous years.

In 2012 it was initially planned to earmark RUB 37 billion 660 million for the Russian Regions Gasification Program. However, taking into account the progress made by the regional authorities in meeting their consumer preparation obligations and the situations with gas debt repayments by the regions, last October the decision was made to adjust the amount of financing to RUB 33 billion 756 million and redistribute investments.

In 2013 it is planned to invest RUB 33 billion 400 million into the Gasification Program. In order to boost the regional NGV markets, from 2013 Gazprom includes projects for the construction of CNG filling stations and conversion of motor vehicles to gas into the Program. In 2013 RUB 1 billion is earmarked for these purposes.

The adjustment of the Gasification Program based on the 2013 half year results, the redistribution of investments and the allocation of funds for the future directly depend on how the regional authorities meet their obligations in respect of consumer preparation for gas supply and on the situation with gas debts in the regions.

The total debt of all consumer groups to Gazprom Mezhregiongaz for the fuel supplied in 2012 increased by RUB 45.7 billion versus 2011 to RUB 143 billion. The overdue debt grew by RUB 25.3 billion to RUB 83.1 billion.

The bulk of the total debt is owed by such consumer groups as utility companies – RUB 43.1 billion (30 per cent of the debt) and the population – RUB 53.1 billion (37 per cent). In 2012 the total debt of these consumer groups grew by RUB 25.4 billion, which is 56 per cent of the overall growth.

2012 saw a downfall of gas payments from utility companies across Russia – by 7 per cent to 88 per cent. The situation worsened considerably in nine regions (Bryansk, Penza, Tver, Novgorod, Astrakhan, Vladimir, Arkhangelsk, Moscow and Volgograd Regions). Meanwhile, the situation significantly improved in the Tomsk, Smolensk, Omsk Regions, the Republics of Ingushetia and Karachay-Cherkessia.

The level of gas payments from the population reached 95 per cent in 2012, which is 3 per cent higher than the 2011 indicator. The North Caucasian Federal District had the worst result again – 77.4 per cent. However, this figure is 10 per cent higher than in 2011 due to a distinct upward trend shown in 2012 by the majority of the North Caucasian Federal District constituents. In particular, gas payments from the population of the Chechen Republic grew by 23.4 per cent to 65.5 per cent. The overall situation also improved in the regions of the Southern (97 per cent in 2012 versus 93.2 per cent in 2011), Urals (100.1 per cent in 2012 versus 97.4 per cent in 2011) and Volga (99.8 per cent in 2012 versus 96.4 per cent in 2011) Federal Districts. The Northwestern and Siberian Federal Districts maintained a steadily high level of payments – 99 per cent in 2012 versus 99.1 per cent in 2011 and 96.6 per cent in 2012 versus 97.4 per cent in 2011 accordingly. Nevertheless, a number of the Central Federal District regions, including Moscow and the Moscow Region, traditionally having a high level of gas payments from the population showed a downward trend in 2012. As a result, the general payment level in the Central Federal District decreased from 98.8 per cent to 96.3 per cent.

Gazprom Mezhregiongaz Group takes various actions to recover gas debts. Claim-related work is in full swing. In 2012 Gazprom Mezhregiongaz Group filed claims against debtors in the amount of RUB 74.8 billion. Legal actions worth RUB 43 billion were initiated. Court rulings were made in respect of RUB 36.6 billion. As a result of the enforcement procedures RUB 28.2 billion was collected.

Last year 160 thousand gas debtors were disconnected from supply. 13.2 thousand cases of illegal gas offtakes in the amount exceeding RUB 408 million were detected and prevented.

5.7 thousand requests were directed to law enforcement bodies with regard to the imposition of sanctions against offenders. Over 3.9 thousand criminal and administrative cases were filed and RUB 85 million was indemnified.