Press Conference

Gas Supply to Domestic Market.

Executing Russian Regions Gasification Program

May 28, 2013

Moderator: Good day, dear colleagues. The topic of our press conference today is gas supplies to the domestic market and gasification of Russian regions. The participant of the Press Conference is Kirill Seleznev – Member of the Management Committee – Head of the Gas and Liquid Hydrocarbons Marketing and Processing Department of Gazprom, Director General of Gazprom Mezhregiongaz. Mr. Seleznev, I am yielding the floor to you right away. We will leave all the questions for later. You are welcome.

Kirill Seleznev: Good afternoon, dear colleagues. I suggest that we arrange the Press Conference in our traditional way: first, I will give you some information on the slides and comment on them and after that we will dedicate the most of our time to the questions that you undoubtedly have.

(Slide 2) So, let us start with gas supply to the domestic market. In 2012 Gazprom delivered 249.7 billion cubic meters of gas from its resources to Russian consumers. It is 5.9 per cent less than in 2011, in 2011 the respective figure totaled 265.3 billion cubic meters. Our main consumer is power industry (it accounts for 27.6 per cent), population and utility sector come second.

(Slide 3) The Gazprom Group proceeds from gas sales in Russia grew by 2.4 per cent versus 2011 and came to RUB 740.3 billion.

(Slide 4) In 2012 the average gas sales price in the domestic market also rose by RUB 238.8 to RUB 2,964.2 per 1,000 cubic meters versus 2011 accordingly.

(Slide 5) In 2012 the Gazprom Group share in the domestic market made up 73.1 per cent. You may see the decline in comparison with 2011, which is caused by the growth in the market share of independent gas producers, mainly in the Chelyabinsk Region. Independent producers also deliver a rather large volume of gas to the consumers in the Kostroma Region. Nevertheless, the yearly pattern shows that the share of Gazprom Group remains more or less unchanged.

(Slide 6) We are also taking a set of measures to increase the market share. Apart from gasification which I'll address a bit later, we are developing new markets, mostly in the Far East and Eastern Siberia. The slide shows that the aggregate annual consumption volume may exceed 22 billion cubic meters of gas in these regions by 2030.

(Slide 7) In 2012 Gazprom Mezhregiongaz Group sold 291.2 billion cubic meters of gas from Gazprom and other producers, which is 5.1 per cent less compared to 2011, including 31.9 billion cubic meters sold at prices set in the Russian Government's Directive No. 333. The volume of gas sold pursuant to the Government's Directive No. 333 is also steadily growing. We observe this trend and we suppose it will also persist.

(Slide 8) Some words about accounts receivable. In 2012 the total accounts receivable of ultimate consumers to Gazprom grew by 47 per cent versus 2011. Of course, such figures do not please us. A bit later I will tell you about the measures we are taking and about the reasons for the accounts receivable.

(Slide 9) In 2012 Gazprom delivered 82.9 billion cubic meters of gas to socially significant population groups; total payments decreased to 91.7 per cent in 2012 versus 93.8 per cent in 2011. Payments by utility companies decreased to 88 per cent in 2012.

(Slide 10) Some words about the regions with considerably declined payment level. Such regions are represented on this slide. The Bryansk, Tver, Novgorod, Astrakhan, Vladimir and Moscow Regions are among the 'leaders'. The debt of the Moscow Region utility companies has grown by RUB 4 billion during the recent month or two alone.

(Slide 11) The regions with significantly improved payment level are shown on this slide. Among them are the Tomsk Region, Ingushetia, the Republic of Karachay-Cherkessia, the Smolensk and Omsk Regions.

(Slide 12) In 2012 the level of gas payments by population reached 95 per cent, which is 3 per cent higher than the 2011 indicator. This slide features the regions both with best and worst payment trends. I would like to draw your attention to the Republic of Chechnya, which is among the regions with the best payment trends due to close cooperation with the Government of the Republic. We managed to come to rather a high level of gas payments by population – the growth in 2012 totaled 23.4 per cent. The same can be said about the utility companies in the Republic of Chechnya. Work is conducted with the Government of the Republic, which allowed us to bring the efficiency to the new level of quality in 2012.

(Slide 13) Now let me say some words about the reasons for debt. Certainly, they are not new. The main reason is the existence of intermediaries represented by managing companies in the chain of payments for heat by population. There are also problems related to the existence of unfair boiler house operators using leased property. As a rule, it is municipal property that is leased out. Having completed the season, these companies cease to exist.

I can't but mention the economically unjustified heat rates. Today in a number of regions the existing rates do not cover the expenditures on heat production and repairs. It is certainly affects the payments, too.

In addition, the problem of limiting persistent non-payers also presents itself today. A certain number of restrictions concerning the gas shutoff for non-payment are imposed on us. I will dwell on the subject a bit later. The work of court bailiffs also leaves much to be desired, because currently the efficiency of gas debt recovery by court bailiffs remains on an extremely low level.

(Slide 14) The slide shows the activities we performed in 2012 to handle the problem of consumers' gas debt. The figures speak for themselves. Claims were filed in the amount of RUB 74.8 billion, legal actions were initiated in the amount of RUB 43 billion, court rulings were made, please, consider this, in respect of RUB 36.6 billion, which is almost two times less, and debts were recovered in the amount of just RUB 28.2 billion. Gas debtors disconnected 160 thousand people from supply. The rest of the figures on the slide also speak for themselves.

(Slide 15) Now let me say some words about the Russian Regions Gasification Program. In 2012 the volume of investments amounted to RUB 33.8 billion, and total investments in the previous years equaled some RUB 190 billion. I would like to draw your attention to the fact that over 90 per cent of this sum, namely around RUB 180 billion, falls within 2005 to 2012.

(Slide 16) You know that traditionally we have the differentiation of obligations with the Russian Federation constituents we gasify. Gazprom commits itself to constructing intra-settlement gas pipelines and fulfills its obligations to the full. As for the Regional Administrations, they committed themselves to preparing consumers for gasification. This slide shows the regions where the obligations are executed behind the schedule.

(Slide 17) Some regions completely failed to meet their obligations in 2012. Please, also pay your attention that there are certain 'leaders', such as the Volgograd Region, the Krasnodar Territory, and the Leningrad Region, that have not been meeting their obligations almost since the start of the Gasification Program, that is since 2006.

(Slide 18) Just some words about the 2013 Gasification Program. The investments are provided for in the amount of RUB 33.4 billion, including RUB 27.8 billion for the construction of gas distribution networks, gas pipelines and branches and GDSs in 68 Russian constituents. The slide demonstrates investment distribution.

(Slide 19) The 2013 Gasification Program is totally worked out. This slide represents the regions with the highest gas debts and failed obligations under the 2005 to 2012 gasification programs.

(Slide 20) And I will dwell on the projected level of gasification based on Russian Regions Gasification Program results in 2012 and 2013. I will stress it, provided that Regional Administrations meet their obligations, the average gasification level in Russia by early 2014 may reach 65.3 per cent. This slide shows the gasification levels in towns & cities as well as rural areas. You may observe the trend – what our pace is and what we aspire to in terms of implementing our Program. That's all I wanted to say. Thank you for your attention. I am ready to answer your questions.

Question: Lyudmila Kovalevskaya, Stavropolskaya Pravda newspaper. In fact, I have a question concerning debt. It is growing, as you have said. Heat suppliers pay for gas residually. But is it possible or is it planned to amend the legislation in a way that the gas component could get straight to the bank account of resource providers in the first place? What can be done for this?

Kirill Seleznev: There is no doubt that this question concerns not only the Stavropol Territory but the issue of heat supply as a whole. As I have already mentioned in my presentation, the main reasons for debts in utility companies, mostly heat suppliers, are the existence of managing companies, intermediaries in the chain of payments and other factors. In our opinion, it is certain that eliminating such intermediaries and 'splitting' the payments extracting the gas component will help normalize the situation. Because, according to our data, the population pays for heat for sure. Not 100 per cent, of course, but anyway it is not the amount we get for the resource delivered to heat suppliers.

We are dealing with the subject, but the situation has to be changed on the legislation level. In some regions this problem is more balanced, in others, like in the Stavropol Territory or the Moscow

Region there are discrepancies related to the existence of such intermediaries. And I will not try to paper over it, there are certain local improperties, or embezzlement, to put it simply. And this is the set of questions we have been working on, we are working on now and I think we'll be working on further.

Question: TV-7 channel, Lyudmila Alexeeva, the Vologda Region. The current situation in our Region is such that the Administration talks a lot about gasifying the north-western districts. However, the natural gas debt currently exceeds RUB 1.5 billion, as of May 1. What are the chances of consumers in Vologda to have gas delivered to the remote areas?

Kirill Seleznev: Of course, there is a problem of the northern Vologda Region gasification but you answered your question yourself. The Vologda Region has no chances for such gasification due to the debt exceeding RUB 1.5 billion. To deliver gas to northern districts a gas branch from the Kirillovo GDS is to be constructed. We were planning to construct this gas pipeline branch but considering the current debt and failure to prepare the consumers in compliance with the schedule we suspended the work long ago.

That's why the ball is on the side of the Regional Administration. Once we observe the positive trend and see that this debt will be decreased as well as that the preparation of consumers will fit in the planned figures we signed with the Administration – then we will be ready to get back to considering the construction of this gas pipeline branch from the Kirillovo GDS.

Question: Good afternoon. Anastasia Novikova, Komsomolskaya Pravda newspaper. Please, tell us about the Omsk Region gasification plans for the nearest future. Thank you.

Kirill Seleznev: Of course, there are certain plans concerning the Omsk Region gasification, and the total of RUB 662 million was allocated to regional gasification. The overdue debt amounts to RUB 283 million. Therefore, we set the minimum amount of investments for 2013, that is RUB 10 million to start and go on with front-end engineering and design. Once the overdue debt is repaid, we will be ready to increase the volume of investments.

In July and August we will be summing up the results of the Gasification Program in the first half of 2013 and based on these results we will be able to increase the volume of the Omsk Region financing. But we really need the overdue accounts receivable to be repaid.

Question: Vyacheslav Sukhanov, Kommersant Prikamye newspaper. Mr. Seleznev, last year I asked you a question about Gazprom Mezhregiongaz Perm – if you were going to sell it or not. Back then you said that the company hadn't reduced its share in the market below 50 per cent yet. As a result of 2012 Uralkaliy was lost, and my guess is that now it is already somewhat less than 50 per cent. That's why my question remains the same – it is the first thing.

And the second one. In 2013 Gazprom planned to spend considerable sums on constructing gas pipelines in the Perm Territory, increasing the yearly investments manifold and addressed a proposal to the Perm Territory Legislative Assembly to be granted a property tax benefit, which is RUB 500 million in 2013. The deputies have already rejected it two times. Could you comment on the subject, please?

Kirill Seleznev: I'll start with your first question. We do not set ourselves a goal to implement our regional campaigns if the market share falls lower than 50 per cent. It all depends on the efficiency of gas sales in the region. If the balance is positive, we go on. There is no doubt you know that in the Chelyabinsk Region our consumers are represented only by population and utility companies as well as some small industrial consumers. Therefore, the balance of gas sales in the Region turned out negative and a decision was made to sell the regional company. Despite the competition with independent producers, we are doing fine in the Perm Territory. That's why we are not planning to sell the regional company. The answer is the same as the last year: no.

As for the second question, this is what I can say. We appealed not only to the Legislative Assembly of your Region, but to other regions as well asking to be granted a property tax benefit. The reason being that the construction of new gasification facilities causes the additional property tax. It can't but affect the rates and the consumers. A situation arises when a transmission rate for an ordinary consumer becomes too high and very difficult to pay out. Therefore we appeal to the regional authorities to grant us this benefit only with the purpose of reducing this component in the rate for the ultimate consumer. We were denied, but we will continue this work and clarify our position so that finally our consumers could receive gas at optimal prices.

Question: Mikhail Konyshev, Vyatka State Television and Radio Broadcasting Company, Kirov. I have two questions; I'll try to frame them at once. At the moment gas is being actively used as a motor fuel. Will an issue arise of investing into the Region depending on the process of expanding natural gas use as a motor fuel? This is my first question. Here's the second one: do the investments into the regional gasification depend on the debt?

Kirill Seleznev: I will start with the second question. Of course, they do. If debts exist, we reconsider not only gasification but NGV fuel volumes as well. We will reconsider our plans for constructing this or that sports facility. You know, Gazprom executes rather an extensive program for developing social and sports infrastructure in Russian regions. This set of issues is connected to the amount of payments for the supplied gas. In terms of gasification, it is supplemented by the regional necessity to prepare the consumers for receiving gas in good time.

Today the debt of the Kirov Region for the supplied gas exceeds RUB 200 million. Nevertheless, it is planned to allocate RUB 300 million to gasification in 2013. We are completing the gasification facilities we have already started constructing. We do not want to kill the construction in progress. If this debt remains, the program will be amended in a way that the investments into gasification will be considerably cut down.

As for the NGV fuel, it was a right question to ask. We are really engaged in developing NGV fuel, we think it underpins further development of the Russian gas market. We suppose that very large amounts can be spent on the NGV fuel. That's why the investments will be allocated with no doubt. But as I have already mentioned, here it is also necessary to submit to the payment discipline at first place.

Question: Oksana Samborskaya, vslukh.ru, the Tyumen Region. I didn't find us in the list of debtors. It means our payments are OK. In this context, will the investments into regional gasification grow somehow, namely into Yamal, Khanty-Mansiysk and Tyumen? Frankly speaking, our feelings are hurt a bit as most gas is produced in our area, but the rate of gasification is rather shy. Is there anything that will be done about it, what are the plans for the nearest future?

Kirill Seleznev: From 2005 to 2012 we allocated over RUB 1 billion 600 million to the Tyumen Region gasification. The volume is rather high. In 2012 the volume of investments totaled RUB 313 million, in 2013 it remained almost the same, namely RUB 300 million. However, the overdue accounts receivable reached RUB 202 million, that is why the question is with us. We may return to adjusting the number 300 for 2013 in July or August both upwards, in case there is no debt, or downwards.

The situation is the same as with all other regions. The level of the Tyumen Region gasification is really not too high (compared to that across Russia as a whole) and totals some 35 per cent. But there are also some regional peculiarities including those related to the population concentration. We are considering all these issues jointly with the regional executives. The money is being systematically allocated. We will go on working.

Question: Sovetskaya Chuvashia newspaper, Lyudmila Arzamasova. Today our Republic was not mentioned either among the leaders or underachievers. However, the issues of Chuvashia Zavolzhye gasification are being seriously considered in detail at meetings between the Head of our Region and Gazprom's executives. In this context, Mr. Seleznev, could you, please, tell us whether the Chuvashia Zavolzhye gasification will be included into the final gasification program for 2014. Thank you.

Kirill Seleznev: Chuvashia has traditionally been and is now among the leaders both in gas payments and consumer preparation. But in 2013 this trend carries a certain tinge of negativity: today the debt for supplied gas exceeds RUB 500 million. From year to year we have been rather consistent in allocating investments, but this year, in 2013 we allocated only RUB 87 million to complete the gasification facilities under construction. The level of gasification in Chuvashia is 96.8 per cent in towns and cities, about 60 per cent in rural areas and 84 per cent total. Compared to the level across Russia it is a decent figure. We have plans concerning further gasification and gas supply but we also need the good will of regional executives in the form of debt recovery and consumer preparation.

Moderator: I will ask you a question we received via Internet. Gazprom has recently acquired a stake in Rostovoblgaz. Should the minority shareholders of Rostovoblgaz be ready for Gazprom's buyout offer?

Kirill Seleznev: No, they should not.

Question: Anna Shiryaevskaya, Bloomberg. I have a question on the market share. According to your forecasts, what share may Gazprom occupy in the domestic market this year and in the long view through to 2020 with the account of an increasingly competitive environment? This is my first question.

And the second one: could you, please, name some major industrial consumers with whom long-term contracts expire this year and with which of them you have already started talks on their prolonging? Thank you.

Kirill Seleznev: Thank you for your questions. Answering your first question, I can say that we are sure that Gazprom's market share will be around 75 per cent 'give-or-take' through to 2020. The market share that will be transferred to independent producers will be balanced out, firstly, by creating new consumers owing to the gasification program, secondly, by enhancing gas consumption in Eastern Siberia and the Far East where it will be considerably growing through to 2020. That is why I think that the share of Gazprom's gas in the domestic market may possibly keep growing through to 2020.

As for your second question, I can say that we are working with all our consumers. With some of the consumers the long-term contracts expire in 2017, with others we do some work and offer them two types of contracts: a one-year contract under the existing terms and conditions and a long-term one. So, this work is in progress now and depending on consumer preferences we are in a flexible liaison with them for discussing these terms and offering the most convenient ones.

Question: Denis Pinchuk, Reuters. Mr. Seleznev, did I get it right that this year you were planning to increase your stake a bit and maintain it on the level of 75 per cent? This is the first question.

The second question is what is your forecast concerning gas purchases this year from independent suppliers, NOVATEK, in particular, if it is possible, compared to the last year?

And my third question. The Government has recently stated that gas price indexation this year and the following one most likely will be less than the planned 15 per cent. What is currently being discussed and what are your forecasts in respect of indexation? Thank you.

Kirill Seleznev: I wouldn't say we were planning to stick to those 75 per cent. It may be more, it may be less. This is a mobile work that we perform not only during the contractual campaign but also in the real-time mode, we are in a constant liaison with all of our consumers. The level we are on today will not decrease. In my opinion, it will be gradually increasing. I have already voiced the reasons, too.

Answering your second question, the volume of gas purchased from independent producers, as I remember it, amounted to some 25 billion cubic meters in 2012. In 2013 we reduced the volume of purchases from independent producers to 13 billion cubic meters of gas, I think. Further on everything will depend on the situation and the talks we will hold with independent producers. It is connected with gas balance, at first place.

As for the growth of price indexation, I suppose that Elena Karpel, Head of the Pricing and Economic Expert Analysis Department of Gazprom will answer this question in a more detailed and professional way. This is more a question of financial and economic orientation. Thank you.

Question: Olga Dedyaeva, Interfax. Mr. Seleznev, my question is the following: will Gazprom offer the minority shareholders of gas distribution organizations engaged in the deal with Rosneftegaz to buy out their shares and does the Group have such an obligation as a result of the federal deal?

And my second question is: NOVATEK has recently concluded a gas supply contract with Mosenergo. Are similar contracts between NOVATEK and Gazprom's subsidiaries expected in the nearest future? In case they are, for what term and volumes and when may it happen?

Kirill Seleznev: As for the first question, I believe Elena Mikhailova, Member of the Management Committee, Head of the Asset Management and Corporate Relations Department of Gazprom would answer it in a more professional way. As far as I know, Gazprom is not planning to submit an offer and there are no respective obligations related to this federal deal.

As for the contract with Mosenergo, the situation is the following: right now our generating companies are not planning to conclude any contracts with independent producers. Currently all the contracts have been signed but we have 2014 lying ahead with the 2014 balance both of Gazprom and independent producers. That is why we will see how it goes. We are open for proposals.

Question: Nadezhda Sladkova, Energy Intelligence Group, Neftekompas magazine. Mr. Seleznev, going back to the price issue, is there any forecasted price for this year? In your presentation there are prices for previous years. This is the first question.

And what happened to the concept of equally profitable prices? Do you account for this concept within your programs? Thank you.

Kirill Seleznev: Of course, we account for this concept. As for what happened – I'd better not comment on the decisions of our country's authorities. The economic model we will exist in depends on the decisions that will be made. There is no doubt that we are committed to the concept of equally profitable prices, making certain plans related to boosting our economy when supplying gas to the domestic market. But you know it perfectly well that there is socio-economic development of the country, inflation and all those things are interrelated with gas prices. Decreasing coefficients have been applied to the equally profitable price formula not once, that's why we'll be waiting for the Russian Government's decisions and implementing them.

Nadezhda Sladkova: Returning to the first question: this year's forecasted price. We can see the prices up to 2012. Is there any forecast for this year though?

Kirill Seleznev: I will not comment upon this either. Our activities will depend on the decision made.

Question: Tribuna newspaper, Rustem Tell. The issue of growing consumer gas debt is on your agenda every year – at the meetings of the Management Committee and the Board of Directors, in the media. As I see it, your leverage is rather limited. Firstly, it is work with the regions concerning joint gasification projects and the responsibility of each region, and secondly – it is reducing investments. Do you see the need of new legislative provisions to bring this problem to the governmental level and therefore handle it in a more efficient way? Thank you.

Kirill Seleznev: Of course, we are tackling this issue. On the governmental level we see the need for bringing in an obligation to abolish the managing companies so that the payments for supplied resources would be directed straightly to resource providers. Regional rates should also be balanced out but this is under the power of Russian constituents. In addition, the work should be improved for filing claims and putting them into action.

Unfortunately, at the moment not all of these activities lead to the result we aspire to. We are also rather constrained in terms of limiting the consumers in case there is debt for the supplied gas. We are looking into this issue jointly with law enforcement authorities and prosecution service to facilitate the introduction of these measures. But today we still remain in the same configuration we were before.

As you might know, Viktor Zubkov, Chairman of the Gazprom Board of Directors held a meeting in spring related to the growing debt of utility companies. But I can say that in the recent months the Moscow Region, for example, has not reduced the debt but increased it to RUB 4 billion.

Question: Elena Khodyakova, Vedomosti newspaper. Good afternoon. A little clarification question. You mentioned the 75 per cent market share – and what are the absolute volumes? I'd like to hear concrete numbers. And the slide representing the gas sales forecast for 2013 includes a clarification note – in case of a 15 per cent price increase. But what if the price increase is less? Will there be any adjustments to the investment program and if the case is such, what will they be?

Kirill Seleznev: What investment program do you mean? A distinction should be made in the context of investments. There is the Russian Regions Gasification Program. If the gas price changes, the Program remains unchanged. These are the figures we have already approved. We see how these funds will be gained and directed to gasification. As for the 75 per cent market share, it is difficult to name the absolute figures for sure, but we plan to keep up this level and we think it will be maintained and even grow through to 2020.

Until 2020 we are planning the consumption growth in the amount of 22 billion cubic meters of natural gas in the Far East. It is about 7 per cent of current gas sales by Gazprom Mezhregiongaz Group. Market growth will depend on the economic situation in the country, how consumers progress, how large- and small-scale production develops. It is rather difficult to make forecasts in the present situation.

Question: Molodoy Kommunar newspaper, Voronezh, Alexander Saubanov. In the past season it happened so that in the Voronezh Region the main scope of gasification work was done in winter. I would like to know if there was similar experience before. How unique is it for mid-latitudes?

Kirill Seleznev: I wouldn't call it a unique experience. The work we performed was done in compliance with the schedule and, if I recall it right, we commissioned two gasification facilities in the Voronezh Region ahead of the schedule. We had to make it before the start of the heating season, but we finished them between mid- and late October. That is why I wouldn't call it a unique experience. It was work in a calm normal mode.

Question: Tula State Television and Radio Broadcasting Company, Sophia Gafarova. Our Region has not been mentioned for a year – either among the best ones or the worst ones. Does this suggest stability and how will it affect the development of gasification?

Kirill Seleznev: We do allocate around RUB 300 million a year to gasify this region. Some time ago the Tula Region had a big problem of preparing consumers. Today the problem of preparing consumers is not totally resolved, I would say, but we see that currently it shows a positive momentum. RUB 300 million was allocated for 2013. Judging by the results of the Gasification Program in the first half year, we will make decisions. But right now I do not see any reasons for the deterioration of the situation with investing into the Tula Region gasification.

Question: Dmitry Kholostov, Vesti-Peterburg newspaper. Mr. Seleznev, with the account of the problems related to meeting the synchronization schedule in the Leningrad Region, I would like to ask you, what is there for the Leningrad Region this year and if Gazprom does invest into its gasification, how the problems will be solved with the Luga, Priozersk and Vyborg Districts? Thank you.

Kirill Seleznev: As for the Luga and Priozersk Districts, I believe 11 gasification facilities are to be constructed. This year we are to commission two facilities in the Luga District and several facilities in the Vsevolzhsk District. The Leningrad Region is traditionally among the underachievers both in terms of debt and the commitments. The overdue debt of the Leningrad Region is a bit less than RUB 1 billion now. And since 2006 there has been a considerable underrun – you could see it on the slide – in consumer preparation.

Thus, the volume of investments into the Leningrad Region will be substantially lowered, and they have already been lowered. The Luga and Vsevolzhsk Districts gasification is fully in the hands of the regional administration and depends on debt repayment and elimination of the underrun in consumer preparation.

Question: Volzhskaya Komunna newspaper, Samara, Anton Utekhin. Mr. Seleznev, I have two questions – the second one following the first one. As it is known, the Samara Region has a rather high debt exceeding RUB 3 billion. How big is this number in comparison with other regions? And why is our region in such a unique position, I mean that the figure is such – despite a rather high gasification level as compared to other regions?

And the second question. There was a slide showing the reduction of Gazprom's share in the regional markets due to the mobilization of local market players. Therefore, I would like to ask you at what stage the talks are with the Srednevolzhsk Gas Company?

Kirill Seleznev: I will start with your first question. The Samara Region level of gasification is rather high. Currently it exceeds 95 per cent. The debt has considerably decreased during the last couple of months. Today it totals not RUB 3 billion as it used to be, but RUB 1 billion 900 million. Of course, it is rather large, as I have already mentioned, answering the previous question. In the Leningrad Region it is RUB 950 million. The figures are fairly high, therefore the investments will be reduced by all means. There is no lagging behind in consumer preparation though.

If I am not mistaken, the Srednevolzhsk Gas Company is an independent gas distributing organization in the Region. It is independent from us, that is why currently we do not negotiate with it. We deliver gas via our gas distribution networks, while the Srednevolzhsk Gas Company delivers it through its own ones, we have different gas rates and represent two independent economic entities in the Region.

Lyudmila Alexeeva: Mr. Seleznev, the Vologda Region again, TV-7 channel, Lyudmila Alexeeva. I suppose the question will concern all the Regions. Could you, please, explain the mechanism of debt formation? I mean, I have a feeling that the population does pay but for some reason this RUB 1.5 billion doesn't reach Gazprom. Where does this money go in fact?

Kirill Seleznev: I see what you mean. I have already answered this question, maybe not in a direct way – this is due to the existence of managing companies that collect money for heat supply and other public utility services. They spend it as they see fit and only after that pay the resource providers. This is the first thing.

And the second thing. No need to hide it that there are certain abuses when money is collected by the companies that simply disappear after the end of the heating season. The company takes municipal property on lease with no assurances or guarantees. It operates, collects money – and then you can't find anybody. Law enforcement authorities work on this.

And, finally, the third thing is economically unbalanced heat production rates, because, let us be honest, in a number of regions heat equipment and heat supply networks are in a rather poor technical condition. They need investments. Of course, the rate can't cover all the investments connected to overhauling this equipment, operating it, to paying for the supplied resources. That is why a certain imbalance occurs and in this sector the resource suppliers are the last ones to get the money. Therefore, the integrated solution of these problems will guarantee not 100 per cent, but at least 97 to 98 per cent of payments for supplied gas.

Question: Denis Pinchuk, Reuters. Mr. Seleznev, a little clarification about gas purchases from independent producers. You said that this year they would make 13 billion cubic meters versus 25 billion last year. Did I get it right that this gap occurred because of NOVATEK's focusing on Mosenergo or will Gazprom buy anything from NOVATEK this year anyhow? If it will, name the amount, please. Thank you.

Kirill Seleznev: This is a very sound question. We decreased the volume of gas purchases from NOVATEK – we bought less, so it will supply more to the domestic market.

Denis Pinchuk: Does this mean you will not buy anything from NOVATEK this year?

Kirill Seleznev: It does, we are not going to buy anything else from NOVATEK this year.

Moderator: Thank you very much, the Press Conference is over, we will be waiting for you on June 4 to discuss gas export.