

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

(June 20, 2018)

In 2017, as in previous years, Gazprom fully implemented its obligations for providing reliable gas supplies to all consumer categories in Russia, including socially vulnerable groups.

Gazprom is the largest supplier of natural gas in the Russian market. In 2017, the Group sold 229.9 billion cubic meters of natural gas in Russia (under the International Financial Reporting Standards (IFRS), excluding intra-Group supplies), an increase of 7 per cent from 2016. The rise in supplies was caused by, among other things, the growth in gas demand due to cold weather in the first half of 2017. Gazprom considers reliable gas deliveries to Russian consumers to be its primary mission, as no other company in Russia is capable of swiftly ramping up gas supplies in the heating season.

The Gazprom Group's net revenue from gas sales in the Russian market amounted to RUB 875.7 billion (VAT excluded), a 6.8 per cent increase compared to 2016.

Aiming to support market principles in price formation, Gazprom actively takes part in gas trading on the St. Petersburg International Mercantile Exchange (SPIMEX). In 2017, the Company traded on SPIMEX 17.5 billion cubic meters of gas (compared to 10.7 billion cubic meters in 2016), the maximum permissible amount according to the Russian Government's Resolution No. 323 dated April 16, 2012. Regional consumers express considerable interest in organized trading on SPIMEX, with gas delivered to 47 Russian regions in 2017 (up from 45 regions in 2016).

Over the course of 2017, the Gazprom Mezhrefiongaz Group sold 250.6 billion cubic meters of gas supplied by Gazprom and other producers (including via trading on SPIMEX), a 1.7 per cent improvement against 2016.

Gazprom continues to implement the Russian Regions Gasification Program. Every year, this extensive effort helps improve the quality of life for tens of thousands of Russian families and facilitates socio-economic development in Russian regions.

Between 2005 and 2017, Gazprom invested a total of RUB 324.65 billion in the Program and built more than 2,000 gas pipelines stretching over 30,000 kilometers (including 121 gas pipelines with an overall length of 1,848 kilometers built in 2017, with investments of RUB 29.45 billion).

Thanks to the Gasification Program, Russia's average gas penetration level surged from 53.3 per cent in 2005 to 68.1 per cent in 2017, going up from 60 to 71.4 per cent in urban areas and from 34.8 to 58.7 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. In the period from 2005, only 10 Russian constituent entities (Belgorod, Omsk, Penza, Sakhalin and Yaroslavl Regions, Republics of Kalmykia and Mordovia, Chuvash Republic, Yamal-Nenets and Khanty-Mansi Autonomous Areas) managed to fully meet their obligations.

In 2018, the Program involves 66 regions, with RUB 36.7 billion earmarked for Gazprom's investments.

Despite the fact that Gazprom fulfills all of its obligations for reliable gas supplies and gas grid expansion, the non-payment and growth in overdue debt for gas deliveries remains an urgent problem for Russian regions, especially the North Caucasus Federal District.

In 2017, in order to streamline and enhance the transparency of consumer payments, Gazprom Mezhrefiongaz Pyatigorsk was replaced with new regional gas sales entities based in Cherkessk, Makhachkala, Nalchik, Nazran, and Vladikavkaz. In December 2017, the receivables of Gazprom Mezhrefiongaz Pyatigorsk were assigned to the new companies. As a result, the outstanding debt of the gas sales companies in the North Caucasus dropped, with the overdue debt of all consumers to the Gazprom Mezhrefiongaz Group totaling RUB 111.6 billion (without taking into account the assignment of receivables, the overdue debt totaled RUB 169.7 billion) as of January 1, 2018.

Gazprom takes comprehensive measures to improve financial discipline on the part of consumers. The best results are produced by legal claims and close collaboration with law enforcement agencies.

In 2017, the Gazprom Mezhrefiongaz Group stepped up its legal measures, filing claims against debtors and collecting a total of RUB 78.6 billion. In addition, cutoffs and restrictions in gas supplies were imposed on more than 8,800 legal entities and over 223,000 individuals.

In order to strengthen financial discipline with regard to gas payments, Gazprom actively cooperates with Russian authorities at all levels so as to, inter alia, further improve the national legislation.

In the North Caucasus Federal District, special focus is placed on cooperation with law enforcement agencies and development of gas metering 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.