

Press Conference

Gas Supply to Domestic Market. Executing Russian Regions Gasification Program

June 20, 2018

MODERATOR: Good afternoon. We are starting the Press Conference on Gazprom's operations in the domestic market.

Kirill Seleznev, Member of the Management Committee, Head of Department at Gazprom and Director General of Gazprom Mezhregiongaz, is with us at today's Press Conference.

We will begin with a brief presentation and then proceed to questions and answers.

KIRILL SELEZNEV: Good afternoon, esteemed colleagues. I am pleased to welcome you to our traditional Press Conference. I suggest that we adhere to the usual format that has been maintained throughout the past years. First, I will provide you with a brief overview of Gazprom's gas supplies to the domestic market of the Russian Federation, focusing particularly on gas infrastructure expansion and, of course, regional debts, and then I will be ready to answer your questions.

(Slide 1) In 2017, gas supplies to the Russian market totaled 229.9 billion cubic meters – up by 7 per cent from the previous year, which resulted in a 6.8 per cent increase in proceeds from sales amounting to RUB 875.7 billion (net of VAT). In the same year, Gazprom reached the threshold limit set by the Russian Government for exchange-based gas trading. This slide contains data on gas traded through the St. Petersburg International Mercantile Exchange (SPIMEX). Compared to 2016, a strong increase occurred in gas sales by Gazprom against the backdrop of declining sales by independent producers.

(Slide 2) Over the last year, the Gazprom Mezhregiongaz Group sold 250.6 billion cubic meters of gas provided by Gazprom and other producers (including via exchange trading). The gas consumption data are also provided in the slide. Traditionally, the power industry and private consumers account for about 30 per cent and around 21 per cent in the consumption structure, respectively.

(Slide 3) In 2017, the ongoing Gas Infrastructure Expansion Program and the growth in gas sales caused gas transmission volumes to grow. We expanded our gas distribution networks – all relevant parameters are presented in the slide. Throughout the year, a little over 1 billion cubic meters of gas was delivered to the facilities connected in 2016. According to the operating results of 2017 and the specifications issued, the forecast increase in gas transmission for today stands at 12.6 billion cubic meters of gas.

(Slide 4) Now a few words about the progress with the Program for gas infrastructure expansion in Russian regions. The total investments amounted to around RUB 29.5 billion. The slide shows the statistics for the gas pipelines constructed, their length and the efforts made for converting boiler houses to natural gas.

The gas penetration level, having risen slightly, currently stands at 68.1 per cent nationwide, 71.4 per cent for cities and towns, and 58.7 per cent for rural areas.

(Slide 5) As usual, our obligations under the Gas Infrastructure Expansion Program with the regional authorities are divided into the obligations assumed by Gazprom, such as laying gas pipelines stretching to the border of a given locality, and the administration's obligations on work synchronization, including installation of inter-settlement gas pipelines, connection of boiler houses and all households. Unfortunately, 14 regions are significantly lagging behind in their obligations to prepare consumers. And 5 regions are not fulfilling their obligations at all, which is quite regrettable: we have provided the gas, we have put our investments into it, but we are unable to bring our product to the end recipient, namely, to the consumer.

(Slide 6) A few words about consumers' debts for gas supplies. Unfortunately, the situation is as bleak as it was in the previous years. The overall settlements for 2017 were above 97 per cent. Yet, the amount of indebtedness is still substantial, which does not make us very optimistic. The largest debt is

owed by the North Caucasus Federal District. The most severe violators among consumers are heat suppliers and the population.

(Slide 7) This slide illustrates three main reference points associated with the growth of the overdue debt owed by major consumers. About 10 per cent of the debt falls on three major domestic consumers – the Ministry of Defense entities, the Tsentralnaya CHPP of Novokuznetsk, with the outstanding debt of about RUB 2.9 billion, and the Tverskaya Generatsiya with RUB 3.8 billion in arrears. Unfortunately, the situation does not seem to improve with years. We continue to work on resolving the issues with these three consumers.

(Slide 8) As in previous years, Gazprom Mezhtregiongaz and Gazprom are taking measures to reduce debt and improve financial discipline. A slight decrease in the debt of heat supply companies is reflected in this slide. We managed to significantly bring down the debt of electricity generating companies. We signed debt restructuring schedules with regional authorities, but, unfortunately, the repayment schedules were fulfilled only by 25 per cent in 2017. This slide shows the regions' performance in implementing these schedules.

(Slide 9) We continue the claim-related activity with due account for the law enforcement practice under Federal Law 307-FZ and the Government Decree No. 139¹. This slide shows the progress made in this regard. A sufficiently large number of lawsuits and petitions have been filed, and we are currently pursuing appropriate legal measures to acquire the pertinent court decisions and orders. Here, you can see the specific results of the debt collection activities in relation to legal entities and individuals: they stand at RUB 73.3 billion and RUB 5.3 billion, respectively.

(Slide 10) In addition to claims and lawsuits, we impose gas supply restrictions. In 2017, a fair number of legal entities were subjected to supply restrictions. Similar measures are administered to individuals, against which claims and petitions are also filed. Cooperation with law enforcement agencies is ongoing. The information about the offenses revealed in the gas supply sector in 2017 with the follow-up appeals to law enforcement agencies, as well as about the number of criminal and administrative proceedings initiated, is depicted in the slide.

(Slide 11) Upwards of 20,000 claims were filed to law enforcement agencies. Of these, 60–70 per cent is related to the North Caucasus Federal District. I would also like to draw your attention to a rather small number of decisions that were not taken and to a large number of refusals to initiate criminal cases, which impede all endeavors to improve the debt collection indicators.

(Slide 12) We are also trying to streamline legislation on the enhancement of financial discipline. This slide includes adopted governmental decrees, laws and regulations we comply with when cooperating with public authorities in order to maximize the efficiency of our activities.

(Slide 13) The bottom part of the slide contains the Ministry of Energy's Order No. 975² relating to the need to develop guidelines for the calculation of damage from unauthorized connections to gas distribution networks and gas consumption. At present, Gazprom, jointly with the Ministry of Energy, is engaged in the finalization of the relevant guidelines³.

That will be all; now, I am ready to answer your questions.

MODERATOR: Colleagues, let's move on to questions. We will start with regional issues.

QUESTION: Maxim Strugov, Kommersant-Prikamye newspaper. What are the prospects for gas infrastructure expansion in the Perm Territory in 2019?

Our region was among the first to start the off-grid gas supply program – does Gazprom envision any prospects for its further development?

And one more question that has no relation to gas infrastructure expansion: the Perm Territory is an

¹ Federal Law No. 307-FZ on Amendments to Individual Legislative Acts of Russian Federation for Enhancing Payment Discipline of Energy Consumers, dated November 3, 2015; Russian Government Decree No. 139 on Amendments to Individual Government Acts Regarding Security of Energy Payment Obligations, dated March 4, 2017.

² Ministry of Energy Order No. 975 dated December 18, 2015.

³ Classified as a statutory document mandatory for the public at large.

activity area of Gazprom Teploenergo. Is this company going to expand its presence in our region?

KIRILL SELEZNEV: We have earmarked RUB 575 million for gas infrastructure expansion in the Perm Territory under the Program for gas infrastructure expansion in Russian regions. Ten gas facilities are currently under construction, and three LNG facilities intended for off-grid gas supplies are at the design stage. In 2015, one such project was completed. However, it is loaded only by 16 per cent now. There is a major omission exactly on the part of the region, which is responsible for the consumers' readiness to receive gas.

Nevertheless, we continue to interact with the regional leadership. Since the start of the year, the debt for gas supplied to the Perm Territory has grown by 10 per cent, by about RUB 390 million. As of May 1, the total debt was RUB 4.309 billion. Needless to say, with such massive debt any further steps for developing the gas infrastructure, raising investments therein, or continuing the Gazprom for Children program are out of the question.

As for thermal power generation, we have raised this issue with the regional officials, and the Governor has mentioned it as well. For the time being, we are still negotiating, as our stances on the subject are too different. Doing this type of job is economically unviable with the current tariffs. Hence, regional subsidies are needed. We will resume our operations, just like in a number of other regions, only after subsidies are given and guarantees are delivered. Again, please take note of the unsettled debt for the supplied gas: it exceeds RUB 4 billion. Until this issue is properly resolved, there will be no increasing investments in the gas infrastructure, off-grid gas supplies, or thermal power generation.

QUESTION: Irina Krein, YarNovosti agency. The debt situation is critical in the Yaroslavl region as well. An agreement on the renewal of the gas infrastructure expansion and Gazprom for Children programs was reached with the new regional leadership and a repayment schedule was drawn up. To the best of our knowledge, the debt is still growing. Could you comment on the situation please? Is there a possibility that these programs will be curtailed due to the accumulating debt?

KIRILL SELEZNEV: We really tried to turn over a new leaf with the Yaroslavl Region authorities. After the new regional management came into office, Gazprom signed a five-year debt restructuring schedule with them. We detected quite positive dynamics and saw the regional government trying to ensure that consumers pay for the current supplies. The agreements reached in 2017 made it possible to resume the Program for gas infrastructure expansion in Russian regions and the Gazprom for Children program. In fact, it was quite a big favor granted to the Yaroslavl Region as the consumers' debt for gas is still a pending problem.

Meanwhile, we observe a rise in overdue receivables – in particular, heat supply companies account for a RUB 300 million increment, which is in no way consistent with the agreements and schedules signed and approved by the regional administration. Overdue receivables of all consumer categories in the Yaroslavl Region exceeded RUB 3 billion as of May 1. This is a significant debt. In August, we traditionally summarize the preliminary results of the Gas Infrastructure Expansion Program and assess the unpaid debts and then we introduce the follow-up adjustments. So, if the Yaroslavl Region does not show improvement until August, we will take tougher measures.

QUESTION: Yulia Moiseeva, SmolDaily online publication. The situation in the Smolensk Region is different than that of my colleagues. There is a common understanding that the workload of some regional gas distribution stations (GDS) is nearing an extreme level, and this holds back the upward movement of regional investment activity. My question is directed at you as the CEO of Gazprom Mezhregiongaz, and the question is: how do you see a possible upgrade of GDSs in the region?

KIRILL SELEZNEV: We are aware of this problem as it is related to Gazprom Gazoraspredeleniye Smolensk, and we see that consumers are underserved. As far as I remember, the Phoenix industrial park is based in your region. We have issued a specification for the connection of, and gas supply to, this industrial park. Specifications for utility networks were drawn up in consultation with the park.

The heavy load of the GDSs does not allow us to provide the required amounts of gas to the consumers that will be based in this park. For now, we are unable to meet the needs of all the park

consumers, but efforts are being made to that end.

The Gazprom Management Committee Chairman met with the Governor to address these issues and I think that they should be resolved. And our company, Gazprom Mezhhregiongaz, will continue this work and will follow through, since we have the experience and certain actions have already been taken on issuing specifications, designing and planning utility infrastructure for the industrial park.

QUESTION: Alexander Shcherba, NTV-St. Petersburg TV company. You named the best and the worst payers. I haven't found any information on either with regard to St. Petersburg on your website. Will you clarify the situation please? Are there any bottlenecks, and what are they?

KIRILL SELEZNEV: In terms of payments for gas supplies, there is nothing wrong with it in St. Petersburg – the city fulfills all of its obligations, and its payment discipline can be described as good.

There is a bottleneck – a heavy debt for the heat generated and supplied by manifold headers of TGC-1 plants. This is a real problem in our relationship with the city. The debt is high, but I can't help pointing out that the city has done a great job to reduce this debt, although there is room for improvement.

QUESTION: Roman Lyalin, Komsomolskaya Pravda – Omsk newspaper. Could you comment on the contribution of Gazprom Mezhhregiongaz to the implementation of the regulatory acts on the lease of state- or municipality-owned heat supply facilities by local authorities and business entities?

In this context, the fact that business entities and local authorities in a number of municipal districts of the Omsk Region are reluctant to comply with the applicable regulations in this area is a real cause for concern. In light of this, various schemes for cash withdrawal are applied in the Region, resulting in the build-up of debts, including to gas suppliers. This results in the formation of receivables deemed uncollectible. The current regulatory system has significant gaps allowing for free-of-charge lease of municipal property, and there is no liability for free use, the financial guarantees for concession agreements are undefined, and the property is not being assessed.

As a result, the property that was in use under a concession ends up neglected and even destroyed. Without proper control, the state of boiler houses is deteriorating. The Omsk regional gas company forwarded recommendations to the regional legislative assembly with due account for the local specifics. I think this problem is relevant for other regions as well. What is your opinion?

KIRILL SELEZNEV: I fully share your concern. The situation is typical not only for the Omsk Region, but for other regions as well, where unscrupulous lessees enter into lease agreements to withdraw cash by means of property transfer, and we have no way to penalize them.

This is why we are tackling this issue in cooperation with the Russian Government. As we know, in 2015 Federal Law No. 307⁴ was adopted, according to which only property that is no more than 5 years old can be leased, and all other cases require a concession agreement. But, as you know, the Supreme Court issued a ruling in late July 2017, challenging a provision of this law.

We disagree with it and we continue to work on this issue. By now, the Ministry of Construction has developed a draft federal law that imposes a number of prohibitive measures for lease of property by state and municipal institutions. If adopted, the law will repeal the Supreme Court ruling and we will have every reason to believe that the legislation will fully protect the interests of honest consumers and gas suppliers.

ROMAN LYALIN: Will Gazprom Mezhhregiongaz take part in updating the tariff policies of heat supply companies?

For example, due to an inadequate tariff policy, the lost revenues of heat supply companies in the Omsk Region are exceeding RUB 300 million, which inevitably leads to the accumulation of outstanding receivables to resource suppliers. What is the stance of Gazprom Mezhhregiongaz in this situation and what has been done in this regard?

⁴ Federal Law No. 307-FZ on Amendments to Individual Legislative Acts of Russian Federation for Enhancing Payment Discipline of Energy Consumers, dated November 3, 2015.

KIRILL SELEZNEV: We share your concerns, but it's not our company that is responsible for the tariff policy, it is the responsibility of the Federal Antimonopoly Service.

Undoubtedly, there is an imbalance in the tariff system. There is a practice in a number of Gazprom's heat supply companies for such cases: if a heat supplier does not agree with a certain tariff decision, it can apply to the court that will hear the parties and deliver an enforceable judgement. We have already faced such issues, and this is our common practice.

Please note that, in order to defend a tariff rate, it is probably necessary to look into a possible optimization of the workflow and costs of the heat supply company itself. One has to assess the compliance with standards and the size of running expenses, because the poor state of the core equipment operated by heat supply companies is common knowledge today. There is still room for improvement, for optimization and modernization. So, in response to your question, I can say: yes, we are worried, but it's not in our purview.

QUESTION: Natalia Solyankina, Den Respubliki newspaper. The Republic of Karachay-Cherkessia has participated in the Gas Infrastructure Expansion Program since 2008. At the same time, the region is among the outsiders in fulfilling obligations under the Program. How do you see the economic and social prospects of constructing a gas pipeline in the Uchkulan Gorge, which is due to start shortly?

KIRILL SELEZNEV: I am not going to say anything new about the Uchkulan Gorge. Indeed, we are planning to build a large gas supply facility, about 50 kilometers long, in very challenging conditions. This facility will serve around 5 to 6 inhabited localities.

You were right to say that delays in consumer preparation and a large overdue debt for the supplied gas are present in the region. This is why in August, as I have already noted, we will sum up the half-year results for the Gas Infrastructure Expansion Program, we will analyze how the debt redemption dynamics have changed, and only then will we make a decision.

This applies to all regions: overdue receivables are a stop sign on the way to implementing such initiatives as gas infrastructure expansion, the Gazprom for Children program, and NGV market development. It is not only the stance of Gazprom Mezhregiongaz, it is the stance of Gazprom and its Board of Directors. We are going to follow through with this policy.

QUESTION: Elena Belentsova, Kursk newspaper. In the last few years, an unresolved problem in the Kursk Region continues to be the non-payment of heat supply companies servicing the Ministry of Defense facilities. Is there any progress in dealing with this problem, in settling enterprises' debts, state financing issues and, in particular, Ministry of Defense-related issues?

KIRILL SELEZNEV: Unfortunately, it is not only the Kursk Region where the Ministry of Defense entities are heavily indebted. The total amount of debt for gas and heat, when it comes to our electric power enterprises, is nearly RUB 12 billion⁵, including around RUB 7 billion for gas and slightly more than RUB 4 billion for heat.

Viktor Zubkov, Chairman of the Gazprom Board of Directors, is actively contributing to efforts related to the debt for the supplied gas. He has repeatedly met with Ministry of Defense representatives. The issue is still unresolved, but we are working on it. Right now, it's hard to tell when it's going to be settled.

The debt of the Kursk Region is not that high – about RUB 42 million – but it does exist. I've already told you the figures on the national scale, and those are very large sums indeed.

QUESTION: Elena Troitskaya, Interfax – Moscow Region agency. What about the payment of gas bills in the Moscow Region? It is said that by the end of the heating season, gas supply restrictions were imposed for habitual non-payers.

How is the Moscow Region Government contributing to dealing with this problem?

KIRILL SELEZNEV: In this regard, the Moscow Region is not among the strongest performers. As of May 1, 2018, the debt amounted to nearly RUB 15 billion – up by RUB 670 million from last year.

⁵ As of January 1, 2018.

We are discussing this with the Governor and we have repeatedly met with the regional government on this matter. It should be noted that the gas debt problem didn't emerge today or yesterday – it was growing year by year.

Currently, we are trying to handle this situation together with the Moscow Region Government. We are absolutely sure that the arrears will be significantly reduced by the beginning of the heating season and the Moscow Region Government confirms that. The Governor personally promised that this would be taken care of. We are working to implement concession agreements with the Moscow Region (under heat supply projects) in the Serpukhovskiy and Pushkinskiy districts. In fact, all of our parameters have already been approved by the Government of the Moscow Region. Today, preparations are being made for the signing of the concession agreements. Therefore, we know how to act, in what way and by what means we are going to reduce the debt.

But again, let me underscore that the situation with debt is rather difficult – the debt is substantial and we are imposing restrictions on gas debtors throughout the country.

QUESTION: Svetlana Kurevina, Orlovskaya Pravda newspaper. My question concerns the setting up of managing companies. The first such agreement was signed in 2014. Under this agreement, Gazprom Mezhhregiongaz began to operate as a managing company for Joint Stock Company Gazprom Gazoraspredeleniye. Later on, this practice was adopted on a regional level. We are already familiar with the experience of Gazprom Mezhhregiongaz Sever. More than a year ago, this scheme was adopted by Smolensk, and a similar agreement was signed in Oryol in April of this year.

Mr. Seleznev, what is your personal opinion about this idea? Has the concept of creating managing companies proven its value at this stage or not?

And what is Gazprom Mezhhregiongaz going to do: will it continue setting up managing companies in all regions or will it just perform some trial actions in some regions? What can we expect from the project?

KIRILL SELEZNEV: I would not call it a project or something new. The decision on changing the form of management is made on a case-by-case basis taking into account changes in the gas supply structure and the financial standing of a regional gas company and a gas distribution entity.

If we see an opportunity for enhancing cost effectiveness, primarily through reducing administrative and management costs, we take it. If such aspects as the gas supply efficiency or structure, or the financial condition of the company, allow us to do without this management model, we don't use it. This is routine work related to operational optimization and cost reduction.

QUESTION: Alexey Kirichenko, Kommersant – St. Petersburg newspaper. How much has Gazprom invested in the Program for gas infrastructure expansion in the Leningrad Region and how much more is it going to invest?

How soon will your investments pay off? Are the returns on investments hindered by the gas debts of the Leningrad Region, or are payments being made without fail?

KIRILL SELEZNEV: The Leningrad Region has been participating in gas infrastructure expansion programs financed by Gazprom since 2003. The amount of investments made from 2003 to 2017 is slightly above RUB 7.5 billion. In 2018, we invested RUB 1.1 billion. It is too early to talk about the investments for 2019.

The Leningrad Region is among the regions that essentially don't have problems with arrears. As of May 1, the debt stands at RUB 748 million. I can only repeat what I have said before: if the debt is not reduced by August, we will revise our gas infrastructure expansion plan for the Leningrad Region. Until then, we will consider our cooperation to be running smoothly and efficiently. A substantial amount of investments has been allotted for this purpose. We hope that the Region will shape up and we will move on with our plans.

ALEXEY KIRICHENKO: What is the planned payback period?

KIRILL SELEZNEV: The Gazprom Board of Directors set the period of about 7 years as a payback timeframe for all investment projects. But the Gas Infrastructure Expansion Program also contains a

social aspect, so I can't provide you with data on total investments in expanding gas infrastructure across the Leningrad Region.

If we look at specific projects, such as connections of major consumers, the payback period will be several years; if we look at a sparsely inhabited settlement with no big industrial consumers, the gas infrastructure expansion there is rather a social matter and the payback period will be prolonged accordingly.

Therefore, it would be incorrect to put forward a general figure for all investments.

QUESTION: Elena Kopytova, 1000inf web portal. Some areas in the Ivanovo Region have no gas infrastructure at all. The issue of gas infrastructure expansion in the Lukhsky District has been repeatedly brought up on federal channels. Could you please tell us about the prospects for gas infrastructure expansion in this and other underserved areas?

To what extent is it reasonable to expand gas supply infrastructure in our region from Gazprom's viewpoint?

KIRILL SELEZNEV: We're not aiming to achieve a specific level of gas penetration in the Ivanovo Region or in any other region; all these endeavors need to be economically viable.

Since 2005, the natural gas penetration level in the Ivanovo Region has grown by 10.2 per cent – up to 75.8 per cent as of today. The national level is 68.1 per cent, which means that the Ivanovo Region is not underserved at all.

As far as the Lukhsky District is concerned, it is certainly problematic, and we need to build a gas pipeline branch and an inter-settlement gas pipeline there. Currently, these facilities are being designed. We plan to start the construction in 2019. In parallel with this, we are going to build a gas distribution station and work out a synchronization schedule together with the regional administration in order to connect 5 boiler houses and 1,100 households to the gas supply network.

At the moment, design work is in progress. In 2019, we are starting the construction, provided that the Ivanovo Region shows positive dynamics in repaying its overdue debts.

QUESTION: Maria Buravtseva, RBC newspaper. The media reported that gas supplies to China will begin as early as in 2019. Last year, you mentioned the contracts with a number of domestic consumers, including gas chemistry projects of the Nakhodka Fertilizer Plant and the ESN Group in the Amur Region. When are you planning to start supplies to domestic consumers, as per the terms of the contracts?

KIRILL SELEZNEV: Yes, I can confirm that. By now, we have only signed preliminary agreements with a number of consumers – a methanol plant in Skovorodino, a chemical plant in Shimanovsk, as well as with prospective industrial consumers in the Republic of Sakha, such as mining & processing combines and a mining & metallurgical combine. The program for gas supply to and gas infrastructure expansion in the Republic of Sakha (Yakutia) until 2025 was approved, providing for gas supplies to such inhabited localities as Tommot, Aldan and others.

We expect gas consumption in the Republic of Sakha (Yakutia) and the Amur Region to reach approximately 3.4 billion cubic meters before 2025.

QUESTION: Anna Odintsova, Vologda public TV and radio broadcasting company. By now, gas is supplied to 15 out of 26 districts in the Vologda Region. In March, Alexey Miller met with Oleg Kuvshinnikov, Governor of the Vologda Region, to discuss further steps in expanding the regional gas infrastructure. What is the progress with the Gas Infrastructure Expansion Program in our territory? When will new supply facilities be put onstream?

At the same meeting, the construction of the Kirillov – Belozersk – Lipin Bor – Vytegra gas branch, which is routed along the main tourist destinations of our region, was discussed. The amount of project financing exceeds RUB 22 billion. At what stage is the project now?

KIRILL SELEZNEV: Let's start with the Gas Infrastructure Expansion Program: we have allocated RUB 343 million for it this year. Eleven gas supply facilities are under construction and seven

facilities are being designed in 13 municipal districts of the Vologda Region. At the same time, overdue receivables have grown by almost 9 per cent in the region, they are a little over RUB 1 billion now. Therefore, getting back to what has been already said: in case there is no progress in debt repayment, we will discontinue all our activities there.

In response to your specific question: the gas pipeline branch is quite expensive – it is worth about RUB 22 billion. This year, as far as I know, Gazprom is planning to start construction and installation works for this facility. Concerning two GDSs that are part of this facility: they are at the design stage now, and the whole set of works is to be completed in 2021.

QUESTION: Natalia Nikolaeva, Molodezhnaya Gazeta newspaper. Sadly, the Ulyanovsk Region has already had an experience of being excluded from the Gas Infrastructure Expansion Program. Despite this, the situation with payments is getting worse. In the first quarter alone, the debt rose by almost RUB 870 million. What leverage can Gazprom Mezhrefiongaz use in the Ulyanovsk Region, and is there any risk for the Ulyanovsk Region to be excluded from the Gas Infrastructure Expansion Program again?

KIRILL SELEZNEV: You know the situation much better than I do and you have actually answered your own question. Today, the debt is RUB 1.745 billion and it has grown even higher since the beginning of the year mostly due to heat supply companies. If there are no positive developments, we will suspend our work in the Ulyanovsk Region in August.

We have a debt restructuring schedule for heat supply companies until 2022 – we signed it with the regional authorities, and they promised to cover all this debt from budget funds. However, as you have just noted, they will have no time to repay the debts of the past years reflected in the schedules until 2022, as new debt will accumulate from the beginning of the year. So, we will take measures in August.

QUESTION: Olga Novikova, Volzhskaya Kommuna newspaper. You mentioned a considerable growth in gas exchange trading. How do you plan to develop this line of business?

Are you going to create regional trading platforms?

KIRILL SELEZNEV: We are not planning to establish any trading platforms, we are fine with things as they are. We operate and conduct exchange trading within the existing regulatory framework – 17.5 billion cubic meters of gas was sold via trading in 2017. We expect to reach the same indicators in 2018 as well. If a decision is made that will allow us to increase the volumes of gas for sale, we will put them up and sell them accordingly.

For my part, I can say that we find our cooperation with the St. Petersburg Exchange completely satisfying, and we see no need for creating other platforms today. But if such tools are offered to us by, for example, the Federal Antimonopoly Service or the Central Bank, and they if they are in demand in the market, we will use them as well.

QUESTION: Alexey Polukhin, Gorizontalnaya Rossiya online publication. Tverskaya Generatsiya is among Russia's three biggest gas debtors, it is a loss-making company due to the deterioration of its networks, and this problem is becoming a concern for Gazprom.

Meanwhile, claim-related work ends in nothing: court bailiffs can't recover the full debt under their executive writs, because there are not enough funds on the company's accounts and Gazprom can't restrict gas supplies by the court's decision. What measures can Gazprom Mezhrefiongaz Tver take to remedy this situation?

Is the company planning to enter into the Tverskaya Generatsiya business?

Would it be possible to charge the municipal or regional authorities, which now allegedly own Tverskaya Generatsiya, with subsidiary liability?

KIRILL SELEZNEV: To be honest, I don't know who owns Tverskaya Generatsiya and who participates in it; the competent bodies will probably give a more thorough answer.

I don't quite agree with you as to whether the problem of Tverskaya Generatsiya is only a problem for

Gazprom. The debt does exist, it is quite substantial, and we are rather active in the pertinent law enforcement proceedings. There are not enough funds on the accounts to cover all the debts, but the work is still ongoing and we are receiving funds, although unfortunately not in full.

As for the participation or non-participation in Tverskaya Generatsiya, I had a fairly substantive conversation with Igor Rudenya, the Tver Region Governor, at the St. Petersburg International Economic Forum regarding the debts of Tverskaya Generatsiya. The regional authorities assumed the following obligations: they promised to prepare and send a schedule for restructuring all debts. This hasn't been done yet, but we remain hopeful as the Forum took place not long ago. And the region continues to consolidate thermal power assets. After they are consolidated under one legal entity, the region will come up with a proposal to consider the possibility of engaging in this business.

Until we give careful consideration to the assets bundle, their condition, the tariff level and the subsidies that the region will be able to allocate from the budget, it will be too early to talk about whether we will undertake this business or not. But we are not ruling this out.

QUESTION: Svetlana Fomina, Pervy Penzensky web portal. In late 2017, members of two State Duma committees, the Committee on Security and Corruption Control and the Committee on Energy, together with their colleagues from the Ministry of Emergencies, discussed the use of in-house gas equipment. The meeting agreed that these problems had begun 20 years ago, when this type of equipment had been exempted from government control.

In 1997, gas equipment in homes and apartments was excluded from the list of hazardous industrial facilities, and then the new Housing Code allowed managing companies to regulate the maintenance of such equipment at their own discretion, which, in fact, allowed non-professionals to repair gas equipment. A proposal was made at the meeting to bring in-house gas equipment and gas cylinders back under the control of state regulatory bodies. What do you think about that?

KIRILL SELEZNEV: We think that, firstly, it is necessary to impose government control in the area of in-house gas equipment operation. Secondly, we believe that it should be imposed based on the existing market realities, as the market is currently liberalized and this can't be disregarded.

Unfortunately, we have to admit that providing companies access to this type of consumer services has become much simpler today and is now, so to say, just a formality, which is in most cases presented as an accomplished fact.

We therefore believe that this situation has a negative effect on the quality of the services provided, and, of course, their poor quality may lead to significant damage. So, we think that the existing regulatory framework does not allow one to take every possible measure to ensure the operational safety of gas equipment.

We have compiled a list of major problems and forwarded it to the Ministry of Energy and the Ministry of Construction. It is our opinion that a number of regulatory acts must be adopted as soon as possible to toughen the requirements to companies providing this type of services in order to get rid of unlicensed companies, to streamline this market and to make it more civilized.

QUESTION: Anton Khlyshchenko, Interfax – Severo-Zapad agency. The Center for Strategic Research has developed a target model for the Russian gas market. Are you aware of the goals and objectives of this study and was it coordinated with you?

KIRILL SELEZNEV: No, we do not know anything about this study. So, it was not coordinated with our company.

In 2017, we received a research paper from the Russian Presidential Academy of National Economy and Public Administration. We placed an order for a research paper entitled "Key Areas and Stages of Russian Gas Market Development" as we are concerned about this issue and we are seriously and deeply involved in it.

But this was the paper that the Academy prepared at Gazprom's request. I can hardly comment on any other target models.

QUESTION: Georgy Dudaev, Federal Press agency. Could you provide some details about gas

supplies to Russia's Far East? What is going on with natural gas supplies to the Primorye Territory, considering that not all of its citizens can be connected to the Sakhalin – Khabarovsk – Vladivostok gas pipeline?

KIRILL SELEZNEV: As far as the Primorye Territory is concerned, its current consumption level is 1 billion cubic meters of gas. Of course, the capacity of the Sakhalin – Khabarovsk – Vladivostok gas pipeline is restricting the consumption rates. By 2025, we expect the gas consumption to rise to nearly 9 billion cubic meters. As you know, we have residents of the priority development areas (PDA) there and major consumers, such as the Nakhodka Fertilizer Plant, the Zvezda shipyard, Spasskcement and other consumers.

As part of the Gas Infrastructure Expansion Program, we constructed a gas pipeline running to the Bolshoy Kamen settlement in order to feed gas to the Zvezda shipyard, and at the next stage we are going to lay the pipeline to Nakhodka and the Vrangal settlement. To this date, we have completed the FEED activities; construction and installation will start in early 2019.

QUESTION: Evgenia Sokolova, TASS agency. Could you expand on your plans for 2018 regarding gas sales in the domestic market?

KIRILL SELEZNEV: We expect gas sales to reach 222 billion cubic meters in 2018⁶. This includes the months during which gas supplies have already been made. This is the forecast amount.

QUESTION: Lyudmila Podobedova, RBC newspaper. The debt is growing in many regions, especially in the North Caucasus. Do you have any plans specifying the particular regions and particular entities facing disconnections from gas grids for non-payments? If heat supply companies are also listed in it, what can be done to protect socially significant consumers?

We remember from the past years that such disconnections were taken negatively and then appealed in court. In which cases did Gazprom prove its right to disconnect consumers, and in which cases did it lose and had to compensate for it?

KIRILL SELEZNEV: Judicial disputes are a part of our routine work.

In accordance with law, there is a rule, a procedure under which we disconnect consumers. We must notify the consumer in advance. In some cases, we don't go so far as to make a physical disconnection when municipal guarantees are provided to us or we negotiate debt restructuring with the regional administration.

When restricting access to gas networks, we act in accordance with law. We fulfill our gas supply obligations, and consumers should pay for the service accordingly.

LYUDMILA PODOBEDOVA: My question is about Dagestan specifically. The heat supply tariff there is low, which causes an imbalance and, as a result, heat supply companies are defaulting on their payments. A top manager from a heat supply company said that they were holding negotiations at the regional level trying to give up on Gazprom's gas and start buying it from independent producers, in particular Rosneft. Are you aware of this? Have you been notified? Is it possible to strike some kind of compromise?

KIRILL SELEZNEV: What kind of compromise could there be? They should pay all the debts first, and then they can switch to third-party gas, whether supplied by Rosneft or by someone else.

As to the insufficiency of the current tariff rate, I have already answered this question – this problem falls within the domain of the regional authorities, the local regulator and the heat supply organization itself. If they consider the tariff to be unreasonably low, they can take legal action and set the tariff rate that will reflect today's realities.

QUESTION: Olga Protasova, Adviser to Director General of Gazprom Gazoraspredeleniye Yoshkar-Ola. Today, our gas penetration is quite high – about 89 per cent, and we are keen on continuing efforts in that area. Moreover, there is, so to speak, a blind spot on the region's gas map, namely the Kilemansky District, which has no natural gas whatsoever. This negatively affects its development,

⁶ Gas supplies by Gazprom Mezhhregiongaz from Gazprom's portfolio within the GTS area.

and local residents have been trying to reach every official channel for several years without getting clear answers to their questions: will they have natural gas, and if so, when?

KIRILL SELEZNEV: A difficult question. The gas penetration level in Mari El is indeed quite high – about 88 per cent. It is currently impossible to expand the region’s gas infrastructure further because of its remoteness from the existing gas trunklines.

Therefore, a new gas trunkline needs to be built, crossing three regions – Mari El, the Nizhny Novgorod Region, and the Kirov Region. As soon as we gain an understanding on the construction of such a major gas trunkline, Gazprom Mezhrefiongaz will, on its part, engage in the process to build gas distribution networks from this gas pipeline to population centers.

But so far, the issue has not been resolved, so I can only recommend that the leadership of the regions raise this issue with the Chairman of the Gazprom Management Committee.

QUESTION: Ekaterina Tyuleneva, Business News Komi agency. Given the fiscal deficits in the regions, is it possible to revise the Gas Infrastructure Expansion Program, the very essence of it? Can Gazprom take upon itself the obligations for which the regional authorities are currently responsible? That is, to bring gas networks directly to the consumer?

KIRILL SELEZNEV: Anything can be revised, but we will not do that. We have clearly outlined our principles as we started this extensive Gas Infrastructure Expansion Program, and we delineated the areas of responsibility by the responsibilities and obligations of the regions and those of Gazprom. So, if we also undertake the construction of inter-settlement gas pipelines and house wiring, then we will have to install plates and rebuild boiler houses as well.

We have our local gas supply companies, any and all consumers can turn to them for services. The services, I assure you, will be carried out properly, in the shortest possible time, and at the lowest possible rates.

QUESTION: Olga Shamova, Adviser to Director General of Gazprom Gazoraspredeleniye Orenburg. Today, Russian constituent entities are implementing a number of measures to increase the investment attractiveness of the regions. In particular, gas distribution organizations are making efforts to put into practice the target model for technological connection to gas networks. What results have you achieved so far in this project?

KIRILL SELEZNEV: We are working on this project. We have substantially reduced the connection time for each consumer when working according to the Single Window principle. We are also streamlining the issuing of specifications and online connections. We are developing and implementing various options for paying connection fees. All this, in our opinion, significantly reduces the time and deadlines and makes the connection process very transparent. We are striving to ensure easier, faster, cheaper and better services for the benefit of our consumers.

QUESTION: Alexandra Yakovleva, Adviser to Director General of Gazprom Mezhrefiongaz Astrakhan. Eleven regional gas companies of the Gazprom Mezhrefiongaz Group are currently implementing the pilot project of the Single Window service. I would like to know more about the pros and cons of this program, this pilot project. Are you going to try it out in other regions, in the Astrakhan Region in particular?

KIRILL SELEZNEV: We are planning to launch this process not only in the Orenburg Region, but in many other regions as well, including the Astrakhan Region. The Single Window is a rather fascinating tool that is convenient for consumers. With this service, one can obtain all the documents and technical specifications, sign a connection contract, and confirm the acceptance of the finished work. We will apply this practice in the Astrakhan Region as well.

Some of the gas distribution companies, which are unprepared for such changes, possibly due to technical reasons related to their organizational structure, need to take internal measures to ensure smooth and fast operation of this mechanism. Therefore, this principle will be put into practice in the Astrakhan Region just like in other regions. We will provide fast, timely and high-quality services to our customers.

MODERATOR: We have received several questions online. Reuters and Argus Media are asking: “How much gas did Gazprom buy from independent producers in 2017? How much are you planning to buy this year?”

KIRILL SELEZNEV: In 2017, we purchased 29.425 billion cubic meters of gas from independent producers and 22.405 billion cubic meters is the planned amount for 2018.

MODERATOR: Thank you. The Press Conference is over.