

Press Conference

Gas Supply to Domestic Market. Electronic Trading Platform Operation. Russian Regions Gasification Program Execution

June 9, 2009

Moderator: Good afternoon, colleagues! We are glad to welcome you again in Gazprom. We have started a traditional series of Press Conferences on the eve of the annual General Shareholders Meeting. We are planning to hold six Press Conferences. There will be a new subject: Gazprom's Power Generation Strategy.

Today we'll discuss the issues of gas supply to the domestic market, the Electronic Trading Platform (ETP) operation and the Russian regions gasification. Taking part in the Press Conference is **Kirill Seleznev**, Member of the Gazprom Management Committee, Head of the Company's Gas and Liquid Hydrocarbons Marketing and Processing Department, Director General of Mezhhregiongaz. The floor is given to him. You are welcome.

Kirill Seleznev: Thank you. Good afternoon. I would like to start with gas supplies to the domestic market. Later on we'll proceed to the rest of our today's Press Conference issues.

The Gazprom Group efforts aimed at supplying gas to the domestic market in 2008 included a series of vital activities to improve the natural gas market. Among such efforts are gas supplies under long-term contracts, introduction of new operation modes for ETP, increasing the amount of sales pursuant to the Russian Federation Government Directive No. 333 dated May 28, 2007.

In 2008 Gazprom Group supplied 287 billion cubic meters of gas out of its resources to the consumers in the Russian Federation. Slide 1 shows Gazprom Group's gas sales as distributed by consumer categories in 2008. In 2008 Gazprom Group's proceeds from gas sales on the domestic market grew by 18.7 per cent if compared to 2007 and totaled RUB 474.3 billion. The average gas price on the domestic market increased by 27 per cent in 2008 if compared to 2007 and made up RUB 1,652.8 per 1,000 cubic meters of gas. Mezhhregiongaz Group sold 305.8 billion cubic meters of gas on the domestic market. 15.9 billion cubic meters out of them were supplied at the prices set forth in the Government Directive No. 333; 3.1 billion cubic meters were sold by Gazprom Group via the Mezhhregiongaz electronic trading platform.

Key economic and financial indicators of ETP operation in 2008 are shown in Slide 3. The annual volume of gas traded via ETP totals 6.09 billion cubic meters, including 3.1 billion cubic meters (51 per cent) of gas from the resources of Gazprom and its affiliated companies and 2.99 billion cubic meters (49 per cent) – independent producers. Lukoil, Rosneft and NOVATEK account for 67 per cent of

the independent producers' gas traded via ETP.

A backlog in the amount of gas sales by Gazprom Group via ETP if compared to the planned level of 7.5 billion cubic meters is stipulated by gas deficit in the gas transmission system in February – March 2008 and the gas market glutting from April to December. Limited gas sales by Gazprom were partially caused by the necessity of observing sales parity and non-compliance of independent producers with their obligations in relation to the amount of gas sales via ETP, undertaken during the gas balance shaping.

A gas sales drop in the reported period was strongly influenced by reduced gas consumption stipulated by changes in the global economic environment. The weighted average GDS price for the gas traded via ETP in 2008 exceeded the weighted average regulated price by 38 per cent which is 1.1 per cent above the 2007 level. In general, we managed to maintain a positive trend in the financial indicators change in the reporting period versus 2007.

In 2008 ETP encountered quality redistribution of gas resources by industries. The power generation industry gained 31 per cent. In 2008 33 constituents of the Russian Federation purchased gas via ETP, in 2007 – 31. Meanwhile, the bulk of gas was supplied to consumers in the Republic of Tatarstan, Bashkortostan, as well as the Sverdlovsk and Moscow Oblasts.

The bulk of gas traded via ETP was supplied on a one-month-ahead basis. One-day-ahead trades allowed redistributing resources among ten-day-ahead and one-day-ahead supplies. At the same time, gas prices at one-day-ahead trades were 1–2 per cent higher than those at ten-day-ahead trades. The new form of trades together with the existing trading regimes allow the purchasers to optimize gas orders and reduce working capital consumption.

In parallel with exchange trading technologies development, we should continue the work aimed at establishing the natural gas exchange. The natural gas exchange readiness for startup is shown in Slide 9. Mezhhregiongaz operating highlights in 2008 related to electronic and exchange trading technologies development are shown in Slide 10. It should be emphasized that Gazprom has fully performed its obligations undertaken in compliance with the Russian Federation Government Directive on Continuing the Experiment on Gas Sales via the Electronic Trading Platform in 2008.

The 2008–2009 economic crisis created new preconditions for further improvement of the gas market, electronic and exchange trading development. The outcomes of this work will speed up the recovery after the crisis. The major goals for 2009 are presented in light of this work. Among them are adoption of the Government Directive on Gas Sales through Application of Exchange Trading Technologies, establishing regional electronic trading platforms, coordinating regulatory documents with market players and introducing hardware and software

complexes for the natural gas exchange and the clearing system.

I would like to draw your attention to the Russian Federation Regions Gasification Program. Initially, RUB 23.5 billion was invested in the Program implementation in 2008. In September 2008, with due regard to intermediate operating results, the Program was adjusted upwards to RUB 24.18 billion. In 2008 64 constituents of the Russian Federation took part in the Program, while the Far Eastern Federal Okrug's regions were included for the first time ever.

The funds allocated in 2008 allowed to additionally involve 6 Russian Federation constituents, namely, the Khanty-Mansiysk Autonomous Okrug, Krasnoyarsk Krai, Republic of Sakha (Yakutia), Khabarovsk Krai, Sakhalin Oblast and Republic of North Ossetia – Alania, as well as to maintain the amount of investments in those regions that had succeeded in consumer preparation for gas supply in 2007.

In 2008 RUB 21 billion (out of RUB 24.18 billion) was spent to continue the construction of 145 facilities, as well as to design and commence the construction of 260 new gasification facilities. In order to carry out design and exploration work in 2008 RUB 601 million was allocated. General gas supply schemes coordination will be completed in the second quarter of 2009. Over RUB 2 billion was spent to develop general gas supply and gasification schemes for 21 constituents of the Russian Federation. These are shown in Slide 14.

As part of the 2008 Program adjustment, additional funds were allocated for the revision and adjustment of the General Scheme for gas supply to and gasification of the Krasnodar Krai due to the 2014 Winter Olympic Games, for the development of the General Schemes for gas supply to Saint Petersburg and Leningrad Oblast in conjunction with the gas and energy saving program for the Northwestern Federal Okrug, for the development of the General Scheme for gas supply to and gasification of the Chechen Republic, as well as for the design and exploration activities for the construction work startup in the Republic of Dagestan and the Chechen Republic.

In 2008 153 facilities were completely gasified with a total length of 2.7 thousand kilometers in 47 constituents of the Russian Federation. Gazprom's obligations in relation to the gasification facilities construction were fully performed in 2008. According to the schedule, in 2008 over 2.5 thousand kilometers of street distribution networks were connected with the inter-settlement gas pipelines constructed, in order to deliver gas to over 60 thousand households and some 300 boiler houses.

As for fulfillment of the obligations undertaken by regional administrations in relation to consumer preparation for gas supply, as of the end of 2008 the planned levels were achieved in 36 regions. Consumer preparation for gas supply was carried out within the established deadlines. 9 of them were highly regarded. They

are enlisted in Slide 18. Administrations of 10 regions haven't managed to keep the pace of consumer preparation for connection with the facilities accomplished in 2008. These regions fell considerably behind the synchronization schedules. Among them are the Volgograd, Voronezh, Kurgan, Leningrad, Lipetsk, Orel, Samara, Tomsk and Ryazan Oblasts, as well as the Komi Republic. So far, the Leningrad, Orel, Volgograd, Lipetsk, Ryazan Oblasts and the Komi Republic have not caught up with the backlog.

This year the total amount of investments provided by Gazprom to 69 Russian Federation constituents makes up RUB 18.5 billion. The Kamchatka and Primorsky Krai, Jewish Autonomous Region, Chechen Republic and Republic of Ingushetia were added.

Thank you for your attention, please do not hesitate to ask your questions.

Question: Alexander Burgansky, Renaissance Capital Investment Group. What is the progress in unification with Rosgazifikatsiya and consolidation of regional gas companies in Gazprom's structure?

Kirill Seleznev: The process was initiated as early as last year. As you know, the stakes owned by the Russian Federation were handed over to Rosneftgaz. Currently, the Property Management Ministry has nearly finished assessment. It's difficult for me to say when they are going to finish it up; however, we are planning to close the deal in 2009.

Question: Kostroma state-owned television and radio broadcasting company. I would like to ask you about my region. The Kostroma region is among least gasified in the Central Federal Okrug with only 53 per cent. Regional authorities have not been performing their obligations since 2006. Recently, transition to local fuels has been positioned. I would like to know your opinion on the matter and on the gasification prospects in general.

Kirill Seleznev: I am sure You understand we don't like it when the authorities do not perform the obligations undertaken. We will certainly take it into consideration when allocating funds for the Kostroma Oblast gasification and identifying the facilities to be constructed there. Therefore, we believe everybody has to fulfill the commitments undertaken, and Gazprom will perform the commitments undertaken as well, the gasification level may be substantially raised. In case there are certain regions where it's reasonable to use alternative fuels for heating, we'll actually support that. Every thing should be feasible. If it's better to use alternative fuels, we should do that. As far as I know, peat reserves are quite plentiful in the Kostroma Oblast; therefore, they may be partially used for power generation.

Question: Stavropolskaya Pravda. Could you, please, tell us how new exchange technologies will impact this year's contractual campaign. Thus, there are penalties for the failure to take the agreed amount of gas under the contracts. Will this

system become more flexible over time?

Kirill Seleznev: You have actually answered the question indirectly. Introduction of new exchange technologies, namely one-day-ahead trading, will surely provide a more flexible attitude to shaping the fuel balance and adapting to changes in gas consumption at the consumer side, thus eliminating possible penalties for failure to take the agreed amount of gas.

Question: Voronezh, Bereg newspaper. The question is as follows: the proceeds grew and the amount of natural gas sales dropped in 2008. What is this related to – the crisis or, maybe, something else? And the second question. The Gazprom to Children program goes well in our Oblast. Four sports grounds have been constructed. There have been plans to construct more; however, there is still no movement. Will the program keep moving? Thank you.

Kirill Seleznev: Let me start from the second question. I am not responsible for the Gazprom to Children program execution. However, since Gazprom is a socially responsible company, I believe that the program implementation will be continued.

As for the drop in sales volume, you are right, I can quote some figures. In the fourth quarter of 2008 alone, gas sales decreased by some 7.5 billion cubic meters if compared to the same period in 2007. And this is obviously related to a harsh economic environment.

Question: Reuters Agency, Tatyana Mosolova. How has the domestic gas consumption changed due to the crisis? Are you building up the reserves while the demand is low and how has the amount of reserves changed versus last year?

Kirill Seleznev: I have already quoted the figures for the fourth quarter of 2008. In addition, I can say that in the first quarter of 2009 we got some 6 billion cubic meters – that's it. Thus, within half a year the gas demand dropped by over 13 billion cubic meters in the Russian Federation if compared to the same period of 2007–2008. This proves a decline in gas demand is related to the global economic crisis. As for the reserves planning, it should be demand driven, that's for sure. Since the demand is declining, there will be no increase in the amount of reserves. Once we observe a trend for the gas demand upsurge, we will launch the reserves augmentation program in order to meet the demand of each and every group of consumers.

Question: Tula state-owned television and radio broadcasting company. Mr. Seleznev, could you, please, say how much the Russian regions gasification program was cut due to the crisis. Were the deadlines for the Central Federal Okrug gasification changed respectively?

Kirill Seleznev: I have already mentioned that RUB 18.5 billion was allocated for 2009. This is slightly lower than the 2008 investments; however, there is no drop

or adjustment in the program for 2009. Therefore, the obligations undertaken will be fulfilled in full. As for 2010 and the subsequent years, we will tackle the issue of the gasification program for this period only in late 2009 in order to compile it in the most detailed and robust way.

Question: Tatyana Yulaeva, Orenburgskaya Nedelya newspaper. It was a pleasure to see our Oblast among the nine regions doing well with the gasification. As far as I know, almost all the settlements accounting for at least 100 households in the Orenburg Oblast are gasified. However, our governor and the population would like Gazprom to continue gasification of smaller settlements being most promising. I am aware that the respective negotiations were held. Have they been a success? Will we get additional funds for gasification of smaller settlements?

Kirill Seleznev: Right you are, the Orenburg Oblast has succeeded in performing the obligations undertaken and it is one of the leading regions in terms of the gasification level. It is overrun by the Stavropol Krai only, if I'm not mistaken. You were right when saying that gasification of smaller settlements is subject to economic viability. In case it is viable, we will surely continue gasification of population centers in the Orenburg Oblast. In case it is not reasonable, we will consider gas supply options with the local administration. It may be LNG or other alternative energy sources.

Question: Ekaterina Kaznina, Sovetskaya Chuvashia newspaper. In the existing economic environment the number of late payments is likely to have increased. How is this challenge tackled and what regions are most exposed to it?

Kirill Seleznev: The question is quite relevant. Speaking of the 2008 operating results, namely, the fourth quarter of 2008, we did not notice any negative changes in the payment process. However, in the first quarter of 2009 we experienced a 7–8 per cent decline in the amount of payments collected. Among the “top performers” are the regions of the Southern Federal Okrug. However, there have emerged some payments in arrears primarily among utility, municipal and household consumers in the central part of Russia. We will tackle the issue jointly with regional authorities. Our approach is quite flexible and understanding. Our position is that gas must be paid for.

Question: Perm state-owned television and radio broadcasting company. The question is related to the Perm Krai gasification, the northern part of it. What are your plans and prospects for it due to a complicated financial environment? And to continue the previous question – due to the growing number of gas payments in arrears, is there a threat of disrupting the heating season in 2009–2010?

Kirill Seleznev: Let me start from the second question. It is obvious that if the gas accounts are not settled before the heating season commences, it may start untimely. Therefore, this problem should be solved jointly with the Perm Krai authorities. As for the gasification, the undertaken obligations will be fulfilled in

full. We are planning to gasify the Perm Krai. There is no problem with it, I believe. However, the plans may be adjusted on the basis of the program execution results and the obligations fulfillment by the administration, as well as with due regard to the payments for gas. As you understand, the adjustments are likely to be made downwards.

Question: Ekaterina Chernakova, REN TV broadcasting company. What is the outlook for creating a system of general liability insurance for the violation of domestic gas utilization safety rules? People are often to blame themselves for the accidents.

Kirill Seleznev: It's an interesting question. I believe such a system is highly demanded taking into consideration the recent developments. The problem is tackled by Gazpromregiongaz, a subsidiary of our Company. We are trying to find a solution with the SOGAZ insurance company. Initial activities are expected to commence as early as in the second half of 2009.

Question: Nikolai Khrenkov, Gazprom Journal. A somewhat contradictory item of information was received from the Energy Ministry on the date of issuing the directive governing electronic and exchange trading. Do you have any information on the exact date? Will there be enough time to make a provision for the amount of ETP gas in the 2010 gas balance?

The second question: you have numerously spoken of the areas where pipeline gas is not reasonable. Is it possible to implement a program for automated supply of liquefied petroleum gas (LPG) there? Is Gazprom ready to make investments in this program?

Kirill Seleznev: As for the Government Directive, I can say that we have made our best efforts; we have coordinated the directive and sent it to the Energy Ministry. I can not actually say why it has not been issued so far. The Energy Ministry is to be asked. We believe that the Directive is demanded since the experiment was positively assessed by all the Ministries and authorities. We should proceed. As I have already mentioned, a crucial step was made in 2008 when one-day-ahead trading was launched making consumers capable of buying gas a day ahead, controlling their gas consumption, avoiding penalties and potential failures to take the agreed amount of gas.

As for the LPG volumes that may be supplied to the population centers where pipeline gas supply is unreasonable, we are certainly dealing with it. A Gazprom subsidiary, Gazenergoset, is in charge of liquefied gas supplies to the Russian regions. Our gas distribution subsidiaries possess a branched network in many regions to fill gas into cylinders and deliver them to consumers. Thus, we are working on it, we are investing funds in the program and we will keep developing this segment.

Question: Anna Peretolchina, Vedomosti newspaper. I have a number of questions. Firstly, what amount of gas was purchased by Gazprom from independent producers in 2008 and during five months of 2009? Secondly, Gazprom's domestic gas sales reduced by 12.6 per cent according to the first quarter results. Other gas producers haven't encountered a drop – NOVATEK gained 2 per cent, for example. What is it attributed to? Is it provided for by the contract or, maybe, the customers of independent gas producers were increasing production unlike those of Gazprom?

Kirill Seleznev: In 2008 we purchased more gas from independent producers than in 2009. This is certainly related to changes in the market behavior and a drop in the demand for gas. I have already mentioned it. What is the reason for an upsurge in NOVATEK's gas sales? This is attributed to the fact that its customers were consuming gas, the company's contractual basis is more flexible than the one of Gazprom. The pricing principles are probably more flexible. That is why NOVATEK was selling gas to a greater extent.

Question: Kostroma Oblast, Narodnaya Gazeta newspaper. Mr. Seleznev, our governor in his public statement said that by 2012 the domestic gas price would be equal to the world gas price or EUR 400 per 1,000 cubic meters. Is this forecast correct?

Kirill Seleznev: As you know, the Government has approved a number of decisions to ensure parity between the domestic and the export gas price on the equal profitability principle by 2012. It should be taken into consideration that the price will not include taxes, excise duties and transit payments. Our domestic consumers, both industrial enterprises and population, will enjoy certain benefits, the gas price for them will be lower than the one for the consumers abroad. It will obviously be lower than 400 euros.

Question: Darya Gavrilenko, Rus regional television and radio broadcasting company, Kostroma. A question on household gas appliances (HGA). The matter is that our regional gas distribution company is seeking to make contracts with the population. However, people do not want to make contracts and let gas workers in their apartments. Is the federal government developing a legal framework in order to help the gas workers persuade the population every time in the necessity of making contracts and letting them inside? It's a big problem for us.

Kirill Seleznev: Your question is absolutely correct. There is such a problem and it became more urgent in the last year when a series of accidents occurred due to incorrect operation of HGA. We are handling the issue on the federal level. We are waiting for a number of the Government Directives binding the HGA operating companies to obtain licenses and hire the appropriate qualified personnel and equipment. Consequently, if there are other companies, in addition to gas distribution companies, they should meet specific requirements. According to our

point of view, this will help reducing today's accident rate.

Question: Olga Vanina, Volgogradoblغاز. My question is about HGA. The recent Directive of the Russian Federation Government No. 549, let's say, provided regional gas traders with an opportunity of suspending gas sales due to the absence of HGA maintenance contracts. The question is as follows: is it possible to make HGA maintenance contracts between a gas distributor and a regional gas trader to ensure that regional agents provide services directly to the accommodation owners to compensate the gas distribution companies for the HGA maintenance costs in a way similar to the gas transmission costs compensation? Thank you.

Kirill Seleznev: I believe you are right. There are several options depending on a region and a certain consumer group, including the agent services for HGA maintenance, similarly to gas transmission.

Question: Elena Minina, Kreml state-owned television and radio broadcasting company, Nizhny Novgorod. I want to make an inquiry regarding ETP. You said regional electronic trading platforms would be created. I would like to know if the regions will be in charge of their creation or they will be created in a single centralized way.

Kirill Seleznev: I am sure they will be created in a unified manner. The platforms will be based on a single software package, which has already been developed and successfully approved at the Mezhhregiongaz electronic trading platform.

Question: RBC, South-Urals branch office. I would like to speak of the debts again. The same problem is encountered in the Chelyabinsk Oblast. What do you think are the most reasonable efforts to be taken in relation to the debtors; in particular, what is your opinion about disconnection of persistent non-payers?

Kirill Seleznev: You were right to say persistent non-payers. Persistent non-payers should definitely be disconnected. As for the rest of consumers, a flexible approach is required. A constructive dialogue is needed. In addition, we pursue a socially responsible approach to utility enterprises and population. Therefore, a flexible approach is required in each and every case. Those who are not paying and do not want to pay should definitely be disconnected. We are going to do that.

Question: Alexey Zavyalov, Vologdaregiongaz. I have two questions. The first one: is there any news about the proposed tariff changes before the year end? There have been rumors. The second question: this year Gazprom has fully fulfilled its commitments regarding the Vologda Oblast, as it did last year. However, regional authorities are not always doing well and this year the funds allocated for the region gasification have been considerably reduced. Is it your reaction to inappropriate behavior of regional authorities, are these facts linked somehow?

Kirill Seleznev: Let's start with the first question. Do you mean changes in gas prices when saying tariff changes? So far, we are sticking to the arrangements agreed with authorities, nothing is changed in them. We hope all the arrangements will be fulfilled.

As for the Vologda Oblast gasification, if the regional administration fails to fulfill the obligations undertaken, the amount of investments may be adjusted on the basis of this year's operating results. The same actually took place in case of the Vologda Oblast. Based on the 2008 operating results, we have adjusted downwards the amount of investments in a number of regions, including the Vologda Oblast. For example, the Krasnodar Krai caught up with the others and even became a leader in terms of consumer preparation, and in 2009 the respective amounts were added. Thus, it's up to the regions. If they perform their obligations, catch up, it's quite possible that the amounts will not only be restored, but increased.

Question: Tatyana Semenova, Lipetskregiongaz. Mr. Seleznev, could you, please, say if there is any analysis of a possible relation between the increased amount of payments in arrears and non-execution of the gasification program? I mean failure of the local authorities to implement the program?

Kirill Seleznev: I can answer as follows. As a rule, the administration that fails to perform the undertaken obligations to prepare consumers is not good in dealing with those consumer groups that are prone to indebtedness. These are most commonly heat generating companies, municipal entities and utility enterprises. That is why we have not observed such a trend, although it is true for a number of regions. This is an indicator of the administration activities quality.

Moderator: Thank you very much. The Press Conference is over.