

Press Conference
Gas Supply to Domestic Market. Executing Russian Regions Gasification Program
May 22, 2019

MODERATOR: Good afternoon, dear colleagues. Today, we are holding the third Press Conference scheduled in the lead-up to the annual General Shareholders Meeting of Gazprom. Let us discuss gas supplies to the domestic market and the progress of the Gas Infrastructure Expansion Program.

Taking part in the Press Conference are:

- Gennady Sukhov, Member of the Management Committee, Head of Department, Gazprom;
- Sergey Gustov, Director General, Gazprom Mezhregiongaz.

I give the floor to the speakers, and then we will turn to your questions.

GENNADY SUKHOV: Good afternoon, dear colleagues. We have divided our presentation into two parts: the first part is focused on gas supplies to the domestic market and the amount of proceeds; the second part is about the Gas Infrastructure Expansion Program and the operation of gas distribution networks.

(Slide 1) In 2018, the Gazprom Group increased its gas sales to Russian consumers by more than 4.3 per cent as compared to the previous year, notably due to the weather conditions observed in the first and fourth quarters. The winter was quite long and cold, which led to higher withdrawal rates among power generating companies, public utilities, and the population. The weighted average prices rose over the year. However, it should be said that by these we mean the average region-wide price for the industrial sector and the average region-wide price for the population. The rising prices led to higher revenues for the Company throughout 2018.

Gazprom continues selling gas through stock exchange transactions. In 2018, the Company traded 13.6 billion cubic meters of gas, which comprised over 87 per cent of the whole trading volume. A certain decline in volumes is attributable to the specifics of the subsidiary companies' work last summer. There is one point that needs to be emphasized in this connection: gas prices at balancing hubs grow precisely during the peak demand periods when gas is most needed, and this trend is particularly apparent here.

(Slide 2) Gazprom provides reliable gas supplies to consumers in the Russian Federation. The Gazprom Mezhregiongaz Group reported a 3.7 per cent rise in gas sales versus 2017. The consumption structure remains unchanged; the main consumption groups are the power industry, the population, public utilities, and other sectors.

(Slide 3) An acute problem still faced by the Company is the outstanding debt of Russian consumers for gas supplies. The slide shows a 6.2 per cent rise in the debt in 2018. The level of indebtedness is constantly changing as a result of stepping up supplies to the population, public utilities, and heat suppliers, which are the main debtors.

(Slide 4) The debt owed by heat suppliers, which remain the largest category of debtors, has grown by 1.8 per cent. The causes for the accumulation of debts are still the same; the situation repeats year after year because the problems, which have become persistent and systemic, are not being addressed. We are taking appropriate remedial measures, but they probably should be more drastic.

(Slide 5) In 2018, the outstanding debt of state-funded organizations dropped by 1.1 per cent against 2017. Upwards of 93 per cent of this debt is owed by the Ministry of Defense. We are working with them on this issue. Of course, not everything is going as planned, but we hope to finally resolve this situation.

The debt of the power industry is presented as of April 1. Power generating companies typically accumulate debt and delay payments in winter. However, the situation improves by the end of the year.

(Slide 6) The debt accumulated by the country's population climbed by 8.4 per cent in 2018. The private consumers of the North Caucasus Federal District account for almost 89 per cent, or RUB 68.6 billion, of the debt.

(Slide 7) The weak financial discipline in the North Caucasus republics remains one of the main challenges. While consuming around 7 per cent of all gas supplies, the North Caucasus has accumulated over 52 per cent of the entire debt.

(Slide 8) Gazprom is taking appropriate measures, working consistently to facilitate debt reduction, and holding debt reduction events at various levels. Some regions are displaying positive dynamics in reducing the debts of non-payers, mostly among heat supply companies.

In 2018, Gazprom signed 21 debt repayment schedules with regional authorities. However, they were fulfilled by not more than 30 per cent by the year end. Nine constituent entities of the Russian Federation completely failed to meet these schedules: the Republic of Udmurtia, the Chuvash Republic, the Vladimir, Volgograd, Orenburg, Penza, Pskov, Saratov and Ulyanovsk Regions. In these circumstances, our most effective albeit undesirable leverage against the non-payers is to cease gas supplies.

(Slide 9) The slide reflects the work towards streamlining the current legislation in a way that would allow us to optimize the settlements for gas supplies and cut losses, as well as the results of filing claims and lawsuits across the Gazprom Mezhhregiongaz Group. The work is being done in a consistent manner, the numbers are constantly changing, so it would not be correct to examine them individually for any specific period.

(Slide 10) The slide provides data on the offences committed; more than 75 per cent of the total number of offences recorded in Russia have occurred in the North Caucasus republics. Let me focus on just one indicator: last year, 192 judgements of conviction were passed and 154 individuals were convicted for unauthorized connections to gas networks or siphoning off gas.

(Slide 11) The measures to improve the collection of payments and cooperation with law enforcement agencies, mostly in the North Caucasus region, are presented in the slide. In 2018, upwards of 15,700 statements were filed regarding offences related to gas supplies in the North Caucasus republics, more than 7,000 criminal and administrative proceedings were initiated, and over 5,000 decisions were passed on the attachment of liability for the illegal actions committed.

And now I give the floor to Sergey Gustov, who will update you on the implementation of the Gas Infrastructure Expansion Program and the performance of gas distribution organizations.

SERGEY GUSTOV: Dear colleagues, I have served as Director General of Gazprom Mezhhregiongaz for a month now. I do not think I have gained enough knowledge about all the challenges at all facilities throughout the country over this period, because much more time is needed for that. If any of your questions go unanswered, we will prepare the answers after the Press Conference and send them to you.

(Slide 12) In 2018, gas distribution networks of Gazprom Mezhhregiongaz conveyed 227 billion cubic meters of gas, a 3.4 per cent rise against the previous year. It is worth mentioning that the program for consolidating gas distribution networks has been practically completed. As many as 744,000 kilometers of gas pipelines form part of the gas distribution networks that fall under the responsibility of Gazprom Mezhhregiongaz.

Work continued on reducing the timeframes of hook-up, i.e. connection of new consumers to the existing gas grid. This led to legislative amendments, in particular, amendments to the Federal Law No. 330-FZ¹, which streamlined the state registration of gas distribution networks. Efforts will continue in this direction because the fast-track preparation of design and commissioning documentation will help reduce the cost and time of connecting individuals who are in need of gas supplies. The number of issued technical specifications for connection has increased by 36 per cent to 210,000. Connection of permanent structures has amounted to 102,000 cases – 59 per cent up from 2017. The hourly gas consumption by the facilities connected in 2018 reaches 1.2 million cubic meters.

(Slide 13) The implementation of the Gas Infrastructure Expansion Program in Russian regions is among the priority activities of our Company. Since the Program's launch in 2005, Gazprom has invested over RUB 361 billion in it, including RUB 36.7 billion in 2018. The natural gas penetration rate has increased from 53.3 per cent to 68.6 per cent, with an increase of up to 71.9 per cent in cities and towns, and up to 59.4 per cent in rural areas. In 2018, the Program covered 66 constituent entities of Russia; 410 facilities

¹ Federal Law No. 330-FZ dated August 3, 2018, on Amending Article 51 of the Russian Town Planning Code.

were built and 537 facilities were designed under the Program.

(Slide 14) One of the key problems associated with the implementation of the Gas Infrastructure Expansion Program is the persistent failure of the regional authorities to fulfill their obligations to prepare consumers for gas supplies. This leads to delays in gas supplies in a number of localities. The gas supply capacities built by Gazprom remain unused. Between 2005 and 2018, only 10 out of the 68 regions involved in the Program fulfilled their obligations by 100 per cent, as shown in the slide. As many as 34 regions fulfill their obligations with slight delays, which is good enough. Fourteen regions are significantly behind the schedules, and five regions continuously fail to comply with the assumed obligations.

(Slide 15) The issues of safe use of household gas and proper maintenance of building-level and apartment-level in-house gas equipment (IHGE) are of priority importance to Gazprom Mezhhregiongaz. In accordance with legislative requirements, the owners of domestic gas pipelines and equipment are solely responsible for their upkeep and proper technical condition. A necessary precondition for gas supplies is a technical maintenance contract to be signed by a gas consumer with a licensed service company.

At present, the Gazprom Mezhhregiongaz Group includes 69 gas distribution companies (GDCs) offering gas equipment maintenance services in 66 constituent entities. Operating as specialized service providers, GDCs nevertheless have to compete in their service market. As of January 1, 2019, as many as 23 million of gas equipment maintenance contracts were signed, which covers 87 per cent of the total number of household gas consumers. The remaining 13 per cent have either concluded contracts with specialized third-party organizations or have not concluded any contracts at all.

One of the reasons for the absence of maintenance contracts is the excessive liberalization of the maintenance service market, as a result of which so-called independent companies are provided with unlimited access. The market is open to all organizations, including those lacking the required professional competencies. Some housing management companies simply refuse to enter into comprehensive contracts for building-level gas equipment maintenance. In some cases, no maintenance contracts are signed because some apartment buildings have not yet selected a house management scheme and there is no one in charge for our subsidiaries to interact with.

(Slide 16) The vast majority of gas-related accidents, including high-profile ones, are due to the reasons outlined in this slide: unauthorized interference with gas equipment and operation of gas-powered equipment with no airflow in smoke or ventilation ducts.

It has to be noted that all accidents can be divided into the following groups: 62 per cent can be attributed to carbon monoxide poisoning due to non-removal of combustion products (the maintenance of building-level gas equipment does not cover this issue, because all housing infrastructure should have a well-functioning ventilation system); unauthorized connections to gas supply networks (10 per cent), and explosions of a gas-air mixture (24 per cent) that occur for a variety of reasons – not all stoves are properly equipped; deterioration of IHGE in houses and apartments. As you know, many old buildings are fitted with antiquated stoves; it is amazing how they are still functioning. But since it is private property, Gazprom and its subsidiaries have no right to interfere with them.

These accidents are primarily a result of imperfect legislation on a whole range of issues. For example, this field of activity is outside the supervision of public authorities, which, in our opinion, should monitor the technical condition of gas-powered equipment in apartments and houses, as well as its proper maintenance by citizens. We are working hard to minimize the number of accidents. Consistent efforts are being taken to ensure safe use of household gas, including introduction of a unified technical policy on operational issues and promotion of safe use of household gas in our gas distribution companies. For instance, during my time as Director General of Gazprom Gazoraspredeleniye in 2008–2014, we published books on this subject and presented them to first-grade pupils across the country. The main character, Gazik, walked around the planet and explained how to use gas safely for household purposes. We will certainly continue these activities to raise awareness regarding the household use of gas.

Our goal is to ensure that GDCs conclude 100 per cent of contracts. And we orient them towards obtaining 100 per cent of the market for building-level gas equipment maintenance, which is why we need to win the competition against independent companies. Additional measures of operational safety

are also possible; they are considered on a case-by-case basis. As regards interacting with Russian constituents, almost all regions acknowledge the fact that maintenance services should be provided by a specialized organization that has the necessary experience and, most importantly, can bear responsibility for the performance of its employees.

(Slides 17–18) To improve safety, we put forward a number of initiatives. I am going to outline the major ones here.

The first initiative is to introduce licensing for companies servicing IHGE in houses and apartments, including licensing for the examination of smoke and ventilation ducts because, as you can see, most deaths are caused by gas combustion products, namely, by asphyxiation from carbon monoxide, rather than by natural gas itself.

The next one is to recognize building-level gas equipment forming part of the common property of an apartment building as a single technical gas supply system that can receive maintenance on the basis of a comprehensive contract concluded with a housing management company. Thanks to this, we will not have to consider separately the building-level gas equipment installed in the common areas and the section of the pipe that is placed inside the apartment and connected directly to the stove.

Moreover, it is necessary to add gas equipment requirements to the technical regulation of the Customs Union, specifying that, at the very least, newly manufactured equipment should have gas safety automation devices and gas combustion control systems. For example, in case of flame failure, all modern stoves stop feeding gas to the burner, while old stoves are, unfortunately, not capable of this. The Customs Union technical regulation should be amended appropriately to ensure that all stoves sold are equipped with this system. I think this would be a major step forward.

The next initiative is to resume the mandatory check of airtight connection between the parts of shut-off devices by means of pressure testing. You remember how it used to be when gas workers arrived, soaped a pipe joint, and checked its soundness. It is just a commonly used method, and we are ready to apply up-to-date techniques for checking leakproofness.

(Slide 19) I wish to highlight that the issue of abandoned gas pipelines is a salient problem for us today, and, unfortunately, there are still many of such pipelines. As of January 1, 2019, their length totaled 4,900 kilometers across the country, whereas the overall length of gas pipelines operated by GDCs of the Gazprom Mezhhregiongaz Group was 745,000 kilometers. These are gas pipelines that have no owner. They include intra-settlement pipelines passing through municipalities – the pipelines for which municipal authorities failed to register property rights on a timely basis in the manner prescribed by law – and gas networks built by now-collapsed collective farms that have no owner, or by state farms or industrial enterprises that no longer exist.

According to the law, we should disconnect them because such gas pipelines are a potential source of accidents and explosions, and pose a great danger to human health. In this case, however, consumers, most of which regularly pay their gas bills, will be cut off from gas supplies. In most cases, GDCs are aware of these facilities, but there is no as-built and operational documentation for them and, most importantly, due to the absence of documentation we are unable to formalize the property rights. The only way to register these assets is to recognize them as abandoned property and register municipal ownership with a subsequent transfer, sale or conclusion of a maintenance services contract.

(Slide 20) We offer a set of measures to address this challenge. In particular, we propose to empower the Government of the Russian Federation to develop a procedure to be followed by local governments when identifying an abandoned gas pipeline; to introduce administrative liability of local governments in the cases where an abandoned gas pipeline is discovered but no registration of municipal ownership is performed with regard to it; to identify a source of finance to support local government activities in the cases where registration of a facility immediately entails the obligations to register the upkeep rights for the facility and the necessity of signing a maintenance contract. I would like to emphasize again that there are a lot of such gas pipelines, and I think they pose a potential danger.

(Slide 21) Some sections of gas networks carrying gas to the end consumer are not our property; they are owned by third parties, including private individuals. As I have said, there are very few of them now, but they still exist. In this case, we propose that the obligation of these owners to conclude maintenance contracts be formalized, or that the owners ensure the proper maintenance and operation of these facilities

by their own efforts, and we also propose that the administrative liability of the gas supply facilities' owners for the failure to perform maintenance and repair of the facilities be duly formalized as an addition to Chapter 9 of the Russian Code of Administrative Offenses regarding violations of gas supply legislation.

(Slide 22) In 2008, when I became Director General of Gazprom Gazoraspredeleniye, we set ourselves the goal to increase the share of underground polyethylene (PE) gas pipelines, which are characterized by low cost and anti-corrosion properties (allowing for underground placement); they are easy to install and do not need waterproofing. Their service life is much longer compared to similar steel pipes. The important thing is that we are committed to ensure that PE gas pipelines are applied in all new construction projects. And the progress is obvious. All of you probably remember those U-shaped steel pipe overhead crossings observed above roads throughout the southern regions of Russia. We want to move away from this solution, so new construction and renovation works are being carried out in such a way as to reduce the share of steel gas pipelines and increase the share of PE ones, and, if possible, to place them underground.

(Slides 23–24) The Gazprom Mezhhregiongaz Group continues to take an active part in streamlining the regulatory framework. As Director General of Gazprom Mezhhregiongaz, I see it as my main challenge to take part in improving the Russian legislation, also with the aim of strengthening financial discipline and providing reliable gas supplies.

Efforts have been made to prepare a number of draft laws. Governance of settlements related, for instance, to damage from illegal connections, is a very pressing issue in the North Caucasus, as is unauthorized tampering with gas meters. And, once again, I would like to stress the issue of streamlining the procedure for maintenance and operation of IHGE in apartments and houses. I am now ready to answer your questions.

QUESTION: Vyacheslav Sukhanov, Kommersant – Prikamye newspaper (Perm Territory). The former management team of Gazprom Mezhhregiongaz negotiated the construction of a second LNG plant with the Perm Territory administration; the first plant was put onstream in our region in 2015. The question is: is the project still ongoing and will you continue its construction or at least consider it? What topics will the new management team of Gazprom Mezhhregiongaz discuss with the regional authorities? What common ground do you have?

SERGEY GUSTOV: Gazprom is running a program for building 31 small-scale LNG plants. I am well-versed in LNG, as for the last five years I have been engaged in LNG technologies and the construction of two plants. Autonomous gas supply is a very good option for the areas with a small number of consumers where the length of a gas pipeline strongly affects the price for gas. Of course, LNG supplies are needed there. Today, this program includes 31 plants. As far as I know, it is pending approval by Gazprom. I think that it will soon become publicly available. We believe that it is a good opportunity to expand the gas infrastructure across the entire country. This is what Mr. Miller was talking about at the meeting with the President of the Russian Federation.

QUESTION: Anton Khlyshchenko, Interfax agency. Alexey Miller stated in April that Gazprom is ready to start implementing the automated support of contractual procedures regarding gas supply. When will this program begin? What target indicators, perhaps for balancing, collection of payments and sales effectiveness, are embedded into it?

GENNADY SUKHOV: The program is in its initial stage now. The focus of the program has been defined, but we are well aware of many issues related to technical means. So, we have set to work and we are still doing analysis, but I can highlight the issues that can create obstacles for us at the moment. It is proposed to introduce so-called smart contracts, which have not been legally adopted by any country, and, therefore, the existing laws and gas supply regulations need to be amended to allow for the use of such technologies.

Nevertheless, it is a promising area of activity, and we will follow up on this. Now we are focused on improving the software package in Gazprom Mezhhregiongaz. The so-called Single Technology Space will enable record keeping and, later on, automated record keeping of processes.

QUESTION: Lyudmila Arzamasova, Sovetskaya Chuvashia newspaper (Chuvash Republic). This year, Cheboksary – the capital city of our Republic – is celebrating its 550th anniversary, and the next year will

mark 100 years of Chuvashia's autonomy. The Republic is almost completely provided with gas infrastructure, however, the blue fuel is still unavailable in some localities. I would like to hear an update about the future of the gas pipeline towards the TransVolga area, as part of the Gas Infrastructure Expansion Program implemented in Russian regions.

SERGEY GUSTOV: The gas grid in Chuvashia is well-developed. As for the TransVolga area, Gazprom Mezhhregiongaz has already completed design works, and this year it is going to start building a pipeline branch, the Kokshamary gas distribution station based in the Zvenigovsky District of the Republic of Mari El, and an inter-settlement gas pipeline to provide gas supplies to the TransVolga area of Chuvashia. The completion date for the construction of these facilities is 2021.

QUESTION: Tatyana Semyonova, Lipetskmedia web portal (Lipetsk Region). Mr. Gustov, you said that only specialized organizations, including gas distribution companies, have the right to provide technical maintenance and overall servicing of gas networks. As you know, the competition for this market in our region is getting absolutely out of control.

Our gas distribution company signed maintenance contracts with almost all consumers, but that does not prevent representatives of third-party organizations from entering residents' apartments and offering them to buy gas sensors and fire detectors, or to install gas meters. There was a case when a gas leak was detected after such a gas meter had been installed by a third-party organization. It was eliminated by some miracle, and there were no consequences.

In this regard, my question is: are there any plans to settle these issues by legal means and, possibly, bring the gas distribution network back under the control of a single entity?

SERGEY GUSTOV: Maintenance of building-level gas equipment is a serious matter. The service market is experiencing tough competition after its liberalization. Luckily, in some constituent entities of Russia we are already servicing 100 per cent of the equipment, but each time we have to win competitive bidding in order to operate in this market.

Worryingly, the admission of these organizations to the maintenance of building-level gas equipment has been made too simple; it has actually turned into a formal notification procedure: a group of two or three people may declare that they have decided to provide services for gas equipment in a building. They apply for competitive bidding, where they try to win by offering the lowest price. As a result, this has a negative impact on the quality of services provided and, most importantly, affects the operational safety of gas equipment. With these factors in mind, we propose to introduce a licensing procedure requiring a company to demonstrate its resources and capabilities, as well as the presence of an emergency control service. Obviously, small companies lacking experience and expertise will not be able to pass this licensing. This is just one of our proposals.

Regarding the selling of gas sensors, it should be emphasized that it surges each time when news arrive that an accident has occurred, for example, in Magnitogorsk, where a whole house was damaged. It is a great tragedy that has led to an increased number of sellers of gas sensors.

Gas sensors are devices that are supposed to indicate a gas leak. They can be included in the domestic gas supply system, but they are in no way safety systems. Gazprom Mezhhregiongaz installs sensors equipped with locking devices. If gas starts flowing into the room, a shut-off valve is activated, and it blocks the gas feed as soon as the gas alarm is activated. A lot of companies offer these services. There are some simple tips in this regard: before you let in a person claiming to be an employee of a gas service company, you need to see his/her identification documents. Personnel authorized to provide building-level gas equipment maintenance has a certain type of certificate. If you have any doubt as to its authenticity, dial the well-known number: 04 or 112. Upon receiving a proposal to acquire gas sensors, you need to consult with the staff of a specialized company. Trust me, if any Russian citizen calls 04, we will record this phone call and will certainly respond. Employees of a specialized entity wearing uniforms and carrying appropriate identification documents will arrive at your place to provide advice to you and competent maintenance to your domestic gas equipment. At any rate, frauds and scammers do exist, and we need to fight them.

QUESTION: Mikhail Belyakov, Yarnovosti agency (Yaroslavl Region). In 2017, the gas debt of heat suppliers amounted to RUB 2.3 billion by the moment of the Gas Infrastructure Expansion Program renewal in the Yaroslavl Region. A debt restructuring program is in place, but it is not being fully

implemented right now. As a result, the debt has grown to RUB 2.9 billion. In this respect, I am wondering if the Company's policy concerning the allocation of investments for the Gas Infrastructure Expansion Program and the Gazprom for Children Program will be amended.

SERGEY GUSTOV: The matter is clear and simple: Gazprom is not going to revise its policy in this area, and investments in gas grid expansion and regional social programs can only be made if regions make gas payments in due time and keep up with their repayment schedule for the previously accumulated debts.

Moreover, we know the sources of debt in Tver, Yaroslavl, Vologda and Arkhangelsk. As soon as the schedule is signed, a constituent entity can qualify for the Gas Infrastructure Expansion Program, provided that the schedule conditions are met. If regional authorities recognize their responsibilities and meet their obligations, Gazprom is ready to meet them halfway because, you see, it is no use building gas pipelines in a region that does not pay for gas supplies.

QUESTION: Viktor Smirnov, 47news.ru online media outlet. Mr. Gustov, my question is about the troubles of the past, and since you are in charge now, it is directed to you. Did Raul Arashukov, the former adviser, get remuneration? If he did, are you going to sue him with regard to these amounts? If he did not, are you going to sue him for damaging the company's image?

SERGEY GUSTOV: By remuneration, do you mean salary?

VIKTOR SMIRNOV: Yes, his earnings.

SERGEY GUSTOV: He definitely received a salary as an employee of Gazprom Mezhhregiongaz.

VIKTOR SMIRNOV: Are you going to sue him for damaging the company's image, or for the salary amounts paid to him?

SERGEY GUSTOV: He is not an employee of Gazprom Mezhhregiongaz anymore. It was a resonant case; it is being investigated by law enforcement authorities. In this respect, the company's image has been damaged, as a lot of people are talking about it. But let us wait for the outcomes of the investigation and the subsequent trial, and then we will decide what to do.

VIKTOR SMIRNOV: You mean that you do not intend to file a suit yet?

GENNADY SUKHOV: Not yet. In this respect, I agree with Mr. Gustov. Investigation proceedings are still ongoing. We will decide as soon as the outcomes are available.

VIKTOR SMIRNOV: Do you think a verdict of acquittal is possible?

GENNADY SUKHOV: We have no assumptions; let us wait for the results.

SERGEY GUSTOV: I can only say that we are absolutely open to the requests of law enforcement authorities, and we are providing them with materials. Moreover, we even allocate our personnel to help them with technical issues. We are fully transparent so that the investigation and the court could reach the right decision.

QUESTION: Olga Shamova, ORT Planeta TV Channel (Orenburg Region). It was announced at the February meeting of Gazprom that 73 out of 81 heat supply companies in the Orenburg Region are showing poor financial discipline. How do matters stand now in this regard, and will this situation affect the implementation of the Gas Infrastructure Expansion Program in the Orenburg Region?

SERGEY GUSTOV: I know that yesterday Denis Pasler, Acting Governor of the Orenburg Region, met with Alexey Miller, Chairman of the Gazprom Management Committee, and they had a long and very fruitful conversation.

The debt repayment schedule for 81 debtors, namely heat suppliers, that was signed with the Orenburg Region last May and had a deadline of January 1, 2019, was not fulfilled. The debt not paid contrary to the schedule amounted to RUB 600 million. The debts of the regional heat suppliers grew substantially and reached RUB 922 million as of January 1, 2019.

In pursuance of the assignments issued at the aforementioned meeting, for which Viktor Zubkov, Chairman of the Gazprom Board of Directors, summoned the leaders of the constituent entities in which the debt situation is especially severe, the region committed itself in April to preventing debt from growing in 2019. We are currently reviewing the new debt repayment schedule and, unfortunately, we are

not very pleased with it. I hope that Mr. Pasler and I will finally adjust this schedule and sign it. I am sure that Mr. Pasler, whom I have known for many years, firmly believes that gas supplies should be paid for, and we will fully support him in this intention.

QUESTION: Alexandra Yakovleva, Volga publishing house (Astrakhan Region). In accordance with the energy efficiency law, owners of houses with gas heating systems were to install gas meters before January 1, 2019. To which extent have these requirements been met, and how will they be implemented later?

SERGEY GUSTOV: This requirement does exist. Today, the Astrakhan Region is probably the worst entity at implementing this law. Our subsidiary, Gazprom Gazoraspredeleniye Astrakhan, is taking sustained efforts, and a professional and knowledgeable Director, Vladimir Kameko, has been put in charge. As of January 1, 2019, almost 7,000 regional consumers failed to comply with the requirement to install gas meters. The new management sent notification letters to all subscribers concerning the need to ensure access to representatives of our companies to gauge the possibility of installing meters or to install them.

By now, 2,300 gas meter installation certificates have been completed, but I want to assure you that the new management team of Gazprom Gazoraspredeleniye Astrakhan – and I would like to stress again that this new management team is a highly professional one – will resolve this problem in the shortest possible time. This is about raising public awareness and about step-by-step, house-by-house work of the regional gas distribution company.

QUESTION: Olga Veresova, Afanasy-Business newspaper (Tver Region). As far as I know, Gazprom hosted a series of meetings yesterday, and one of them was attended by a representative of the Tver Region.

Previously, before the meetings, the mechanisms for settling the current debt problem in the region were actively discussed. It was announced, among other things, that gas and heat supply assets would be transferred under the control of Gazprom, and debts would be restructured. It was stated that debtors would be subsidized from the regional budgets, and also that financial discipline among debtors would be enhanced through the use of the Unified Clearing Center regional operator.

Which of these measures have been put into practice, and what decisions have been made at yesterday's meeting? And which of these measures do you find most effective?

SERGEY GUSTOV: Unfortunately, the Tver Region remains one of the Russian regions with the largest gas debts, besides the North Caucasus Federal District. Jointly with the Government of the Tver Region, we are conducting consistent efforts in a stepwise manner. Some tangible results have been achieved by now. According to our sources, the Governor reported the following at yesterday's meeting chaired by Viktor Zubkov: the Tver Region is consolidating gas transportation assets that are on the books of municipal and regional budgets and creating a regional gas company in order to prepare the company for possible privatization. Funds from the disposal of these assets will probably be used to settle the outstanding debt.

As for debt repayment by installments, a relevant agreement has been signed with respect to Tverskaya Generatsiya, which is probably well-known to you. However, it is too early to talk about the effect of this agreement, as it was only signed in February 2019, and, unfortunately, the company cannot start paying its debts under this agreement, which provides for debt restructuring within a five-year period. We hope, especially after yesterday's impartial discussion, that the regional government will take reasonable result-oriented actions, including regarding the backlog of problems observed in the housing and utility sector.

You know that CHPPs based in Tver are, if you will forgive this term, super inefficient because they were built based solely on steam and heat consumption. Today, a different consumption scheme is in use. Heat supply companies throughout the region are going bankrupt, debts are being frozen, and property has been transferred under the ownership of other companies. The Governor is aware of that and wants to address this situation.

Yesterday, instructions were issued based on the results of the meeting, and I think that by implementing the items of the minutes, some of which I cannot disclose to you right now, we will reach a positive result in the near future. The tariffs are very low, the standards are very low, and when you look at the numbers, it seems that the Tver Region is located not close to Moscow but somewhere far away. This is why we

got some confidence yesterday that, at any rate, we will be able to determine our strategy and take the right approach.

VYACHESLAV SUKHANOV: The Perm Territory has been once again listed among the regions having problems with connection to gas supply networks. As far as I remember, it is the third time that we have been put on this list. What are we doing wrong? What proposals do you have for the regional leadership for the Territory to be excluded from the list?

SERGEY GUSTOV: I met with the Governor of the Perm Territory ten days ago. Firstly, I would like to say that he was very well-prepared on the subject, we were speaking the same language, and the regional leader seemed to be conscious of all the problems and difficulties related to the overdue debt for gas supplies. Some problems are observed in fulfilling the synchronization schedule in the places where we built gas pipelines while those areas are not ready for gas supplies. In particular, we brought gas to many boiler houses, but the boiler houses were not converted to gas.

But I should once again underline the efforts of the regional government and the agreements reached with the Governor. Before, we talked about reducing the debt growth rates, but we no longer use that term. Today, we plan to reduce the debt, and in the near future we will sign a restructuring schedule. After our meeting initiated by the Governor, the Territory earmarked RUB 1.5 billion from its budget for retrofitting the regional heat supply system – this may be, so to say, a pilot initiative. Introduction of new highly efficient gas combustion technologies for heat production will help us address the problem of the growing gas debt owed by heat suppliers, while the tariffs will remain at the same level. And we looked at Gazprom's experience in retrofitting thermal power facilities, for example, in the Petrogradsky District of St. Petersburg. Once again, the Governor is well-versed in the situation, and I am sure that we will achieve satisfactory results soon.

QUESTION: Tatyana Kudryashova, Rossiya Segodnya agency. Just a few days ago, the Deputy Head of the Federal Antimonopoly Service of Russia stated that the Service expects to increase the minimum amount of gas sold via stock exchange trading to 35 billion cubic meters, and that this new trend will be introduced as early as mid-2020. He explained that this entire amount could be sold by Gazprom. To what extent does Gazprom support this new policy and is it relevant, given that you reduced your sales last year? Do I get it right that the restriction will still apply for Gazprom, that is, the Company is not allowed to sell more than 35 billion cubic meters on the stock exchange?

GENNADY SUKHOV: It should be mentioned that this issue is not a new one, and we have been discussing it for the last three years. Initially, it was a quantitative restriction: first, the threshold was 25 billion cubic meters, and then, it rose to 35 billion cubic meters. But in parallel, there were other proposals, which created unequal conditions for Gazprom in relation to independent producers. As a result, the proposal to amend Government Directive No. 323², which determines the amount of 35 billion, has essentially been agreed. Gazprom has long ago confirmed its stance on increasing the amount of sales via the stock exchange; we are ready to provide these volumes if some restrictions on the upper limit are lifted and the sales parity with independent companies is eliminated. Therefore, our proposal is: we support the increase in gas trading.

TATYANA KUDRYASHOVA: Do I get it right that the upper limit, the restriction for Gazprom, will not exceed 35 billion cubic meters?

GENNADY SUKHOV: At this stage, exactly this quantity is being considered.

QUESTION: Lyudmila Podobedova, RBC newspaper. Can you disclose the plans for disconnecting non-paying consumers, including heat supply companies, from gas networks in the coming non-heating season? Are there such plans in place for the North Caucasus? Have you already encountered any protests against them this year?

GENNADY SUKHOV: We have no such plans. This work is continuous, and we cannot say that we plan to disconnect one or another non-payer. After all, the debts are formed sporadically; they are not systemic by nature. As for consumers in the North Caucasus, each republic and each regional subdivision

² Russian Government Directive No. 323 dated April 16, 2012, on Natural Gas Trading at Commodity Exchanges and Amendments to the Acts of the Russian Government Regarding State Regulations for Gas Prices and Access to the Gas Transmission System of Open Joint Stock Company Gazprom.

of Gazprom Mezhhregiongaz has its own plans for working with non-payers, which include not only cooperation with law enforcement agencies (we have already provided the statistics), but also a mandatory restriction to be imposed if other measures are inefficient.

SERGEY GUSTOV: We will introduce limits for non-payers, and disconnect them in extreme cases.

TATYANA KUDRYASHOVA: Who is the largest debtor among industrial consumers at the beginning of the year or to this date?

SERGEY GUSTOV: Honestly, no one can be singled out. The industrial sector pays diligently. The main problems with overdue debts come from heat supply companies and the population.

QUESTION: Dmitry Konstantinov, Gas Industry magazine. What digital innovations have been introduced recently with regard to the gas payment system, gas supply dispatching system, and the control of these systems?

GENNADY SUKHOV: We mentioned the efforts of Gazprom Mezhhregiongaz towards the formation of a single information and technology space – this work is being carried out, it allows us to adopt a single approach to the dispatching issue with regard to determining the gas sales volumes. But this work needs to be stepped up for one simple reason: it is necessary to have simple gas meters, which not every consumer has. If we further develop this sector, simple gas meters should be replaced with meters equipped with certain telemetry systems and software. Today, a lot of effort and finances are invested to lay the groundwork for the transition to digital technologies in this area.

SERGEY GUSTOV: I will mention two figures regarding the single information and technology space, which is now being formed at Gazprom Mezhhregiongaz. For instance, industrial consumers account for 82 per cent of domestic gas consumption, but we do not even need to visit them, as the consumption data are collected remotely using telemetry. Therefore, 82 per cent of the consumed gas is recorded in an automated mode. We want to raise this level to around 90 per cent; that is, not only large enterprises will be covered.

A separate line of activity is the digitalization and automation of gas consumption recording for the general population, and the corresponding installation of gas meters. Additionally, I will mention another topic in this context: we intend to connect gas distribution companies to the main system of regional sales companies, with separate consumption recording zones. Among other things, this will enable us to proactively control unauthorized connections and gas losses in the networks.

DMITRY KONSTANTINOV: Are you considering the blockchain technology in application to gas supply?

GENNADY SUKHOV: We are currently studying this potentiality in order to translate it into reality. First of all, we need meters to take readings, and then we will proceed to the formation of these blocks and application of smart contracts or smart cards, which, by the way, are not covered by the current legislation. It will also take time to adapt these products to the realities of our country.

QUESTION: Anna Shomina, 1000 inf. web portal (Ivanovo Region). What is the status of the Ivanovo Region in terms of debt accumulation compared to other regions? Will this affect the future construction of a new sports center in Ivanovo and the scope of investments in gas infrastructure expansion? Will you halt the development of large agricultural investment projects? For example, the Dymov company plans to build meat processing and pig-breeding complexes in the Gavrilovo-Posadsky District.

SERGEY GUSTOV: The Ivanovo Region is among the constituent entities where we implement the Gas Infrastructure Expansion Program in Russian regions, also with the aim of supplying gas to the pig-breeding complex of a meat processing plant in the Gavrilovo-Posadsky District. Gas supplies to these facilities will become feasible in 2019 (the first stage) and in 2020 (the second stage). Moreover, this year, as part of bringing gas to the residential areas of this district, we are beginning to design gas pipelines stretching from the same pipeline to population centers, such as Yaryshevo, Zagorodny, Novoselka, Berezhok, and others.

Last week, we made the decision to start supplying gas to the farmstead of a convent whose name eludes me at the moment. The nuns approached us with this request; we considered it and decided that it was economically feasible to provide gas to the farmstead as well. Four adjacent villages will also receive gas.

As part of the Gas Infrastructure Expansion Program, a total of 1,375 households and four boiler houses in the Ivanovo Region will be supplied with gas in 2019–2020.

QUESTION: Elena Belentsova, Kursk newspaper (Kursk Region). Last year, a similar question was put forward by our regional print media, and it dealt with the debt owed by entities associated with the Ministry of Defense. The question, so to speak, made a stir because the Ministry of Defense commented on it the same day, saying that the debt was insignificant and it was easy to settle. In the Kursk Region, the long-standing debtors are the Maintenance and Repair Department, the Public Utilities state-owned institution, and Gazspetsresurs. A year has passed, and the problem has not been solved. Will there be any progress with the Ministry of Defense?

SERGEY GUSTOV: Gennady Sukhov explained in his speech that the total overdue debt of the entities of the Ministry of Defense to the Gazprom Group companies, including Gazprom Mezhhregiongaz, Gazprom Energoholding, and Gazprom Teploenergo, is about RUB 12 billion as of April 1, 2019. And it was accumulated by the companies you have named. As you know, it is quite complicated and sometimes impossible to repay debt through initiating a bankruptcy procedure for the entities of the Ministry of Defense, since they own no property. The boiler houses of the Ministry of Defense were transferred to these organizations for free use or on the basis of the right of economic management.

This issue needs to be resolved. Viktor Zubkov, Chairman of the Gazprom Board of Directors, has forwarded an official request to the Minister of Defense, including the proposals to determine the sources, mechanisms and deadlines for the repayment of this debt. This is a problem on a national scale; I think it will require an intervention from the Russian Government. And this is not a problem for the Kursk Region alone, this is a nationwide problem, and we are addressing it now. I am sure that we will reach an agreement with the Ministry of Defense.

QUESTION: Natalya Solyankina, Den Respubliki (Day of Republic) newspaper (Republic of Karachay-Cherkessia). Our region is famous for its ski resorts and other recreational places, the development of which is crucial for the region. What are the prospects for gas grid expansion in these areas, considering that our President recently spoke about this issue?

SERGEY GUSTOV: This year, we continue to design two facilities and build nine additional facilities in Karachay-Cherkessia, including an inter-settlement gas pipeline to the settlement of Verkhnyaya Teberda and the town of Teberda, which next year will carry gas, inter alia, to the beautiful ski resort Dombay and all the hotel complexes located in the valley. I am sure that the snow in Dombay will become even whiter, and accordingly, the ski season will be extended because white snow takes longer to melt.

QUESTION: Oksana Lazutkina, Komsomolskaya Pravda – Ryazan newspaper (Ryazan Region). Due to emergencies resulting from various violations in the use of domestic gas equipment in houses and apartments, it is often said that we need to ban gas equipment in apartment buildings, install electric stoves in all of them, and connect newly constructed buildings to urban heating systems. What is the stance of Gazprom Mezhhregiongaz on this issue?

SERGEY GUSTOV: Gas consumption in apartment buildings is currently limited by the height of buildings, and we cannot use gas stoves in high-rises. As far as I remember, gas supplies are only possible in apartment buildings that have up to nine floors.

Our country is the world's largest gas producer, and we also have the most abundant gas reserves. Of course, we should take advantage of that. It is very simple to use gas safely at home, one just needs to follow simple rules.

By addressing the existing issues, including those I have mentioned before, we will ensure safe use of natural gas in Russia. We will try to change the emerging attitude towards gas you have mentioned, because gas is a great benefit. It is also dangerous to stick two fingers into an electric socket, but we do not do that. So, I call for the safe use of gas at home, and I urge domestic consumers to change their attitude.

QUESTION: Svetlana Yakunina, RZN.info web portal (Ryazan Region). The natural gas penetration rate in the Ryazan Region is currently over 90 per cent. Is this figure going to rise in the coming years? Is it practicable to raise it to 100 per cent?

SERGEY GUSTOV: Indeed, we will not be able to bring the gas grid coverage to 100 per cent either in this region or in the country at large – we are aiming for effective gas infrastructure expansion. As of January 1, 2019, the gas grid coverage in the Ryazan Region was already at 96.2 per cent, including 99.1 per cent in cities and towns, and 76.6 per cent in rural areas. What does a 100 per cent gas penetration rate mean, exactly? The Ryazan Region is developing, new consumers are emerging, and they require more gas supplies; we will strive to reach a 100 per cent gas penetration rate, but this is not a goal in itself.

MODERATOR: Thank you. The Press Conference is over.