

Gasification of Russian regions

**Address by Anatoly Marinichev,
Deputy Director General for Capital Construction and Investments of Mezhhregiongaz
at the meeting of Gazprom's top executives and chief editors of regional mass media**

(Slide 1)

Moscow

March 19, 2010

Throughout the period of the gas industry development, Gazprom has been promoting such important lines of business as gas supply to and gasification of the Russian Federation regions in parallel with gas fields pre-development, gas trunklines construction and the Unified Gas Supply System creation. Gasification is today's key issue.

(Slide 2)

In 2001 the Company commenced elaboration and adoption of annual gasification programs for individual constituents of the Russian Federation on the basis of a systematic approach to selecting facilities for construction.

The slide shows the amount of investments allocated by Gazprom for Russian regions gasification.

The annual gasification programs are mainly targeted at establishing gas supply systems for rural settlements.

Starting from 2005, Gazprom's management adopted the decision to considerably increase the investment amounts for the purpose of stepping up gasification of the Russian Federation regions.

A total of RUB 101.4 billion was allocated during 9 years, of which RUB 89.4 billion are allocations of the past five years.

We may clearly see that the amount of gasification investments increased 7.5 times over the past five years.

It should be noted that over the said period regional administrations raised a comparable amount of budget funds for intra-settlement networks construction and ultimate consumers preparation for gas supply.

As part of the regional gasification process, in 2009 Gazprom was focused on further construction of inter-settlement gas pipelines aimed at achieving the maximum economically viable level of regional gasification and meeting the solvent gas demand.

Taking into account the experience gained in the past years, the mechanisms of cooperation with administrations of the Russian Federation constituents were improved in order to simultaneously create the "gas pipeline – consumer" complex and to load the constructed capacities from the moment of their operation start-up.

In 2009 Gazprom expanded its Gasification Program in the Far East through involvement of the Primorsky and Kamchatka Krai.

Last year Gazprom continued signing the synchronization schedules for joint implementation of gasification programs setting out the scope of work to be performed by Gazprom and regional authorities within the annual Gasification Program.

When compiling the 2010 Gasification Program, consideration was given to the results of consumer preparation by administrations of the Russian Federation constituents in 2009 and the level of payments for natural gas supplies.

Next, I would like to look at the status and the outcomes of the 2009 Gasification Program.

Investments in the amount of RUB 18.5 billion were earmarked by the 2009 Gasification Program, with RUB 17.14 billion intended for further construction of 252 facilities and launching the construction of 72 facilities.

Beyond that, RUB 1.36 billion was allocated for engineering and exploration activities to secure construction work in the coming years.

The earmarked funds made it possible to additionally involve 4 new constituents into the Gasification Program: the Kamchatka Krai (gas supply to the city of Petropavlovsk-Kamchatsky), the Primorsky Krai (gasification of the city of Vladivostok and the Russky Island), the Chechen Republic (construction of a gas pipeline loop in the city of Grozny) and the Jewish Autonomous Oblast. A total of 68 regions took part in the 2009 Program.

The following amounts were allocated during 2009 to implement the assignments by the Russian Federation Government and the Gazprom management:

- RUB 100 million to launch the gasification in new residential districts of the Nazran city, Republic of Ingushetia;
- RUB 210 million to gasify an electric-powered boiler house in the Hidrostroitel settlement to supply heat to households of the city of Bratsk, Irkutsk Oblast;
- RUB 500 million to start the gasification of settlements, villages and the central part of the Adler District within the Program for the construction of Olympic facilities and development of Sochi as a mountain-climatic resort.

With account of extra funds, in 2009 Gazprom invested RUB 19.31 billion in the Russian Federation regions Gasification Program. The total number of the Program participants increased to 69 regions.

Despite the fact that the funds allocated in 2009 were 20 per cent lower than in 2008, the scope of the work done was identical to that of the previous year.

These results were secured by anti-crisis measures. Due to a drop in prices for pipe products, the construction estimates were re-calculated, which helped save the Company's

funds. We managed to fully commission the facilities provided for by the synchronization schedules and to assure early accomplishment of construction activities in the regions, where consumers were prepared for gas supplies ahead of schedule.

(Slide 7)

According to the synchronization schedules, the construction of 178 facilities was completed in 45 Russian Federation constituents in 2009.

Moreover, with due regard to the decisions requested by some regional authorities and consumer readiness to receive gas, 18 inter-settlement gas pipelines and startup complexes were constructed ahead of schedule in 2009.

(Slide 8)

The 3,200-kilometer inter-settlement gas pipelines built in 2009 ensure gas supply to 447 population centers.

It should be emphasized that successful delivery of natural gas to the ultimate consumer as the key objective of the Gasification Program is directly linked to the results of the work done by regional authorities on timely preparation of consumers.

Conditions were created for 79.5 thousand households and 579 boiler houses to be connected, provided that regional authorities fully meet their obligations related to the construction of 2.9 thousand kilometers of street-level networks.

(Slide 9)

In 2009 the construction of gasification facilities was completed in 47 regions. Administration of 23 of them achieved the planned indicators of gas distribution networks construction and prepared consumers on schedule.

It should be noted that in 2009 6 regions fell considerably behind the consumer preparation schedules both in terms of deadlines and the number of consumers. Among these regions are the Altai Krai, the Republic of Karelia, the Volgograd, Kostroma, Leningrad and Nizhny Novgorod Oblasts.

Meanwhile, the Karelia, Volgograd, Kostroma and Leningrad Oblasts schedule slippage occurred in 2007 and 2008 as well, which indicates a regular trend.

The Kostroma Oblast administration has not performed its obligations dating back to 2006. For instance, according to the 2006 schedule Gazprom built and commissioned in the Krasnoselsky District an inter-settlement gas pipeline designed to gasify two population centers. As the consumers were not ready to receive gas, the facility had to remain idle for almost two years. One population center (settlement of Lyakino) was only connected in 2008, the second one (settlement of Graviynogo Karyera) is still unprepared for gas supplies. The regional authorities explain that the schedule slippage is stipulated by the lack of funds. The approved 2010 budget of the Kostroma Oblast doesn't provide for investment in gasification at all. In addition to finding excuses for their omission, the regional authorities are making attempts to scare the population with high gas tariffs and to encourage them to use wood and pellets as fuel.

Multiple requests were sent to the administrations of the lagging regions on the necessity to take additional measures for the schedules implementation.

Due to the failure of regional administrations to meet their obligations related to consumer preparation, a lower social effect was imposed by gasification and an adverse impact was made on the economic indicators of the projects being implemented and on the efficiency of investments by Mezhtregiongaz.

Therefore, the 2010 Program provides for only RUB 10 million of investments for each of the 6 above mentioned regions to continue the construction activities that are already underway.

The previously planned investments including those required for the launch of engineering and construction of new facilities in these regions were identified as the reserve funds of the Program. In case regional administrations fully perform their obligations in relation to consumer preparation no later than June 2010, the reserve funds will be allocated according to the preset schedules. This approach will raise the efficiency of Mezhtregiongaz investments in compliance with the terms and conditions for gasification programs elaboration.

Dear colleagues, I would like to inform you today on some letters sent to Gazprom by Russian citizens on the gasification issues. Let me point out that in most cases the letters

contain the questions that are not directly linked to the Gazprom and Mezhhregiongaz activities.

Having studied the list of questions, we came to the conclusion that there are a number of main reasons for addressing the irrelevant questions to Gazprom.

Firstly, the regional executive authorities don't provide sufficient information to the citizens on the procedure for private households gasification, the available benefits, the mechanisms of target-oriented financial assistance and the future plans on population centers development. In a series of regions the administrative authorities don't have a coordinating body or a responsible person to assist the citizens in resolving certain issues or problems related to gasification. Secondly, the answers received by citizens from local and regional authorities often lack the necessary information. Therefore, the citizens address the President, the Government or Gazprom to resolve their current gasification problems.

On its part, our Company makes every possible effort to provide the most detailed information on the activities of the Gazprom Group and Mezhhregiongaz in this area. Today's meeting is an example of such efforts. As far as the regions are concerned, in addition to the regular trips to gasification facilities, briefings, press conferences and call centers arranged, as well as the information provided to mass media, we are constantly looking for new ways of cooperation with the population. For instance, the unique Population Servicing Centers were arranged in Saratov during the gasification infrastructure development in the Perelyubsky District, one of the most remote regions in the Oblast. These Centers carried out intense explanatory work on a full range of issues related to households gasification. Thus, the local citizens were relieved from the necessity of paying frequent visits to the regional and local centers.

(Slide 10)

In the conclusion, I would like to provide you with the information on the 2010 Gasification Program. RUB 25 billion is earmarked to fully meet the strategic objectives of the Russian Federation regions gasification in 2010.

The amount of investments approved by Gazprom involves the expenditures connected with:

- gasification of strategic and top-priority facilities in Russia's Far Eastern and Southern regions;
- performance of Gazprom's obligations under the agreements made with the Russian Federation constituents;
- completion of facilities under construction;
- further activities in compliance with the approved synchronization schedules;
- commencement of new facilities construction according to the existing design and estimate documentation;
- performance of engineering and exploration work for the years to come;
- elaboration and adjustment of general schemes for gas supply to and gasification of the Russian Federation constituents.

This year the gasification process has covered 65 Russian constituents, with the Karachayevo-Cherkessian Republic included for the first time.

(Slide 11)

As for the Far East, construction of inter-settlement gas pipelines to CHPP-2 of Petropavlovsk-Kamchatsky and CHPP-1 of Yuzhno-Sakhalinsk will be completed before the end of 2010.

Underway is the construction of an inter-settlement gas pipeline to CHPP-2 of Vladivostok and the facilities for the APEC Summit on the Russky Island (Primorsky Krai) scheduled to be commissioned in 2011. Preparatory activities are in progress to construct the gasification facilities for CHPP-1, the Severnaya CHPP and production facilities of the Sollers vehicle factory.

In 2010 as part of preparations for the Olympic Games, large-scale gasification activities were initiated in the Krasnodar Krai to supply gas to the Adler CHPP, population centers and Olympic facilities in the Adler District, the settlements of Krasnaya Polyana and Esto-Sadok.

It is projected to finalize in 2010 the construction of 138 out of 140 carry-over facilities as part of gas distribution networks with the total length of some 2,000 kilometers. Another two 50-kilometer facilities will be completed in 2011. In addition, it is projected to launch the construction of 178 facilities with the total length of around 2,000 kilometers.

These sparse figures reflect the creation of new production facilities, development of small businesses and actual improvement of the living standards for thousands of people, and even survival in some distant settlements and villages.

Thus, for example, a local farm enterprise was on the brink of bankruptcy in the Orenburg Oblast. In such complicated circumstances the citizens took the initiative and addressed the regional administration and Orenburgregiongaz with a request for natural gas delivery to the settlement. As a result of joint efforts by all the interested parties, natural gas was supplied to the Sukhorechka settlement in 11 months.

Revival of rural areas is impossible without young skilled personnel. We all know a lot of examples when the youth move to cities seeking for better living standards. We receive an increasing number of letters stating that gasification made a lot of young people revise their life plans. They are willing to stay and work in rural areas. Thus, a young teacher from a village in the Vadinsky District (Penza Oblast) said, after natural gas had been delivered to the residential center, that she would never move to a city because a new life started in the village.

Natural gas is a most clean energy resource preserving favorable environmental conditions. The eco-friendliness of natural gas may be clearly understood if we look at the gasification of the Seliger region, the Privolzhye District of the Samara Oblast and other Russia's tourist places, in which transition from coal and fuel oil to natural gas helped preserve the environment and raise the attractiveness both for tourists and potential investors.

Thank you for your attention!