Current Opportunities of the European gas markets

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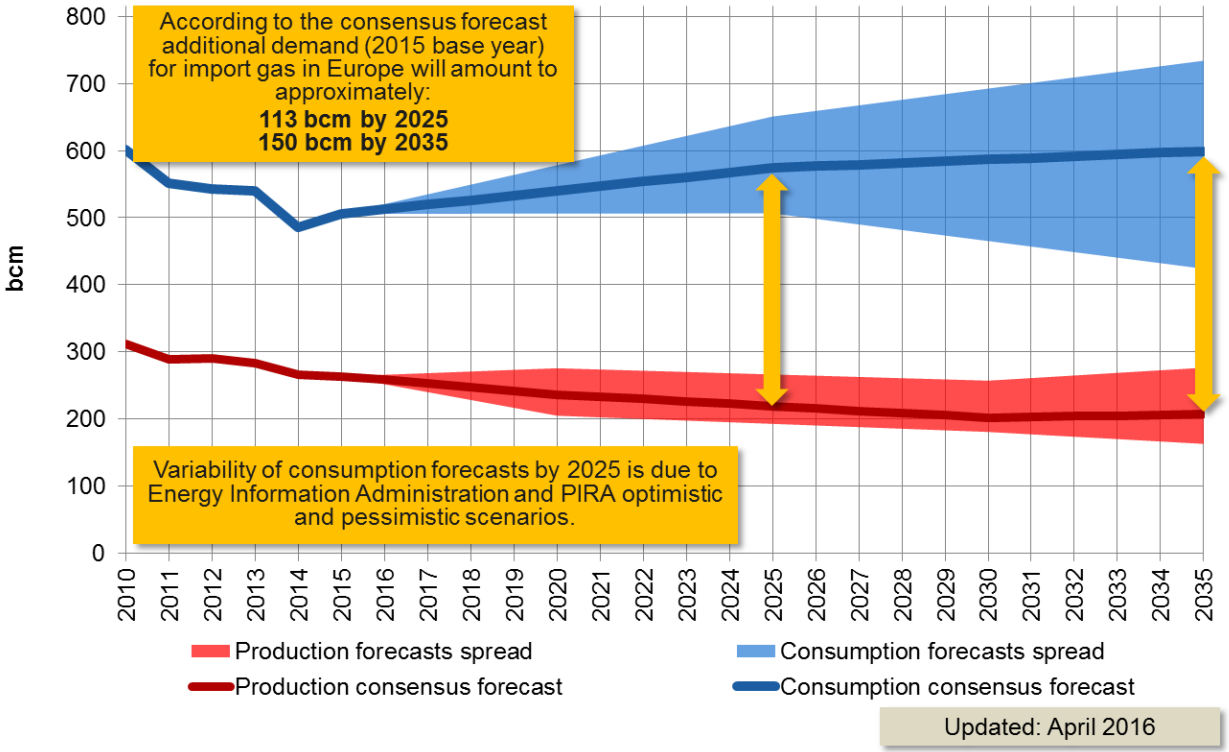
Europe as a field for additional volumes of imported gas



- European gas market is challenged by modest prospects of indigenous production
- Natural gas is destined to form one of the primary parts of the future European energy balance
- Being a fossil fuel from the environmental point of view gas is closed to the green energy
- Europe will need additional import volumes and transportation routes for new gas in the coming decades

Note: Natural gas European demand and production gap is the difference between demand consensus forecast and production consensus forecast. Definition of European countries slightly differs from one forecast to another. For the purpose of comparison all forecasts and scenarios are restated on compound annual growth rates.

Source:Gazprom Export

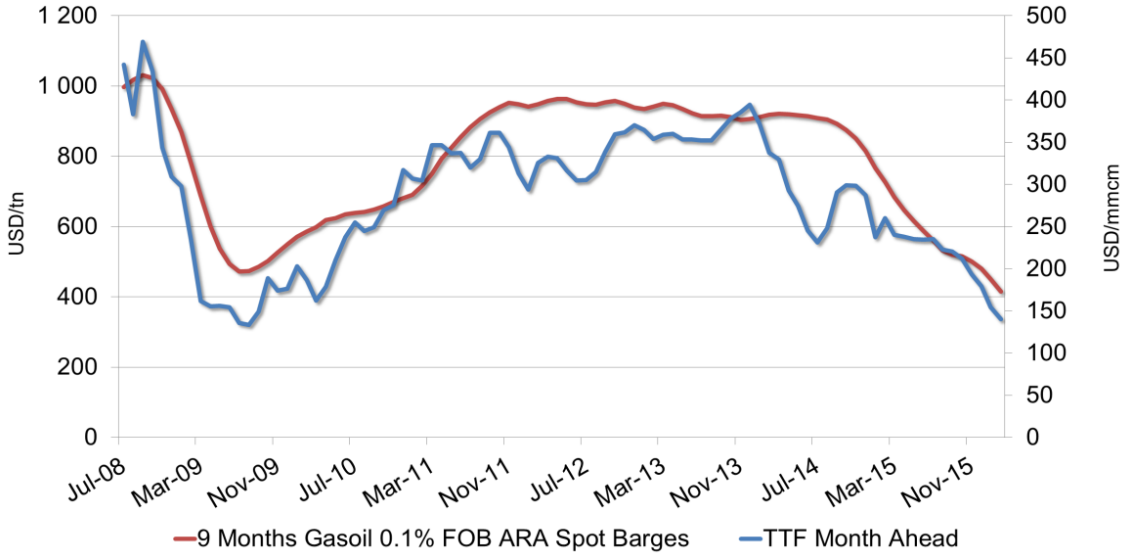
Gazprom is the only one producer who is ready to invest in the infrastructure in this turbulent times

- Nord Stream 2 – a twin pipeline system to securely and directly transport up to 55 bcm of natural gas from Yamal peninsula to Germany to meet about one third of EU requirement for additional imports
- Project is funded by leading international energy companies: Gazprom, Shell, OMV, Uniper, Engie and Wintershall
- The Baltic LNG will have a capacity of 10 million tons of LNG a year with the possibility of expansion to 15 million tons
- The Baltic LNG will deliver LNG to Europe, Latin America and the Middle East

Hub pricing: helpful solution but not a panacea

Hub prices show substantial correlation with oil prices

Evolution of 9 months moving average gasoil and TTF Month Ahead prices, 2008-2016

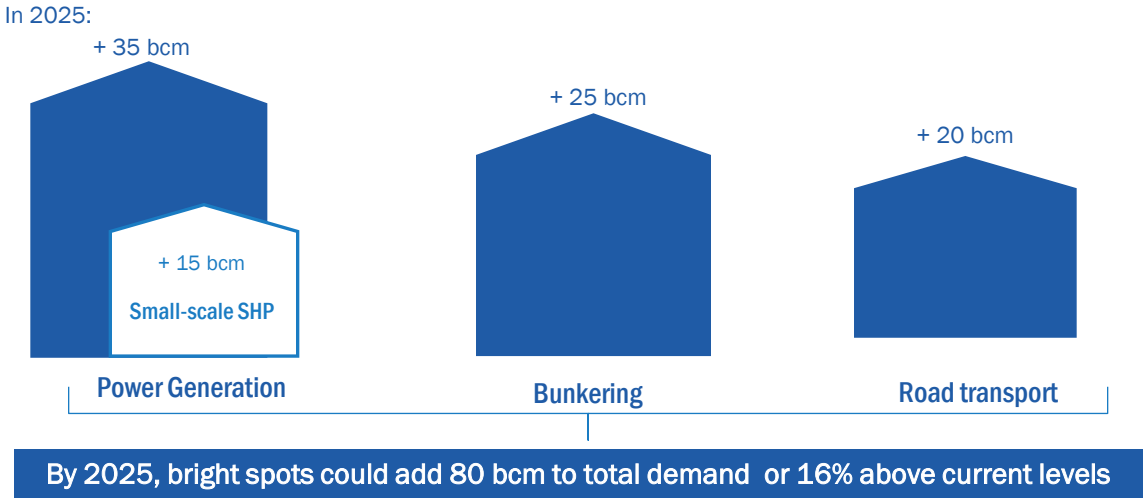


Correlation coefficient = **0.87**
R Square = 0.76

- The best pricing model is the one that could provide liquid, deep and violation-safe pricing signals, and protect buyers, sellers and investors;
- Most hubs in the continental Europe are so far not mature enough to perform this goal on their own;
- Hybrid oil-based pricing with spot components is still best fitting the needs and specifics of continental Europe gas trade

Gas demand will eventually return to Europe

Bright Spots and New Applications for Gas in Europe



Source: IHS, PJSC Gazprom

By 2025 bright spots could add 80 bcm to total demand or 16% above current levels at the expense of:

- Aging coal and nuclear plants
- Adjustment of the carbon emission allowance market
- Growing competitiveness vs. coal
- Small-scale combined heat and power plants (CHP) offer low-cost energy and tax benefits
- Environmental restrictions and lower costs encourage broader use of LNG in bunkering and road transport

Thank you for your attention!