

Hungarian Gas Association

**Gazprom Group in Central Europe:
Results and Challenges**

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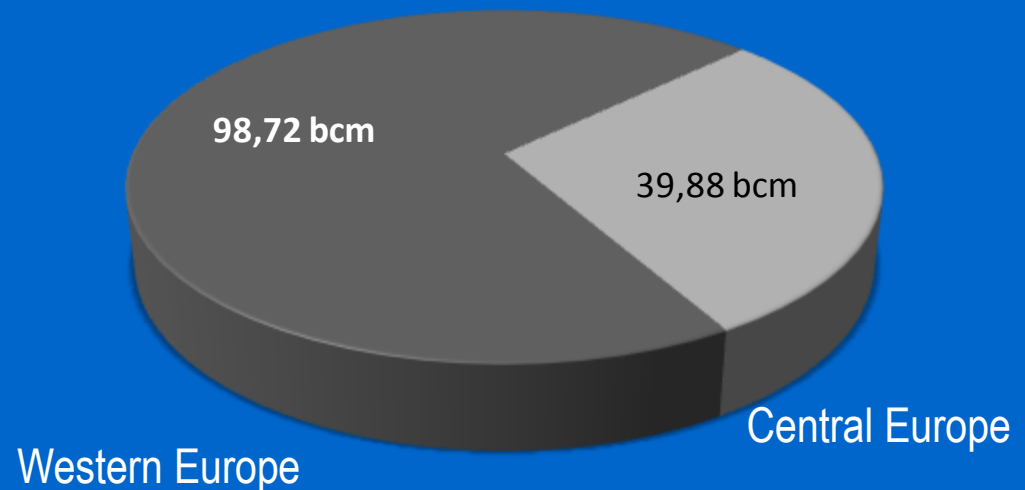
Budapest, Hungary * 17-18 June 2011

Central European region and its leaders

While Europe itself is a priority market for Gazprom, Central Europe has a very special position in the whole structure of Gazprom's energy supplies.

It benefits from geographical proximity to Russia, which enables most countries to be not only major clients but also important gas transporters, transiting gas from Russia westwards.

Gazprom's export structure, 2010



Central European region and 2010 results



From mid-2010, gas markets continue their recovery from the global crisis. In 2011, this recovery is supposed to go on.

Gazprom has increased its export forecast for 2011, basing on Q1 results.

We expect the export volume to reach 155 bcm in 2011.

Outlooks for 2011: exports are to grow

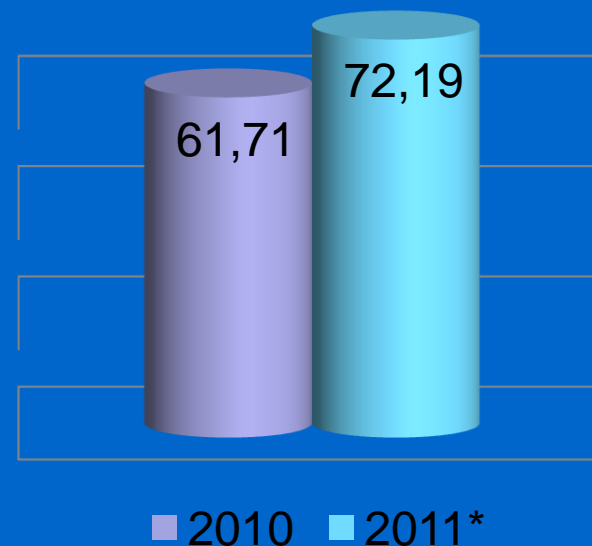
We expect the export volume to reach 155 bcm in 2011.

Export volumes in Q1 2011 were 44.1 bcm, almost 12% over Q1 2010;

Deliveries in April 2011 grew, compared y-to-y, by more than 20%, and in May – by 30%

In 5 months, compared y-to-y, exports grew by 17%

**Gas export deliveries
in Jan-May, bcm**



*preliminary results

Transportation routes

Central European countries: inevitably important in gas transportation from Russia westwards

Now that European countries are facing the task of implementing the Third regulatory package into national legislation, and the major transport projects are put into life, the issue of gas transport corridors becomes acute.

Transit crisis of January 2009:

Gazprom unable to fulfill its obligations securely due to the violence of transiting

- ▶ situation unacceptable both for us and for the clients in Europe

- ▶ The issue of supply security is crucial for the whole region.

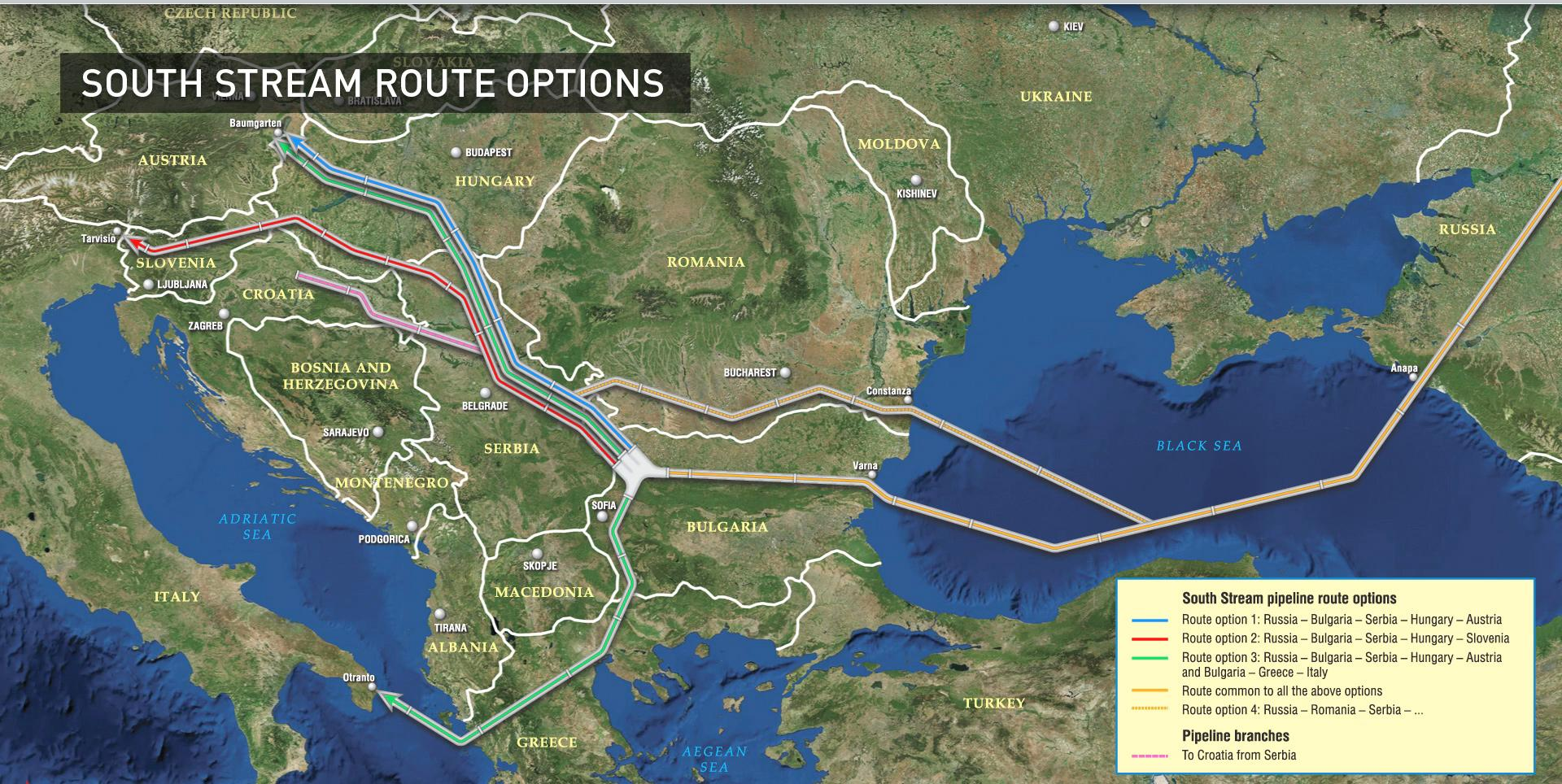
The solution is clear for us: it's in the diversification of transport routes, where South Stream pipeline is one of the opportunities.

South Stream: routes

South Stream

Energising Europe

SOUTH STREAM ROUTE OPTIONS

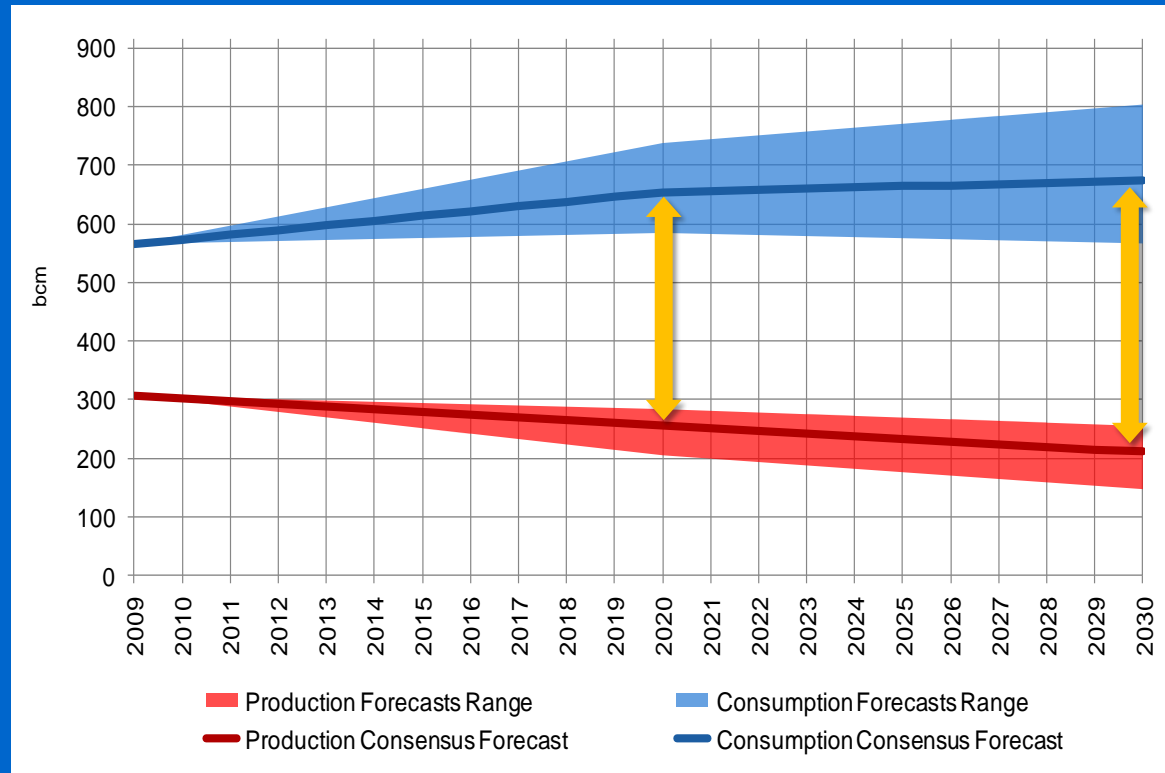


Source: South Stream

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South Stream: forecasts guarantee demand

- Consensus forecast predicts a need of additional 140 bcm import gas by 2030
- Russian pipeline gas will remain the main source to cover this demand, and new pipelines will be needed to bring these volumes to the market



Long-term contract principles

The basic principle of the gas market is – gas should be first sold, and then produced and transported. Long-term delivery contracts provide necessary guarantee for that. No one would build a pipe that has not secured transport volumes for years ahead.

► Long-term contracts will survive despite the illusions of the crisis time:

-cheap spot gas?

→ as the crisis is over, the oversupply on spot is away, prices went up in 2011 → not a source for adequate pricing.

-Qatari LNG?

→ as the U.S. market prices recover, the overseas trading becomes attractive for LNG again, diverting the volumes away from Europe

-shale gas?

→ yet a long and expensive way to go, bound with environmental concerns.

Shale gas: a local solution but no revolution

Shale gas is a game-changing reality in the USA, but it is still too early to copy its effect to the all world markets.

Technical limitations: the permanent drilling is necessary to ensure stable gas volumes, despite of chance to sell them. Once you begin to drill for shale, you just can't stop. Does every your neighbor agree?

Environmental concerns: quite high in densely populated Europe, given the expand of needed drillings and the volume of water needed for hydrofracking

Economic constraints: spot prices in the USA in the last two years did not allow to cover even the wellhead prices. And it's not cheaper in Europe. Will there be enough chance to secure the investment by forward deals?

Legal differencies: the Anglo-Saxon property right system allows the landowner to benefit ; the continental law, on the contrary, does not makes shale gas development attractive for land owners.

Shale gas IS a solution:

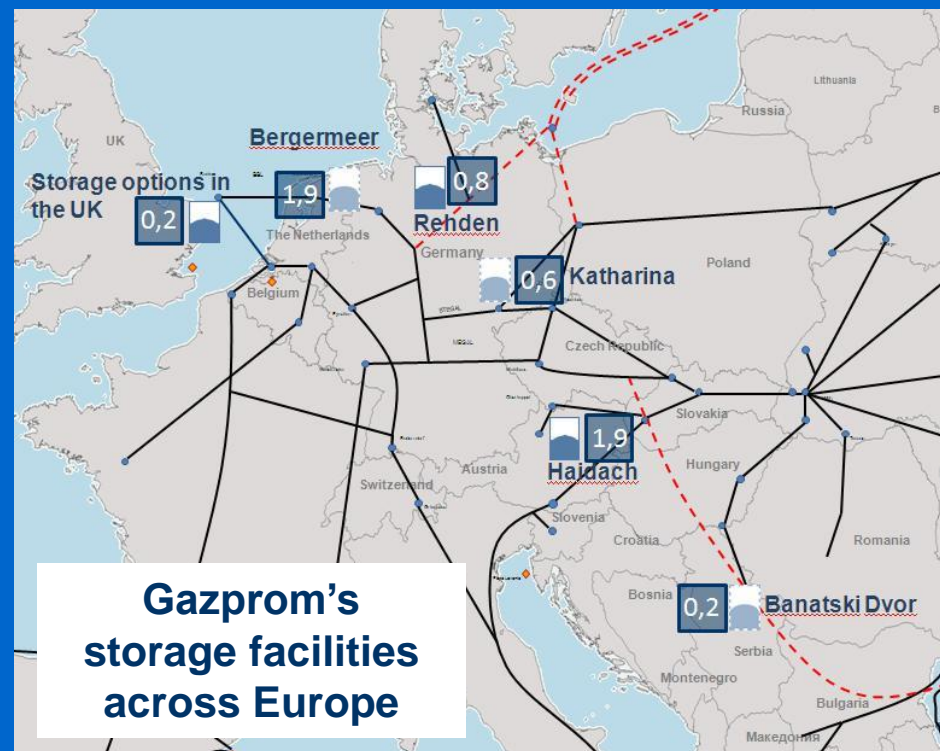
- Countries who are partly able to cover their need for gas by themselves are more likely to expand gas' share in their energy mix.
- Shale gas is a good option for Europeans to contribute to falling domestic conventional production.

Spot pricing: sometimes attractive, always limited

- Spot dynamics in continental Europe does not give reasons solid enough to switch away from long-term oil-pegged pricing formulae.
- Gazprom Group had linked, in average for Europe, about 10-15% its supplies to the spot pricing in 2010, and reality proved that this modest choice was right.
- The PFC Energy analysts of the U.S. confirmed the Gazprom's right strategy in their reports.
- We aim at achieving revenues, not just sales volumes.
- To achieve the \$43.87 bn. revenue of 2010 by basing on spot prices only, Gazprom would have needed to sell much more gas, which would simply not be able to find enough demand.

Gas storage: long-term contribution to security of supplies

- The gas stored in the underground facilities helps smoothen the off-take peaks, providing both stability and flexibility of gas supplies.
- Gazprom Group's strategic aim is to reach overall volume of storages available up to 5% of its exports to Europe, and we intend to reach almost 5 bcm storage volume by 2015..
- It already owns storage options and develops projects in the range of countries. Our joint venture with MOL studies various UGS project plans, intended for integration with the South Stream project



- Our pilot project Haidach in Austria, with 2nd stage put into operation just a month ago, will secure export gas in Baumgarten hub for Austria and all its neighbors.
- Later this year, the Banatski Dvor UGS in Serbia will start operations, providing security to exports to Serbia, Bosnia and Herzegovina, and neighboring countries

Thank you for your attention!

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