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TO OUR READERS: Gas is Good

The role of natural gas in ensuring future energy sustainability cannot be underestimated. For years industry experts have tried to convince political influencers that natural gas is not just another fossil fuel. While many claim natural gas contributes to global warming, it can actually help reduce carbon emissions, boost economic growth and ensure energy supply security.

EU sustainable development targets require reducing carbon emissions by 850 metric tons (mt) by 2020. Central and Eastern European economic restructuring and greater European gas fuel use has already reduced emissions by 465 mt. Progress has slowed on this since 2000, however, and recent developments show the target could be very difficult to meet.

While the EU has made efforts to reduce emissions through its new Emissions Trading System and renewable energy project subsidies, progress has been limited. Furthermore, the EU's energy industry decarbonization program is not an effective means of reducing emissions.

Based on our studies of 12 EU countries, renewable energy development will cost over 1.5 trillion euro over the next 20

years, more than half of which will come directly from government subsidies. These subsidies will not contribute to significant emission reductions but are likely to distort interfuel competition.

Renewables will only allow EU countries to achieve 62% of their carbon reduction targets. Increasing natural gas usage by the same amount would satisfy 41% of the reduction target at a fraction of the renewables' cost. In fact, the EU could save 800 billion euros by using natural gas to meet its 2020 targets instead of renewable energy.

Gas already provides a fast, reliable and comparatively inexpensive way of reaching ecological targets, especially given the significant investment a switch to renewable energy would require. According to our calculations, Europe could reduce its CO2 emissions by up to 60% by replacing half of its coal power plants with gas turbine plants.

Renewable energy and especially nuclear power will play an important role in the campaign against global warming. The key will be to combine this energy source with other low-emission fuels. Like renewable energy, natural gas will play an essential role in reducing global carbon emissions and cannot therefore be targeted as an enemy of the green economy.

Season's Greetings!

Dear Blue Fuel reader,

Our communications department is pleased to provide you with the most updated and insightful information on Gazprom Export's continued efforts to provide stable and sustainable energy supplies to its key markets and partners.

This edition of Blue Fuel will feature an array of news, opinions, and academic research on gas industry developments, trends and challenges. We hope you enjoy this newsletter and have a happy Christmas and New Year!

Gazprom and the European Union: Partnership Reshaping

Excerpts from the speech by Alexander Medvedev

Deputy Chairman of Gazprom Management Committee, Director General of Gazprom Export In Brussels (22 November 2010)



Today we celebrate a remarkable milestone for the energy industry and for our bilateral relations: 10 years of the Energy Dialogue between Russia and the European Union. We should always bear in mind that Russia and Europe share much more than energy ties: we are organically linked by history, culture, religion, psychology and behaviour patterns, as well as by economics and trade. Energy is more than ever at the core of our economic partnership: nowhere else is our mutual interdependence and common interest in stability and security more evident. The question now is how to further upgrade this relationship, and develop together the agenda of the future EU-Russia energy cooperation.

Addressing Europe's energy needs

First and foremost, in today's globalized economy, growth and material well-being of any nation and its citizens depend on interchange and trade. This is fully applicable to the rapidly expanding and integrating global market for natural gas.

According to recent forecasts of independent international consultancies, Europe's demand for natural gas will grow significantly over the coming decades, to face an indigenous production gap of 70% by 2030. This, coupled with decreasing internal production, will force Europe to import more natural gas: 380 bcm in 2020 and 440 bcm in 2030. Whatever progress the EU achieves in moving away from

fossil fuels, gas will continue to be a vital input to the EU economy for as far ahead as one can reasonably foresee.

We at Gazprom are proud of being a privileged supplier to our European partners and customers. Extracting and then shipping natural gas through the westward-bound pipeline network as long as the Great Wall of China is by all standards a large-scale endeavor. One way of illustrating its scale is that though being pumped at high pressure, it takes about five days for a gas molecule extracted from the underground field in Siberia to reach a customer in Germany.

Russian natural gas has been flowing to European customers for more than 40 years, and this flow was steadfast, monotonously stable and uninterrupted – throughout the Cold War and the times of economic turbulence following the demise of the Soviet Union. The only exceptions were the blockades of Russian gas exports to Europe by the previous government of Ukraine in January 2006 and 2009, which were principally motivated by a desire to put pressure on Gazprom in order to secure subsidized prices for domestic use.

Fortunately, the last notorious two-week conflict was effectively solved on the basis of Ukraine's acceptance of the need to move to market prices for gas – something long urged by the EU and other international bodies – as well as to terms and conditions in line with normal international practice and European regulations.

Expanding energy infrastructure

The most effective contribution energy companies can make to long-term energy security and stability is to provide infrastructure. Lessons learned last year pinpointed the urgency of putting efforts into the diversification of supply routes to mitigate dangers from political

interventions, technical failures, natural catastrophes, or even terrorist attacks.

Expanding the European gas infrastructure matches the strategic interests of both suppliers and customers. The gap between rising gas demand and falling European production will create an urgent need to ramp up imports. Where is Europe going to find them? Our calculations show that even with expanded capacity to import Liquefied Natural Gas (LNG), and even if — based on a rather optimistic assumption — Iranian gas will be available by that time, it will not be feasible for Europe to fill this looming gap without Russia. Given the projected demand growth, there is room for many projects and many suppliers. Therefore we do not see any reasons to oppose new pipelines intended to bring gas to Europe implemented by our peers in the industry, including Nabucco, TAP, and ITGI.

Gazprom is making its own substantial contribution. Together with European partners, Nord Stream and South Stream have brought together a formidable team of global energy companies showing determination to address the future gas demand surge in the most efficient fashion. We also welcome Europe's plans to expand its interconnection and delivery infrastructures, which will also contribute to enhanced security by providing more flexibility to the supply network.

Gas green credentials

One factor which will increasingly drive demand for natural gas is that it is by far the cleanest burning fossil fuel, with foremost regard to CO₂ emissions. The accelerated substitution of natural gas for units now fuelled by coal and oil products would play a major role in cost-effectively achieving carbon reduction goals. The annual capacity of South Stream alone

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On the Occasion of 20 Years of Cooperation with BASF/Wintershall Cooperation That Serves As A Role Model

Gazprom and BASF with its oil and gas subsidiary Wintershall celebrated 20 years of German-Russian economic history together at an anniversary event in Berlin on 22 November.

The companies laid the foundations for their cooperation in the fall of 1990 with a long-term agreement to market Russian natural gas in Germany. Today, the partnership between the world's leading chemical company and the world's largest producer of natural gas extends from exploration and production of natural gas in West Siberia to transportation through the Nord Stream pipeline and the sale of natural gas in Germany and Europe, by the jointly owned natural gas trading company WINGAS.

At the time of the agreement signing in 1990, this example of German-Russian cooperation was unprecedented in the gas industry. What began with a shared declaration of intent on cooperation in the gas sector, shortly before the reunification of the two German states, has now matured into a solid and equal partnership.

"From today's perspective, the cooperation represents a historic step towards securing Europe's energy supply," said BASF Chairman Jürgen Hambrecht. "When Gazprom and BASF signed the first agreements at the beginning of the 1990s, hardly anyone could have imagined how successful this partnership would become. Today we are very proud of what we have accomplished and can look to the future with optimism. After all, there is still a great deal we intend to achieve together," Hambrecht concluded.

"The two decades of partnership between Gazprom and Wintershall exemplify the success of cooperating in business. Over the years we have



solved more than one difficult task: we have begun developing the hard-to-access Achimov deposit of the Urengoy reservoir and we are building the Nord Stream gas pipeline, which is important for the European market," said Gazprom Chairman Alexey Miller. "We now work along the entire value creation chain – from production to sales. Our relationship is based on mutual trust and appreciation. Our employees and business partners are increasingly becoming good friends. I firmly believe that new success stories lie ahead of us, and just as many outstanding and interesting projects," Miller emphasized.

Rainer Brüderle, the Federal Minister for Economics and Technology, described Russia as an important partner for the supply of gas. "The reasons for this are obvious: Russia lies practically on our doorstep. Russia

is our strategic partner. The Nord Stream pipeline strengthens our trade relations with Russia," Brüderle said. "The cooperation between BASF and Gazprom serves as a role model. It can encourage other energy companies to undertake new German-Russian endeavors."

Guest speaker and former German Chancellor Gerhard Schröder congratulated BASF and Gazprom on the successful cooperation and likened the corporate partnership to a perfect blueprint for a successful partnership between Germany/Europe and Russia.

"In Europe we should strive to create the closest possible economic and political ties with Russia". This would create trust, security and stability for the future, added Schröder. "Russia plays a central role in how we secure the energy supply in the global context."

On the Occasion of 20 years of Cooperation with BASF/Wintershall Interview with Viktor Chernomyrdin: It Was A Real Breakthrough

prepared by Tribuna newspaper and Gazprom Export staff

Final interview of Gazprom founding father and former Prime Minister of Russia Viktor Chernomyrdin recorded a few days before he passed away.

Question: 20 years ago a new milestone of cooperation between Russia and Germany was marked: the Agreement on Cooperation in the Gas Industry gave rise to a totally new phenomenon – cooperation between companies working in the energy industry. How was the decision on launching cooperation of this format made?

Viktor Chernomyrdin: Within the framework of Gazprom, which was created in 1989, we developed and adjusted intercommunication between particular structures, remaining a reliable and predictable supplier of natural gas on the markets. At that time there was no possibility to attract large-size loans, so this development was done with our own resources.

We supplied gas to Germany at \$170 per thousand cubic meters which our buyers marketed at \$400. Given this differential, we offered direct sales, however our initiative was not welcomed by our counterparties as it was interpreted as one that challenged their interests. So, we had to look for an alternative.

The alternative was establishing partnership relations with the BASF Group. Gazprom received direct access to the German market and BASF was able to make safe provisions with the blue fuel.

Question: What were your impressions of the first meetings with representatives of German partners? You were the head of Gazprom at that time. What problems did you face?

Viktor Chernomyrdin: To enter the German market we needed approval of the state authorities. We managed to meet with the Minister of Foreign Affairs, Hans-Dietrich Genscher. I showed him on a map where the fields were located and routes by

which gas had to be transported to reach the end user, telling him about the costs it would incur and how we could reduce such costs. I assured him that we did not only produce gas but also guaranteed uninterrupted gas supplies. Hans-Dietrich Genscher promised to solve the issue and kept his promise.

Eventually, two joint ventures were set up in cooperation with Wintershall: WIEH and WINGAS. Then, as we were denied access to existing pipes, we had to build our own gas transportation infrastructure in Germany.

Question: What do you think is the importance of cooperation with Wintershall?

Viktor Chernomyrdin: It was a real breakthrough. For the first time we were able to directly offer our products to foreign consumers. This cooperation opened another door to the German market. Today it is difficult to imagine gas markets, both in Russia and in Germany, without this cooperation.

Question: How has this cooperation been developing in the last two decades? Can it be regarded as productive?

Viktor Chernomyrdin: Almost from the very day of their foundation our joint ventures were distinguished by their growth performances, which were far ahead of the average index in the industry. Sometimes growth was realized despite the general downtrend. In 2009, if I am not mistaken, WINGAS again managed to push up sales notwithstanding the financial and economic crisis. What is it if not productivity?

Question: What do you think is the significance of international joint projects in the gas and energy field? Is there any recipe for success of cooperation?

Viktor Chernomyrdin: Let's go back 20 years. Not long before German reunification, we signed the Agreement on



Cooperation in the Gas Industry, which gave rise to close cooperation between energy enterprises in Russia and Germany. Via WIEH, WINGAS and WIEE, our partners have been effectively operating on the market for the past 20 years.

Now let's look at more recent examples. In 2010, construction of the Nord Stream gas pipeline was launched. This project was implemented in a joint effort by companies from Russia, Germany, the Netherlands and France – our partners understand very well the importance of uninterrupted blue fuel supplies to Europe.

Question: In your opinion, what are the main problems Russia will have to solve?

Viktor Chernomyrdin: Now, the EU is making its best effort to put into effect the so-called "Third energy package," which, among other things, implies reducing the supplier's influence on transport systems. In my opinion, this is overbearing and will do no good in promoting competition nor in ensuring reliability of energy supply because it will put at risk the fulfillment of long-term contracts that secure reliability. At the same time, long-term contracts require equivalent long-term agreements on provision of capacities. Otherwise, the gas delivered by the supplier from many thousands of kilometers away may not be "released" to the end user.

Question: Would you proceed today as you did 20 years ago?

Viktor Chernomyrdin: We made a wise decision and it is a satisfactory feeling to realize that we did. I hope the event we are celebrating with our German partners this year will pave the way for continued success.

EuRoPol GAZ CEO: An Agreement that Benefits All

Interview with Miroslaw Dobrut, President of EuRoPol GAZ



Blue Fuel: What has been achieved with the new agreement between Poland and Russia on natural gas delivery and transit? Please tell us about

the changes that have been made in the Russian-Polish gas contract - what are the new provisions?

Miroslaw Dobrut: The relationship between Poland and Russia in the gas industry and, in particular, between the countries' gas companies, is the best it's ever been. After the crisis in 2009, we started negotiations first at the company level, then at the state level, and within 18 months, the parties were able to sign an intergovernmental agreement. This agreement constitutes a package of agreements that regulate all points of contention that have accumulated over the years. For us it is very important that the parties were able to sign the agreement. We hope that after its signing, our joint work will become more efficient. Let us think not only about the future, but also about the present. Perhaps joint projects await us ahead.

The intergovernmental agreement itself can be divided into two components. The first package includes an agreement between Gazprom Export and PGNiG, which opened the way for the signing of a supplementary contract for increased Russian gas deliveries to Poland. This agreement and supplementary contracts outline the provisions for gas supply until 2022. With regards to PGNiG, this agreement allowed the company to settle its difference with RosUkrEnergo, which did not fully comply with its contractual obligations to Poland.

The second package addressed issues related to the activities of our company

EuRoPol GAZ. Disputes concerning prices and pricing formulas lasted for four years. However, we were able to come to an agreement, which settled the rates for 2006-2009, as well as established a tariff effective since March 2010. At the same time, the document stated that the Polish and Russian governments would do their best to ensure that the companies sign a new contract that will extend Gazprom Export's gas transit through the Yamal-Europe gas pipeline to Europe from 2020 to 2045.

Until now, EuRoPol GAZ had two transit contracts: one contract with Gazprom Export that will end in 2019, and the second contract with PGNiG that will end in 2022.

With regards to EuRoPol GAZ, the agreement states that the company's shareholders will make efforts to make changes in the composition of shareholders so that the shares of PGNiG and Gazprom become equal at 50%-50%.

Another issue that was introduced in the intergovernmental agreement concerning EuRoPol GAZ is a change in the company's Charter, which should facilitate the decision-making process at the company's management and supervisory board level.

It was decided that in accordance with the intergovernmental agreement, the Polish company Gaz-System S.A. will operate the Polish part of the Yamal-Europe gas pipeline. This complies with Polish energy law, as well as with EU directives, which call for independent operators to operate the gas transport system.

In general, the final agreement is a package of important agreements. Of course, how these agreements will be actualized is another question.

Blue Fuel: Before the signing of agreements, your colleague Mr. Szubsky said that if everything depended only on

the partners in the gas business, then they would already have signed agreements.

Do you think that some aspects of the energy dialogue between Poland and Russia are often politicized and are therefore detrimental to companies and their shareholders?

Miroslaw Dobrut: Negotiations before signing the intergovernmental agreement were rather peculiar, so to say. The EU at some point in the process joined our negotiations, with the European Commission presenting its own opinion on the agreements. I believe that basically, everything turned out well and that negotiations were conducted between governments and not only between companies. This is because representatives of the Polish and Russian ministries and companies, as well as the Polish regulator, had the opportunity to hold talks with envoys of the European Commission, who looked at the natural gas market in a different way.

It is positive that this agreement was not between companies but was taken at intergovernmental level. Let's once again review the facts of the story; we have signed not a new intergovernmental agreement but a supplement to the intergovernmental agreement of 1993, under which the Polish part of the pipeline was established and the issue of gas transit through the territory of Poland was resolved.

Blue Fuel: To what extent does compliance with EU laws contributes to the reliability and flexibility of Russian gas supplies to Poland?

Miroslaw Dobrut: One of the key points of the agreement is the decision that Gaz-System S.A. will be the independent operator of Russian gas transit through Polish territory. In particular, during negotiations, the parties agreed on the



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Liquified Natural Gas: The Fuel of Choice for Medium and Heavy Duty Trucking?

Thomas A Aubee, Vice President of Applied Technology at Pace Global



Natural gas, particularly Compressed Natural Gas (CNG) is often used as an alternative to gasoline and diesel motor fuels. CNG,

however, can only support a limited range of vehicles because of its low density. Medium and heavy duty trucks that require greater fuel capacity and vehicle range often use Liquified Natural Gas (LNG) instead.

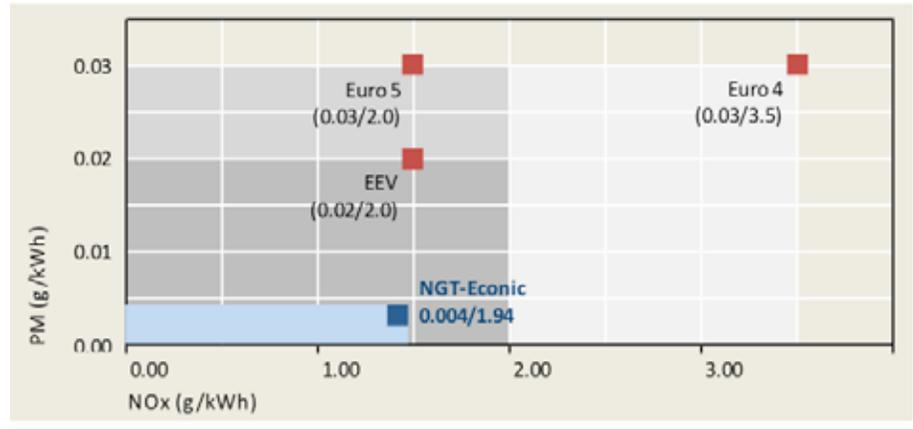
European awareness of the environmental compatibility, abundance and practicality of natural gas is growing.

Increasingly stringent European Union (EU) vehicle emission standards boost the popularity of natural gas. Euro VI

Exhibit 1 shows how EU transportation sector emission standards have become increasingly rigorous since 1999.



Exhibit 2



Source: Mercedes-Benz Special Trucks

Exhibit 2 depicts the standard setting performance characteristics of Daimler's Econic NGT heavy duty truck line. Natural gas produces virtually no particles or fine dust when it combusts. The Econic NGT clearly undercuts the EEV and Euro V particulate limits (0.004).

standards will come into effect in 2013, mandating a 50% reduction in particulate matter and a 77% reduction in nitrogen oxides for heavy duty vehicles.

Under the new standards, member states will be required to refuse the approval, registration, sale and introduction of vehicles that do not comply with emission limits. While natural gas vehicles are close to meeting the new standards today, diesel trucks will likely require modification.

Natural gas currently fuels nearly 1.4 million vehicles in 40 European countries including Russia. While only 11% of these vehicles are buses and 9% medium and heavy duty trucks, buses and trucks account for more than 70% of natural gas consumed by vehicles in the region. This is not surprising since such vehicles operate daily, carrying heavy loads across long distances.

While CNG is well established as a lower-emission substitute for conventional fuels such as gasoline and diesel, it comes up short in fuel density. While a liter volume

of diesel fuel contains approximately 35,000 btu energy, a liter of CNG contains only 7,865 btu, which is roughly 22% that of diesel. This limits CNG use to smaller passenger or commercial vehicles that have limited travel requirements such as city buses, garbage and delivery trucks. CNG also requires the installation of enough fuelling facilities to make it convenient for drivers to refuel their vehicles.

The limited use of CNG in medium and heavy duty motor freight transport is particularly unfortunate since these vehicles have the largest engines, travel the longest distances and produce the most emissions, making their transition to cleaner fuel particularly impactful.

LNG use is a promising solution to the range limitations of natural gas trucks. Natural gas, when chilled to -160°C forms a cryogenic liquid that occupies roughly 1/600th of its original gaseous volume. Stored onboard trucks in

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Fluxys and Gazprom Export Will Explore Cooperation In Natural Gas Storage

Fluxys and Gazprom Export have announced that they will examine the options for Gazprom Export to reserve long-term storage capacity at Fluxys' underground storage site in Loenhout. The two companies have signed a Memorandum of Understanding to that effect.

Alexander Medvedev, Director General of Gazprom Export, stated: "The usage of underground natural gas storage facilities in Europe is a high priority for Gazprom as a way to ensure the security of Russian gas supply. Our efforts in the UGS sector are focused on fulfilling our obligations within the framework of long-term gas supply contracts with our customers to respond to peak or emergency demands."

Walter Peeraer, Chairman of the Executive Board and CEO of Fluxys, stated: "A long-term storage agreement with a natural gas producer would significantly enhance security of supply. As system operator, Fluxys could count on certain and immediate access - for a period of 20 years - to a large strategic gas reserve in case of emergency, for

instance if a natural gas source becomes temporarily unavailable to the Belgian market."

Fluxys and Gazprom Export investigate project feasibility

In 2007, Fluxys started work to increase capacity at the underground storage facility in Loenhout. Over a period of four years (2008-2011), workable storage capacity will be gradually increased by 15% from 600 to 700 million cubic metres.

In Belgium, Gazprom Export is a system user for border-to-border transmission of natural gas, while Gazprom Marketing & Trading is active on the Zeebrugge spot market and has a licence to supply natural gas on the Belgian market. Under the current legal framework, Fluxys must give priority allocation of storage capacity to grid users who supply distribution system operators. Since Gazprom Export is active in border-to-border transmission and does not supply natural gas to distribution system operators, the company cannot make use of storage in Belgium. In the Memorandum of Understanding,



Fluxys and Gazprom Export agreed to investigate the economic and legal feasibility of Gazprom Export reserving long-term storage capacity. Talks will be conducted with Belgian federal regulator CREG to see how such a capacity reservation can be implemented in the framework of an open, transparent procedure.

Under a long-term contract, in case of an emergency, Gazprom Export will provide natural gas that it has in storage directly to Fluxys. As such, the agreement will work in favor of both parties: Fluxys will have immediate emergency access to additional volumes of Gazprom Export's natural gas as a strategic reserve for the Belgian market, and Gazprom Export will have a buffer capacity for its supplies to northwestern European markets.

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Journalists Of South Stream Nations Visit Gazprom

On 17 November 2010, Alexander Medvedev, Deputy Chairman of Gazprom Management Committee, Gazprom Export CEO, and Leonid Chugunov, Head of the Gazprom Project Management Department, hosted a group of 18 journalists representing major media organizations from South Stream member-states at Gazprom's headquarters in Moscow.

The issues raised by the reporters ranged from the participation of different European countries in the

project, relations with the EU in the context of South Stream, views about the Nabucco pipeline, to the final route and the financial side of the endeavor.

"I wish you luck all along the way – with South Stream you will always have a good topic to write about. We will invite members of the media to cover events as they happen in the course of implementing this truly European project", Alexander Medvedev said.



Bulgaria Joins South Stream

Alexey Miller, Chairman of Gazprom's Management Committee, and Maya Hristova and Jordan Georgiev, Executive Directors of Bulgarian Energy Holding EAD, signed the Shareholders' Agreement and the Articles of Association for the South Stream Bulgaria AD in the presence of Russian Prime Minister Vladimir Putin and Bulgarian Prime Minister Boyko Borisov on 13 November 2010 in Sofia (Bulgaria). South Stream Bulgaria AD will engage in implementing the pre-investment stage of the project as well as financing, constructing and operating the gas pipeline on Bulgarian territory.



"Today's signing of the documents with our Bulgarian partners confirms the mutual interest of the parties in meeting the growing needs of continental Europe for natural gas," Alexey Miller noted. "Participation of Bulgaria in the South Stream project proves it is timely and necessary to create additional infrastructure of a trans-European scale."

Bulgarian Prime Minister Boyko Borisov also hailed South Stream as "a true European project," with all agreements reviewed in advance with EU Energy Commissioner Günther Oettinger – as reported by international wire service, Agence France Presse. AFP also reported that Prime Minister Borisov stressed the "pragmatic, mutually beneficial" approach in the talks but added that Bulgaria worked on Nabucco with the same speed... so that Bulgaria will indeed become an energy hub in the Balkans."

The participation of Bulgaria helps to underscore the fact that South Stream project is timely and necessary to create additional infrastructure on a trans-

European scale. South Stream will boost the amount of Russian gas transported through Bulgaria by as much as five times.

As noted by one of Bulgaria's most prominent national newspaper, 24 chasa Daily: "Bulgaria's national interest with regard to the South Stream project sounds much like 'the more, the better' and should rely on the balanced capitalization on the country's key geopolitical situation."

In an interview with Austria's Standart Daily, Bulgaria's Minister of Economy and Energy Traycho Traykov said that "Bulgaria will become a key factor on Europe's energy map. I hope the analysis will be ready by March 2011 and then I will be able to give you the exact figures about the project's cost," Minister Traykov continued. "According to preliminary estimates it will cost about € 800 million, which means Bulgaria's share will be approximately € 400 million. The project's paying off depends on many factors such as the final price of the project on the Bulgarian territory, future prices of natural gas and transit fees, whose formation is based on gas price. Projects of this type usually pay off in 10-15 years," Minister Traykov added.

Recent projections indicate that South Stream may be completed four months earlier than its current target of Dec. 31, 2015, since work is currently progressing ahead of schedule. South Stream's costs will be determined in the first quarter of next year, and Gazprom is prepared to advance payment for work on the Russian-Bulgarian joint venture.

Off-Shore Section: Marine Surveys

Complex marine engineering surveys were conducted by Peter Gaz Ltd. (authorized by Gazprom)

Surveys encompassed:

- ✓ Obtaining permits for works in the EEZ of Russia (20.03.2009), the EEZ of Bulgaria (06.07.2009) and the EEZ of Turkey (01.12.2009)
- ✓ Hydrographic survey
- ✓ Geophysical survey
- ✓ Geological survey
- ✓ Hydrometeorological survey
- ✓ Ecological survey

3 vessels "Professor Shtokman", "ACADEMIC" and "Vessel K.PIRI. REIS" were chartered to enable conduct of the surveys

On-Shore Section: IGAs & Corporate Agreements

2008 – 2010: Intergovernmental agreements on cooperation in construction and operation of the respective sections of the gas pipeline signed with Bulgaria, Serbia, Hungary, Greece, Slovenia, Croatia and Austria.

The Intergovernmental agreements provide for establishment by OAO Gazprom and the authorized national company of the joint venture companies (JVCos) for the purpose of design, financing, construction, operation and maintenance of the respective section of the gas pipeline.

2009 – 2010: In elaboration of the IGAs the corporate agreements signed with Hungarian, Bulgarian, Serbian, Greek, Austrian and Slovenian partners.

The corporate agreements, in particular, govern the relationship between OAO Gazprom and national participating companies at the feasibility stage.

In accordance with the provisions of the corporate agreements an arrangement for development of national feasibility studies is in progress.

Liquefied Natural Gas

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super-insulated vessels, LNG contains approximately 21,000 btu per liter (60% the fuel density of diesel fuel and roughly 270% that of CNG) and can easily vaporize for heavy duty gas engine combustion.

Efficient “benchmark” diesel engines benefit from decades of development and are well suited for hauling heavy loads. While natural gas fueled engine options are still limited compared to diesel offerings, heavy duty natural gas engines are proving to be reliable, efficient to operate, and quieter than their diesel engine counterparts. These LNG fueled trucks can cost-effectively satisfy range and duty cycle requirements while attaining new levels of environmental compatibility. Exhibit 2 depicts the standard setting performance characteristics of Daimler’s Eonic NGT heavy duty truck line. Natural gas produces virtually no particles or fine dust when it combusts. The Eonic NGT clearly undercuts the EEV and Euro V particulate limits (0.004).

As noted earlier, diesel fueled trucks will not be able to meet Euro VI standards. As a result, this presents a major challenge for diesel truck technology that will undoubtedly increase the cost of these vehicles due to the improvements and modifications required. Vehicle producers such as Mercedes-Benz, Iveco, and Volvo are aware of LNG’s value as a heavy duty vehicle fuel and are increasing their production capacity to introduce more LNG fueled trucks into the heavy duty market.

Challenges to the expansion of heavy duty LNG vehicles remain but are steadily being overcome:

- The rate of acceptance and widespread adoption of LNG as a transportation fuel has been somewhat dampened by limitations on European LNG supplies. Lack of LNG distribution and fueling station infrastructure and LNG

fueled vehicle scarcity. Fueling infrastructure will, however, gradually develop as motor transport fleets increasingly start transitioning to LNG.

- Market acceptance of LNG vehicles and related technologies is also growing. Major truck manufacturers report that customer interest is very strong and that LNG is rapidly becoming the alternative fuel of choice in the heavy duty and long range truck sectors. Moreover, LNG vehicles are good for business since they are exempt from the restrictions and operating bans that apply to diesel trucks in “low emission zones.”
- EU regulators are becoming increasingly aware of the significant long-term economic, environmental and societal benefits of natural gas seeing fuel as playing a greater role in the European energy landscape.
- Until recently, LNG has primarily constituted an alternative means of delivering natural gas to Europe, where re-gasification facilities vaporize the liquid; allowing for it to be consumed through conventional gas distribution systems. Natural gas suppliers now see the LNG transportation market as an attractive opportunity, expecting significant growth of LNG production resources.

The movement towards the use of LNG as a transportation fuel for heavy duty vehicles offers tremendous opportunities. Heavy duty truck (Class 7 & 8) traffic alone is estimated to grow at roughly 2% per year over the next two decades. Many have argued that diesel is too well established and widely available to be displaced as the fuel of choice for heavy duty vehicles but change may come as Europe gradually embraces LNG for its environmental compatibility, abundance and practicality.

Fluxys and Gazprom

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Coordinated approach

The agreement between Fluxys and Gazprom is a result of the Fluxys “vision memo” that Federal Energy Minister Paul Magnette submitted to the Council of Ministers in October, focusing on favorable pre-conditions to further develop Belgium as a natural gas crossroads for North Western Europe. One of the key points was to develop a coordinated approach between policymakers, government, regulators and system operators, based on a joint long-term vision of Belgium’s role as a crossroads.

Long-term contracts: building blocks for a low-carbon future

Fluxys currently has long-term agreements for the liquefied natural gas terminal in Zeebrugge and for border-to-border transmission of natural gas in Belgium. The latter contracts are important because every cross-border flow also opens up a new source for the Belgian market. Long-term contracts for natural gas storage would be an additional building block in developing a solid future for natural gas as a key element in the energy mix with a view to reducing greenhouse gas emissions at an acceptable price.

About Fluxys

Fluxys is the independent operator of the natural gas transmission and storage infrastructure in Belgium. Through its subsidiary Fluxys LNG, the company also operates the Zeebrugge liquefied natural gas (LNG) terminal. Driven by its first mover approach, Fluxys has developed its infrastructure into a central crossroads for international gas flows in North-Western Europe.

Friendly Battle of the Giants

KHL and NHL clubs finally meet

In October, two exciting exhibition games between clubs from the Kontinental Hockey League (KHL) and the North America-based National Hockey League (NHL) took place in St. Petersburg and Riga. Negotiations between KHL President Alexander Medvedev and NHL Commissioner Gary Bettman and Deputy Commissioner Bill Daly during the Olympic Games in Vancouver allowed the St. Petersburg and Riga fans to see their teams meet two different NHL clubs, the Carolina Hurricanes and the Phoenix Coyotes, on the ice.

SKA vs. Carolina Hurricanes - 5:3

4 October 2010 — The fairy tale atmosphere of the evening hovered under the ice rink roof. First, like a good aperitif, the spectators who filled the Palace to capacity were treated to a colorful laser show. The main course was, of course, the game itself.

On that night, SKA displayed all of its creative drive, from the brilliant play of the goalie Nabokov to the young defenders Berdyukov and Golovkov. But there would have been no victory without the double from the team captain Sushinsky, who early in the third period again gave his squad an

important advantage in the long run. The advantage was defended with difficulty by the entire team, both with technical skills as well as with fists.

Dinamo (Riga) vs. Phoenix Coyotes - 1:3

6 October 2010 — At this meeting, Mike Nealy the president of the Phoenix Coyotes acknowledged that it was an honor for his team to participate in such a historic game: “The hockey players were intrigued by the future match against Dinamo. I told them there are great fans in Latvia. I was in Latvia seventeen years ago, and spent several weeks traveling.”

The match was particularly difficult for Riga. In the first half of the first period, the teams were equal, but the account was opened by the guests. No matter how hard Riga tried, goalie Ilya Bryzgalov was unable to be foiled. The puck only flew into the Phoenix goal in the second half of the game, when Jason LaBarbera was at the gate. Riga goalkeepers had a serious ordeal: Mikael Tellqvist and Chris Holt deflected 39 shots for two, conceding three. Holt was named the best Dinamo player of the match.



Indeed, 4 October was a symbolic day, not only because it was the first time after 20 years that NHL returned to Russia. I can assure you that we will not rest on our laurels and will compose a calendar of interesting games between the NHL and KHL.

— Alexander Medvedev, president of the Kontinental Hockey League

Gazprom Export and GDF SUEZ:

Preserving the heritage of Russian emigrants in France

In September 2010, the “Save Reminiscences” international scientific conference took place in the House Museum of Marina Tsvetaeva to mark the publication of the long-awaited second and third volumes of *Russian Expatriates in France. Biographical Dictionary. 1919-2000*.



This unique dictionary consists of three volumes, each listing the names of about 5,000 Russian emigrants who distinguished themselves in the scientific, cultural and social life of France from 1919 to 2000. The project was jointly supported by the museum, Gazprom Export and GDF SUEZ.

Lev Mnuhkin, one of the lexicographers who compiled the dictionary, stated that the purpose of the edition is “to give a full and comprehensive idea of the extent to which Russian emigrants contributed personally to the social, scientific and cultural life of France in general and, in particular, to the life of the Russian expatriate community in France.”

The dictionary offers more than 16,000 reference notes, which provide information on the names of not only the first, but also the second and third rows. This level of detail, emphasizes Mnuhkin, “gives a more clear idea of the complex and multicolored panorama of the lives of Russian expatriates who left their mark, though not always noticeable, on both Russian and French history and culture in the 20th century.”

The edition was compiled by Russian specialists with participation of several French scientific and educational institutions, including the University of the Sorbonne, the Institute of Slavonic Studies, the International Library of Modern Documentation and the Turgenev Library in Paris.

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would provide enough energy to allow Europe to shelve the construction of 25 nuclear plants, to cancel the deliveries of 160 oil tankers, or to take 58 coal-fired electricity plants off the grid.

It has been calculated that by only replacing every second coal-based power plant with modern gas-turbine units, Europe could achieve practically half of its 2020 CO₂ emission reduction targets. This could be done with small upfront investments and in a short period of time. Increasing the natural gas share in the EU energy mix by just 1% would reduce CO₂ emissions by more than 3%.

Gas has a crucial role in the transition to a green economy. Gas-fired power generation is not only a cost-effective way of emission abatement; it is also complementary to renewable energy such as wind and solar by providing the necessary backup during peak consumption periods. Natural gas could provide the necessary breathing space for the deployment of more mature renewable energy technologies than those currently available.

Natural gas for transportation

Gas has the potential to reduce the use of petroleum in transportation because in the near- and longer-term it can substitute the use of petroleum as the dominant transport fuel, both for the transport of people and goods. Beyond the well-known and well-established use of Compressed Natural Gas (CNG) as a motor fuel in the EU, Gazprom is now conducting research in two very promising areas:

- first, on the conversion of natural gas to liquid fuels through gas-to-liquids (GTL) technology, resulting in supply of diesel fuel made from gas for direct use in vehicles [which is cleaner and more efficient than oil-derived diesel];
- second, on developing vehicle technologies and infrastructure so that

natural gas can be the primary fuel for fleet vehicles such as delivery trucks, buses, and even large 6- and 8-wheel trailer trucks.

The invitation to European investors to take advantage of the modernization program in Russia could focus on developing “Blue corridors” – a system of transportation networks between EU member states and Russia which would offer a corridor of natural gas stations.

Long-term supply contracts

The complex legislation on energy which the EU has put in place in recent years, including the Third Energy Package, puts the emphasis on breaking up integrated supply systems based on long-term relationships in the name of creating an open internal market. We can support the goal of removing barriers to energy trade between EU countries, but from our viewpoint the approach being taken runs the risk of eroding the EU's energy security in the longer term.

The reality is that Europe's energy safety net does not result from numerous small investment decisions, as in the United States. Whatever niche shale gas may eventually find in Europe, the bulk of Europe's future gas supplies are to be found in large foreign gas fields which require tens of billions of dollars of investment capital for development, gas processing and pipeline and LNG transportation infrastructure. Once built, these international supply chains typically require decades of stable gas sales revenue to show a worthwhile return. To attract the necessary financing, these projects need a greater degree of predictability and certainty over the amount of gas they are to deliver, and the prices to be realized, than shorter-term industrial investments.

Gazprom, like other major gas exporters, continues to advocate long-term contracts based on predictable volumes and

predictable prices linked to oil-indexation. In the specific conditions of the European gas market, where the bulk of supplies depend on expensive fixed pipeline infrastructure linked to single suppliers as a matter of geography, oil price indexation offers safeguards to both parties. The formulas are transparent and objective and the results are verifiable. They cannot be manipulated by either the seller or the buyer. A gas supply system not built on long-term contracts is bound to be inherently more volatile and unpredictable. It might be more exciting for market traders, but it will mean less security for producers, consumers and serious investors.

Third Energy Package

The other aspect of concern to us is the Third Energy Package implementation, and in particular the issue of capacity rights. We believe that it is of crucial importance that capacity rights for companies who have the ability to successfully and continuously supply the market are fully upheld. All shippers with capacity rights should be able to manage their flows to supply customers; otherwise we would find ourselves in a paradoxical situation in which suppliers would not be able to honor their commitments to end users because of legislative hindrance. As a result, shippers will not make the long term bookings which network companies need in order to justify investment in infrastructure.

As for the unbundling clause, we believe that an integrated system, alongside long-term contracts, offers the best basis for effective supply management and for raising the investment needed to build badly-needed new capacity. We suspect that breaking up the system could prove counter-productive, whatever the presumed benefits of the change. Overturning long-established ownership

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rights in respect of vital infrastructure assets, which in some cases are protected by bilateral intergovernmental agreements, is bound to raise some difficult questions. Existing owners have a right to be compensated for the full value of the assets in terms of their future revenue potential. In this context, it is a little ironic to see countries which have successfully privatized their gas supply systems re-nationalizing parts of them in the name of EU liberalization policy.

We are also concerned that the new independent network operators could serve their own interests rather than those of consumers and suppliers -- using assets, which we as suppliers have financed and built -- in order to generate revenues from their regulatory functions. None of this, in our view, is conducive to the large investments in supply

EuRoPol GAZ CEO:

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so-called "Operator's Agreement." This agreement was thoroughly analyzed by the European Union, which was particularly interested in the rules governing third-party access and methods of providing information on available capacity.

After lengthy negotiations, an agreement with Gaz-System S.A. was signed. Representatives of Gazprom Export and PGNiG, were present at these talks. The "Operator's Agreement" was signed, and now EuRoPol GAZ, as the owner of property rights to the gas pipeline, in accordance with Polish energy law, applied to the Office of Energy Regulation for Gaz-System S.A. to be designated as the operator. And that's what happened.

Blue Fuel: Do you think that the compromise reached is in the interests of all parties? Where exactly do the

infrastructure which, as the European Commission keeps reminding, Europe badly needs.

All in all, we expect the new regulations intended to ensure Europe's energy security to have a sound economic rationale which will not confuse and perplex operators by shifting the balance of power in favor of speculative traders and intermediaries at the expense of the providers and ultimate customers.

Looking into the future

I would like to share my belief that together with the European partners and peers we have the intellectual potential and willpower to tackle in earnest all the arising challenges for the sake of maintaining sustainable and efficient energy cooperation with and within Europe. We have all the good reasons to expect the emergence of a European energy system that does not mistreat the proven business models and is responsive to market needs, environmentally

compatible, and technically and politically secure.

As for Gazprom, we shall do our bit. I can assure you that we are truly committed to enhanced energy security of Europe. One of the founding fathers of the European Union, Robert Schuman, speaking in Strasbourg in May 1949, observed that, "The European spirit signifies being conscious of belonging to a cultural family and to have a willingness to serve that community in the spirit of total mutuality." That spirit is what Gazprom aspires to in its partnership with Europe, a set of customers we are privileged to supply.

My sincere hope is that neither prejudice nor misperceptions will tarnish or undermine the existing meaningful partnership between purveyors of natural gas from Russia and our European peers and customers.

interests of Poland and Russia in the energy sector intersect? What are the prospects of this cooperation for the next ten to twenty years?

Mirosław Dobrut: There is no need to stress that a compromise was reached. The parties agreed on a package of arrangements that benefits all sides, putting long disputes and claims that accumulated over many years to an end.

I believe that this agreement opens a new stage of cooperation between our companies. On this basis, we can discuss possible future projects that will further the development of the Polish energy sector.

Blue Fuel: Do you agree that the Russian-Polish agreement is exemplary in terms of the Third Energy Package?

Mirosław Dobrut: I think all parties gain important experience from the whole

negotiation process. As for the Third Energy Package, I think discussions will go on a long time. Alexander Medvedev said at the *Gas of Russia* Forum that a working group of Russia and EU will be organized that will address the issue of the Third Package, among other issues. I hope the Polish side will participate in these negotiations with the European Commission.

I believe that the agreement signed by us will often be cited as an example of effective cooperation.

A Friendly Match on Ice: Gazprom Export Hockey Team Played With the World Hockey Stars

A friendly match between the Gazprom Export Team and the World Hockey Stars was played on 17 December in the Megasport Arena (Khodynka) in Moscow. These goodwill matches have become a positive new tradition.

At the First TV Channel Cup, veteran players -- who only recently had demonstrated their brilliant gamesmanship in official matches -- displayed the same youthful sporting spirit. These masters on ice showed off their expert skating and stick skills and a strong will to win that withstands the test of time. These friendly matches have nothing to do with "figure skating with sticks." Just like the matches of active professional teams, the ice arena still runs hot with passion.

The match played on 17 December was no exception. Fans were looking forward to a spectacular show, even more so since the heroes of the match lacked anything but mastery and excellence! Judge for yourselves: the World Hockey

Stars played with Jari Kurri, Alexei Gusarov, Mikhail Shtalenkov, Milan Novy, Jiri Bubla, Oldrich Valek, Bedrich Serban, Jiri Sejba and Anders Karlsson. The Russian team was also represented by top stars: Andrei Kovalenko, Maksim Mikhailovsky, Fyodor Kanareikin, Lev Berdichevsky, Igor Varitsky, Ravil Yakubov. The Russian team wouldn't be complete without its irreplaceable captain Alexander Medvedev, Director General of Gazprom Export and President of the Kontinental Hockey League.

The match was rich in highlights and was a truly superb show: high-speed passes of forwards and fantastic play of goal-keepers. The spectators enjoyed the game to the fullest; it was first-class hockey. At times it seemed that it was not a match of veterans but a battle for a prestigious world trophy.



The Russian team managed to tune in and play a good game: the battle ended with the victory of the Gazprom Export veterans 10 to 6! Goals were delivered by Gomolyako, Berdichevsky, Boriskov, Yakubov, Teplyakov (2), Kovalenko (2), Gordiyuk, Shtepa. The scoring shots of the visiting team were made by Nad, Byakin, Sejba, Rotenberg (2), Reinl. Irrespective of the score, the main thing was that for both spectators and players, it was hockey at its best.

Esimit Europa 2 Proved Its Speed

Esimit Europa 2, the super-yacht sponsored by Gazprom Group, had an unbelievably good season, recording 11 wins in five of the world's most prestigious regattas.

The yacht and its crew -- consisting of experienced top-class professionals -- set two world records in the Palermo-Monte Carlo and Barcolana regattas. They were awarded the title of the World Champion among boats of its class, and the yacht was rightfully pronounced to be the fastest sailing boat worldwide.

Esimit Europa 2 is an embodiment of not only sport; it is also a symbol of cooperation. The boat is honored to fly the flag of the European Union and sail

under the patronage of the European Commission, which underscores the key concept of this broad-spectrum project: promoting ideas and values of integrated Europe, blurring borders and developing cooperation among European nations in all spheres of human activity.

An essential component is support from European Energy, an environmental movement standing to improve the quality of life and preserve the European ecological equilibrium.

The 2010 season is over and now the yacht crew is at full speed getting ready for the next season to attain similar ambitious targets.

