

IN THIS ISSUE

To Our Readers: Nord Stream Will Serve Europe with 55 bcm per annum for the Next 50 Years Pg. 1

Cooperation Between Neighbors: Gazprom Export and its Trading Partners Pg. 2

Nord Stream Pipeline Inaugurated: A Major Milestone for European Energy Security Pg. 3

Nord Stream: Delivering Gas from Russia to Denmark Pg. 4

Gazprom and Srbijagas Launch South Stream's First Facility – Banatski Dvor UGS Pg. 5

Global Gas in a World of Change Pg. 6

GGLNG Elevates its Focus on Supplying Asian Markets Pg. 7

We Are Part of the Slovak Gas Market Liberalization Pg. 8

Gazprom Marketing & Trading Acquires Envacom Services Pg. 9

Gazprom M&T USA and Associated Electric Cooperative Sign Long-Term Supply Agreement Pg. 10

Visual Delights in Black and White and in Color Pg. 11

Delegation of Gas Professionals from Finland Gets a Taste of Siberia Pg. 12

Polish and Russian Musicians Play Vintage Violins in Warsaw Pg. 13

Six Regattas, Six Wins for Esimit Europa 2 Pg. 13

Season's Greetings Pg. 13

TO OUR READERS:

Nord Stream Will Serve Europe with 55 bcm per annum for the Next 50 Years

The inauguration of the first line of the Nord Stream gas pipeline on 8 November marked a fundamental milestone in the pan-European effort to cooperatively build up infrastructure and enhance the security and flexibility of its energy supply.

When Nord Stream becomes fully operational in late 2012, the pipes at the bottom of the Baltic Sea will have the capacity to transport annually 55 bcm of Russian natural gas to the European Union for at least the next 50 years.

Nord Stream is a commercial project (providing good value to all the stakeholders), based on long-term contracts with Gazprom Export to supply customers in Germany, Denmark, France and other countries with Russian natural gas.

The benefits of Nord Stream for the European consumers are numerous and varied. First and foremost, the pipeline is a shorter and more direct transport link, aimed at securing supply routes to key markets. Yet, it should be noted that Nord Stream is not intended to fully bypass geographical intermediaries. It is worth putting on record that the existing transit routes through Ukraine and Belarus will remain valid and operational.

Second, Nord Stream will provide flexibility of supply through route diversification, making it easier for Gazprom Group to meet its contractual long-term obligations.

Third, the implementation of the project was carried out in an open and transparent manner, addressing and resolving public concerns.

Fourth, Nord Stream invested 100 million euros in the most comprehensive research of the Baltic Sea ever in planning the pipeline, and consulted widely to ensure that the design, routing, construction and operation of the pipeline would be safe and environmentally sound. The company is investing a further 40 million euros through 2016 in comprehensive environmental monitoring

To learn more about the positive consequences of the Nord Stream for Denmark, please read the story authored for Blue Fuel by Kurt Bligaard Pedersen, Executive Vice President of DONG Energy, on page 4. In particular, the article notes that deliveries of Russian gas to Denmark will gradually increase to 2 bcm per year.

to guarantee that the environment is not adversely affected throughout the construction phase, and during operations until 2016. The data gathered provide important information to future research projects studying the Baltic Sea environment and will be shared with non-governmental organisations and national authorities.

This project sets an example for European cooperation, which is exemplified by the fact that Nord Stream was incorporated into the Trans-European Energy Network Guidelines (TEN-E) of the European Union.

Continues on page 5

Cooperation Between Neighbors: Gazprom Export and its Trading Partners

Vladimir Volokitin, Head of Gazprom Export's Analysis and Optimization Department, provides answers to questions from Blue Fuel regarding commercial relationships with former Soviet states



Blue Fuel: Gazprom Export is directly involved in the development of the commercial terms of contracts on gas delivery to former Soviet states. What place do they occupy in the overall strategy?

Vladimir Volokitin (VV): We have a special relationship with former Soviet states, which largely determines our marketing strategy. We must not forget that in the recent past we all were not only partners of the same cultural and historical background, but also of the same economic space. In the case of the gas industry, we can talk of a single gas space, based on a unified gas pipeline system that was once controlled from a single dispatch center. Nevertheless, memories of the former union not yet fully lost cannot stand in the way of sound business practices. And that is why Gazprom Group, as a commercial entity that is responsible to its shareholders, committed itself in 2006 to gradual adjustment of prices under gas delivery contracts with Commonwealth of Independent States (CIS) and Baltic states in order to completely move to prices similar to those effective in European countries.

Thus, as a result of transition to market principles, prices for these countries –

which are sometimes called Russia's "neighboring countries" — have increased by two to three times and come close to European levels. Moreover, specific prices for countries are different, considering all aspects of trade relations and the degree of integration with Gazprom's gas business.

With the support of the State, work on expanding Gazprom's presence in the markets of these countries is ongoing, both through joint ventures and direct access to ultimate users in Belarus, Ukraine, Moldova and Armenia. In Baltic states, this process is being implemented through the company's participation in the equity capital of local gas distribution and transmission companies such as Latvijas Gaze, Lietuvos Dujos and Eesti Gaas. In addition, Gazprom holds the controlling stake in Lithuania's Kaunas CHPS.

Development of cooperation with the main Russian gas transit countries to Europe – Ukraine and Belarus – under market principles is particularly important for such company as Gazprom, that exports Russian gas to European consumers.

We believe that transparency in the relationship between Gazprom and transit countries is beneficial to all parties and is needed to ensure reliable Russian natural gas supplies to our European consumers.

Blue Fuel: What are the prospects for cooperation with Central Asian countries and Azerbaijan?

VV: This region contains the largest hydrocarbon reserves outside Russia, which opens up unlimited opportunities for cooperation in gas production and transportation and commercial cooperation in the nearest gas markets.

Gazprom Group is involved in several projects on gas production and processing in the region, and buys very significant volumes of Central Asian gas –

up to 40 bcm per year. These purchases also make it possible to optimize the portfolio of supplies in other neighboring countries. The gas resources of Central Asia and Azerbaijan enable Gazprom to take advantage of new opportunities to expand the gas sales markets, while maintaining reliable supplies to traditional consumers. The use of a fair price for gas purchases is an unconditional principle of interaction with gas producers in Turkmenistan, Kazakhstan and Uzbekistan, each of which sell produced gas for export. This price is directly tied to the price level of gas sales in the European market, taking into account the costs incurred by Gazprom, including all transportation and sales costs, as well as normal income from sales.

Natural gas purchases in Central Asia and Azerbaijan help avoid the creation of a new expensive gas transportation infrastructure, and largely use the existing ones, modernizing as necessary.

It is of great importance that we are able to simultaneously optimize the cost of Russian transit of this gas through the already existing uniform pipeline system and use it for the Russian consumers as a replacement.

This is a win-win situation. We can use the purchased gas in Russia and not pump gas through thousands of kilometers from fields in the Far North. The northern gas can be used on more promising areas, optimizing the supply routes. For their part, our partners, also by using the existing pipeline system, export their products at a commercially reasonable price.

I would also note the special role of Kazakhstan, which is Gazprom's main partner under close relations with Russia. Kazakhstan is included in the Customs

Continues on page 11

Nord Stream Pipeline Inaugurated: A Major Milestone for European Energy Security

When the Nord Stream Pipeline became operational on 8 November, political and business leaders hailed it as being a significant contribution to Europe's long-term energy security. German Chancellor Angela Merkel, Russian President Dmitry Medvedev, French Prime Minister François Fillon, Dutch Prime Minister Mark Rutte, EU Energy Commissioner Günther Oettinger and the CEOs of the project's corporate shareholders gathered at Lubmin on Germany's Baltic Sea coast to formally inaugurate the first of Nord Stream's twin 1,224 km Baltic Sea gas pipelines.

When fully operational in late 2012, Nord Stream's two lines will have the capacity to annually transport 55 bcm of Russian gas to the EU for at least 50 years.

Nord Stream's five shareholders Gazprom, BASF/Wintershall, E.ON Ruhrgas, Nederlandse Gasunie and GDF SUEZ echoed political leaders in hailing the pipeline's significance to long-term energy security. Nord Stream will ensure energy security on schedule and at no cost to European taxpayers, with the Consortium's five shareholders shouldering 30% of the 7.4 billion euro investment and commercial loans from a group of almost 30 international banks covering 70%.



On hand to commemorate the inauguration of Nord Stream were (l-r) Gerhard Schroeder, Francois Fillon, Johannes Teysse, Angela Merkel, Mark Rutte, Dmitry Medvedev, Alexey Miller, Guenther Oettinger, Kurt Bock, Erwin Sellering, and Matthias Warnig.

EU Energy Commissioner Günther Oettinger's presence at the launch highlighted Nord Stream's importance to Europe. Nord Stream is included in the EU's Trans-European Energy Network Guidelines (TEN-E), and was designated a project of "European interest" by European Commission, European Parliament and the Council of the European Union in 2006.

Nord Stream, a commercial project based on long-term contracts between Gazprom Export and customers in Germany, Denmark, France and other countries, has, according to its Managing Director Matthias Warnig, "provided Russia's Gazprom with a safe, modern and efficient additional route through which to supply gas to its partners and customers in the EU, in addition to the existing transit routes through Ukraine and Belarus." Warnig also hailed the project as "one of the long-term solutions for the EU's energy security," adding that the pipeline will satisfy the forecasted long-term increase in European gas demand.

Prior to starting construction in April 2010, the Nord Stream Consortium invested 100 million euros in one of the most comprehensive studies of the Baltic Sea ever conducted, engaging a wide range of experts to ensure that the design, routing, construction and operation of the pipeline would be safe and environmentally sound.

The Consortium will also invest 40 million euros in comprehensive environmental monitoring along the route to ensure its environmental soundness.



Nord Stream: Delivering Gas from Russia to Denmark

Kurt Bligaard Pedersen, Executive Vice President at DONG Energy



Following the launch of Nord Stream on 8 November, DONG Energy started importing natural gas from Gazprom, meaning that Denmark is now receiving Russian gas for the first time in its history.

After being a net exporter of natural gas for decades, Denmark realized that its reserves were decreasing and that new major discoveries were unlikely. In 2005, we therefore decided to look into the possibility of gas imports to avoid a future supply shortfall.

Two-way agreement

We joined forces with Gazprom in 2006, signing a mutually beneficial bilateral supply agreement. We have significant production from our Norwegian assets which we have been directly delivering to Gazprom Marketing and Trading in Great Britain since 2007. In return, Gazprom Export agreed to supply us with natural gas from Yamal after Nord Stream came into operation.

We are very pleased to have Gazprom as one of our partners. We have had fruitful negotiations and positive experiences that highlighted Gazprom's professionalism and commitment to making mutually favourable deals that enable both parties to meet our customers' supply demands.

Denmark – just one in a chain of markets

Until now only small volumes of the Russian gas have been transported to Denmark. When the second Nord Stream pipeline is constructed and comes into operation, Gazprom will increase its

About DONG Energy

DONG Energy is one of the leading energy groups in Northern Europe. We are headquartered in Denmark. Our business is based on procuring, producing, distributing and trading in energy and related products in Northern Europe. We have approximately 6,000 employees and generated 55 billion Danish krone (EUR 7.3 billion) in revenue in 2010.



deliveries to DONG Energy by 2 bcm per annum, satisfying half of Denmark's yearly demand. We are an active player in Northwest Europe and our customers in Germany, the Netherlands and Sweden will likewise benefit from our partnership with Gazprom.

Our Russian gas makes up one of the four cornerstones in our natural gas portfolio. The other three are LNG-supplies, agreements with Northwest European producers and finally, our own natural gas production. Today we produce gas from assets in Norway and Denmark, with two British gas fields set to launch in 2014.

Nord Stream as an important gateway

8 November 2011 was an important date – not only for the Nord Stream Consortium but also for consumers like DONG Energy.

I consider Nord Stream to be an important gateway for energy supplies to Europe and more gateways create more energy security.



DONG delegation visting gas production facilities in Novy Urengoi.

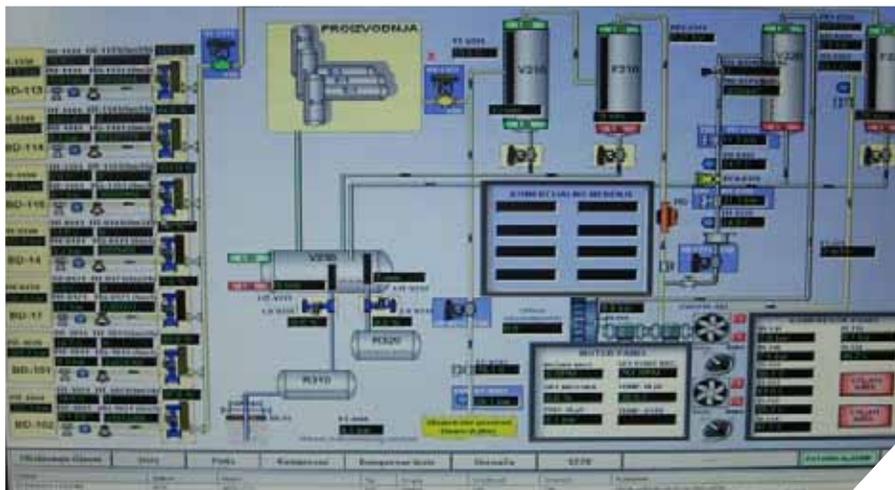
Gazprom and Srbijagas Launch South Stream's First Facility – Banatski Dvor UGS

On 21 November, Serbian President Boris Tadic and Chairman of the Gazprom Management Committee Alexei Miller took part in the events dedicated to the inauguration of Banatski Dvor, one of the largest underground gas storage (UGS) facilities in Southeastern Europe.

Banatski Dvor has a working gas volume of 450 mcm, and maximum deliverability – 5 mcm per day, with the potential for further expansion. Overall, the UGS facility enhances the security of Russian gas exports to Hungary, Serbia and Bosnia and Herzegovina.

Taken together, the Banatski Dvor UGS facility, the upgraded Pancevo oil refinery and the planned South Stream gas pipeline will not only significantly improve energy security but also turn Serbia into a formidable energy hub in the region. As a result, Serbia, with its enhanced transit and storage capacity and increased petroleum production, will have all the components necessary to become a prominent player in the European energy market.

The story of Banatski Dvor unfolded rather swiftly.



On 25 January, 2008, Russia and Serbia signed the Umbrella Intergovernmental Agreement for the South Stream project and the Banatski Dvor UGS facility. On 15 May, 2009 Gazprom and Srbijagas signed the Basic Agreement of Cooperation. In November 2009, registration of the joint project company, South Stream Serbia AG, was accomplished. Gazprom holds a 51% stake in the company and Srbijagas, a 49% stake.

In October 2009, Gazprom and Srbijagas signed an agreement setting up a JV for the Banatski Dvor UGS facility, which was registered in February 2010. The JV has the following shareholding structure: Gazprom – 51%, Srbijagas – 49%. The Banatski Dvor UGS facility was created on the basis of the eponymous depleted gas field situated 60 km to the north-east of Novi Sad.

To our readers

Continued from page 1

What's more, Nord Stream enables the achievement of EU goals and targets for environmental protection which could be accomplished, in part, by companies and countries substituting coal and oil for lower-carbon gas.

Historically, natural gas was largely accepted by the market as the fuel of choice. It was preferred by a wide variety of customers for a number of reasons including its relatively low prices, as it does not require subsidies to

prove its worth as a commodity (unlike renewables).

This truth still holds: gas needs no preferential treatment and no political hand-holding. In the context of the Nord Stream project, this has been illustrated by the fact that out of the 7.4 billion euro in investments, 70% came in the form of commercial loans from a combined 30 global banking institutions. Nord Stream did not cost the European taxpayers anything.

Finally, the project was largely born out of the realization that Europe had to address both the political risks and security issues of long-term demand. The general public in Europe understands that it is in their interest to have more reliable imported energy sources.

The success story of Nord Stream proves that until the currently overpriced renewables become more competitive over time, natural gas can best provide an abundant source of clean energy for Europe.

Global Gas in a World of Change

John Hattenberger, President and Managing Director, Gazprom Marketing & Trading USA



Major Changes: Four Factors, Two Questions

The global gas business has experienced huge and unprecedented changes over the last five years, more than any that I have witnessed in my 34 years in the gas business. At the heart of these changes is stronger gas demand and supply, coupled with dramatic shifts in global energy markets.

This can be attributed to four key trends that have occurred in the last five years:

- First, global gas demand continues to grow at 2.8% per year, largely due to gas' clean burning qualities and superior gas-fired combined cycle power plant economics;
- Second, global LNG demand continues to grow three times faster, at 8.3% per year, due to the flexibility offered by moving LNG to markets of choice, development of stranded gas reserves, and the option for countries that have no gas reserves to import gas in the form of LNG;
- Third, the development of shale gas technology in the U.S. has dramatically increased U.S. production, sending prices lower than other global gas markets; and,
- Fourth, the global oil crisis has sent oil prices above \$100+/bbl, sending

oil-indexed gas prices in the Pacific Basin and Europe soaring.

With all these changes, what does the future hold? Two key developments might cause further change:

- Will shale gas be developed in other areas of the world with the same speed and breadth as in the US, with a resulting "shale gas revolution" across the globe?
- Will U.S. LNG exports become a reality and cause a shift in LNG trade patterns?

The Shale Gas Revolution in the U.S. and Beyond

The world was surprised by the rapid development and deployment of shale gas technology in the U.S., which is a combination of horizontal drilling and hydraulic fracturing to produce gas from vast shale resources not previously deemed to be economically viable. The speed and breadth of development surprised all experts, including me. In just 15 years, U.S. shale gas has grown to represent 33 percent of all U.S. gas production and has already reached 19 bcf/d (190 BCMA), growing at 60% per year over the last eight years. To put this into perspective, U.S. shale gas is now more than half the size of the global LNG market, and represents 5% of global gas production.

U.S. shale gas production has caused a significant decline in the price of natural gas in North America and has caused LNG targeted for North America to be re-directed to other higher-priced markets, primarily the Pacific Basin and Europe, impacting the supply-demand balance in those countries.

Will the U.S. "shale gas revolution" go global and spread into other major markets, having the same impact globally as it did in the U.S.? Most experts, including me, say "No". Why not? Because outside North America, shale gas development faces significant obstacles that North America did

not have to contend with, including: cumbersome land rights, lack of legal clarity, uncertain access to the title of hydrocarbons, high population density, water availability, shortage of field equipment, environmental and political resistance, differing geology of shale beds across regions, lack of pipeline infrastructure, and other issues. Shale gas is likely to be developed much slower in other parts of the world and will take much longer to have an impact.

The Potential for U.S. LNG Exports to Radically Change the Global Gas Market

Currently gas prices are regional, not global in nature, meaning there is not one common price. The price of gas in North America is driven entirely by supply and demand fundamentals, and tied to the price at Henry Hub, Louisiana, with price differentials depending on regional pipeline flows. In the Far East markets of Japan, South Korea, Taiwan and China, LNG is indexed by contract to the price of oil. In the U.K. the price is National Balancing Point (NBP), a liquidly traded hub similar to Henry Hub in the U.S. In Europe, the gas price is mostly oil indexed and, to a lesser extent, influenced by local gas hubs.

Since 2001, U.S. prices rose and then fell, following the growth in shale gas production, remaining flat overall. In the same period, gas prices tied to oil in the Far East rose four-fold, and U.K. prices rose by a factor of three. Since 2008, we have seen a sustained, and unexpected, divergence of global gas prices, with North America around \$4, Far East at \$16-18 and U.K. around \$9. There is now a significant price spread between U.S. and other major markets.

What impact has this price spread had on global markets? First of all, it changed the flow of global LNG. LNG flows have

Continues on page 10

GGLNG Elevates its Focus on Supplying Asian Markets

Featuring comments by *Frédéric Barnaud, President and Managing Director, Gazprom Global LNG*



2011 was a landmark year for the LNG industry, with natural disasters such as the earthquake and related tsunami in Japan drastically changing the marketplace. The subsequent nervousness from governments in Europe resulting from the Fukushima reactor meltdown caused them to completely rethink or cancel their nuclear program, seriously reshaping the LNG landscape.

Gazprom Global LNG (GGLNG) experienced tremendous growth over the last few years as demand has surged, particularly in the Asia Pacific region. Noting Gazprom played a pivotal role in diverting cargoes of LNG into Japan following the disaster that helped to meet the sudden upsurge in capacity demand, Gazprom Export Executive Director of LNG, Shipping and Logistics and Clean Energy Frédéric Barnaud said, "There are still many uncertainties over the economy in Japan and the Far East. But, natural

gas is very well placed and there is lots of it. So it is our duty as an industry to make sure that it transforms into contracts and developments. We have certainly changed, or accelerated, some of our planned long-term utilization of Gazprom gas reserves — we talk about Shtokman, and possible Far Eastern gas and LNG developments. Over the past six months, we have actively supplied Japan to mitigate the effects of the dramatic events there, as well as the booming economies of China and India."

GGLNG sources less than half of its LNG from the Sakhalin project, with the rest sourced from the spot markets. Continued Barnaud, "This year we will trade about 2.5 million-3 million tons. Sakhalin equity will probably be less than half, with the rest from Egypt, Nigeria, Qatar and Australia, plus some U.S. reloads. This year we have been very successful across Asia, marketing directly into Kuwait, Thailand and more traditional markets like Japan, South Korea, Taiwan, China and India. Asia is a significant part of our LNG supply — from Sakhalin. The rest remains flexible because of our successful participation in spot tenders and our strong shipping position — but we're still keeping a big focus on supplying Asian markets."

Further West, GGLNG has been making huge strides in signing multiple long-term supply contracts with major buyers across India and other countries, which is "something which took the markets completely by surprise," said Nigel Kuzemko, Director of LNG Development.

"We are mandated by the Gazprom Group to deliver against its LNG strategy of delivering 85 billion cubic meters of LNG each year by 2030, a huge feat. We do this through having some of the best LNG experts in the world working here at Gazprom."

"Over the next 5-10 years, we plan to place in the market Shtokman Phase 1, 2 and 3. We will also place in the market gas from the Sakhalin-2 expansion. So we are talking approximately 35 million tons/yr. And there's Yamal to come."

"Gazprom Global LNG isn't just about shipping physical volumes, it also has substantial import capacities as well," concluded Barnaud. "We have long-term regas capacity at Sempra's Costa Azul in West Mexico of about 1 million tons per year but with current U.S. prices, Sakhalin volume is being diverted away. We have ended a short-term agreement with Petronas at the UK terminal Dragon, but kept the ability to import LNG in Northwest Europe using third-party-access mechanisms. We have a good relationship with Sempra allowing us to put cargoes into Cameron LNG [in the U.S. Gulf], but this has not been used."

As for the immediate future of GGLNG, Barnaud and Kuzemko remain pragmatic. They said GGLNG is not excluding anything that could add significant value to the Gazprom Group, such as complimenting the Chinese pipeline supply negotiations with sea-borne supplies of LNG and so-called "Green LNG."

Gazprom Group Acquires 100% of Promgas

Gazprom Group has acquired Promgas, a Milan-based company that specializes in Italian natural gas sales. Italian energy company ENI sold 50% of its share in Promgas to Zurich-based Gazprom trading subsidiary Gazprom Schweiz AG.

Pursuant to EU regulations, the European Commission was informed of the deal.

Promgas was established in June 1993 on a parity basis between Gazprom and ENI. In accordance with a contract, the company supplies natural gas to Italian utility Edison.

We Are Part of the Slovak Gas Market Liberalization

Štefan Koman, Director General of Vemex Energo s.r.o., answers questions from Blue Fuel about gas market liberalization in the Slovak Republic



In November 2011, Gazprom Group company Vemex Energo s.r.o. announced that the first contracts for gas supplies to Slovak end customers in 2012 had been signed. Now it has concluded contracts with 19 companies, with overall volumes of 3.8 bcm. This development is a real breakthrough for Gazprom Group, marking the entrance to a new end-user market in a country that has been supplied with Russian gas for over four decades, and is the number one Russian gas transportation intermediary in the EU. Štefan Koman, Director General of Vemex Energo s.r.o., described to “Blue Fuel” the company’s challenges and goals.

Blue Fuel: How did the story unfold? What are the milestones preceding Vemex Energo’s arrival to this destination?

Štefan Koman (SK): Vemex Energo was founded in 2003, under the law of the Slovak Republic, as a 100%-subsidiary of Czech Vemex s.r.o.. Its main goal was to actively participate in the liberalization of the Slovak natural gas market, which at that time was completely controlled by the monopoly SPP. Another equally important task was to provide Russian gas to Slovak customers. Both targets, despite some delay, were reached.

Blue Fuel: What is the expected market share of Vemex Energo s.r.o. after entering the market in 2012?

SK: Judging on our expertise and the current market developments in Slovakia, I would say that Vemex Energo s.r.o. is moving along the standard pathway of every new player who has entered this terrain. From today’s perspective, we have approximately 1% market share for 2012. As for the next few years, our aim is to reach a position comparable to the one our mother company Vemex s.r.o. holds in the Czech Republic. And we have all the prerequisites to make this come true.

Our efforts are mainly aimed at creating a customer portfolio that would embrace as many kinds of customers as possible, representing all segments of consumption, and setting up a sample model that would be indicative of the market and help us work on it for years to come. Now, we focus primarily not on achieving any quantitative results related to concrete volumes supplied, but on the quality and variety of supplies that would help us design and establish the optimal operation and services practice for the future. We attach the highest importance to building a good and reliable long-term partnership with our clients, and to meeting their demands promptly and efficiently.

Blue Fuel: What is your company offering?

SK: As you realize, establishing yourself on the market is a long-term story. What we offer are the advantages of a reliable partner, backed up by a secure resource base, a highly professional team, and ample experience of doing business on the neighboring Czech end-user market. Such a partner is able to take care of its customers and provide them the product that meets their needs in the best possible way. If our Slovak customers are happy with our services, it will give us the

best opportunity to succeed in general on the Slovak market.

Blue Fuel: What are the market segments you supply the gas to?

SK: It is our goal for 2012 to embrace as many segments as possible while gaining a foothold with our clients. That is, we want to embrace all of the Slovak economy, to identify the concrete directions which promise Vemex Energo the best chances for growth. Basically, we managed to fulfill the task we set for ourselves. Our current clients represent a variety of industries, from the chemical industry (Jasplastik-SK) to textiles (Zornica Banko Fashion), and from heating equipment (Koor) to beverages and wine (McCarter and Elesko).

Among them, there are international producers, like electrical technology producer GE Energy (part of General Electric); insulation producer Knauf Insulation; building materials producer Wienerberger (Slovenské tehelne) as well as local companies and service providers like Polus shopping mall in Bratislava, Slovakia’s biggest exhibition venue Incheba or even Slovakia’s best spa facilities (Rajecké Teplice Aphrodite, Slovenské liečebné kúpele and Kúpeľný ústav F.E. Scherera Piešťany).

Blue Fuel: What are the current trends of the Slovak gas market? What were your expectations when you entered it, and how does it look now?

SK: As I already mentioned, the single monopoly player SPP was dominating the market when Vemex Energo was established. After SPP’s assets were sold to new foreign shareholders, it had increased gas prices significantly within a short period of time, causing great dissatisfaction with the public. It also triggered some customers’ intention to switch to another supplier not just for

Continues on page 9

Gazprom Marketing & Trading Acquires Envacom Services

Gazprom Marketing & Trading Limited (GM&T) has acquired Envacom Service GmbH, a German retail power company, bringing it under the umbrella of “Gazprom Energy” – or what was formally known as GM&T Retail. The acquisition was announced on 14 November.

This new acquisition for Gazprom Energy will provide a solid foundation on which to build upon the Gazprom Group’s strength of supplying power to the business sectors through its range of products and customer service, which has seen it propelled to one of the leading corporate energy providers in the United Kingdom, Ireland and France. With this new purchase, Gazprom Energy will expand upon the 38,000 industrial and commercial outlets it already supplies in the UK, France, The Netherlands and Ireland to become a national energy supplier in Germany, utilizing a web-

based customer portal to reach the entire country.

Gazprom executives said they view this move as a perfect fit as Gazprom Energy looks to “fulfill its strategic ambition of becoming a truly global energy supplier,” bringing investment, financial support and additional skills and proprietary technology to the German market.

At the launch of Gazprom Energy, German Managing Director Jozua Knol said: “The acquisition of this business represents a significant step for Gazprom in our strategy to accelerate growth in our power business. We are looking forward to delivering on the promise of this acquisition, to building value for our customers, and delivering on the Gazprom Group’s strategy of business diversification.”

“The transaction is entirely amicable, and we look forward to not only providing security for existing staff and customers,” Knol continued, “But also investing in the business, creating new jobs and promoting competition within the German power market.”

Jon Feingold, Managing Director of GM&T Retail added, “With a solid customer base in Germany, this business gives us a platform to access to one of the largest and most liquid energy markets in Europe. We are confident we can grow market share organically from here using the same model that has seen significant success in the British, Irish, French and more recently Dutch corporate sectors.”

We Are Part of the Slovak Gas Market Liberalization

Continued from page 8

better prices but out of general discontent with SPP. In 2008, only one user changed suppliers, and only for a single month. In 2009, RWE was the first who managed to benefit from this discontent, selling 200 mcm that year and increasing its sales to almost 900 mcm in 2010. We could not capitalize on this window of opportunity due to objective reasons, even though we had all the makings to be a liberalization pioneer, as our mother company, Vemex s.r.o., had been in the Czech Republic.

At the moment, the market for natural gas in Slovakia is developing rapidly, reducing the gap with the Czech market that still goes well ahead of us. The market environment is highly competitive. You can have a client one day and lose it on another day because the competitors were better. The current market state of play is highly beneficial

for the end customers who can press on the suppliers and push the prices down. That gives them a good chance to invest in new technologies and development. It’s noteworthy that every customer is now trying to get the most out of it, realizing that such a favorable situation might not last for long.

Blue Fuel: How do you see the arrival of the new players to the Slovak market?

SK: The best answer to that would be given by time, as well as by the expectations of those companies which are investing into our country, and by the market players themselves. Putting on your list thousands of clients is one thing but generating profit from the cooperation with them and providing them full services and proper care is another thing. Every

new player has to realize its goals and estimate the potential correctly. What is needed is a clear vision why you need to enter the gas market and what should be the reasonable expectations.

Is it a matter of image-building? Or is it the promise of fast returns and profits? Or is it done to increase the company’s value (capital gains) so that it can be sold later on with a higher margin? Or, finally, is it a real long-term interest-driven choice to participate in the ongoing liberalization of the Slovak gas market, become an active part of it and thus sustain a place as a player of the European market? Let it be put on the record: this last goal is the one that Vemex Energo has chosen for its further development.

Gazprom M&T USA and Associated Electric Cooperative Sign Long-Term Supply Agreement

Gazprom Marketing & Trading USA, Inc. (GM&T USA) and Associated Electric Cooperative, Inc. (AECI) recently agreed to a long-term supply contract. Under the agreement, GM&T USA will be the sole supplier of natural gas to AECI's St. Francis plant in Glennonville, Missouri. At peak capacity, the two-unit facility can generate more than 500 megawatts and consumes up to 86 mcf of natural gas per day. The 23-year contract began 1 October, 2011 and will run through August 2034.

"This transaction fits well with GM&T USA's long-term perspective on world and U.S. energy markets. We see natural-gas fired peak demand plants as an important growth opportunity in the U.S. In particular, our agreement with AECI demonstrates our commitment to the North American market," said John Hattenberger, GM&T USA's President and Managing Director. "AECI's preference for operating consistency, reliability, and pricing was a great complement to our load following capabilities and long-term market view."

Under the agreement, GM&T USA will provide day-ahead and intra-day gas supplies and balancing service.

"We are pleased to enter into this agreement with GM&T USA because it provides a reliable fuel source for St. Francis at a stable price for the long haul," said Roger Clark, Director, Engineering and Operations at AECI. "GM&T USA's interest in working with utilities, particularly cooperative power companies such as ours, demonstrates a solid understanding of the U.S. marketplace and a willingness to take the long view of its partnerships."

The St. Francis facility has been acknowledged as one of the cleanest, most efficient natural-gas power plants in the country. In 2002, it was recognized as one of the top-20 combined-cycle plants in the country for low emissions and efficient performance. The facility also received Power magazine's "Year 2000 Power plant Award" for its innovative approach to minimizing environmental impacts.

GM&T USA, headquartered in Houston, began trading natural gas in North America in 2009 and continues to grow its gas trading operations. Platts Gas Daily wrote it has already become one of the top 25 physical marketers in North America.



Associated Electric Cooperative Inc. is owned by and provides wholesale power to six regional and 51 local electric cooperative systems in Missouri, southeast Iowa and northeast Oklahoma, servicing more than 875,000 customers. AECI's mission is to provide an economical and reliable power supply to its members, including the "Take Control & Save" energy efficiency program, www.TakeControlAndSave.coop. AECI is a Touchstone Energy Cooperative.

Global Gas in a World of Change

Continued from page 6

been diverted away from the U.S. to higher-priced markets in the Far East and Europe. Ironically, the U.S. spent \$18 billion to install 19 bcf of regasification capacity in the U.S. and Canada in order to import large volumes of LNG to replace falling North American conventional gas production. But LNG never got a chance to arrive because shale gas grew to fill the supply gap. Now the regasification terminals sit nearly idle, and LNG flows have been diverted to the Far East and Europe.

Secondly, this price spread has grown large enough to make liquefaction and export of North American gas an economically viable proposition. This has driven companies to begin developing projects in North America to liquefy cheap U.S. gas to export LNG to markets in the Far East and Europe.

While these projects will take until 2016 or later to be completed, North American LNG exports could comprise 5-10% of the global LNG market by 2020. Still, questions remain. Will the price spread remain wide enough that US LNG projects will be built?

How will it impact global markets? Will the U.S. government seek to restrict gas exports? The potential impact of these projects could be significant, and will unfold over the next few years.

The bottom line? We live in a world of change, with natural gas taking the lead as the fuel of the future. We should expect other changes to occur. After all, no one predicted the U.S. shale gas revolution. In the current fast-paced and ever-changing global environment, investors will need to keep a wary eye on the road ahead.

Visual Delights in Black and White and in Color

“Grand Prix photos” album sponsored by Gazprom Export

Moscow was treated to a grand, full-size and comprehensive exhibition of photo artifacts titled “Photographs of Russian and Soviet prize winners of the World Press Photo 1955 - 2010 contest.”

The exhibition featured more than 130 works of Russia’s masters of national photography, winners of the international World Press Photo contest.

In this integrated form, the gallery presents a unique chronicle of life in Russia, capturing the biggest events in the history of the nation and collecting portraits of the people of Russia over half a century. One can see the photos of the first journey of man into outer space,

photos of the recent past documenting radical political and economic changes in the late 1990s, famous sporting victories, as well as remarkable breakthroughs in science and technology.

The star-studded opening ceremony attracted many of Russia’s most famous artists. Such renowned masters of national photography as Victor Ahlomov, Yuri Abramochkin, Sergei Vasiliev, Vladimir Vyatkin, Victor Zagumennov, Victoria Ivleva, and Wilhelm Mikhailovsky, as well as the people who featured in the photos – prominent Russian politicians and public figures, representatives of culture and

art, astronauts, famous scholars and athletes – were also invited to join in the celebration.

The event was crowned by the presentation of a unique album “Grand Prix photos” released within the framework of the cultural project “Russ press photo,” sponsored by Gazprom Export. The photo album includes all exhibition works, as well as photos that have won international acclaims, diplomas and special prizes — in total, 450 works with author’s personal comments to the pictures they made.

Cooperation between Neighbors: Gazprom Export and its Trading Partners

Continued from page 2

Union with Russia, thereby making the relationship particularly close and promising, and setting the task to work in a single tariff space. Our partners share our views on many issues of formation of energy markets, particularly on transport infrastructure in the Caspian Sea, where it must be established under agreement by all Caspian countries based on relevant international legal principles.

Blue Fuel: Western Europe is the priority for Gazprom Export, while the Asia-Pacific region is the priority in the long term. At the same time, the internal market as a whole is beginning to play a growing role for Gazprom Group as we move to netback parity. Will Russia’s neighboring countries remain attractive?

VV: Of course, they will. We are firmly focused on the comprehensive development and deepening of cooperation with these countries and finding activities where our commercial interests coincide. In particular we are talking about gas transit through a unified gas pipeline system, and mutual

augmentation of domestic gas balances, both through gas sales and increased use of exchange operations. Moreover, we expect a partnership both in the context of formation and development of the domestic gas markets of the neighboring countries and within international gas projects beyond our neighbours as well.

CIS and Baltic countries will remain an important export market. Ukraine, Belarus, Moldova and the Baltic States are the largest market for Russian gas – more than 70 bcm per year. Revenue from gas sales to these countries in 2010 amounted to 450.1 billion rubles (more than 15 billion US dollars). About 130 bcm was delivered to our European customers last year through the transit corridor passing through Ukraine and Belarus.

We were not yet fully able to realize the potential of cooperation in gas transmission and distribution, including sale of gas to end users. However, we have all the initial preconditions and competitive advantages for this. Take, for example, the gas pipeline system connecting Russia with its neighbouring

countries. It was built during the Soviet era as a unified infrastructure project, so maximum cooperation in the operation and management of this system is for the benefit of all members and allows it to be used effectively. How?

First, a unified gas transmission network allows for full use of the tool of exchange transactions for mutual augmentation of domestic gas balances of member countries. Secondly, the existence of this network enables gas companies in the countries of this region to successfully make use of the opportunities to sell gas in Gazprom’s portfolio at competitive prices and thereby jointly promote natural gas in new markets.

Finally, our cooperation increases the use of gas by former Soviet countries. That increase in gas share in their fuel mix enables them to enhance energy efficiency and focus the national economy on the use of the most environmentally friendly, cost-effective fuel available.

Delegation of Gas Professionals from Finland Gets a Taste of Siberia

A delegation of representatives from nine of Finland's major natural gas user companies and five members of Gasum Group's management recently visited Novy Urengoi

Finland has no domestic natural gas reserves. At the moment, all of the natural gas consumed in Finland is imported from Russia, which accounts for about 11% of Finland's total consumption of primary energy. Large-scale users of natural gas – industrial facility power plants and district heating plants – are the largest consumers in Finland. As such, the sustainability of natural gas production was important issue for the delegation.

The delegation included representatives of leading energy companies such as Helsingin Energia and Tampereen Sähkölaitos, which serve the biggest cities in Finland, and Kotkamills, a leading Finnish forest products company. As well, the director of the National Emergency Supply Agency, Ilkka Kananen, and Senior Financial Counsellor from ownership steering department of Prime Minister's Office, Jarmo Väisänen were in attendance, as were the chairman of Gasum's supervisory board, Jorma Eloranta, and Antero Jännes, the CEO of Gasum.

Gasum Oy is responsible for ensuring sufficient access to natural gas in Finland. Gasum acquires natural gas from Gazprom and acts as a wholesaler to large customers. Gasum also takes care of capacity of transmission network



equipment and the filling stations for natural gas vehicles in Finland. Length of the transmission pipeline in Finland is 1,300 km. Gazprom owns 25% share of Gasum, and the transmission of natural gas is secured by the existence of at least two pipelines all the way from Siberia to Finland.

The group visited several processing and monitoring facilities in Novy Urengoi, including the Central processing facility 1, booster compression station, gas condensate field and condensate processing plant.

“Security of supply is our no. 1 priority. It is very important for us to assure our customers and authorities of the reliability of the production and transmission of natural gas in Siberia”, says Antero Jännes, the CEO of Gasum. “The history of natural gas business between Gasum and Gazprom has a very good record. Still we can't only rely on the past, but show that there are also future prospects and development in natural gas production.”

In addition to the reliability of production and transmission, corporate responsibility and the whole value chain of natural gas are becoming more and more important. “We need to be able to communicate that the use of natural gas is sustainable”, says Antero Jännes. “That includes the economic, environmental and the social responsibility of all companies included.”

The Gasum delegation commented very positively about the city of Novy Urengoi and the visits to the Kolobok kindergarten, the culture and sports center Gazodobytychik and the Technical school of gas industry.

“We are aware of the harsh conditions in western Siberia. It is good to know that the personnel of Gazprom and the inhabitants of the city are taken care of and that they also benefit from the production of natural gas”, Jännes said.



Polish and Russian Musicians Play Vintage Violins in Warsaw

A young Polish violinist, Agata Szymczewska, joined the famous chamber orchestra, The Moscow Soloists under the batonship of Yuri Bashmet to perform a concert at the National Philharmonic Hall in Warsaw on 13 October.

As an added special touch, the musicians played instruments from the precious antiques collection of violins, violas and cellos from the Russian State Collection of Musical Instruments made by the illustrious Italian artists Antonio Stradivari and Giuseppe Guarneri.

Warsaw is the third European capital where, with the support of Gazprom Export and its partners, the orchestra has performed with these vintage instruments. March of this year was the first time these concerts were hosted in Europe. The tour has stopped this year in Vienna and in the instruments' historical homeland of Rome.

The Warsaw concert program included J.S. Bach's Brandenburg Concerto number 3, Sinfonia Concertante by Mozart, and, Serenade for Strings by Tchaikovsky.

On the eve of the concert, the maestro Yuri Bashmet and the orchestra musicians



held a master classes for young Polish students at the Special Music School № 1. The workshops were attended by well-known professors of music, music school teachers, as well as representatives of the Polish media. Yuri Bashmet and the chamber orchestra played Serenade for Strings by Tchaikovsky, and the players held a master class on the works by Vivaldi and R. Gliere.

The Moscow Soloists is the only chamber ensemble which has been awarded a Grammy. Its repertoire includes more than

two hundred world classic masterpieces as well as rarely performed works by composers of the past and present. Today, the world's press calls it "one of the best in its genre."

Thanks to the main sponsors of the concert, Gazprom Export and EuRoPol Gaz, the Warsaw audience had the opportunity to attend such a memorable event. The returns from the sale of tickets were donated to the music school at the Association for Blind Children.

Six Regattas, Six Wins for Esemitt Europa 2



The Esemitt Europa 2 won the Rolex Middle Sea Race on 28 October, one of the most difficult regattas in Europe, crowning her amazing sailing season with six consecutive victories.

The crew, featuring the best sailors from France, Italy, Germany, Slovenia, Spain and other European countries, demonstrated its superior skills and the power of complete devotion to the same goal in its latest victory. This season the team also won the Giraglia Rolex Cup, Palermo – Monte Carlo, the Maxi Yacht Rolex Cup, the Bernetti Lombardini Cup and Barcolana.

The 30-meter Esemitt Europa 2, which is sailing under the patronage of the European Commission and is sponsored by Gazprom Group, won the 606-mile Rolex Middle Sea Race competing against 70 other yachts, and proved once again to be one of the best sailing yachts in the world.

Season's Greetings!

Dear Blue Fuel reader,

Please be assured that our team of liaison and communications officers regards it as an honor and pleasure to service you with the most update and insight information on the continuous efforts of Gazprom Export to provide an interrupted energy flow to partners and customers, ensuring stable, sustainable and flexible supplies to key markets.

In the coming year we shall maintain our tradition to present a wide array of news and views on the developments in the gas industry and related academic research, as well as market trends and challenges we and our peers will have to face and respond to.

In the meantime, we would like to wish you a most pleasant Christmas and an enjoyable encounter with the New Year.