

IN THIS ISSUE

Times of Crisis Present Challenges, and Opportunities, in Moving Towards a More Transparent Global Energy Market Pg. 2

Gazprom to Expand Role in Global LNG Market through New Subsidiary Pg. 3

Sakhalin-2 to Pay Off in Ten Years Pg. 3

Gazprom Joint Venture WINGAS Strengthening Security of Supply in Europe Pg. 4

Bovanenkovo-Ukhta Gas Trunkline System Underscores Yamal Region's Strategic Importance to Gazprom Group Pg. 5

Gazprom and Hungarian MFB sign Cooperation Agreement within South Stream project Pg. 6

Gazprom Export and SPP Group Sign Long-Term Partnership Agreement Pg. 6

Gazprom and RAG Implement Second Leg of Haidach Gas Storage Facility Pg. 7

TAQA and Gazprom Export Sign Memorandum of Understanding to Partner on Dutch Bergermeer Gas Storage Pg. 8

TO OUR READERS: Progress & Possibilities in 2009

This year, both small companies and world leaders have to make certain adjustments to their initial business forecasts due to the global financial crisis. Most experts agree that the cooling of the global economy means that oil prices are unlikely to remain at previous levels. And, consequently, the average price of gas—which is indexed to a basket of oil products—will be lower than in 2008. Nevertheless, Gazprom maintains that the era of cheap hydrocarbon resources is over, at least in the short-to-medium term. All analytical centers agree that demand for hydrocarbons will rise faster than supply. Simply put, there are just not that many available resources left on our planet.

It is debatable whether new pipelines or LNG deliveries will result in lower prices. But one thing is certain: the emergence of new transport routes and LNG will ensure greater flexibility and reliability of supplies, thanks in large part to a reduction in transit risks.

The events that took place in early Q1 of 2009 demonstrated that reducing transit risks, now and in the years to come, is essential to Gazprom's commercial and economic viability in the global energy market. It is clear that Ukraine's gas networks require an extensive overhaul in order to guarantee their future reliability. One must also stress that any overhaul and modernisation must happen in consultation with Russia—Europe's largest gas supplier. Europe's energy security depends highly on the full operability of this system, as does Gazprom's capacity to ensure reliable deliveries of natural gas to its customers.

The supply and transit agreements that were reached between Gazprom and Naftogaz on 19 January 2009 represent an important



step in mitigating the risks associated with Ukraine's gas transit system. At the same time, our agreement to move gradually toward market pricing will provide an opportunity for the EU, Ukraine and Russia to strengthen their relationship as strategic partners, and to enhance the transparency and reliability of the supply and transit of gas to Europe. Given expert estimates that European natural gas demand will rise by 25 percent by 2020, this could not come at a better time. (For more on this topic, please see Sergei Kuprianov's article, *Times of Crisis Present Challenges, and Opportunities, for a Fair & Free Global Energy Market*, on page 2 of this issue.)

However, Gazprom recognises that more will need to be done to meet this growing demand. That is why we are working hard to invest billions of dollars in the development of new gas deposits, creating European storage facilities and trading hubs, and improving pipeline infrastructure. The Yuzhno-Russkoye gas field is just one example of how Gazprom approaches such investments in cooperation with its Western European partners. But there are other examples as well, including the Shtokman gas condensate field and infrastructure

Continues on page 8

Times of Crisis Present Challenges, and Opportunities, in Moving Towards a More Transparent Global Energy Market

Sergei Kuprianov, Spokesman for OAO Gazprom



Europe and Russia share a long history of mutually beneficial cooperation in the energy sector. Over a period of several decades, the Soviet Union collaborated

with European nations to establish an efficient model of international cooperation in the gas industry. The cornerstone of this relationship was the reliable delivery of gas supplies in accordance with fair and transparent market principles.

Meanwhile, Soviet republics operated under the USSR's domestic system of gas deliveries, which was very different from the system used with Europe. Almost overnight, the breakup of the Soviet Union in the early 1990s transformed the domestic and international energy landscape.

Soviet republics became newly sovereign states and were now seated opposite Russia at the negotiating table. Lacking experience in self-governance or sufficient capital reserves, they needed to adapt quickly to an unfamiliar system of global fair-market principles. Gazprom always understood the difficulty that its customers experienced in switching to "market rules," and has done everything in its power to make the process as painless as possible. The economies of the former Soviet republics were not able to withstand an abrupt rise in prices. For this reason, they were given a so-called "transition period," which made it possible to smoothly introduce the principle of gas pricing based on a price formula, and transition to market relations without economic convulsions or shock therapy.

As a result, gas prices today for the Baltic countries have already reached

European levels. Armenia, Moldova and Belarus will transition in a year to prices comparable to those used by Gazprom when it is supplying gas to Europe.

Ukraine also benefited from the transition period, paying \$50 per thousand cubic meters of gas when Europe was paying rates of \$100, \$150 and \$200. This occurred even as Ukraine consumed more gas than Germany and Italy combined. From 1994 through 2008, Gazprom provided Ukraine with natural gas subsidies totaling approximately \$47 billion. When you add other former Soviet republics, that number jumps to about \$75 billion.

Most economists will tell you this is an unsustainable business model. At Gazprom, we make our decisions based on business fundamentals and ensuring the energy security of our current and future customers. This includes significant reinvestment to enhance pipeline infrastructures.

The Ukrainian pipeline system transports the bulk of Russian energy exports to Europe, and will continue to do so for decades to come. Europe's energy security is highly dependent on the full operability of this system, as is Gazprom's capacity to fulfill its pledge of providing reliable gas deliveries to our Western customers. It is obvious that the economic importance of these gas networks for the whole of Europe implies immense commercial and political responsibilities for its owners.

It is also clear that Ukraine's gas networks are in dire need of further development and modernisation in order to guarantee its reliability, effectiveness, sustainability and transparency over the forthcoming decades. It is also important to stress that any joint decisions to modernise Ukraine's gas infrastructure ought to be done in consultation with Russia—Europe's largest gas supplier

and the main client of Ukraine's gas transit system.

While a well-maintained gas transit system through Ukraine is without doubt a necessary condition for energy security in Europe, it cannot be the only one. Gazprom is working hard to diversify supply routes in order to mitigate the dangers posed by political interferences in transit countries, and also by the risk of natural catastrophes and terrorist attacks. Projects such as Nord Stream and South Stream will help, as will Europe's plans to expand its interconnector and supply infrastructures. At the same time, we need to enhance our gas storage capacity in case gas flows are ever disrupted again in the future.

We are also convinced that we need to increase the transparency of the European energy market. The separate supply and transit agreements which were reached between Gazprom and Naftogaz on 19 January 2009 represent an important step in this direction: we now have two transparent long-term contracts in place which eliminate all intermediaries and which govern the supply and transit of gas to and through Ukraine. At the same time, we have an agreement to move gradually to market pricing, as both Russia and the European Union (EU) have repeatedly requested. This will provide an opportunity for the EU, Ukraine and Russia to strengthen their relationship as strategic partners, and to enhance the reliability of the supply and transit of gas to Europe.

We can safely say that we are leaving behind the era of opaque and non-market gas agreements. Gazprom is committed to working in full cooperation with CIS and Baltic countries to shepherd in a new age of global energy security, defined by a transparent, market-based system.

Gazprom to Expand Role in Global LNG Market through New Subsidiary

Andrey Biryulin, Head of the Business Development Department, OOO Gazprom Export

Since 2005, Gazprom Marketing & Trading (GMT), a subsidiary of Gazprom, has delivered 12 liquefied natural gas (LNG) cargos to markets in the United States, Great Britain, South Korea and India. It has further concluded more than 40 framework LNG purchase & sale agreements that were used to establish partnerships between the world's largest producers and consumers of LNG. Expanding its LNG business on the international level is a top priority for Gazprom in becoming a global energy leader, and ensuring the world's energy security via diversification of supply.

An expanded emphasis on LNG production and trade will enable Gazprom to increase the volume of exports and enter markets that remain inaccessible to pipelines, such as the United States, Canada, Mexico and Japan. LNG also creates additional profit

opportunities through basin arbitrage, or the redirection of LNG volumes to premium markets.

Achieving this goal will require Gazprom Export to create and rapidly expand its LNG portfolio. A key step in this direction was the inauguration of Russia's first LNG plant at Prigorodnoye in the south of Sakhalin Island on 18 February, part of the ground-breaking Sakhalin-2 project, which began in 2003. (For more on this topic, please see *Sakhalin-2 to Pay Off in Ten Years* below).

Gazprom has also decided to create a company that will serve as a single marketer of its LNG volumes. Gazprom Global LNG will be a wholly owned subsidiary of Gazprom Export and focus on creating LNG volumes from foreign

Continues on page 9

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Sakhalin-2 to Pay Off in Ten Years

On 18 February 2009, the Sakhalin-2 liquefied natural gas (LNG) plant opened in Russia, marking a key step in both Russo-Japanese relations and Gazprom's rise to prominence in the LNG market, together with its partners.

The ceremony was attended by leaders of the main stakeholder companies, who pressed a ceremonial “start” button to commemorate the plant's opening. They included Gazprom's Alexey Miller, Royal Dutch/Shell's Jeroen van der Veer, Mitsui's Shohei Utsuda and Mitsubishi's Yorihiro Kodjima. Also in attendance were Russian President Dmitry Medvedev, Japanese Prime Minister Taro Aso, Prince Andrew, Duke of



York, and Dutch Minister of Economic Affairs Maria van der Hoeven.

The unique engineering and technological aspects of Sakhalin-2 allow for a production capacity of up to 9.6 million tons of LNG, equal to 8 percent of Japan's natural gas consumption (the project's main market), and 5 percent of world consumption. In 2009, Gazprom plans to export more than 50 shipments of oil and natural gas from the plant. Given the prospect of rising energy

prices and high demand for reliable sources of energy in the Asia-Pacific region, the timing could not be better.

In fact, some Russian experts estimate that Sakhalin-2 could bring in



more than \$3.8 billion in revenue in 2009 and, under current market conditions, could have a payback period of ten years.

The short and long-term consequences of the current financial crisis have yet to be determined, particularly with regard to LNG. However, it is Gazprom's belief that demand will remain high for this type of energy in the Asia-Pacific region. Once market potential can be fully ascertained with a high degree of confidence, it will be possible to begin plans to build Sakhalin-3, 4 and 5.

Gazprom Joint Venture WINGAS Strengthening Security of Supply in Europe



In an effort to satisfy Europe's growing energy demand, Gazprom and WINGAS have combined resources, knowledge and innovation to link the German utility Stadtwerke Hameln with the European gas pipeline network via a former NATO fuel pipeline.

Through an extensive network of regional subsidiaries, Gazprom maintains close contact with existing customers and actively identifies new ones, thereby enhancing European energy security through tailor-made energy supply services. One such example is WINGAS, a joint venture of Gazprom and the German energy company Wintershall, to expand reliable deliveries of natural gas to Europe through the German utility Stadtwerke Hameln.

In an effort to satisfy Europe's growing energy demand, Gazprom and WINGAS have combined resources, knowledge and innovation to link the German utility Stadtwerke Hameln with the European gas pipeline network via a former NATO fuel pipeline.

The Answer to Hameln's Demand Dilemma

Hameln, a medium-sized town in North Germany, has a population of nearly 60,000. Located in the picturesque Weser hills, Hameln's remote location is both an attraction and limitation. For much of its history, the town had been divided into quasi-monopolistic energy structures. Until recently, the region was geared towards an L-gas supply. But fewer and fewer producers are offering this low calorific gas from Germany and the Netherlands; conversely, the global market is dominated by high calorific H-Gas. As such, the utilities and customers of Hameln could not enjoy the benefits of the liberalisation of the European energy markets—a good reason to look for alternatives. On the other hand, how does one move away from the only provider with access to an international pipeline network?

For Gazprom Joint Venture WINGAS, that was precisely the challenge to overcome. Together with the Hameln utility, and a good deal of ingenuity, the company found a solution: during the Cold War era, NATO had built



a comparatively elaborate pipeline network for supplying its troops. One fuel pipeline led to an airbase near Hameln. For security reasons, the military infrastructure did not appear on any maps. When the troops were dismantled in Germany and the pipeline network was no longer viable, it might have fallen into oblivion. However, WINGAS had remembered it and it was soon recognised as the perfect solution for the supply difficulties in Hameln.

The Negotiations

"We had already been in contact with the relevant NATO authorities for a few years regarding an acquisition before the call for tenders by Stadtwerke Hameln," Detlef Mirsch, the man responsible for technical services in gas sales at WINGAS, recalls. "After all, we are always on the lookout for good ways of expanding the German market for Gazprom." He entered the negotiations for the pipeline when its application possibilities were becoming clearer. Beforehand, the negotiations had been very tough and hindered by the requirements of NATO bureaucracy; however, they soon picked up momentum. The WINGAS experts drew up a scenario for a possible rededication of the fuel pipeline for a natural gas pipeline and examined the circumstances required for the purchase to meet profitability criteria. The problem was that NATO did not want to sell a mere 50-km section of its pipeline—the length required to connect the town of

Continues on page 9

Bovanenkovo-Ukhta Gas Trunkline System Underscores Yamal Region's Strategic Importance to Gazprom Group

On 3 December, a ceremony was held to mark the start of construction on the first joint of the Bovanenkovo-Ukhta gas trunkline system. The ceremony was attended by Viktor Zubkov, First Deputy Prime Minister of the Russian Federation, Gazprom Board of Directors Chairman; Alexey Miller, Chairman of the Gazprom Management Committee; Vladimir Torlopov, Head of the Komi Republic; and Yury Neyelov, Governor of the Yamal-Nenets Autonomous Okrug.



Following his remarks, Chairman Miller initiated the welding of the first gas pipeline joint. The drilling of the first well in the Bovanenkovskoye field began in Yamal later that day.

Importance of the Bovanenkovo-Ukhta Gas Trunkline System

"We are witnessing an event that will figure in the history of both Russia's gas industry and the entire country," stated First Deputy Prime Minister Zubkov. "The welding of the first joint at the Bovanenkovo-Ukhta gas trunkline system and the drilling of the first well in the Bovanenkovskoye field will have inaugurated the implementation of the megaproject for developing the abundant hydrocarbon reserves of the Yamal Peninsula. It is the largest energy project in the contemporary history of Russia, unparalleled in terms of its sophistication."

The Role of the Yamal Region in Russia's Gas Production

"Today, we are initiating the practical implementation of the Yamal megaproject—a project which, in terms of scope and significance, is equal to the development of Western Siberia's fields in the 1970s," said Chairman

Miller at the December ceremony. "The Yamal Peninsula is a most significant gas-bearing province of our country. By 2030, we are planning to produce up to 360 billion cubic meters of gas per year, which is commensurate with Gazprom's current gas supplies to domestic consumers and twofold up on the volume of gas exports. In order to secure transportation of Yamal gas until 2030, a unique new-generation gas transportation system will be created and subsequently become the key element of the Unified Gas Supply System of Russia. As some countries are only starting to develop their Arctic fields, we already possess a wealth of experience, which can also be successfully applied by the company later on during the implementation of foreign projects."

First Deputy Prime Minister Zubkov also noted that "the meaning of Yamal's lucrative reserves to our country is hard to overestimate. Russia's socioeconomic development and the growing welfare of citizens are infeasible without the relevant energy support. Implementing the deadlines and parameters set forth in the Energy Strategy until 2030 and aimed at increasing natural gas production is directly linked to the development of this oil and gas production region. Moreover, the Yamal megaproject will give a powerful impetus to the development of national science and the upgrade of Russian industry."

The Bovanenkovo-Ukhta gas trunkline system is being constructed in order to deliver gas from the Yamal Peninsula's largest deposits—the Bovanenkovskoye and Kharasaveyskoye fields. Yamal gas is due to be brought onstream in Q3 2011.



Gazprom and Hungarian MFB sign Cooperation Agreement within South Stream project

On 10 March 2009, in the Russian Government Reception House, Gazprom Management Committee Chairman Alexey Miller and Hungarian Development Bank (MFB) President Dr. Janos Eros signed a Basic Cooperation Agreement for the construction of a gas pipeline and transit of natural gas across Hungary within the South Stream project. Attending the signing ceremony were Russian Prime Minister Vladimir Putin and then-Hungarian Prime Minister Ferenc Gyurcsany.

The Basic Cooperation Agreement determines the principles of cooperation at the pre-investment and follow-up project stages. Specifically, it fixes the terms, formation procedures and operation mechanisms for the establishment of a joint venture, on a parity basis, to construct the Hungarian section of the South Stream gas pipeline.

“The relationships between Russia and Hungary in the gas industry date back more than 30 years. Over this period,

we have established good partnership relations with a huge potential for further development. Today we are making another step forward to fulfill this potential to the maximum extent possible,” said Mr. Miller.

“Over the past year, Russia and Hungary have performed a big scope of preparatory work aimed at the South Stream project execution. We are confident that Hungary will play an important role in this project and its participation in the gas pipeline construction will be a guarantee of success.”

Separately, Mr. Miller and Zsolt Hernadi, CEO & Director General of Hungarian oil and gas company MOL, signed an Agreement of Cooperation for the engineering, construction, finance and operation of an underground gas storage (UGS) facility in Hungary. The joint venture will be incorporated on a parity basis (50/50 split). Both parties plan to make the project’s final investment decision before the end of 2009.

The UGS facility will be constructed on MOL’s reservoir, Pusztafoldvar-Dus. It is expected to store an active gas volume of 1.3 billion cubic meters, and possibly send out 15 million cubic meters daily. The project could be brought on-stream as early as 2012-2013.

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*Alexey Miller,
Chairman, OAO Gazprom
Management Committee*

Gazprom Export and SPP Group Sign Long-Term Partnership Agreement



On 21 November 2008, Gazprom Export signed partnership agreements with Slovenský plynárenský priemysel a.s. (SPP) and Eustream, a.s. (Eustream), a wholly-owned subsidiary of SPP, to supply Slovakia with natural gas through 2028. Under the agreements, SPP will purchase approximately 130 billion cubic meters of gas, and Eustream will secure the transmission of roughly 1 trillion cubic meters of gas. Gas deliveries and transit services commenced on 1 January 2009.

“We are happy to announce that the negotiations between the SPP Group

and Gazprom Export have been successfully concluded. This is an important milestone for both sides and we are convinced that we have reached a fair commercial compromise,” said Alexander Medvedev, Director General of Gazprom Export. “The conclusion of a new gas transit agreement for the next 20 years will further increase the European Union’s energy security and guarantee a stable supply of Russian gas to Europe.”

“The gas supply agreement ensures stability for us and secures reliable and at the same time competitive gas deliveries to Slovakia also after 2008,” stated Bernd Wagner, Chairman of the Board of Directors of SPP.

Negotiations were held individually due to unbundling requirements; gas supply agreement talks were led by SPP while Eustream handled negotiations dealing with the transmission agreement.

“Signing a long-term transmission agreement with Gazprom Export is a huge success which will allow Eustream to remain a key player in securing gas supplies for the European Union for the next 20 years,” stated Antoine Jourdain, the Chairman of the Board of Directors of Eustream.

The 20-year agreements represent the long-lasting mutual trust between all parties, and provide the necessary stable basis for future energy security in Slovakia and Europe.

Gazprom and RAG Implement Second Leg of Haidach Gas Storage Facility

Sergey Tregub, Head of the Underground Gas Storage Division, OOO Gazprom Export

In an effort to provide reliable, affordable and clean supplies of natural gas, Gazprom Export and Austria's RAG Company are implementing the second leg of the Haidach underground gas storage facility (UGS), already the largest of its kind in Austria and second-largest in Central Europe. Expected to be completed in April 2011, Haidach's active capacity will reach 2.4 billion cubic meters which, through an agreement reached with Austria's independent energy market regulator, will be made available to all interested parties.

"Gazprom is consistently implementing an underground storage network expansion strategy across European nations—a policy that is gaining especial relevance with the liberalisation of the European gas markets," said Gazprom Export Director General Alexander Medvedev.

The Haidach natural gas deposit was first discovered by RAG in 1997 and is one of only a few such developed deposits in Europe that is fit for gas storage. The natural reservoir was "designed" and constructed by nature itself some 20 million years ago. Approximately 1,600 meters deep, Haidach has excellent reservoir rock characteristics with pores that can easily store natural gas, making it geologically ideal in terms of its reliability and environmental safety. In that regard, Gazprom Export fully complies with Europe's strict environmental protection mandates, which reduce the potential for any harmful environmental impact.

Haidach is the latest example of Gazprom Export's strategy to strengthen reliability of supplies via the expansion of its gas storage facilities network. Gazprom Export has also reached a collaboration agreement with Germany's VNG for the Peissen (Saalkreis) project in Saxon-Anhalt. Other gas storage

facility negotiations are underway with companies from the Netherlands, Britain and Hungary. In Serbia, Gazprom Export has become party to an intergovernmental agreement concerning the construction of the Banatski Dvor UGS.

Haidach's Short- & Long-Term Value

UGS has proven to be a costly endeavor. The operating costs alone account for more than 10 percent of the overall expenditures—in other words, they are slightly higher than the gas transmission costs. In an effort to minimise the investment risks involved in expanding the UGS network, Gazprom Export's goal is to secure itself as an investor. Underground facilities help ensure the future reliability of

appreciations. Cost cutbacks have already been introduced using operating data from the first leg's construction, which has yielded output of 500,000 cubic meters per hour and is expected to double once the second leg is completed. Haidach's capacities could potentially be expanded to three billion cubic meters of active capacity (up to 30 million cubic meters per day), depending on the commercial terms.

Gazprom's Continued Leadership Role in UGS

Gazprom Export is committed to UGS reservoir construction and evaluation beyond Haidach. The company continually leverages the knowledge and

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*Alexander Medvedev
Gazprom Export Director General*

gas deliveries and compliance with existing contractual obligations. At the same time, these often entail the use of instruments such as swap deals. The end result is that Gazprom Export rarely, if ever, encounters problems such as loss of profit.

Gazprom Export developed a UGS capacity commissioning schedule for Haidach that allows the work to be carried out according to plan. The company has also proposed ways to optimise its design solutions so that second-leg investments stay under the projected market price

expertise of Russian special science institutions such as the VNIIGAS Gas Research Institute, which has evaluated projects in Germany, the Czech Republic and Slovakia. Almost all UGS projects undergo an evaluation from either VNIIGAS or Podzemgazprom, in conjunction with Gazprom Export's Underground Gas Storage Department. It is Gazprom Export's hope that sharing its experience in UGS will help address the world's energy conservation problems and contribute to global energy security.

To Our Readers:

Continued from page 1

projects such as the Nord Stream gas pipeline, which Gazprom is implementing jointly with E.ON, BASF and Gasunie.

Gazprom will continue to make all of the necessary investments to meet the growing demand for gas in Europe and beyond, regardless of the current financial crisis. Like many other companies, Gazprom is inevitably feeling the effects of this crisis. However, our fundamental performance figures remain strong, and our business continues to grow.

Gazprom also remains confident in the company's financial standing and future foreign borrowing opportunities. Gazprom has the financial resources necessary to implement ambitious plans to invest in production at new deposits, and to support, as well as expand, existing infrastructure. All of the company's main projects are being carried out, and Gazprom remains a reliable supplier.

We live in an interdependent world. Europe receives about 25 percent of its required gas from Gazprom, and Gazprom exports more than 60 percent of its gas to Europe. Germany, our biggest European export market, currently receives more than a quarter of its deliveries from Gazprom—a figure that comes to about 40 billion cubic meters of gas per year. Gazprom is just as dependent on its European consumers as they are on us.

We also live in a world of growing demand for energy: European gas demand is expected to increase at record rates, and Gazprom offers access to the world's largest reserves. It would be foolish to weaken our successful and mutually beneficial relationship, since this would only threaten existing jobs and economic advantages for all of us. In other words, we will thrive because of, not in spite of, one another.

TAQA and Gazprom Export Sign Memorandum of Understanding to Partner on Dutch Bergermeer Gas Storage



The Abu Dhabi National Energy Company PJSC ("TAQA") and Gazprom Export announced on 10 December the signing of a Memorandum of Understanding (MOU) to partner in the joint development of the Bergermeer Gas Storage, Europe's largest new gas storage project in the Netherlands.

TAQA signed the agreement on behalf of the Bergermeer project consortium, consisting of Energie Beheer Nederland (EBN), Dyas B.V., Petro-Canada and TAQA Energy B.V.

The new gas storage facility will enhance the security of natural gas supplies to Dutch and European consumers, and will contribute significantly to the liquidity of the North-West European gas markets. The project is an essential step in the Dutch Government's ambition to realise the North-West European Gas Roundabout in the Netherlands.

TAQA, as the operator of the Bergermeer gas storage project, is currently finalising technical design, and permitting and planning processes to start converting the existing depleted Bergermeer gas reservoir into Europe's largest new seasonal gas storage facility. Construction of the Bergermeer gas storage is expected to start in Q2 2009 with commercial operations expected to start in Q2 2013. Once it is operational, the majority of the capacity of the facility will be made available for third party access.

Gazprom will contribute to the project its 60 years of experience in constructing and designing gas storage facilities, and will deliver cushion gas for injection in the summer months over the next four years. Cushion gas is necessary to ensure that the reservoir has the optimal pressure to start commercial storage operations.

"We are thrilled to welcome Gazprom into the Bergermeer gas storage project and look forward to Gazprom's valuable contributions. As a diversified global energy company operating across the energy value chain, TAQA is committed to responsibly invest in Europe's energy infrastructure. We are proud to be leading Europe's largest and most innovative new gas storage project which, with the addition of Gazprom, is now one step closer to finalisation," said Peter Barker-Homek, TAQA's chief executive.

TAQA and Gazprom Export aim to finalise all technical and contractual discussions soon to reach a final investment decision on the project.

"We are thrilled to welcome Gazprom into the Bergermeer gas storage project and look forward to Gazprom's valuable contributions."

*Peter Barker-Homek,
Chief Executive of TAQA*

Gazprom to Expand Role in Global LNG Market through New Subsidiary

Continued from page 3

and domestic projects with Gazprom's strategic involvement as well as LNG projects without direct participation from OAO Gazprom.

Gazprom Global LNG will pick up the product as it leaves the LNG plant, charter vessels to deliver the fuel to regasification points and then sell the gas to consumers at the receiving terminal. Gazprom is simultaneously reserving capacities at regasification terminals and local pipelines in markets such as the United States where this assignment is being successfully accomplished by another subsidiary, GMT USA.

The advantages of establishing a single LNG trade center are four-fold. First, it will create synergies to optimise gas flows from Gazprom's various projects. Second, the centralisation of Gazprom's LNG trade operations will

increase market share. Third, it will unify Gazprom's LNG trade and gas tanker fleet management under the framework of a single company, thereby enabling the company to promptly redirect LNG supplies to premium markets, retain control over shipments and conduct arbitrage operations between the Pacific and Atlantic Ocean basins. Lastly, it will enable Gazprom to hedge its risks through exchange-traded instruments.

Gazprom Export is currently overseeing the creation of a specialised LNG marine freight unit, with Gazprom Global LNG already having contracted two vessels that are being used to make spot cargo deliveries.

Gazprom Global LNG will solidify the foundation for the implementation of sophisticated and far-reaching projects such as Shtokman, which will begin

shipping the first LNG volumes to markets in the Atlantic region as early as 2014.

Gazprom looks forward to realising the LNG market's full potential through these exciting endeavours. However, the company recognises that in order to make LNG a long-term viable energy solution, it is essential to work with current and potential partners in every corner of the globe who are as committed as Gazprom to securing the world's energy future.

Gazprom Joint Venture WINGAS Strengthening Security of Supply in Europe

Continued from page 4

Hameln to the WINGAS network via the MIDAL (Mitte-Deutschland-Anbindungs-Leitung—Central German connection pipeline). Instead, they wanted to sell three times that length. Moreover, they wanted to unload the entire responsibility for the safety and operation of the infrastructure, which was no longer of any use to NATO. "Fortunately, the project was still worthwhile even in spite of those conditions," Mirsch explained.

The Gamble Pays Off

Just when it looked as if an agreement was imminent, NATO officials said, "There's another competitor also interested in the pipeline." WINGAS was

requested to name its final price. In a fiercely competitive submission of offers, the company drew an ace and won. The technicians' calculations also proved to be realistic after the pipeline takeover: the cleaning; the conversion of the valve stations and shut-off valves from oil to natural gas; and any other tasks required on the technical side did not push the project beyond the profitability criteria. The subsequent pressure tests were also successful. "WINGAS was once again able to score points in a difficult competitive environment thanks to innovative technical solutions and thus acquire a new customer," company spokesperson Michael Sasse reported.

Another Satisfied Customer

Further negotiations with Stadtwerke Hameln were conducted in a spirit of partnership. Both parties took on different tasks which ultimately made it possible to supply the town with high-quality H-gas. Finally, on the day of the conversion, the H-gas from Russia flowed through 15,437 gas meters, to the immense satisfaction of Klaus Arnold, Managing Director of the utility company. Now, with the conversion to H-gas, Stadtwerke Hameln can compete in a liberalised gas market.