



SOUTH STREAM
ENSURING EUROPE'S FUTURE ENERGY SECURITY



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ALEXEY MILLER: SOUTH STREAM AND EUROPEAN ENERGY SECURITY

It is undeniable that Europe will require ever more energy in the future. In order to meet the increasing demand for gas and provide energy security for Europe, Gazprom is making substantial investments to develop new gas fields, transport routes, storage facilities and trading hubs across Europe. Investments in supply infrastructure rank high among our business priorities.

Moreover, the recent events in Ukraine demonstrated that the mitigation of transit risks is a key factor for Europe's energy security. Russia and Europe must work hard to diversify energy supply routes in order to diminish the risk of interruptions, whether by transit countries or caused by natural disasters, accidents or terrorism.

It is in this context that Gazprom, together with European partner companies, is developing South Stream. The offshore part of the pipeline will be realised in a joint venture with Italy's Eni, while our local business partners will help with inland lengths.

We have the technical know-how required to build South Stream in compliance with the latest environmental and technological requirements, and we are making significant progress on the pipeline. We are currently carrying out feasibility studies which will allow more accurate routing.

South Stream will not only provide a reliable way for Central and Southern Europe to meet their increasing demand for gas but it will also help to boost the economies of participating countries by creating jobs and revenues from gas transit fees. Natural gas is a valuable fuel for Europe. It is readily available in abundant quantities at competitive prices. As the cleanest of all fossil fuels, natural gas can also help to reduce CO₂ emissions.

South Stream is a key but not the only element in our strategy to bring more natural gas safely to Europe. There is enough space for other projects designed to fill Europe's gas import gap, be it Nord Stream or Nabucco. Given the rising demand for gas in Europe, neither of these projects is an alternative to the other, and they will not compete.

South Stream is a truly European project which will ensure that Europe maintains its privileged access to Russian gas resources and help to meet Europe's energy demands and enhance Europe's energy security for the coming decades.

GAZPROM
Chairman
of the Management Committee

A handwritten signature in blue ink, appearing to be 'A. Miller', written in a cursive style.

SOUTH STREAM: A PROJECT TO ENSURE ENERGY SECURITY IN EUROPE

»» About South Stream

- Russia – Bulgaria (offshore)
- Bulgaria – Central Europe and Southern Italy
- Approx. 900 km long offshore section
- 63 bcm annual capacity
- 2010 – feasibility study for all sections
- End 2015 – start of operation of the whole project



OVERVIEW

With an overall designed annual capacity of 63 billion cubic meters (bcm), South Stream will make a vital contribution to Europe's energy security, by increasing the reliability and flexibility of Russian gas supplies.

South Stream will not only ensure greater energy security for Europe by diversifying its supply routes but also meet Europe's growing energy demands. In addition, the project complements other proposed gas mains, such as Nord Stream and the Nabucco pipeline. The offshore section of South Stream will stretch 900 kilometers across the Black Sea from the Russian to the Bulgarian coast.

Two routes are being studied for the inland part of the pipeline:

- to Central Europe via Hungary and Serbia
- to Southern Italy via Greece

Intergovernmental agreements have been signed between Russia and Bulgaria, Serbia, Hungary and Greece. Other interested countries may also join the project; Austria, Slovenia and Romania have already started negotiations.

SECURE GAS FOR EUROPE

Europe is Gazprom's main export market, with almost 500 million customers and an ever increasing need for energy. Russia and Europe are closely connected, culturally and geographically, and linked by a major pipeline network.

By complementing the existing network, South Stream will increase energy security in Europe, and particularly in South-Eastern Europe, where it will provide a new direct high capacity supply route. Demand among European consumers is growing rapidly and Europe's annual natural gas import requirements will grow by 70-100 bcm by 2020. Several new pipelines will therefore be needed to pump such big volumes of gas.

South Stream will help meet Europe's growing demand for gas import capacity, enlarged gas transport network, better links between Eastern and Western Europe and a more flexible EU gas market.

South Stream will provide reliable gas supplies to meet the needs of rapidly-developing economies in Central and Southern Europe, even as Nord Stream will provide reliable supplies to North-Western Europe. South Stream will bring substantial economic benefits to transit countries by creating jobs, increasing investment in new gas infrastructures and generating transit revenues.

THE OPTIMAL ROUTE TO DIVERSIFY ENERGY SUPPLIES TO EUROPE



SOUTH STREAM WILL DIRECTLY LINK RUSSIA'S GAS NETWORK WITH EUROPEAN CONSUMERS

Thousands of miles of existing underwater gas pipelines in the world – including those under the Black Sea and the North Sea – bear testimony to the fact that off-shore solutions are internationally accepted as viable alternatives to on-shore pipelines. They do not have to cross rivers, forests, villages or private property and thus bring considerable safety benefits.

Given the geographical proximity of Russian gas reserves to European consumers, South Stream will provide a viable alternative to costly and challenging new LNG projects. If the gas transported via South Stream were supplied as LNG, more than 600 additional LNG tankers per year would be needed in the Black Sea. The LNG supply chain would also place a supplementary strain on the already congested Bosphorus Strait.

South Stream, Nabucco and the Turkey-Greece-Italy (TGI) pipelines could be mutually complementary projects boosting the diversity of supply routes, increasing the scope for healthy competition, and expanding the pipeline infrastructure needed for Europe's growing energy needs.

The gas supply shortfalls in Turkey, Greece and many countries of South-Eastern Europe during the Ukrainian transit crisis in 2009 have signalled a vital need for flexibility and spare capacity in pipeline systems in order to cope with emergencies.

Moreover, South Stream is particularly relevant given the significant increase in the production and consumption gap anticipated in the European Union between now and 2030. According to Eurogas estimates, demand for gas in the EU will increase from 440 mtoe (489 bcm) today to 625 mtoe (694 bcm) by 2030. European production, including Norway, accounted for 59% of 2005 supplies to EU gas markets and is expected to drop to 33% by 2020 and to 25% by 2030. Already being felt at present, transport bottlenecks in gas supply during peak periods will continue to plague Europe. South Stream will help alleviate this problem.

SOUTH STREAM: HIGHEST ENVIRONMENT AND SAFETY STANDARDS

>> The South Stream consortium for the offshore section of the pipeline brings together Gazprom and Eni, both of which have extensive experience in building and operating state-of-the-art pipeline networks.



Environment and safety are top priorities for Gazprom in all of its projects. We are committed to delivering the cleanest fossil fuel over South Stream in the safest and most environment-friendly way. The construction of South Stream on the bed of the Black Sea will use cutting-edge technologies to ensure the highest possible ecological standards.

As a cross-border project, South Stream is subject to international conventions and national legislation in each of the countries through which it passes. We are fully committed to abiding by the highest environmental standards and consulting environmental experts and local authorities at every step. Before the laying of the pipeline begins, a comprehensive environmental study and Environmental Impact Assessment (EIA) will be completed in full compliance with the Espoo Convention. South Stream will be built using state-of-the-art and environmentally sound technologies.

Experience gained in the course of construction and operation of the Blue Stream pipeline across the Black Sea – which, in fact, is a direct counterpart of South Stream – proves that the implementation of such projects only has a temporary and local effect on the marine environment, while the risk of potential pollution can be effectively minimized.

New standards for pipeline safety will be set due to South Stream's ambitious focus on environment conservation. The pipeline will conform to the internationally-recognized operational practices and – more importantly – to the exacting standards of the company and its shareholders. South Stream's shareholders are leading energy companies boasting wide experience in pipeline construction and operation. They are committed to leverage their know-how for imposing the highest safety standards on the project.

Gazprom operates 156,000 kilometres of pipelines, the longest network in the world. Together with Eni, it has constructed the 396 km Blue Stream gas pipeline which brings Russian gas to Turkey over the Black Sea bottom at depths of over 2,000 metres. Blue Stream is a vital component in Turkey's energy security, providing additional reliable supplies in an environmentally sustainable manner.

PROJECT HISTORY AND SCHEDULE



THE BEGINNING

Italy's Eni and Russia's Gazprom sign the initial memorandum on the South Stream project on 23 June 2007.

SOUTH STREAM AG AND FEASIBILITY STUDY

On January 18, 2008, Gazprom and Eni set up a Special Purpose Vehicle – the South Stream AG – in which both parties hold a 50% stake. Registered in Switzerland, South Stream AG will be the proprietor of the pipeline's underwater length.

South Stream AG was set up to plan, build and subsequently operate the new offshore gas pipeline. Saipem, a subsidiary of Eni, is to complete the feasibility study for the offshore section by the first quarter of 2010. At this point agreements are being negotiated to establish joint ventures in each of the transit states.

CONSTRUCTION AND LAUNCH PLAN

The project is scheduled to be completed by the end of 2015, with gas deliveries starting in the same year, after the pipeline is thoroughly tested.

SOUTH STREAM & ITALY



 On January 18, 2008, Eni and Gazprom announced the incorporation of the South Stream AG as a 50–50 joint venture. The new company is responsible for the offshore feasibility study as well as construction and operation of the offshore section of South Stream's offshore lengths across the Black Sea.

On June 23, 2007, Eni and Gazprom had signed a Memorandum of Understanding for realisation of the offshore part of South Stream. The memorandum covered the implementation of a technical and economic feasibility study for the project along with regulatory assessment, and set out guidelines for the planning, financing, construction, and technical and commercial management of the pipeline.

On May 15, 2009, Eni and Gazprom signed an annex to the Memorandum of Understanding, agreeing to increase the capacity of the offshore part of South Stream from 31 to 63 bcm per year.

Overall, from 1974 until 1 February 2009, Italy has received nearly 450 bcm of Russian natural gas. Within the framework of its strategic partnership with Eni and Promgaz (a joint venture between Gazprom and Eni), Gazprom ships natural gas under five long-term contracts. Deliveries from Gazprom to Italy in 2008 amounted to 22.3 bcm, out of an annual gas consumption of 82.9 bcm.

PAOLO SCARONI, ENI CEO: “THE SOUTH STREAM PROJECT IS THE THIRD PILLAR OF THE STRATEGIC AGREEMENT SIGNED BY ENI AND GAZPROM IN NOVEMBER 2006. (...) THE SOUTH STREAM PROJECT, WHOSE DEVELOPMENT RESPECTS ALL SUSTAINABILITY AND ENVIRONMENTAL CRITERIA, WILL REPRESENT A DECISIVE STEP TOWARDS STRENGTHENING THE SECURITY OF ENERGY SUPPLY FOR THE WHOLE OF EUROPE”

SOUTH STREAM & BULGARIA



 Bulgaria is South Stream's bridgehead to Europe even as Germany is for Nord Stream. South Stream will guarantee secure long-term gas supplies to Bulgaria, covering an anticipated two-fold increase in gas consumption by 2020, as compared to the consumption in 2007.

On January 18, 2008, the Russian and Bulgarian governments signed an intergovernmental agreement to cooperate on building a natural gas transit pipeline via Bulgaria. The Bulgarian Parliament ratified the agreement on July 25, 2008. The ownership of the company that will build and operate the pipeline within the Bulgarian borders will be split equally between Gazprom and its Bulgarian partners.

On May 15, 2009, the Bulgarian Energy Holding (BEH) and Gazprom signed a cooperation Agreement for Bulgaria's participation in South Stream. BEH and Gazprom are going to create a 50-50 joint venture for the pre-investment feasibility study, design, construction, and operation of the Bulgarian section of South Stream.

Russia is the sole exporter of natural gas to Bulgaria. Deliveries began in 1974. Cooperation between the two countries is based on a series of agreements. In 2008, Gazprom delivered 3.5 bcm of natural gas to Bulgaria.

SOUTH STREAM & HUNGARY



 Hungary and Russia signed an inter-governmental agreement on South Stream on February 28, 2008. Within this framework, a business deal was closed between Gazprom and Hungary's Development Bank on March 10, 2009, establishing a joint-venture to carry out a feasibility study and later build and operate the Hungarian section of the pipeline.

In a separate agreement, MOL and Gazprom agreed to establish a 50–50 joint venture to transform MOL's Pusztaföldvár-Dus gas field in Southeast Hungary into an underground gas storage facility. This will significantly increase the security of supply in the region.

Russian gas deliveries to Hungary began in 1975. Panrusgaz, a joint Hungarian-Russian gas venture, was founded in 1994 mainly to import Russian gas. In 2008, Hungary received 8.9 bcm of gas from Gazprom.

SOUTH STREAM & GREECE



 Greece signed an intergovernmental agreement with Russia to join the South Stream project on April 29, 2008. The Greek parliament ratified the agreement on September 2, 2008. South Stream is of vital importance to satisfy Greece's increasing energy demand, which is expected to double in the next decade.

On May 15, 2009, the National Natural Gas System Operator (DESPA), a full subsidiary of the Public Gas Corporation of Greece (DEPA), and Gazprom signed a Basic Cooperation Agreement on Greece's participation in South Stream. DESPA and Gazprom set the rules and conditions to create a 50-50 joint venture for the pre-investment feasibility study, the design, construction, and operation of the Greek section of South Stream.

Russia has been exporting gas to Greece since 1996, under a contract between V/O Soyuzgazexport and DEPA. The supply contract provides for the delivery of 3 bcm gas per year until 2016. Greece consumed a total of 4 bcm in 2008 and 2.85 bcm of this amount was delivered by Gazprom.

SOUTH STREAM & SERBIA



On January 25, 2008, the Russian and Serbian governments signed a general intergovernmental energy agreement anticipating the construction of a South Stream section via Serbia. The agreement was ratified by the Serbian Parliament on September 9, 2008.

On February 25, 2009, a first cooperation agreement called for a joint venture to be set up to carry out a feasibility study and to build and operate the part of the South Stream pipeline running across Serbia, with a minimum capacity of 10 bcm. The South Stream route in Serbia will be finalized on the basis of the feasibility study which is to be completed in the second half of 2009, while construction should start no later than 2011.

On December 24, 2008, Gazprom and Srbijagas signed its Basic Terms and on May 15, 2009, they signed the Basic Cooperation Agreement on Serbia's participation in South Stream. Srbijagas and Gazprom set the rules and conditions to create a joint venture, 51% hold by Gazprom and 49% by Srbijagas, for the pre-investment feasibility study, the design, construction, and operation of the Serbian section of South Stream.

There is a long history of Russian natural gas deliveries to former Yugoslavia, dating back to 1978. The annual gas consumption in Serbia ranges around 2.5 bcm. In 2008, Gazprom sold 2.16 bcm of natural gas to Serbia.

SOUTH STREAM & AUSTRIA



 Austria has started negotiations with Russia on joining the South Stream project. Gazprom and OMV signed a Cooperation Agreement on January 25, 2008, following up on a Memorandum of May 2007. This confirmed the company's plans to take part in the Central European Gas Hub and to develop natural gas storage facilities within the framework of the Central European gas storage project.

OMV has been a leading business partner of the Russian gas industry during the past 40 years. OMV was the first Western company to sign a long-term contract for the purchase of natural gas from the former Soviet Union. The deal was cut in 1968. In 2008, Gazprom provided Austria with 5.84 bcm of natural gas.

SOUTH STREAM & SLOVENIA



After Slovenian Prime Minister Borut Pahor has announced the country's plans to invest in the South Stream pipeline, an intergovernmental agreement could be signed in the near future. As the next step, a partner could be identified to build and operate the Slovenian branch of the pipeline.

Russian natural gas deliveries to Slovenia began in 1978 with a partnership relationship with Slovenian Geoplin d.o.o. Ljubljana. Geoplin is responsible for purchasing, transporting and selling Russian gas in Slovenia. In 2008, Gazprom delivered 0.6 bcm of natural gas to Slovenia.

SOUTH STREAM & ROMANIA



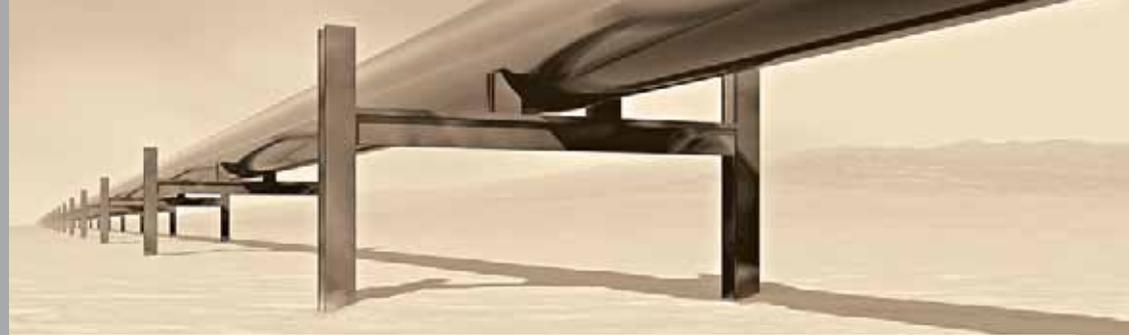
 The South Stream project also attracts the attention of other European nations. For instance, in 2008, Gazprom held several preliminary discussions with representatives of two Romanian companies, Romgaz and Transgaz, exploring the opportunity to develop the existing transit infrastructure and to build new capacity on the Romanian territory, taking into account the planned South Stream pipeline network running across South and Central Europe.

Russian natural gas has been flowing to Romania ever since 1979. At various periods of time, the share of Russian gas on the Romanian market fluctuated between 20% to 25% of the total energy consumption. Russian natural gas is provided in accordance with a long-term contract signed with WIEE and Conef Energy companies. In 2007, new contracts were concluded with the same companies, stipulating the supply of Russian natural gas to Romania until 2030.

In 2008, the volume of gas supplied by Gazprom to Romania totaled 3,6 bcm.

SOUTH STREAM BRINGS THE VALUE OF NATURAL GAS TO EUROPE

»» Europe recognizes the value of natural gas, namely its ability to address main global energy issues: combating climate change, and ensuring long-term supply security through availability of resources.



MOST ENVIRONMENT-FRIENDLY FOSSIL FUEL

Of all the fossil energy sources, natural gas is understood to be the most environment-friendly fuel with the lowest carbon dioxide (CO₂) emissions. In fact, burning natural gas reduces CO₂ emissions by 20% compared to oil. Additionally, natural gas transported via offshore pipelines emits 40% less CO₂ than on-shore alternatives. Therefore, natural gas can provide an indispensable contribution to reduce CO₂ emissions.

AVAILABLE RESOURCES

There is an abundant supply of natural gas, with huge deposits existing in areas such as the Bovanenkovo and Shtokman fields, the latter holding gas reserves estimated at 3.8 trillion cubic meters. In the first phase, the volume of production at Shtokman will be 23.7 billion cubic meters. The first gas production is planned for 2013, with LNG deliveries due to begin in 2014.

The projected gas production at the Bovanenkovo field is set to increase to 140 bcmpa in the long-term. In order to deliver the extracted gas to the Unified Gas Supply System of Russia, it is necessary to build a 2,500-km-long gas transportation system, including the 1,100-km-long Bovanenkovo-Ukhta gas transportation corridor. Gazprom's specialized divisions were entrusted with ensuring, in the third quarter of 2011, the commissioning of the first startup complexes to pre-develop the Bovanenkovo field, rated at least at 15 bcm of gas, as well as of the Bovanenkovo-Ukhta gas trunkline system.

The explored reserves of the Yuzhno-Russkoe oil and gas field, located in the Yamal-Nenets Autonomous District, stand at over 1 trillion cubic meters of gas. The field is scheduled to reach its designed capacity of 25 billion cubic meters of gas this year. The development of the Yamal peninsula is a strategic undertaking which can only be compared to the commencement of natural gas production in the West-Siberian gas fields.

Europe and Russia are bound together not only by close cultural and economic ties, but also by a proven track-record of mutually beneficial cooperation in the energy sector, geographical proximity, and a network of existing pipeline infrastructures. The South Stream project will help to expand and diversify this system of supply pipelines, and reliably, securely and efficiently meet Europe's growing energy demand by providing further access to Russia's abundant supply of natural gas.

SOUTH STREAM: FREQUENTLY ASKED QUESTIONS

1. WHY DO WE NEED SOUTH STREAM?

- Europe's energy demand is growing, and according to Eurogas estimates, Europe will need to import the additional 205 bcm of natural gas per year by 2030, compared to current levels. With an overall designed annual capacity of 63 bcm, South Stream will make a vital contribution to bridge this "import gap". At the same time, Europe and Russia need to work hard to diversify energy supply routes, in order to mitigate transit risks as well as the potential threats of natural calamities, accidents and terrorist attacks. South Stream will help to achieve this objective.

2. WHAT ARE THE NEXT STEPS IN THE PROJECT AND WHEN WILL THE ROUTE BE KNOWN?

- Currently, Gazprom and Eni are carrying out a detailed feasibility study of the project's offshore part, which is scheduled to be completed in the beginning of 2010. In the outcome the route, technical requirements and carrying capacity will be finalised. Gazprom is also in the process of starting joint ventures with its partners in Greece, Serbia, Bulgaria and Hungary to develop and operate South Stream on their territories. Feasibility studies have also started in each of these countries. Once the studies are completed, the investment decisions and permitting processes will follow. The pipeline construction works are scheduled to be completed by the end of 2015.

3. WHERE WILL THE GAS FOR SOUTH STREAM COME FROM?

- The intended gas for the South Stream project will be delivered by Russia's Unified Gas System which contains gas of different origins, including Russia's domestic gas resources and Central Asia's gas suppliers. South Stream will provide natural gas in appropriate volumes to meet the demand of our European consumers, and in accordance with the required physical conditions.

4. WHAT WILL BE THE IMPACT OF THE SOUTH STREAM PIPELINE ON THE ENVIRONMENT?

- We take environmental concerns very seriously. Each area of ecological concern will be carefully investigated together with the countries involved, and in accordance with international and national law. In addition, the route of the pipeline's offshore section will be carefully assessed to ensure safety and to minimise any potential impact on the biosphere of the Black Sea.

5. IS SOUTH STREAM COMPETING WITH NABUCCO?

- South Stream and Nabucco are neither competitors nor mutually exclusive pipeline projects. Projections show that Europe will need more additional gas than the combined capacities of South Stream, Nabucco, and Nord Stream. If both South Stream and Nabucco are to be implemented, the South Stream consortium will closely cooperate with Nabucco in order to optimize gas flows and guarantee reliable supplies.



ADDITIONAL INFORMATION, FACTS AND FIGURES ARE AVAILABLE AT THE FOLLOWING GAZPROM WEBSITES:
• <http://www.gazprom.com> • <http://eng.gazpromquestions.ru> • CONTACTS: Tel +7 495 719 10 77 • Fax +7 495 719 90 08 • pr@gazprom.ru

