NEW RELEASE

Russian Gas on Global Markets: Potential, Strategies and Outlook

March 2008

RPI

RUSSIAN GAS ON GLOBAL MARKETS: POTENTIAL, STRATEGIES AND OUTLOOK

Russia is the world's largest holder, producer and exporter of natural gas and Gazprom is its sole gas supplier to international markets. Traditionally, Gazprom's has been selling gas to Europe and the FSU, with revenues used to finance large-scale upstream and transportation projects domestically, as well as to invest in gas distribution in other countries.

Today, Gazprom has set ambitious goals to grow and globalize gas exports. 2008 will witness first LNG deliveries to the Asia-Pacific region from the Sakhalin-2 project in which Gazprom has recently acquired a majority stake. This will also be the first year when Gazprom will exercise its stronger management role in Wingas (following the recent build-up of its stake to 50% less 1 share); gas prices on markets of the Baltic states will reach average European levels; the South Stream project will take its first steps aimed at bringing Russian gas to South Eastern Europe circumventing the traditional transit countries.

Having delivered its first trial LNG shipment to the US market back in 2005, Gazprom now expects to open steady LNG supplies from the Shtokman project to North America after 2014. On European markets, the company is progressing with gaining direct access to end consumers and pushing forward the Nord Stream and South Stream projects that will deliver piped gas through the Baltic and Black Seas bypassing transit countries. Gazprom is developing gas storage capacity in the European Union and creating new trading companies across various countries. This in turn triggers counter-measures and developments that include stronger efforts at gas supply diversification, legislation aimed at controlling Gazprom's expansion, as well as tighter gas consumption and more investment into domestic gas production by certain FSU countries anxious to decrease reliance on supplies from Russia.

In light of the above, some of the most important issues are: What is the potential behind Gazprom's ambitious plans to expand across the global natural gas market and

would be the reaction of other players to the strengthening presence of the Russian company?

Russian Gas on Global Markets: Potential, Strategies and Outlook delivers a comprehensive analysis of the gas balance and supply chain of Gazprom, and provides an outlook for the company's impact on international markets with **three scenarios** for the development of Gazprom's capability of a global gas player. It goes beyond the facade of official statements by government officials and corporate executives and examines key factors and trends influencing and shaping the world's largest gas company's international business.

Key questions addressed in the study:

- What are the priorities of Gazprom's strategic development?
- How will anticipated domestic developments influence Gazprom's export-bound liabilities?
- How does internal decision-making at Gazprom influence export priorities?
- How do international markets react to Gazprom's export ambitions?
- What is Gazprom's position in countries that import Russian natural gas?
- What are the key strengths and weaknesses that shape Gazprom's positions on international markets?
- What are the economics of Gazprom's supplies to individual markets?
- Is Gazprom capable of reaching its global objectives?
- What strategies could strengthen the role of Russian gas on global markets?

Key blocks of issues analyzed:

- Gas **reserves** of Russia and Gazprom
- Outlook for Gazprom's **production** capability, development prospects for traditional and new gas provinces
- Gas **transportation** system: condition, plans for developing new export routes
- **Decision-making** factors and practices at government and corporate level

The study examines Gazprom's positions on current and prospective international markets providing detailed **profiles of 42 importer countries**, complete with operations of Gazprom's international and joint ventures. The unique element of the study is the **analysis of netbacks for Gazprom's exports** to each European export market.

Key data in each country profile covers:

- Current balances of **primary energy sources**
- Current, developed and projected gas **infrastructure and sources**
- Historic and present gas **consumption** and share of gas **exports** from Russia
- Gazprom's **counterparts** and interactions with them
- **Locally operating** Gazprom's subsidiary and affiliated companies
- Factors and trends shaping **increase/decrease** of volumes supplied by Gazprom
- Outlook for Gazprom's **exported gas volumes** (physical and monetary) to 2020
- **Netbacks** to the Russian border forecasted to 2020

Russian Gas on Global Markets: Potential, Strategies and Outlook develops **three scenarios** for Gazprom's exports in 2008-2020 based on:

- Demand for natural gas in Europe, CIS, North-East Asia, North America
- Gazprom's contracted and supplied export volumes, current and projected
- Projected gas prices on export markets
- Status of Gazprom's current and prospective E&P and midstream projects
- Transportation costs for Russian gas supplies and export tax payments

The scenarios take into account recent developments in gas transportation including the South Stream project.

The study also contains a ranking of countries importing Russian natural gas according to their strategic value for Gazprom (in terms of sales and transit volumes), that suggests the priorities in Gazprom's export policy.

Russian Gas on Global Markets: Potential, Strategies and Outlook is an essential analytical support tool for:

- energy policy-makers
- gas producers
- utilities and other gas consumers
- gas transportation, distribution and trading companies
- financial and investment institutions
- contractors and equipment suppliers

Russian Gas on Global Markets:
Potential, Strategies and Outlook

Release: March 2008
Language: English
Volume: 402 pages, more than 300 charts, graphs and maps
Price: 5,800 EURO

See enclosed detailed table of contents and sample profile of importer country
To order the study, please fill in the order form on the last page.

Other RPI's studies and reports focused on Russian/FSU/European gas:

- Oil and Gas of Uzbekistan (2007)
- Russian LNG Projects: Reality and Prospects (2007)
- Oil and Gas of Eastern Siberia and Russian Far East (2007)
- South Eastern Europe in the Big Eurasian Gas Game (2007)
- Kazakhstan's Oil and Gas Upstream (2006)
- The Independent Gas Producers in Russia (2006)

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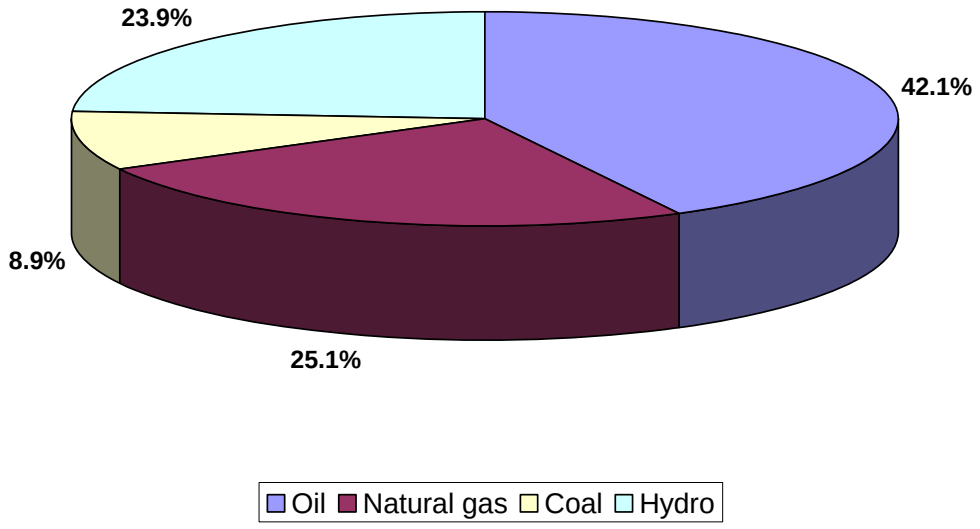
SAMPLE PROFILE

Austria

Austria is an important regional player in the European natural gas market, boasting its own production and pipeline facilities to supply gas domestically and act as a transit system to third countries. Austria was the first Western country to import natural gas from the Soviet Union, and today it continues to be a key importer and transit country for Russian natural gas (about 20 percent of Gazprom's exports from the Russian Federation to Europe are shipped via this route). Russian gas arrives in the Austrian pipeline system from Slovakia and moves on to Germany (and further on to France), Italy, Hungary, Slovenia and Croatia. Gas is increasing its position in the primary energy mix in Austria, offsetting reductions in coal use. Coal's position has continued to diminish even though actual consumption has increased.

Figure 5.1 Primary energy consumption by type of fuel in 2006



Source: BP Statistical Review of World Energy 2007

There are no nuclear power plants in Austria. The share of gas in the primary energy mix is about the same as for the rest of Western Europe and is growing, due to the reduced use of coal in power stations. Unlike several other EU countries, Austria meets a substantial share of its natural gas demand (about 20 percent) with its own production. Over many years, the country has maintained its gas production at 1.8-2.0 bcm per year.

Austria's energy policy is aimed at using domestic energy sources, such as biomass (straw, saw dust) for heat and power generation, and natural gas is the second most important source of energy in Austria (25.1 percent of primary energy consumption).

Strong government influence on the energy sector, typical for Austria, is exhibited in ownership (specifically, OMV, the country's largest company, is a state oil and gas company; Laender (federal lands) and municipalities own gas infrastructure), controlled prices and a national-level energy policy.

The Austrian gas industry may be subdivided into three tiers. Two national upstream companies, OMV and RAG, operate in the first tier. The main gas transportation company, importer and pipeline operator, OMV, operates in the second tier, while nine regional distribution companies supplying gas and electricity make up the third tier: Wiengas, EVN, OOF, BEGAS, STFG, Salzburg AG, KELAG, TFG and VEF. Local governments hold stakes in the latter companies. Regional companies OOF and Steierische Ferngas (STFG) own smaller gas pipelines.

The OMV Group centralized marketing & trading and logistics activities by establishing in 2006 OMV Gas International. This holding company is responsible for OMV 's operations in the natural gas sector through OMV Gas GmbH (a 100-percent subsidiary), for international gas logistics projects (Nabucco, Adria LNG), as well as for gas marketing through a 50-percent subsidiary EconGas GmbH and Petrom Gas (a 100-percent subsidiary of Petrom, acquired by OMV in 2004).

Map 5.1 Austria's gas transportation system

Source: Petroleum Economist World Energy Atlas 2007

The total length of Austria's main and distribution gas pipelines is about 1,500 kilometers. The maximal operating pressure in the OMV pipeline system ranges for various pipelines from 6 to 84 bars. Transit gas accounts for a substantial share of streams carried by the pipeline network. The country annually transits 31 bcm. The transit to domestic consumption ratio is four to one. Six

pipelines, TAG, WAG, MAB, HAG, OW and SOL, are used for transit. OMV, Eni, E.ON Ruhrgas, Gaz de France are among the companies authorized to transit natural gas through Austria.

Table 5.1 Austria's main gas pipelines

Pipeline	Owners	Route	Length in kilometers	Current throughput capacity (after expansion), bcm/year
TAG (Trans-Austria Gasleitung)	Trans Austria Gasleitung GmbH; its shareholders are Eni Italy (89 percent) and OMV Gas (11 percent)	From Baumgarten on the Austria-Slovakia border to Tarvisio in northern Italy	380	32.5 (by October 2008 – 35.7; further expansion to 39 planned)
WAG (Western Austria Gasleitung)	Oberkappel Gasleitungsgesellschaft m.b.H.; its shareholders are OMV (51 percent), GdF (44 percent) and E.ON-Ruhrgas (5 percent)	Key transit route for Russian gas to German border, connects to German pipeline Megal at Oberkappel for further transit to Germany and France	245	5.0
HAG (Hungary-Austria Gasleitung)	OMV (100 percent)	Connects Baumgarten gas hub with Hungarian border	46	4.5
Penta West	OMV (100 percent)	Branch from WAG pipeline, enters Germany at Burghausen	95	3.0
SOL (Sud-Ost Leitung)	OMV (100 percent)	Branch from TAG pipeline transporting gas to Slovenia and Croatia	26	3.3
MAB (March-Baumgarten-Gasleitung)	OMV (100 percent)	Branch from WAG in Baumgarten, passes to LAB (Slovakian storage facility on the Austria-Slovakia border)	N.A.	N.A.

Source: RPI, based on companies' data

Recent gas consumption growth in southern Austria, Slovenia and Italy has caused a situation in which the existing capacity of the TAG pipeline is not sufficient to accommodate the required volumes. As a result, the pipeline operates with interruptions. The first phase of the proposed expansion that commenced in June 2005 will increase the pipeline's capacity by 3.2 bcm per year by October 2008. In early 2006, Eni announced the second development phase. When completed as planned by April 2009, it will further expand the throughput by 3.3 bcm. However, commissioning of this additional capacity, which was supposed to become operational after completion of the second compressor station, has been postponed indefinitely.

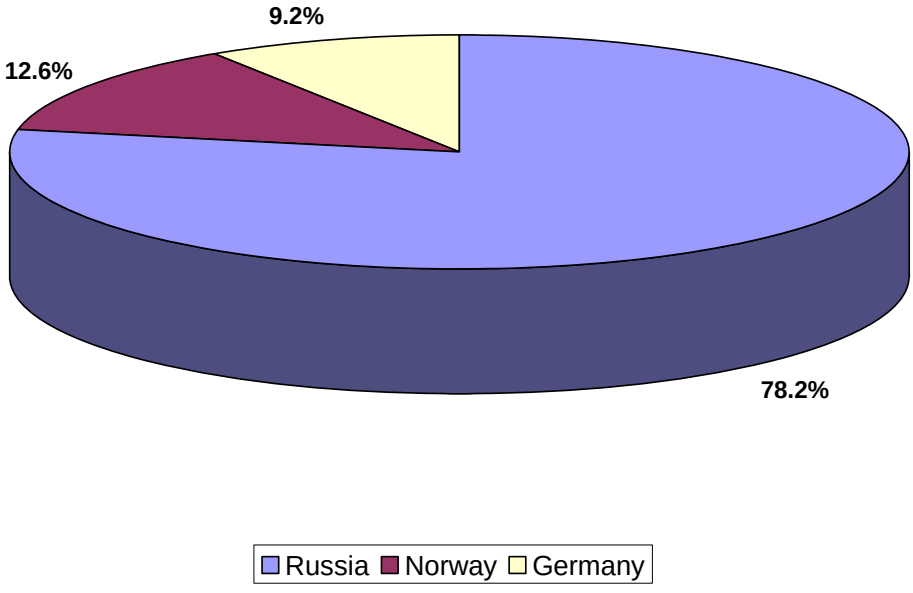
TAG GmbH will transfer the rights to the new capacity to third parties to comply with antitrust requirements forcing Eni, the company's main business partner, to reduce its presence in Italy's gas market.

From a contractual standpoint, TAG and WAG pipelines are operating at full load. At the same time, the actual load capacity of the WAG pipeline, shipping gas from Baumgarten eastwards, has been under-used. The capacity for domestic deliveries is reserved on the 'use or loose' and 'portability' basis, whereby consumers -- and not suppliers -- own the reserved network capacity, regardless of the actual gas supplier. Over 70 percent of gas shipped via Austria's pipelines is not subject to regulation as transit gas.

In terms of underground gas storage capacity, Austria is among the top countries in Europe; the capacity amounts to 22 percent of annual natural gas consumption (2.8 bcm). At present, Austria has four underground gas storage facilities that have enough capacity to support gas consumption for 140 days. OMV owns three storage facilities (about 77 percent of total storage capacity, or 2.32 bcm). Depleted fields are used for developing the storage facilities.

In May 2005, Gazexport, Wingas and Rohoel-Aufsuchungsgesellschaft (RAG), an Austrian gas production and exploration firm, signed an agreement to develop a new storage facility in the depleted Haidach gas field. The underground storage capacity of 1.2 bcm will be increased to 2.4 bcm of natural gas, which will make it the largest storage facility in Austria and the second largest in Central Europe after the Rehden facility in Germany. This storage facility became operational in 2007 and is connected to the Baumgarten terminal. Its capacity will be enough to store about 30 percent of gas annually consumed in Austria.

Figure 5.2 Gas imports to Austria in 2006. Total: 8.7 bcm



Source: Cedigaz

Austria currently imports gas from Russia, Germany and Norway, with Russia being its largest supplier. The first Austrian contract for importing natural gas from the USSR was signed with OMV on June 1, 1968, two years before the German 'Gas for Pipes' contract. Today, Gazprom supplies 76.4 percent of the gas consumed in Austria delivered through the Baumgarten natural gas hub.

Table 5.2 Russian gas supplies and national gas consumption

	2000	2001	2002	2003	2004	2005	2006
Russian exports (bcm)	5.1	4.9	5.2	6.0	6.0	6.8	6.8
Gas consumption (bcm)	7.7	8.2	7.8	8.9	8.9	9.6	8.9
Share (%)	66.2	59.7	66.5	67.4	67.4	70.8	76.4

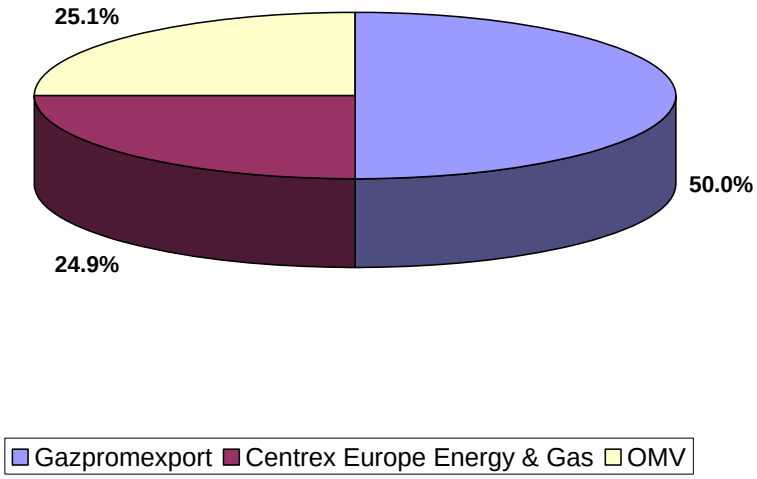
Source: Gazprom, Cedigaz

Russian gas is now being exported to Austria under four long-term contracts, which were extended through 2027 in September 2006. According to these contracts, Gazprom will supply to Austria 6.9 bcm annually through 2027. The contracts were signed with OMV and with GWH.

According to the 2006 agreement between Gazprom and OMV, the receiving party under the largest contracts was changed. EconGas replaced OMV Gas International as a buyer of Russian natural gas. OMV holds a 50-percent interest in EconGas, with Austrian regional traders owning the balance.

GWH is a Russian-Austrian trading house, where Gazpromexport holds a 50-percent stake. It was formed in 1991 to develop market opportunities for Russian gas in Europe. OMV transferred two contracts for importing Russian gas to Austria to this company in 1994. In addition to gas imports, GWH was also engaged in procuring equipment for Gazprom. At present, the company focuses on gas trade and transit.

Figure 5.3 GWH shareholder structure



Source: OMV

Austria-registered Centrex Europe Energy & Gas AG was established by Gazprombank to operate in the energy sector of Europe's liberalized markets. Both GWH and Centrex Europe Energy & Gas AG will have an opportunity to directly market gas in Austria, specifically to consumers in Carinthia, Styria and Salzburg. This will be realized through a network of regional distributors yet to be created. GWH, with approximately 2 bcm of annual gas deliveries from Gazpromexport, is in a more preferable position to develop business.

The fact that local or federal governments hold controlling stakes in regional and local suppliers and distribution companies may however present a serious challenge for Russian companies' access to the end-user gas market.

As mentioned above, Austria plays an important role in Russian gas transits to South Eastern and Western Europe. Through Gazprom's joint ventures, Russian gas is delivered via Austria to Hungary. Approximately 1.8 bcm of Russian gas (bought in Slovakia) is being transported to Croatia and Slovenia by INA and Geoplin respectively. Together with Eni, Gazprom uses the TAG pipeline to deliver Russian gas to Italy.

In May 2005, OMV and Gazexport agreed to transit 4.4 bcm of Russian natural gas via Austria to other countries. For these purposes, the annual capacity of the WAG pipeline is to be increased from 7 to 11 bcm by 2011 through a EUR 260 mln investment program financed by OMV. The agreement will expire in 2027.

Gazprom has recently declared support for OMV's efforts in further developing the Baumgarten gas trading hub with the aim to get access to major industrial clients and power companies and strengthen its position on the European gas market.

It is unlikely that Austria would be interested in further increase of the current volumes of Russian gas in the country's gas pipeline system and of long-term gas suppliers to the domestic market in excess of the level of 2007. Currently, Austria is supporting alternative options for gas deliveries to Europe via South Eastern Europe by actively lobbying such projects as the Nabucco gas pipeline, which is projected to deliver gas from Central Asia, Azerbaijan, Egypt and Iran to Baumgarten, as well as the Adria LNG import / re-gas terminal in Croatia. These projects, if realized, would supply 2.5-3 bcm of gas for Austria's domestic needs. In case the Nabucco project is not implemented (as a possibility, for reasons of unsuccessful negotiations with potential shippers and competition with the South Stream), Gazprom's new deliveries starting from 2015 may range from 0.5 to 1 bcm, with the balance volumes coming from other sources like Norway and Adria LNG, thus the established gas supply balance would remain intact.

Table 5.3 Outlook for Russian gas exports to Austria and netback prices to the Russian border (2008-2020)

High Price Scenario	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Oil price ($/barrel)	84	91	85	81	76	74	77	79	82	76	74	78	82
Gas price (Euro/1000 cubic meters)	268.8	305.6	283.5	272.6	257.0	255.7	278.6	297.8	320.6	292.5	287.1	314.4	344.2
Russian Export Duty (Euro/1000 cubic meters)	80.6	91.7	85.1	81.8	77.1	76.7	83.6	89.3	96.2	87.7	86.1	94.3	103.3
Transit costs (Euro/1000 cubic meters)	22.7	23.6	25.1	26.7	32.3	38.7	44.9	51.5	58.8	59.8	60.7	61.6	62.5
Price of gas at Russian border (Euro/1000 cubic meters)	165.4	190.3	173.3	164.1	147.6	140.3	150.1	156.9	165.5	145.0	140.3	158.5	178.4
Contracted volumes (bcm)	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Possible incremental volumes (bcm)	0	0	0	0	0	0	0	0	0	0	0	0	0
Medium Price Scenario	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Oil price($/barrel)	77	70	68	64	60	62	59	57	55	58	60	62	65
Gas price (Euro/1000 cubic meters)	236.4	207.9	207.6	199.6	191.7	205.2	200.3	198.8	194.8	214.0	222.1	234.5	252.1
Russian Export Duty (Euro/1000 cubic meters)	70.9	62.4	62.3	59.9	57.5	61.6	60.1	59.6	58.4	64.2	66.6	70.3	75.6
Transit costs (Euro/1000 cubic meters)	22.7	23.6	25.1	26.7	32.3	38.7	44.9	51.5	58.8	59.8	60.7	61.6	62.5
Price of gas at Russian border (Euro/1000 cubic meters)	142.8	121.9	120.2	113.0	101.8	105.0	95.3	87.6	77.5	90.1	94.8	102.5	113.9
Contracted volumes (bcm)	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.2	6.2	6.2	6.2	6.2
Possible incremental volumes (bcm)	0	0	0	0	0	0	0	0	0	0	0	0	0
Low Price Scenario	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Oil price ($/barrel)	74	68	60	55	53	51	49	48	46	41	44	48	53
Gas price (Euro/1000 cubic meters)	223.8	200.5	179.3	168.7	167.4	165.6	164.6	167.1	165.0	153.1	165.3	179.7	200.9
Russian Export Duty (Euro/1000 cubic meters)	67.1	60.1	53.8	50.6	50.2	49.7	49.4	50.1	49.5	45.9	49.6	53.9	60.3
Transit costs (Euro/1000 cubic meters)	22.7	23.6	25.1	26.7	32.3	38.7	44.9	46.1	47.7	48.4	49.2	49.9	50.6
Price of gas at Russian border (Euro/1000 cubic meters)	133.9	116.7	100.4	91.4	84.8	77.2	70.3	70.9	67.8	58.7	66.6	75.9	90.0
Contracted volumes (bcm)	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9	6.9
Possible incremental volumes (bcm)	0	0	0	0	0	0	0	0	0.5	0.5	0.5	0.5	0.5

Note: Similar outlooks are given for all current importer countries and for those considered to be prospective importers.

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