South Stream

Energising Europe

Presentation

Brussels, 25th May 2011

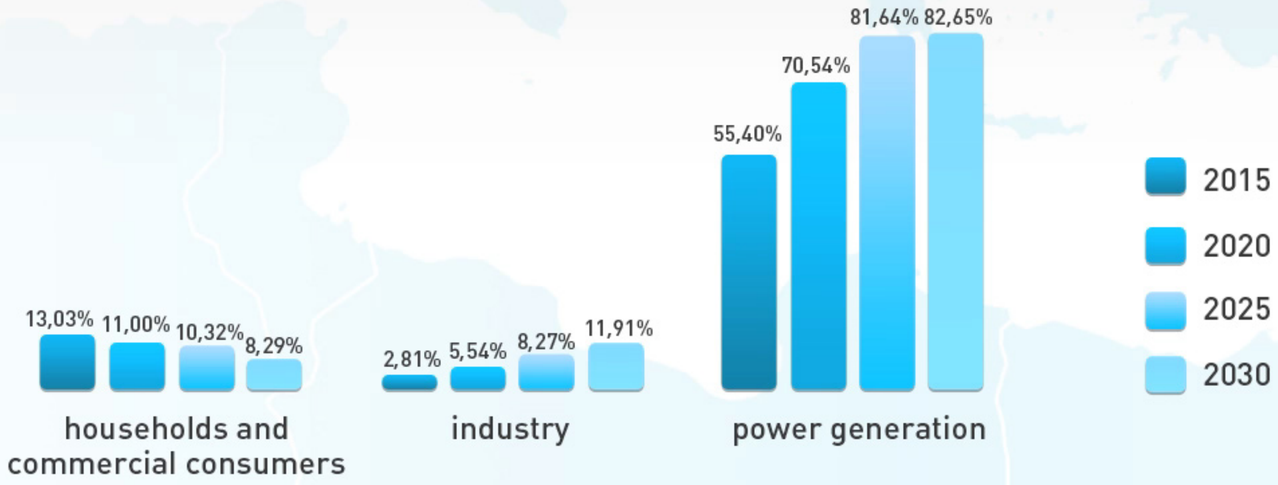
NATURAL GAS AS THE KEY FUEL FOR SUSTAINABLE GROWTH

- Power generation as the main driver for gas consumption growth in Europe
- Natural gas is essential for reaching the EU 20-20-20 and longer term targets
- Growing public support of natural gas role in reducing environmental burden

"Natural gas is the only necessary bridge technology towards the age of renewable energy"

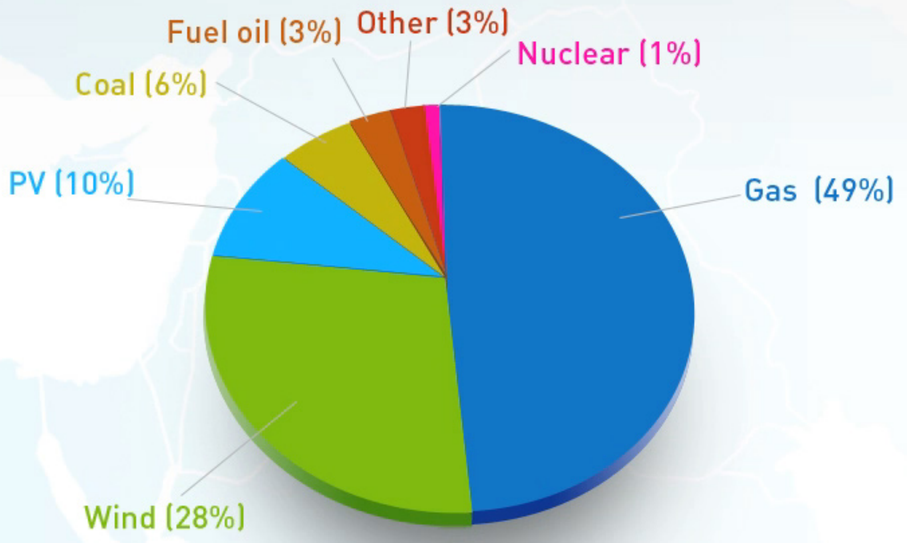
(Greenpeace, Paper on Natural Gas, 25th April 2010)

Gas consumption growth (% to 2009)



Source: Eurogas 2010

New EU power generation capacities (2000-2010)



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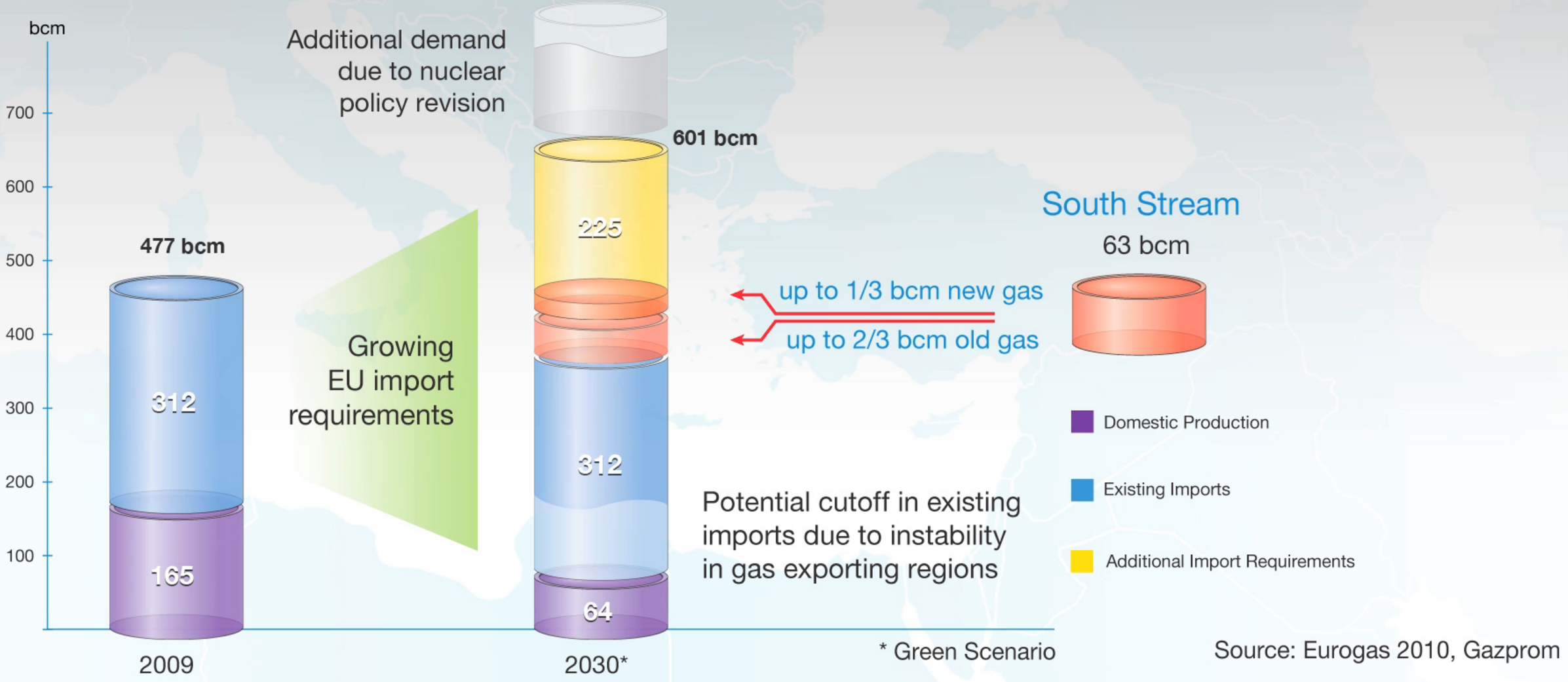
MEETING EU-27 GROWING DEMAND FOR NATURAL GAS



Source: Eurogas 2010, Gazprom

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NEED FOR GAS SUPPLY ROUTE DIVERSIFICATION

The EU is set to develop additional gas supply infrastructures

- 2009 Transit crisis: cutoff of gas supplies to the EU for 20 days / losses of more than USD 2bn for Gazprom
- In 2010, 70% of Russian natural gas exports to the EU passed through one distinct pipeline system.
- Even when South Stream and Nord Stream projects are put into operation, share of Ukraine in the Russian gas transit capacities to the EU will be tangible
- **South Stream will not materially change current share of Russian natural gas in the EU imports:**

up to 2/3 of South Stream gas pipeline full capacity: serving existing EU gas demands

up to 1/3 of South Stream gas pipeline full capacity: additional gas volume opportunity

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SOUTH STREAM PROJECT OVERVIEW

The South Stream Project: diversifying gas supply infrastructure routes to secure stable and reliable Russian natural gas supplies to the EU

- Security of supply and gas transit
- Additional gas supplies
- Direct access to abundant gas resources
- EU 20-20-20 targets
- Economic benefits at the national level (taxes, OPEX, jobs)
- Corporate level benefits (tariff revenues)

Gas Pipeline Specifications

Full capacity	63 bcm/y at the entry point in Bulgaria
	From 20 to 22 bcm/y at the endpoint of the gas pipeline*
Offshore section	Length: 923 km Number of lines: 4
	Depth: more than 2000 m
Onshore section	Length: 1600–2540 km* Number of lines: 1
Launch dates	December, 2015 (first pipeline launch with subsequent annual ramp-up of the capacities)

* depending on the route

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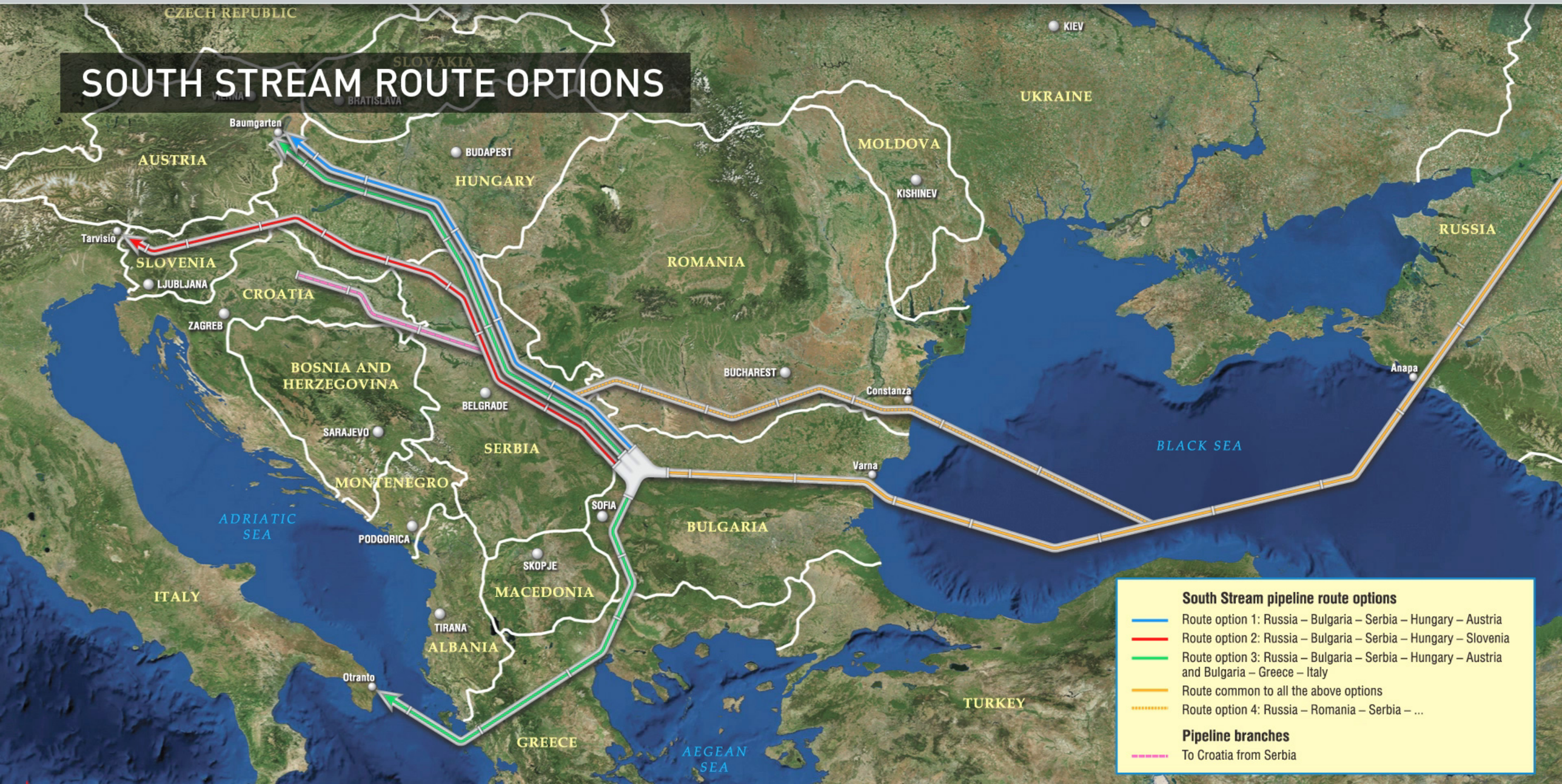
SOUTH STREAM ROUTE OPTIONS



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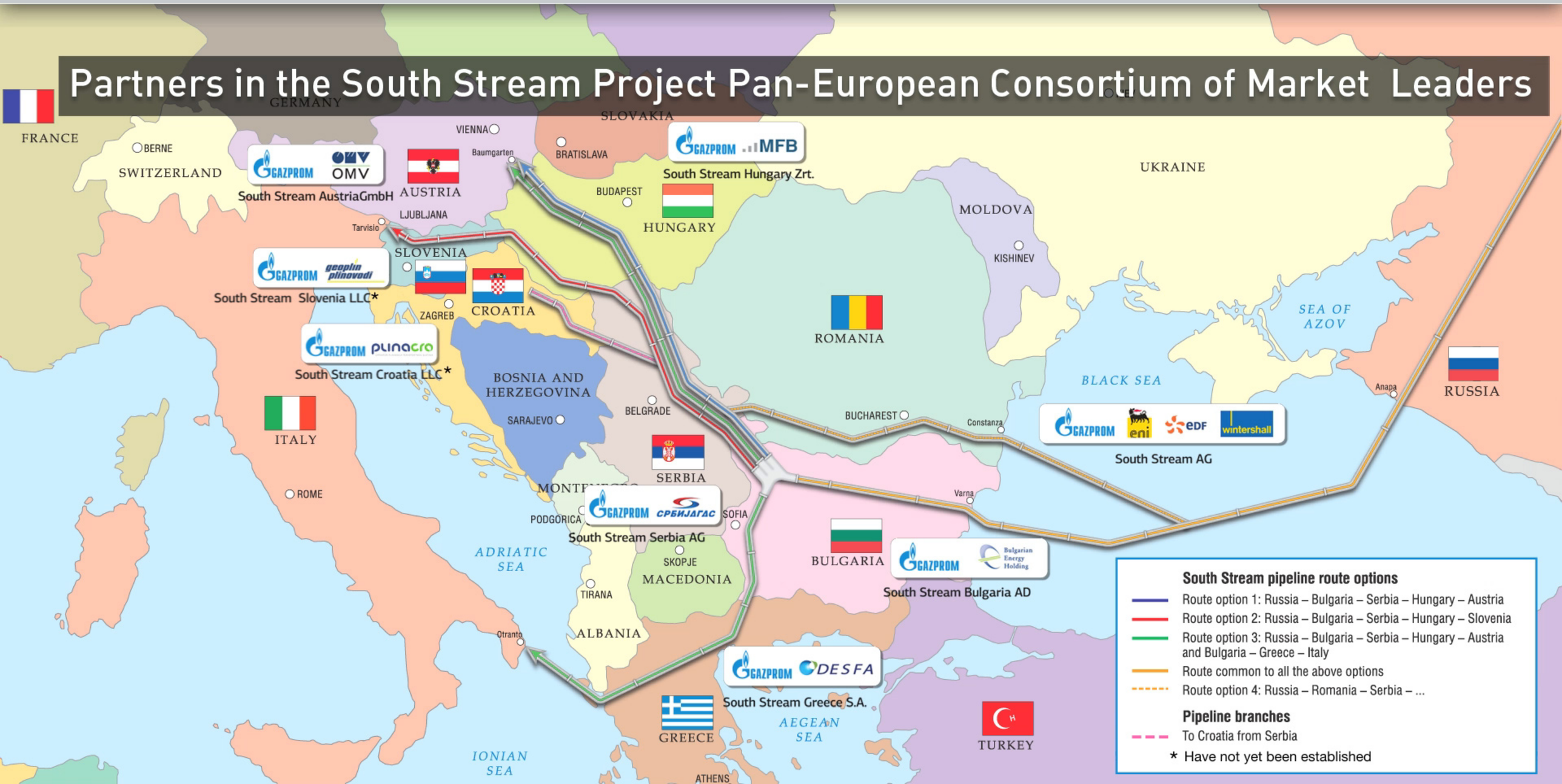
Partners in the South Stream Project Pan-European Consortium of Market Leaders



SOUTH STREAM ECONOMIC COSTS AND BENEFITS

Economic Benefits for the Countries Involved in the Onshore Section

Benefits	Annual	25 years perspective
Revenues of the JVs	EUR 1,0 bn	EUR 25,0 bn
Taxes and OPEX	EUR 0,3 bn	EUR 7,5 bn
Figures in real prices as of 01.01.2010		Estimates are averages per route option
Jobs created during the operation stage (25 years)	1,700	

Preliminary Cost Estimates

Costs	Offshore Section	Onshore Section
CAPEX	EUR 10,0 bn	EUR 5,5 bn

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SOUTH STREAM HEALTH, SAFETY AND THE ENVIRONMENT

Primary Environmental Goals:

Environmentally safe pipeline construction and operation

Preservation of natural habitats

Economically efficient and environmentally cautious use of natural resources

Best practices on health and safety

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SOUTH STREAM ENVIRONMENTAL IMPACT APPROACH

Holistic understanding of the project environmental impact

— Evaluating from the environmental perspective the whole project geography and all associated activities

— Ensuring overall sustainability and identifying conflicting issues

— Assessing country sections and EIA in a transboundary context

Local consideration of the project impact on the environment

— Focusing on a specific national EIA and permitting process

— Ensuring compliance with national standards

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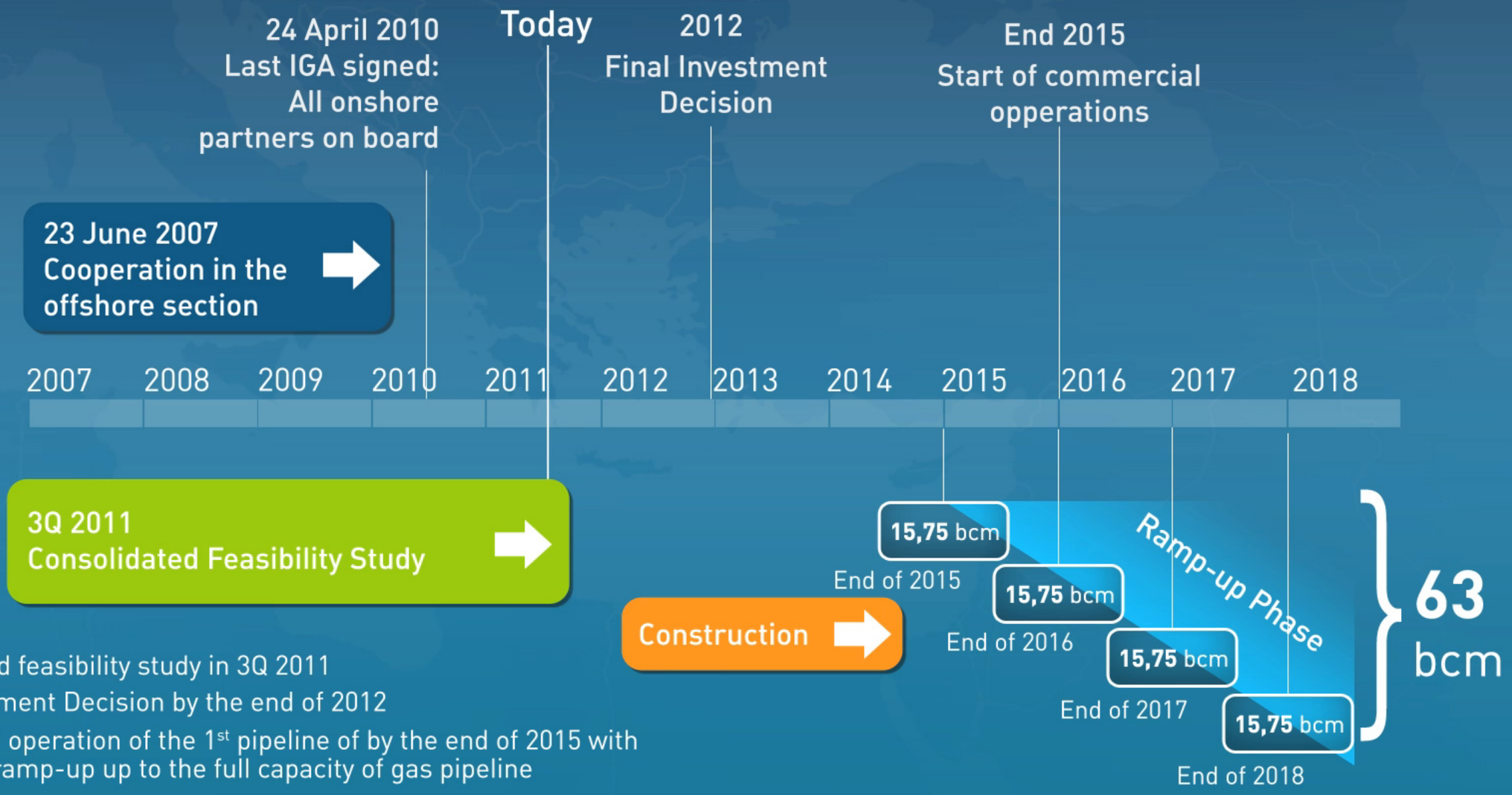
SOUTH STREAM PROJECT TIMELINE



- Consolidated feasibility study in 3Q 2011
- Final Investment Decision by the end of 2012
- Commercial operation of the 1st pipeline of by the end of 2015 with the annual ramp-up up to the full capacity of gas pipeline

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THE SOUTH STREAM PROJECT & THE EUROPEAN UNION

Diversification of energy routes is as important as diversification of energy sources

- Security of supply and gas transit
- Additional gas supplies
- Economic benefits for the countries involved
- EU 20-20-20 and longer term targets

- Regulatory certainty
- South Stream deserves to be recognised as "Project of European Interest"
- Priority national project for the each EU member involved in the project
- Level playing field for financing, permitting and regulatory processes

SOUTH STREAM REGULATORY ASPECTS

Desirable conditions of the regulatory framework of the South Stream Project:

- Major investors with the necessary financial, technical and human resources need to have an opportunity to participate in all stages of the project including its operation and management
- Regulatory framework to allow for long-term, secure and commercially adequate rate of return
- Application of the agreed regulatory framework should be consistent, allowing to satisfy above conditions over time
- Regulatory framework could be laid down in an EU-Russian agreement

THANK YOU FOR YOUR ATTENTION!