Gazprom on European Market: Problems and Solutions

Sergei Komlev
Head of Contract Structuring and Price Formation Directorate,
Gazprom Export

ETCSEE2016
15 June, 2016
Bucharest, Romania

Deliveries To “Far Abroad” by Major Suppliers in 2015

Deliveries by Major Exporters, bcm

	2014	2015	Δ, bcm	Δ, %
Gazprom PJSC	146.6	158.6	12.0	8.2%
Algeria (incl. LNG)	38.9	37.6	-1.3	-3.4%
Qatar	23.7	28.2	4.5	19.1%
Iran	9.2	8.7	-0.5	-6.0%
Lybia (incl. LNG)	6.0	7.8	1.8	29.8%

Deliveries by Major Indigenous Producers, bcm

	2014	2015	Δ, bcm	Δ, %
Norway*	115.1	125.2	10.1	8.8%
Netherlands	63.1	48.9	-14.2	-22.5%
United Kingdom	41.2	44.6	3.4	8.2%

** Including pipeline and LNG deliveries from Norway to the European market, but not LNG to Asia and America*
Source: Eurostat, IEA, ENTSOG, Bloomberg, PIRA, National Statistical Agencies as of May 2016.

Deliveries to “Far Abroad” by Major Suppliers in Q1 2016

Deliveries by Major Exporters, bcm

	Q1 2015	Q1 2016	Δ, bcm	Δ, %
Gazprom PJSC	34.4	44.4	9.9	28.9%
Algeria (incl. LNG)	7.9	9.4	1.5	19.2%
Qatar	7.6	7.7	0.1	0.6%
Nigeria	2.1	2.5	0.4	16.7%
Iran	2.2	2.2	-0.06	-2.8%

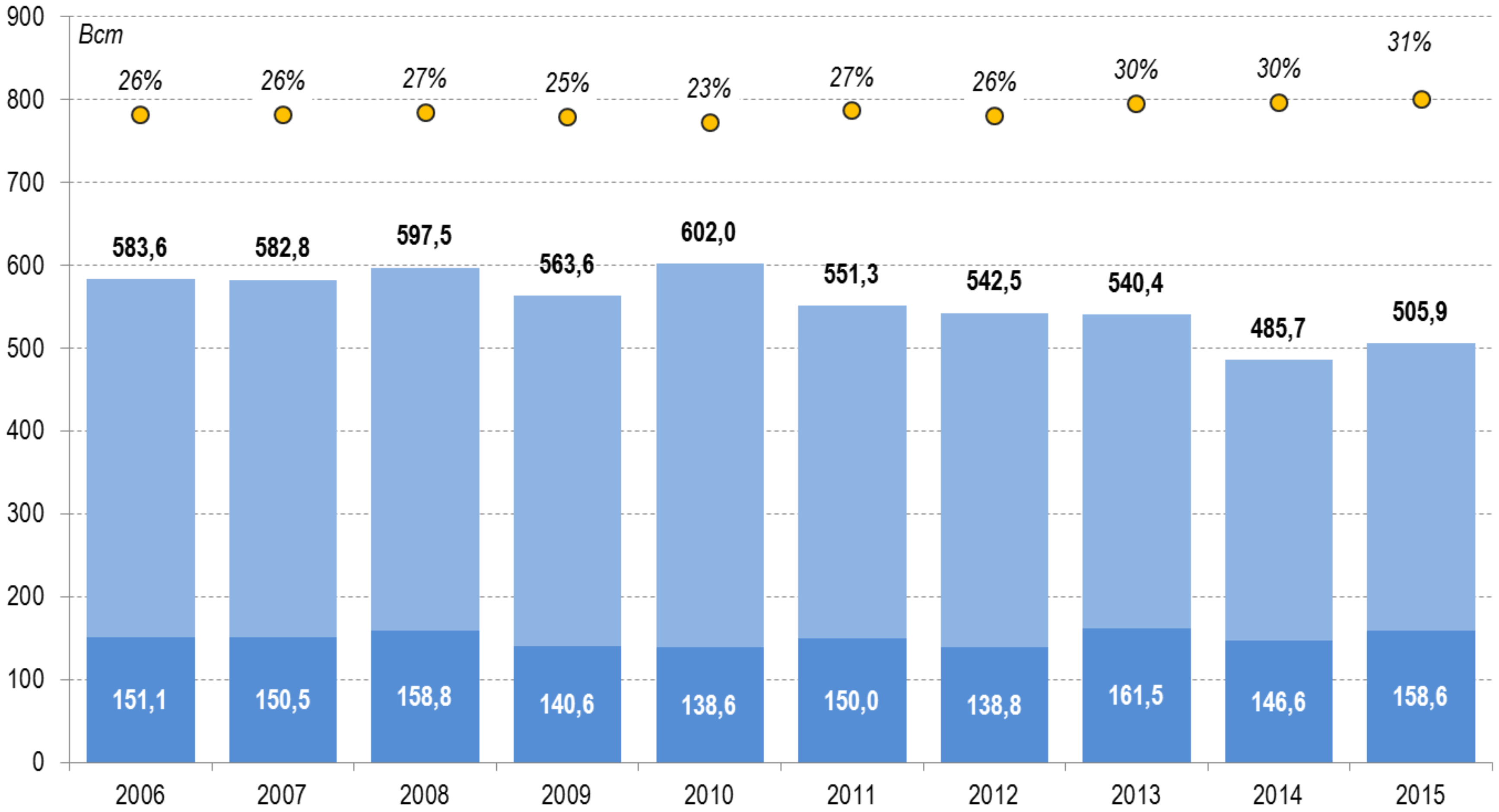
Deliveries by Major Indigenous Producers, bcm

	Q1 2015	Q1 2016	Δ, bcm	Δ, %
Norway*	33.6	34.9	1.3	3.9%
Netherlands	17.6	14.5	-3.1	-17.6%
United Kingdom	11.2	12.2	1.0	8.8%

** Including pipeline and LNG deliveries from Norway to the European market, but not LNG to Asia and America*

Source: Eurostat, IEA, ENTSOG, Bloomberg, PIRA, National Statistical Agencies as of May 2016.

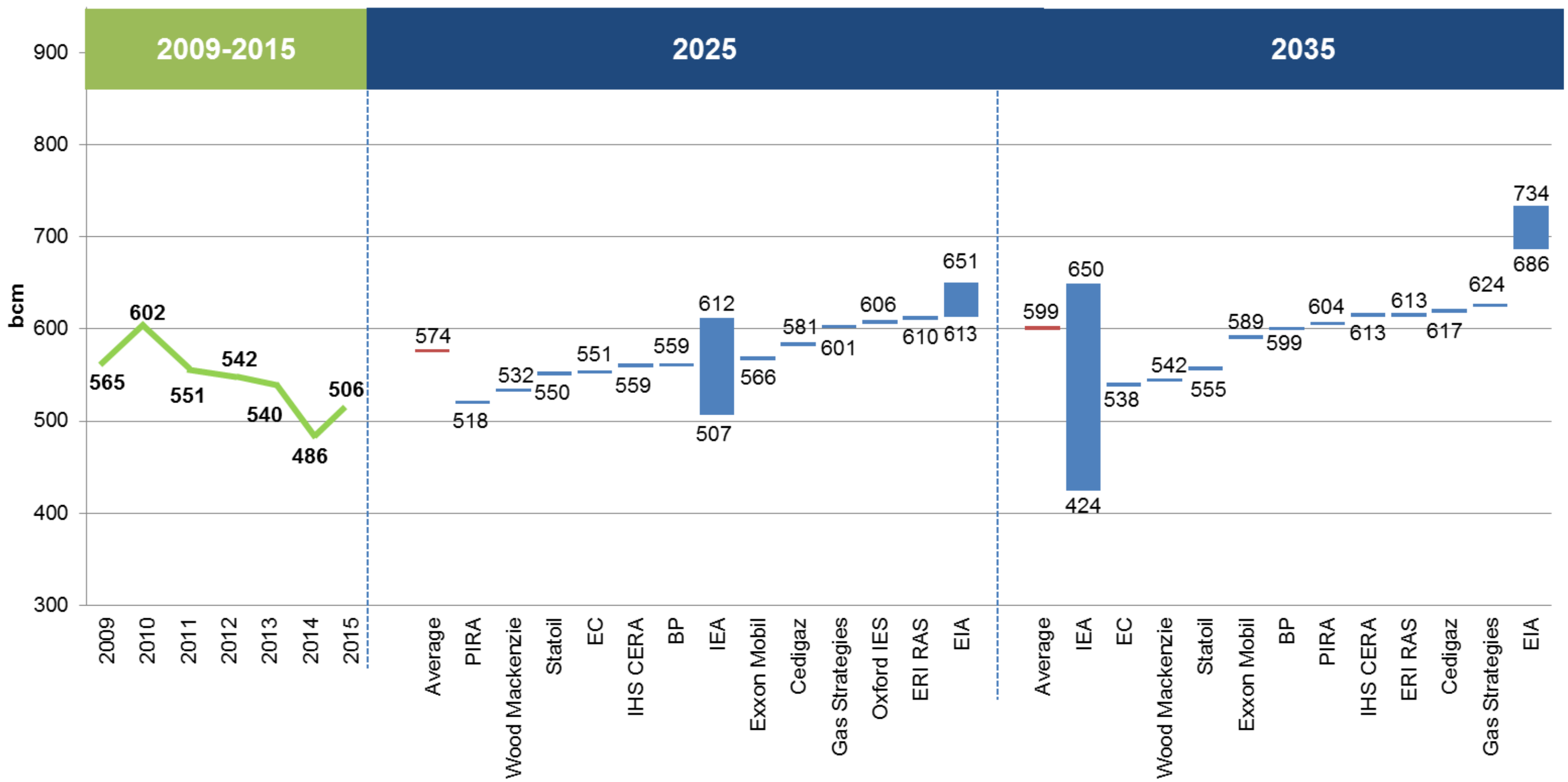
Growing Share of Gazprom in European Consumption



** Under contracts of Gazprom Exports LLC*

Long-Term European Natural Gas Consumption

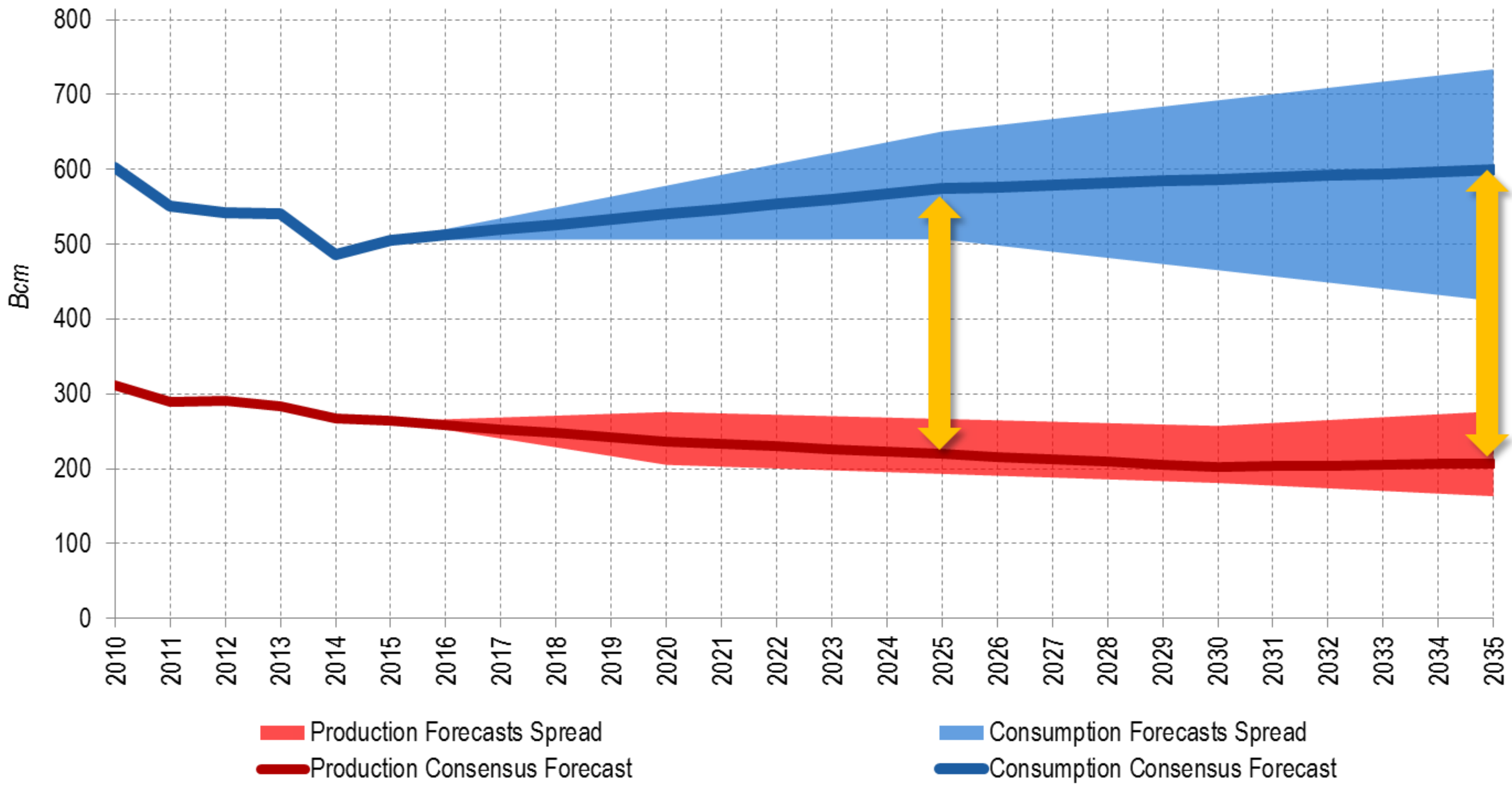
The Newest Scenarios and Forecasts for European Gas Consumption



Updated: April 2016

Definition of European countries slightly differs from one forecast to another. For the purpose of comparison all forecasts and scenarios are restated on compound annual growth rates. Forecasts surveyed for the consensus analysis are updated on a regular basis.

Gap between Consumption and Indigenous Production in Europe is Growing



Natural gas European demand and production gap is calculated as the difference between the demand consensus forecast and the production consensus forecast. Definition of European countries slightly differs from one forecast to another. For the purpose of comparison all forecasts and scenarios are restated on compound annual growth rates..

LNG Deliveries to "Far Abroad" Europe in 2015

LNG Deliveries to Europe by Country

	2014	2015	∆, bcm	∆, %
Qatar	23.7	28.2	4.5	19.1%
Algeria	14.5	13.1	-1.4	-9.4%
Nigeria	6.0	7.8	1.8	29.8%
Norway	2.6	2.9	0.3	14.1%
Trinidad and Tobago	3.6	1.8	-1.8	-50.4%
Peru	1.3	1.3	0.0	-4.1%
Yemen	0.0	0.1	0.1	-
Oman	0.1	0.1	0.0	12.1%
Equatorial Guinea	0.1	0.0	-0.1	-100.0%
TOTAL	**51.8**	**55.3**	**3.5**	**6.7%**

Source: Bloomberg

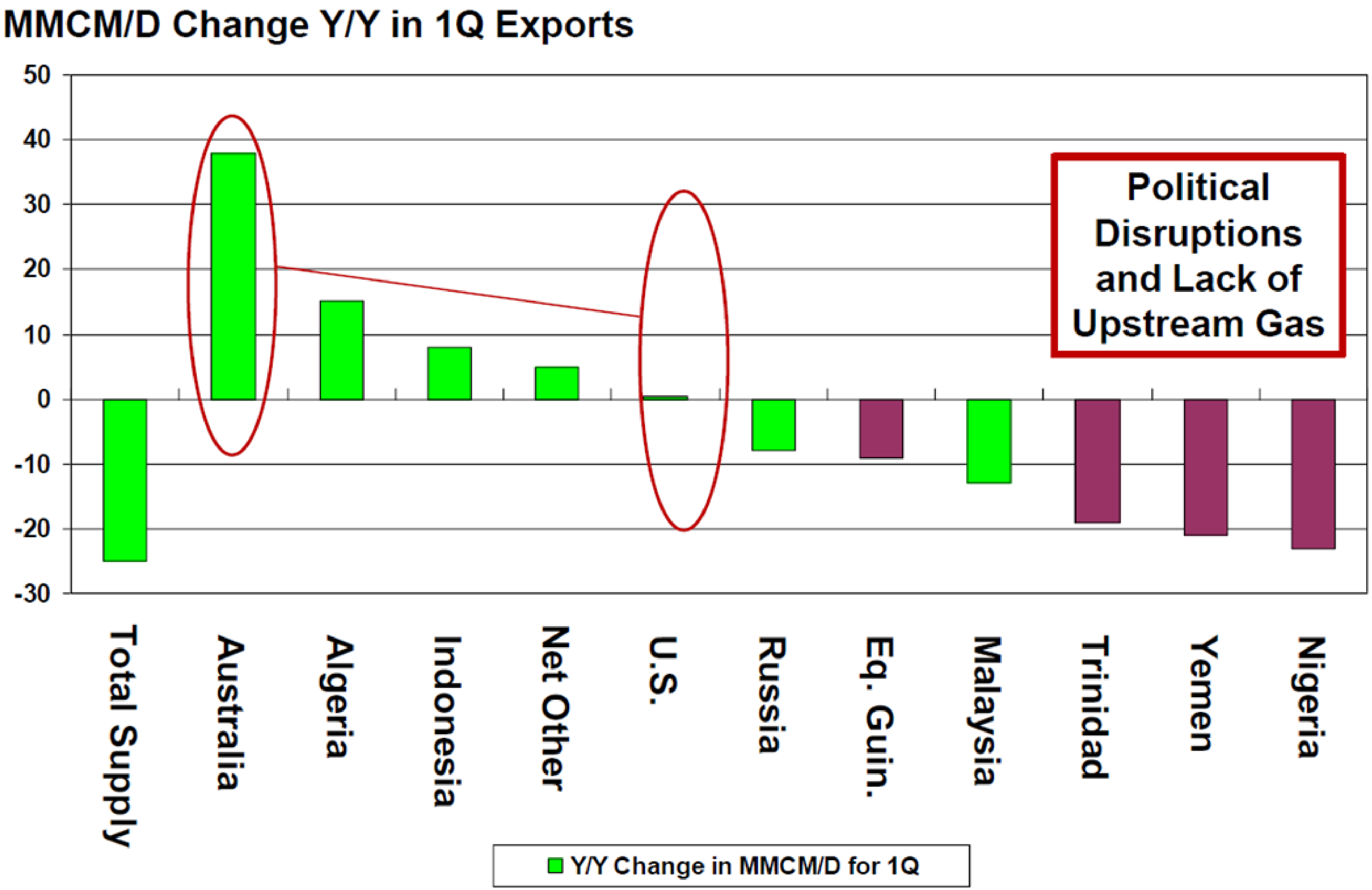
LNG Deliveries to “Far Abroad” Europe in Q1 2016

LNG Deliveries to Europe by Country

	Q1 2015	Q1 2016	Δ, bcm	Δ, %
Qatar	7.6	7.7	0.1	0.6%
Algeria	2.6	4.2	1.6	57.6%
Nigeria	2.1	2.5	0.4	16.7%
Norway	1.0	0.7	-0.3	-22.9%
Trinidad and Tobago	0.6	0.6	0.01	3.0%
Peru	0.5	0.3	-0.2	-48.4%
USA	0.0	0.1	0.1	-
Yemen	0.1	0.0	-0.1	-100.0%
Oman	0.1	0.0	-0.1	-100.0%
TOTAL	**14.7**	**16.1**	**1.4**	**9.5%**

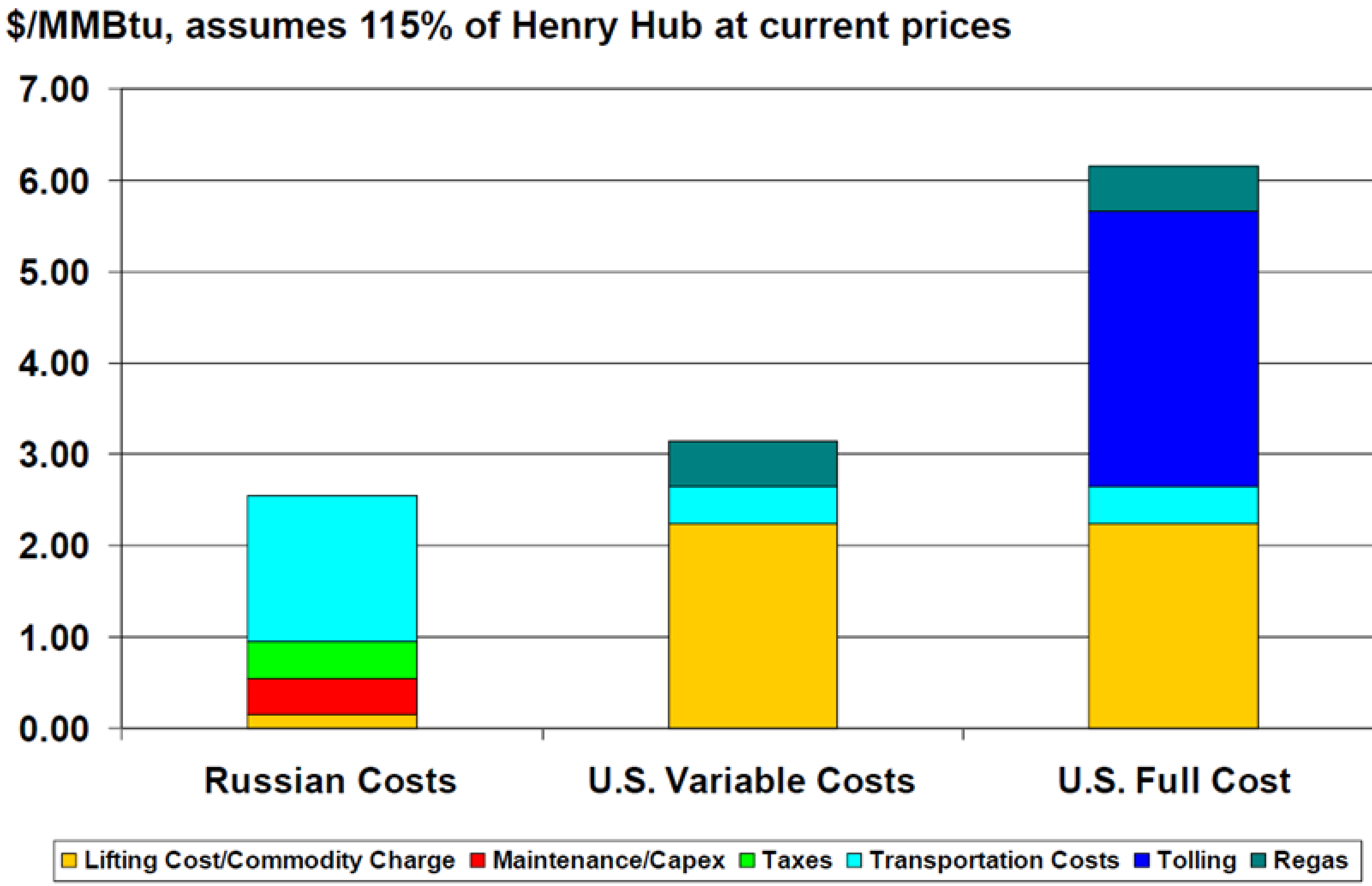
Source: Bloomberg

Too Much Attention on Australian and U.S., Not Enough Attention on Supply Disruptions



Source: PIRA

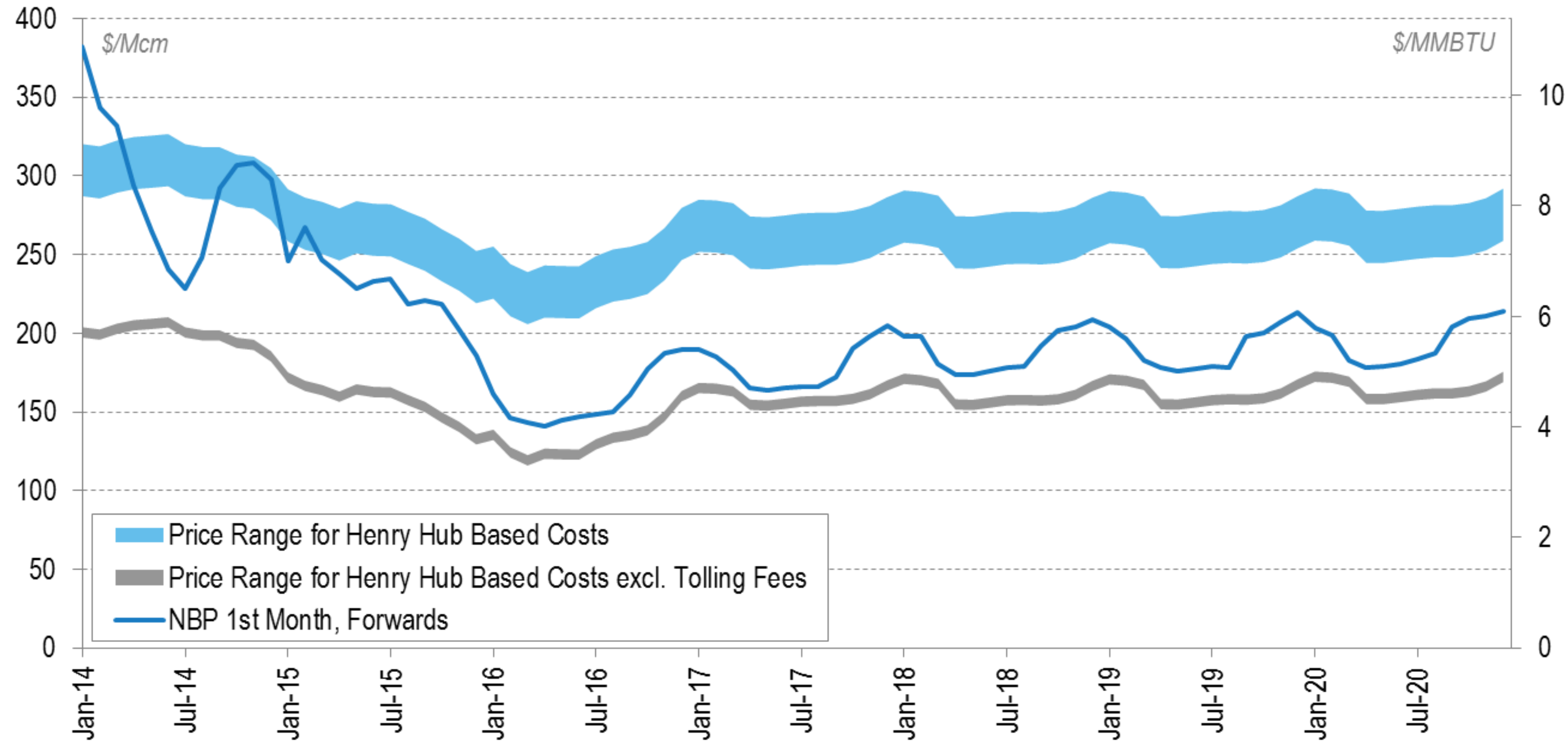
Gazprom Sees No Serious Threat from US LNG to European Pipeline Gas



Source: PIRA

US Benchmark Prices are Poised to Rise Within a Year, Meaning Export Costs to Europe Will Also Gain

Estimated Costs* of US LNG Deliveries to Europe in comparison with European Traded Forwards**

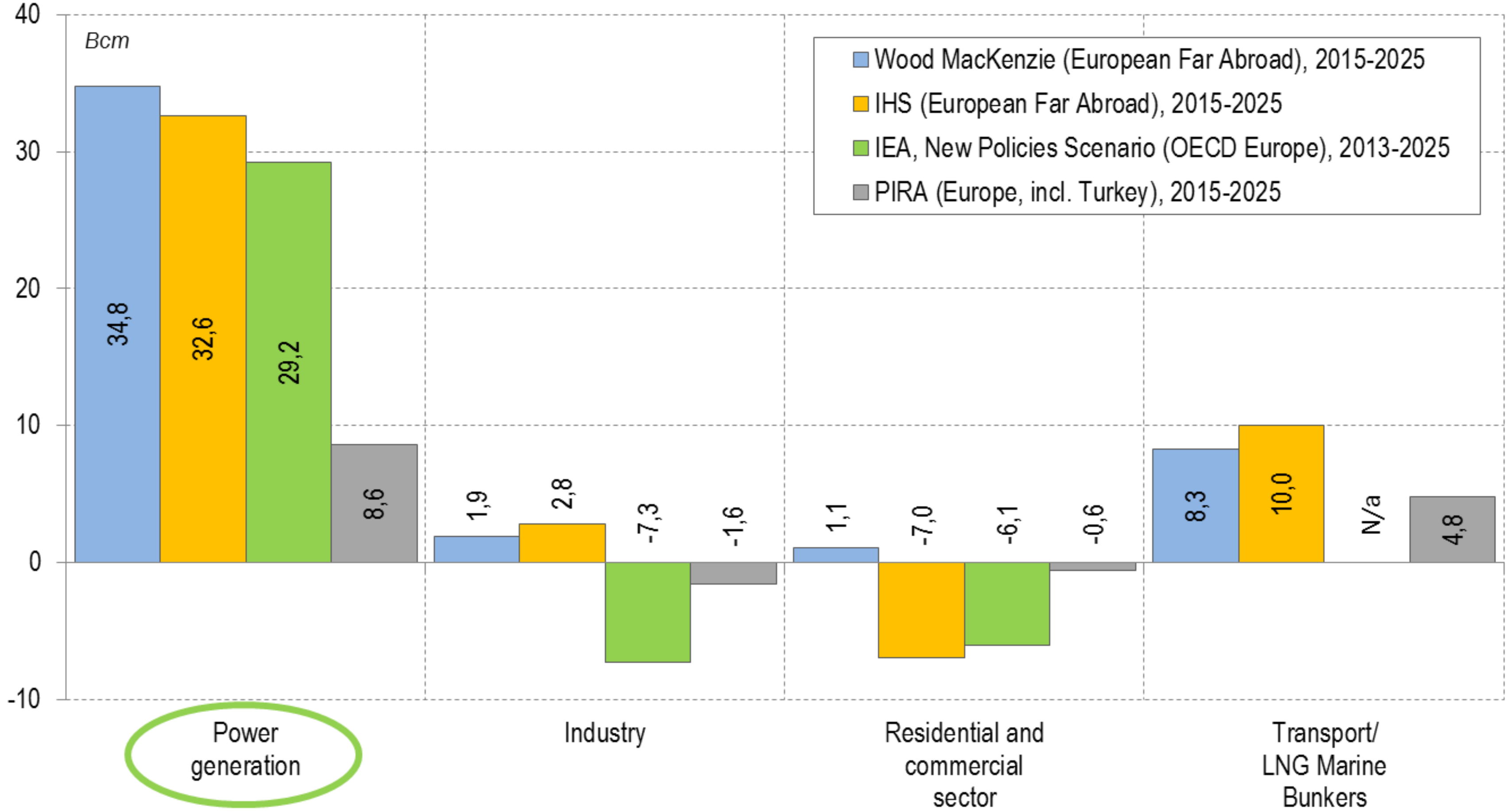


** Based on Henry Hub Forward Curve, P = HH * 115% + X, where X – costs of liquefaction, shipping, regasification*

*** NBP Forward Curve*

Source: Bloomberg, Wood McKenzie

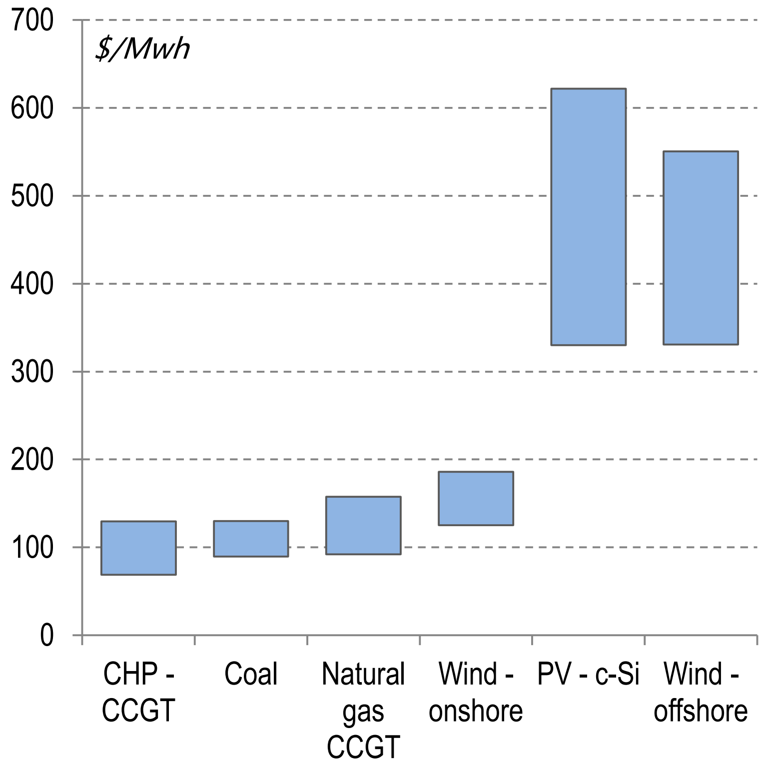
Demand Growth Potential in Power Generation Sector?



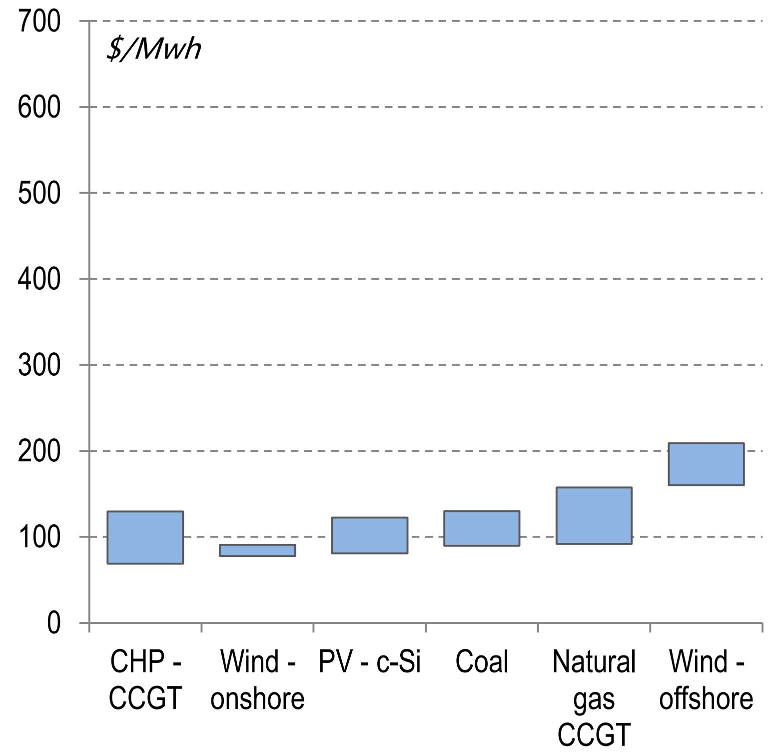
Source: IEA, IHS, PIRA, Wood MacKenzie

Competitiveness of Natural Gas in Power Generation

Range of Levelised Costs for Power Generation, excl. Renewables Subsidies

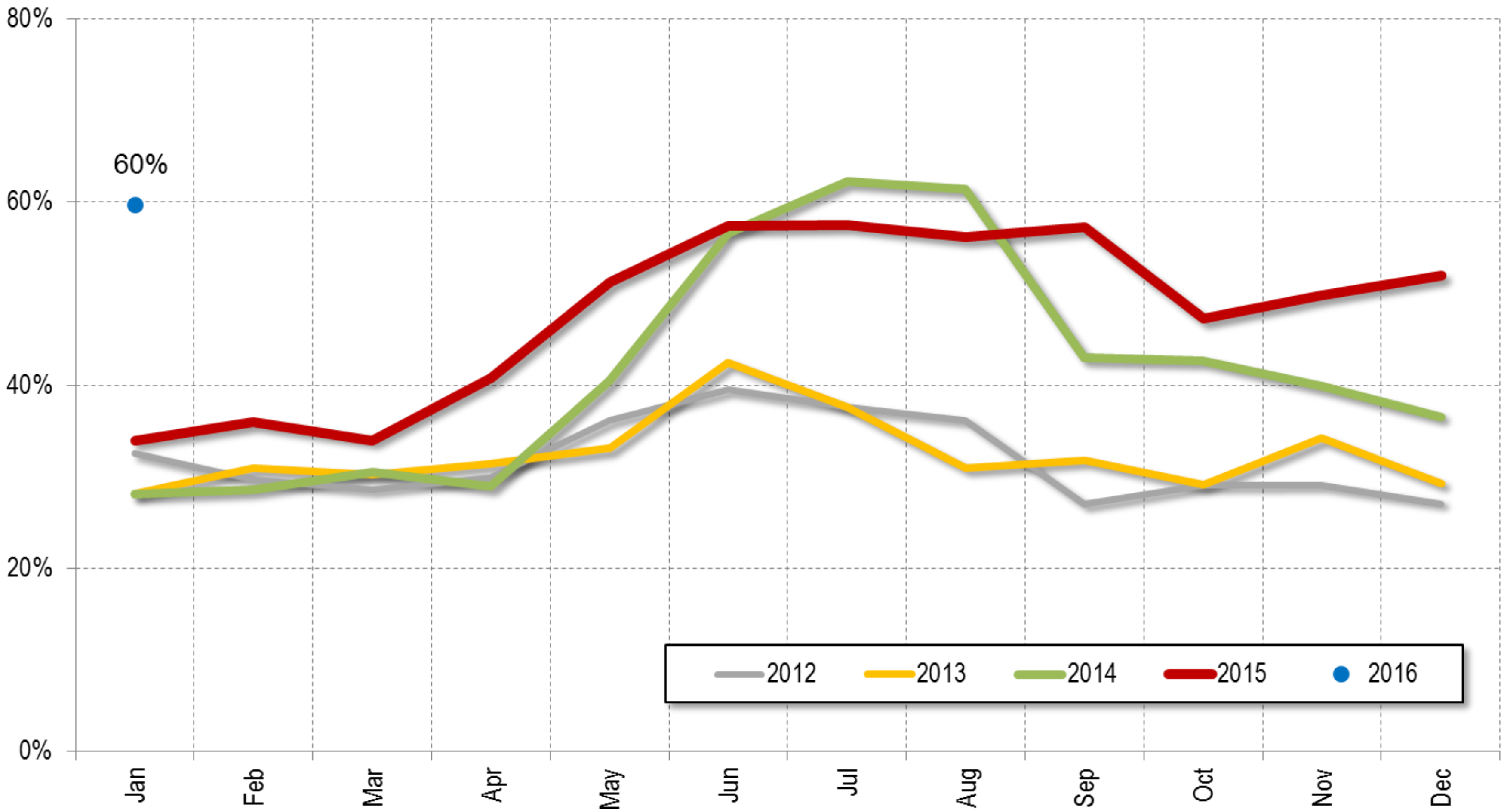


Range of Levelised Costs for Power Generation, incl. Renewables Subsidies



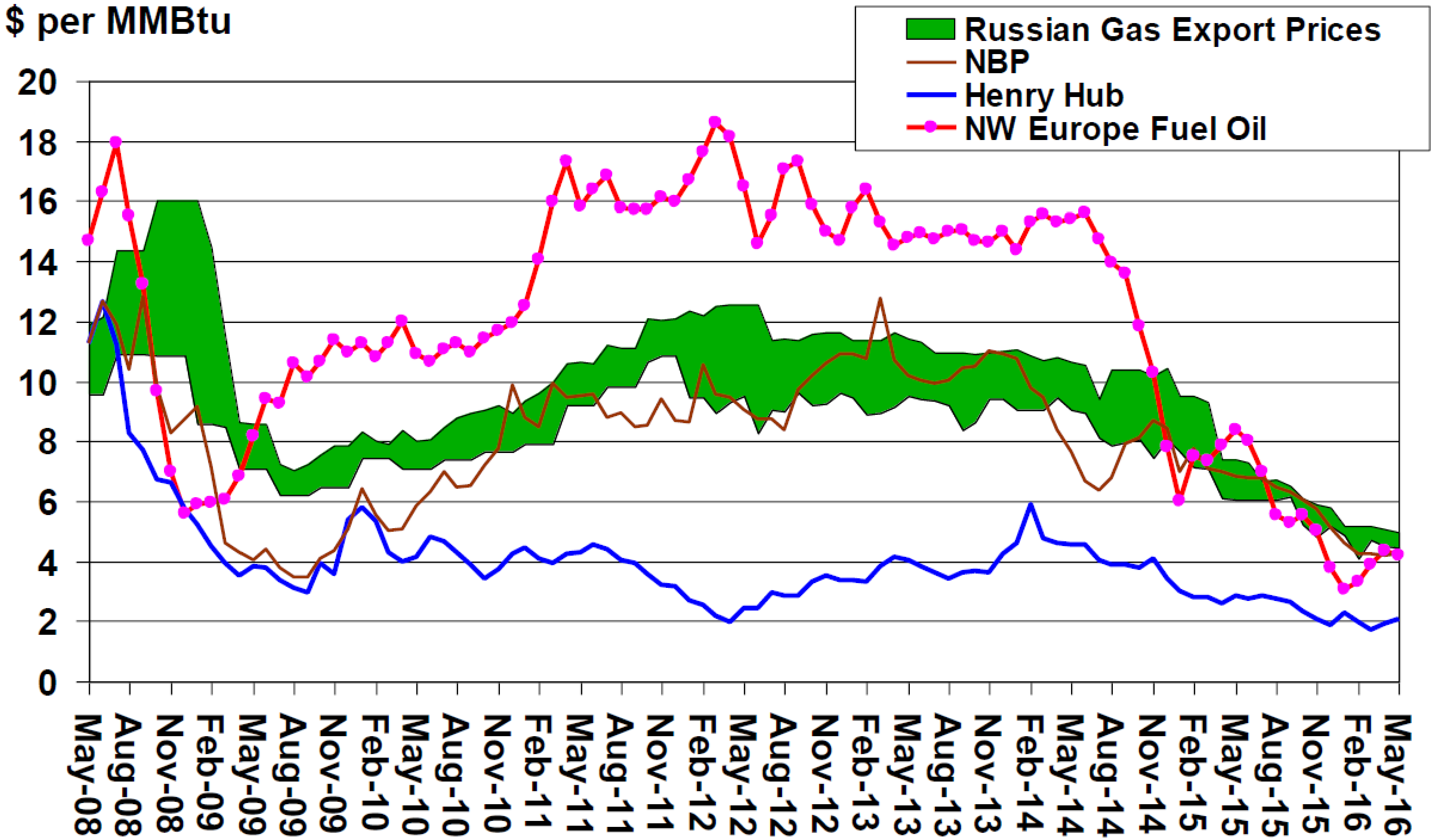
Source: BNEF

Share of Gas in Power Generation from Fossil Fuels in the UK, 2012-2016



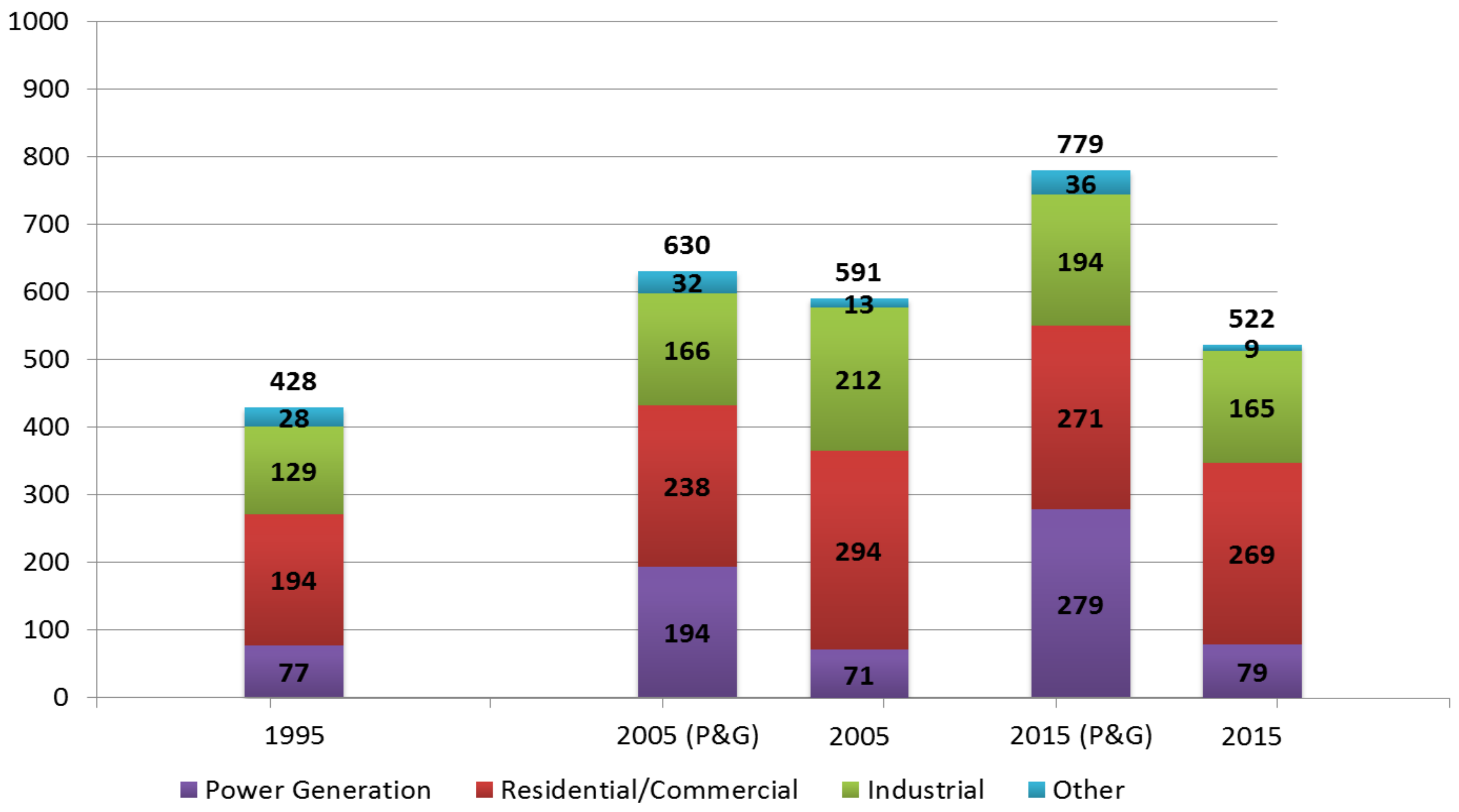
Source: Department of Energy & Climate Change of the UK

Convergence of Gas Prices



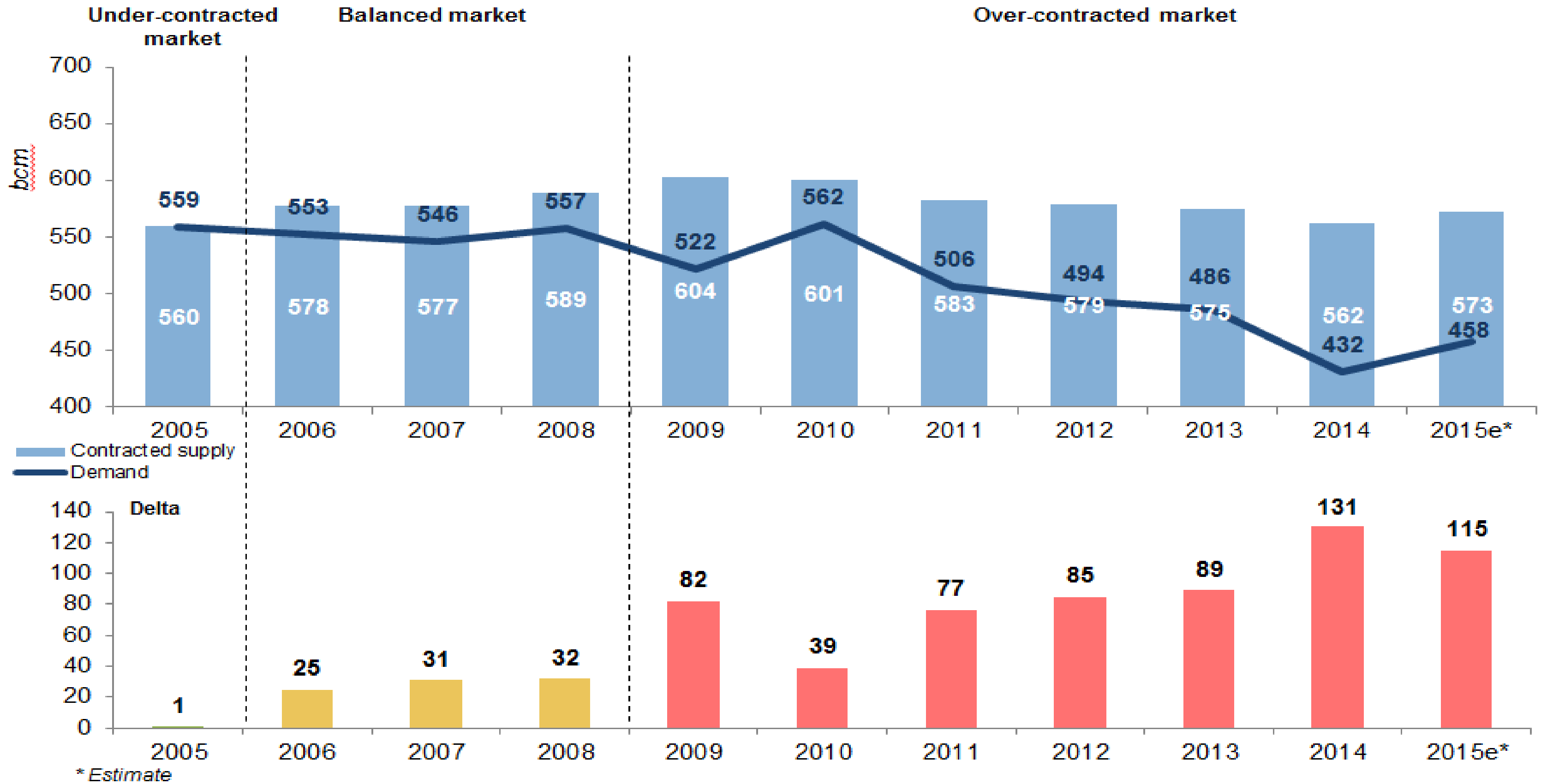
Source: PIRA

Overblown Gas Demand Expectations in Europe in the Past Resulted in Market Overcontraction



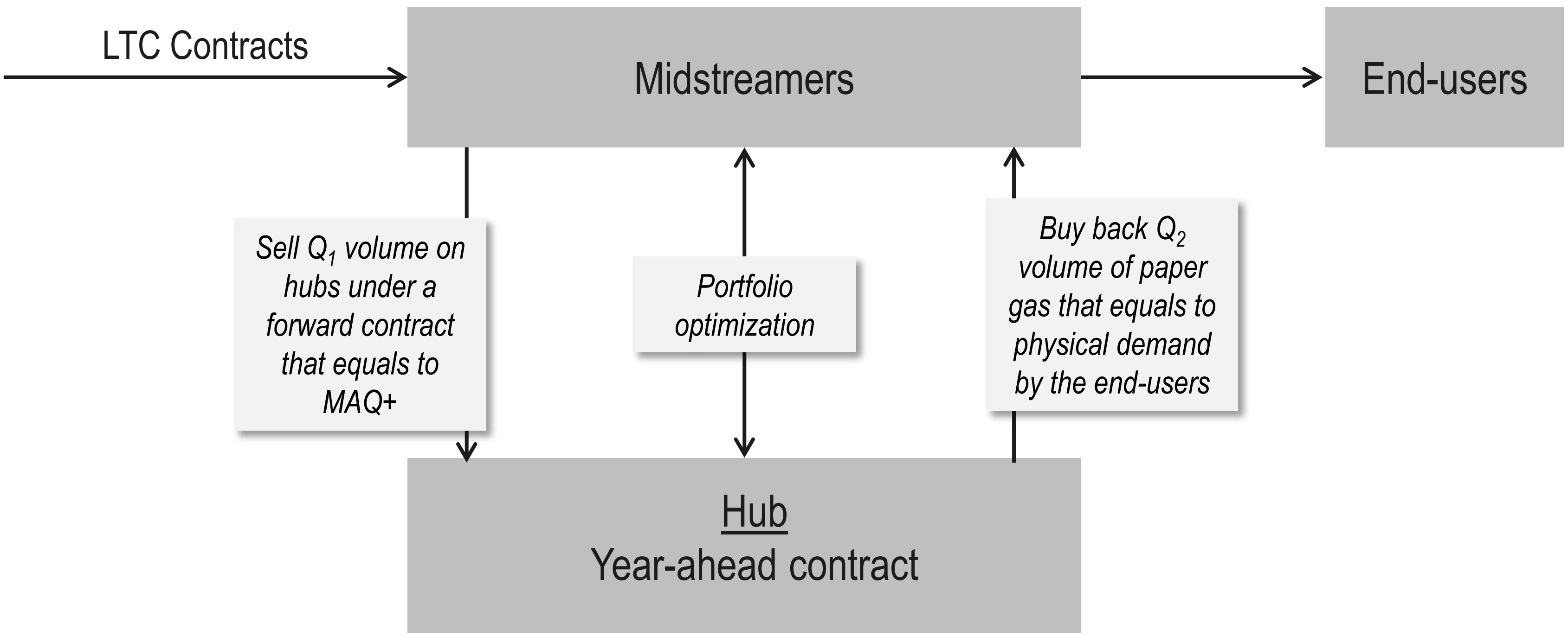
Source: Purvin and Gerts 1998 Forecast for 2015, Gazprom Export calculations

Delta between Contracted Supply and Demand for the Last Seven Years was on Average 88 bcm which Equals to 18% of Demand*



Demand Includes import contracts and indigenous production
Source: Cedigaz, Gazprom Export LLC Database

There is Need to Rebalance Market by Eliminating Paper and Physical Gas Disconnect



Under current market conditions:
$Q_1 > Q_2$

Source: Gazprom Export

THANK YOU FOR YOUR ATTENTION!