

BLUE FUEL

Gazprom Export Global Newsletter
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To Our Readers: Do Not Count On The “Invisible Hand” Of The Market”

These past months, spot gas prices in continental Europe have hit impressive figures, keeping close to—and sometimes pretty high above—the \$400/tcm mark. Given the colder season and the new gas year that started on October 1st, the prices are thought to represent natural growth in demand.

The demand and supply balance is supposed to be managed by the “invisible hand of the market.” In an ideal market where a multitude of sellers and buyers are homogeneous and flexible enough, they compete and at the end of the day manage to find the golden equilibrium where demand fits supply. In this best case scenario, sellers and buyers produce ideal prices and offer volumes which will undoubtedly be sought after and purchased.

In an ideal market environment, there is enough flexibility to immediately adjust prices and volumes if external conditions (like weather, supply of alternative fuels, or regulation) undergo changes. The preferred competitive energy market, therefore, leaves no room for pricing arbitrage. If there is a way to move goods within it, the price would be the same everywhere.

What is remarkable about the European continental spot markets is that it pretends to be an ideal trading place, but fails to live up to its image. Even within one country, let’s use France as an example, there is a huge discrepancy between the behavior of its major spot hubs. Price discrepancy between PEG Nord and PEG Sud can easily and persistently remain up to \$80/tcm (on a number of days in early December, the spread even reached \$170/tcm). This is nothing to be flabbergasted about, experts and energy players’ claim. The PEGs differ greatly by the volumes traded. On the relatively modest PEG Sud, a single, but weighty deal can impact the price results for the day.

Here is another explanation on the function of continental hubs—they partly serve as a spot when the deals that have been agreed are fixed and listed. Thus, for the deals fixed on hubs the price and volumes are not a result of fair competitive supply-demand balancing that happens on the same market just next door—but these can nevertheless produce certain signals and... create certain illusions.

One might ask, what could be easier than simply buying some gas on the PEG Nord and selling it on the PEG Sud thus earning without sweat and fuss \$80 on each tcm? This does not happen. Not only because there might not be enough real demand for it on the smaller southern market, there is also a number of bigger trading spots in Europe offering higher prices, so gas would rather flow there. But it is also a question of physical possibilities. In the end, it’s about whether the purchased volumes can physically reach the final destination. If not, if there are no pipes to safely deliver the gas, the better prices on the neighboring markets have zero relevance.

So how do the spot markets really work and what purpose do they serve? The first paradox is that although spot markets list a certain price every day, you can never be sure you can buy enough gas at that price (if at all) there. If two neighboring markets have permanently different prices, it might indicate that there is no physical connection between them, no spillover and no balancing of gas through a market supply mechanism. In a case when the markets are physically disconnected, the segmentation of European energy space happens and a price link to other hubs becomes irrelevant.

Any mistake in linking the price to the “wrong” hub is not that harmless as it may seem. The traditional linking of gas price to a third commodity, invented 40 years ago and embedded in long-term contracts, is rooted in the concept of taking into account the available fuel alternatives for any national market. Linking to the “wrong” spot instead,

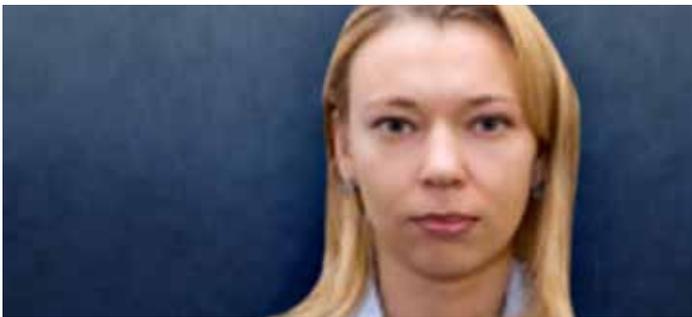
on the contrary, even if gas is presumed to compete with gas, is not a feasible alternative when gas markets are so segmented. When a cold snap strikes, spot gas is often unavailable at hubs. When a shallow hub with limited liquidity goes volatile becoming unbalanced after a single speculative deal, the consequences for the European consumers can be negative and long-lasting.

A lot more needs to be done to correct the existing European gas market faults, while not counting on the “invisible hand” of the market to do the job.

For more food for thought please visit the previous [Blue Fuel](#) edition—October 2013 | Vol. 6 | Issue 5 (article LTC and Hub Prices’ Tango Tangling by Sergei Komlev, Head of Contract Structuring and Price Formation, Gazprom Export).

Vladivostok LNG Project: Looking Eastward

By: Elena Burmistrova, Deputy Director General Oil and Gas Products, LNG and New Markets, Gazprom Export



Gazprom Group launched an ambitious project—an LNG plant near Vladivostok to meet the growing demand of the Japanese and other Asia Pacific markets. This enterprise has a number of important advantages over other LNG projects in the Asia Pacific region which are currently under development or at the stage of a preliminary feasibility study. Gazprom’s project is absolutely unique for several reasons.

Firstly, the plant will start LNG production at a time when Japanese demand for natural gas is expected to surge. The Vladivostok facility is also close to other key markets and allows Gazprom to diversify LNG supplies to other countries in the Asia Pacific region. Given that there is a significant amount of regasification terminals (already on-stream or under construction) in the region, there is huge potential to expand the geographic reach of Gazprom’s supplies coming from Vladivostok.

Secondly, Vladivostok LNG is much closer to potential customers than the production plants of Gazprom’s international peers. It is important to note that Vladivostok LNG already has elements of an existing onshore infrastructure as well as an active pipeline which only needs to be extended by 140 kilometers. In addition, the port of Vladivostok is ice-free as the climate in the area is mild. There is also no shortage of human resources in the region, so there will be no problem with finding personnel, as the new plant will create jobs.

Thirdly, Gazprom has access to vast reserves of natural gas. The Kirinskoye and Yuzhno-Kirinskoye gas fields have enough gas to start production of 10 mln tons of LNG annually for the entire project implementation period.

Fourth, the project has significant support from not only regional but also national governments in Japan and Russia which is underscored in the agreements between the two countries. Regional and intergovernmental support together with Gazprom’s intention to strengthen ties with its Japanese counterparts will secure the swift and easy coordination of the project.

Fifth, Gazprom is in charge of the entire production chain and thus can guarantee the stability on all stages from the well to the customer’s terminal. This level of control is rather rare for the new LNG projects and it seriously reduces the risk of under-deliveries. Risks at the stage of gas production are thus minimized.

DAO Gazprom and Gazprom Export are in charge of the commercial aspects of Vladivostok LNG and coordinate the working relationship with the potential shareholders. Gazprom Export is in charge of coordination of marketing targets, integrating the project into Gazprom’s LNG business’ global strategy and its exports policy in general. Gazprom Marketing & Trading (GM&T) is an aggregator of Gazprom’s LNG portfolio and in charge of LNG marketing and logistics from Vladivostok LNG.

We at Gazprom Group hope that our partners will be interested in purchasing LNG from our plant in Vladivostok with its unique geographical location, vast proven resource base, approved plan of development and intergovernmental support. In the coming year we expect to get to work on the project on the ground which will provide solid ground for cooperation between Gazprom Group and our foreign partners, between Russia and other states within the Asia Pacific region.

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Vladivostok LNG Project: Looking Eastward

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About Vladivostok LNG project

The Vladivostok LNG plant has an annual capacity of no less than 10 million tons and will be constructed near the city of Vladivostok. The first train with an annual capacity of 5 million tons will be commissioned in 2018. The LNG plant will be supplied with gas from the Sakhalin (Sakhalin II and Sakhalin III projects), Yakutia and Irkutsk gas production centers.

In March 2012, Gazprom resolved to compile its own Investment Rationale for the project. In February 2013, the Gazprom Management Committee approved the Investment Rationale for the LNG plant near Vladivostok, and the project entered the investment stage.

In March 2013, Action Plans for the construction of the Vladivostok LNG plant as well as its resource base were approved. A special-purpose company was set up as the project implementation vehicle.

Gas Hub and Oil-indexed Prices: Still Bound Together

By: Dr. Valery Nemov, Deputy Head of Pricing and Contract Structuring, Gazprom Export

The European gas market has gone through a substantial transformation. For several decades, this market was dominated by long-term contracts, derived from formula-based pricing. Market transformations resulted in the expansion of trading hubs and hub related pricing. The conventional wisdom is that gas hubs accurately reflect the balance of supply and demand in the whole European market, and the linkage between oil-indexed and hub prices has lost its rationale and does not reflect market fundamentals.

Gazprom Export research casts doubt upon this conventional wisdom. Our research has shown that although TTF (Netherlands) and NBP (UK) prices are reflective of supply and demand, they are, in essence, not independent and self-contained. They have a strong positive correlation with Gazprom's oil-indexed prices, with coefficients of 0.75 and 0.79.

In that sense, **hub prices are in fact derivatives of long-term contracts**, which set the baseline trend for their development. Supply and demand only

mutate their changes (*see Blue Fuel, October Vol.6, p 11*).

Our recent study provides another argument to back up the conclusion that oil-indexation is still the dominant model of pricing in Europe. In our study, we used gas prices from the front month contracts on the TTF hub and NBP hub. For oil prices, we used prices from the front month contract for Brent on the ICE (London). Monthly average prices were calculated on the basis of Bloomberg's daily quotations from the beginning of 2008 up until the end of November 2013.

It turns out that the correlation coefficient "r" directly between TTF and Brent and NBP and Brent is 0.69, which is not an indication of weak correlation. But if we look at the 3, 6, and 9 month moving averages for oil prices in our calculations, the results of the study provide strong evidence in favor of robust gas/oil peg.

The correlation is the highest, at 0.86, between the 6 month moving average for oil and TTF. For NBP, the same analysis gives us a correlation of 0.84.

It is precisely this 6 month lag that is most commonly used by major European suppliers in their long-term contracts. Results obtained from the use of moving averages means that forward prices on the hubs are determined by the market participants in the background of the oil-indexed long-term contracts, effectuated, first of all, by Gazprom. Isn't that a valid testimony for linkage between oil-indexed and hub prices?

More importantly, oil-indexed contract prices are regarded by parties as a benchmark for the entire gas market. In the absence of global price for gas, oil-indexed proxy represents a convenient mechanism for price setting. Many gas buyers and sellers are interested in preserving the current pricing principles because they make gas markets more transparent and predictable.

Table 1.
Correlation between TTF gas price and oil price

TTF versus:	r
Brent 1 st month futures	0.69
Brent 1 st month futures - 3 months moving average	0.80
Brent 1 st month futures - 6 months moving average	0.86
Brent 1 st month futures - 9 months moving average	0.85

Table 2.
Correlation between NBP gas price and oil price

NBP versus:	r
Brent 1 st month futures	0.69
Brent 1 st month futures - 3 months moving average	0.79
Brent 1 st month futures - 6 months moving average	0.84
Brent 1 st month futures - 9 months moving average	0.83

Figure 1. Gas prices on TTF compared to the oil prices

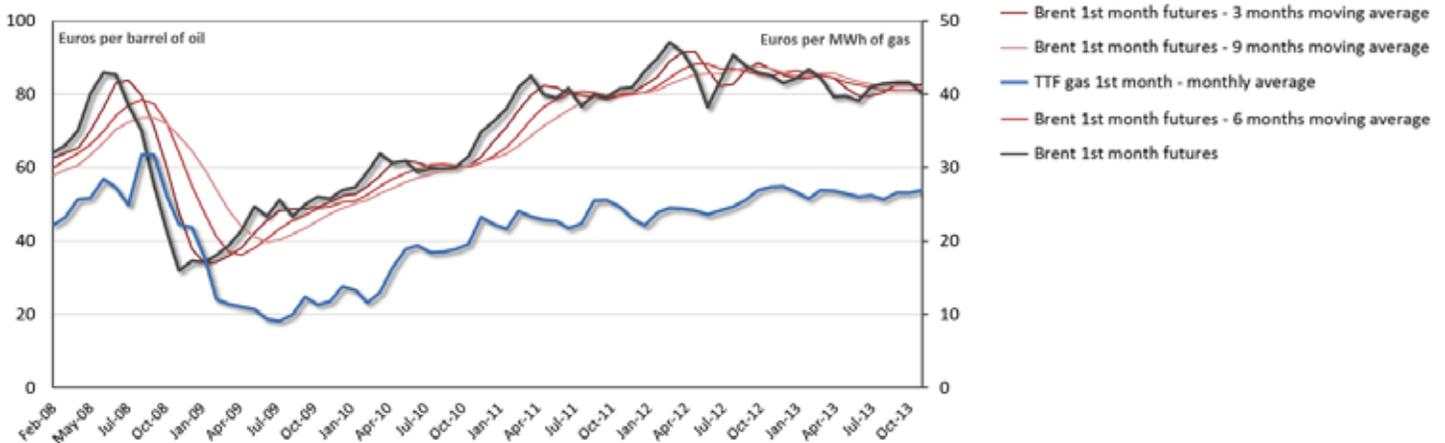
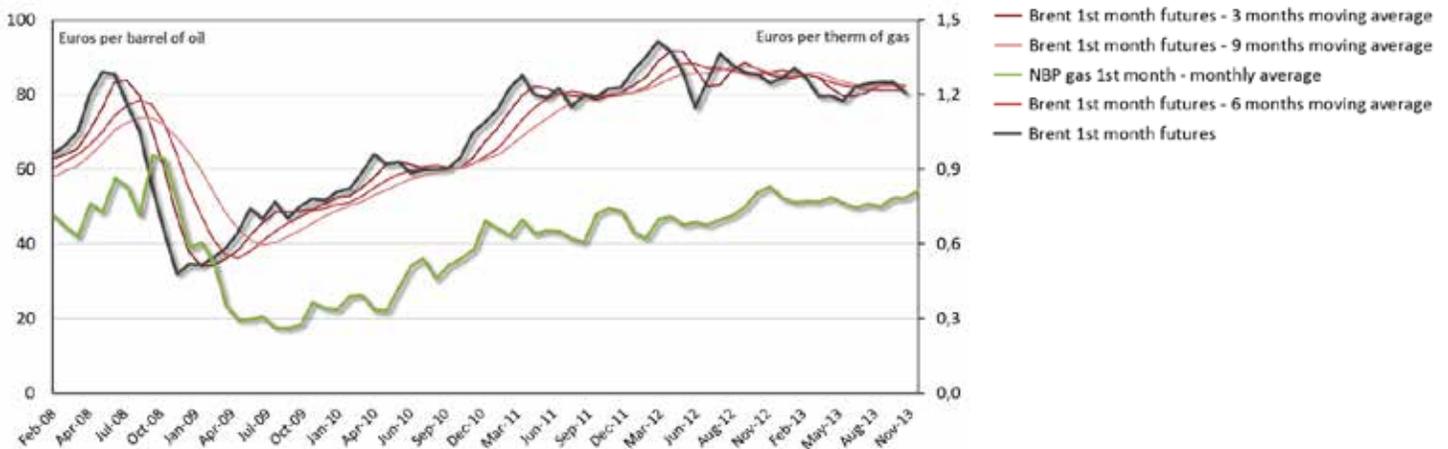


Figure 2. Gas prices on NBP compared to the oil prices





Arctic Will Boost LNG Business

By: Nikolai Grigoriev, Managing Director, Shipping & Logistics, Gazprom Marketing & Trading

Transporting liquefied natural gas (LNG) through the Northern Sea Route (NSR) and, thus, becoming the first-ever company to do so in the world was our dream since 2008 when we embarked on trade operations, marketing and LNG shipping at Gazprom Marketing & Trading (GM&T).

In November 2012, we purchased a batch of liquefied gas from Norwegian gas terminal Snøhvit to transport this LNG cargo from Norway to Japan using the Ob River tanker. Simultaneously, this LNG was sold to a client at the Tobata terminal in Japan. As it is customary in the LNG market, loading and unloading deadlines were tight, and the only option to meet the deadlines was for the ship to move along the shortest route—through the Arctic.

In fact, the NSR has been navigable for many years now. Swedish explorer Adolf Erik Nordenskiöld was the first scientist to sail through the Northeast Passage in 1878-79. Before the revolution in 1917 Russian scientists and the military made enormous efforts to explore, survey, and chart the NSR envisioning developing it as a full-fledged sea route. For instance, during the Arctic Ocean Hydrographic Expedition (1910-1915) led by Vilkitsky, Kolchak and Matisen, Russian icebreakers Tamyр and Vaygach made the first voyage from Vladivostok to Arkhangelsk.

Thanks to the systematic development of the NSR first by the Russian Empire, then by the Soviet Union and now by the Russian Federation, this route has become truly navigable and is now used for its original purpose. In recent years, the NSR is systematically regaining its capacity and is setting record after record in terms of cargo volumes and the number of ships on a yearly basis.



Investments, particularly in the area of hydrography, navigation support, icebreaker escort, emergency rescue service, and personnel training and development, are an important factor in maintaining the operability of the NSR. Ice pilots, crews of nuclear-powered icebreakers and coast staff are the very people without whom the NSR cannot function properly.

We started preparing well in advance for the crossing of the NSR in 2012. Good working relationships were established with Atomflot, marine agents, and suppliers of nautical charts and navigational aids. For several years, we cooperated with the Admiral Makarov State Maritime Academy on sailing internships for cadets and on hiring graduates to staff LNG carriers. At the time we crossed the NSR, two navigators and one mechanic—all graduates of the Academy—were employed on the Ob River tanker. Having Russian officers on board was not only useful but also necessary to ensure communication between English-speaking crew members and Russian authorities to liaise with support services—primarily the icebreaker escort.

Crossing the NSR with large vessels such as LNG carriers poses a multitude of risks. The Ob River is huge. It is 288 meters in length, 44 meters in width and slightly less than 11.5 meters in deep load draft. Navigating through the NSR,

the ship travelled at more than 15 knots (28 km/h) over clear water, which is quite a high speed.

We should not forget that any ship carries several thousand tons of fuel oil and diesel fuel in its bunker tanks, and this, of course, poses a separate risk. The LNG cargo, by nature, is safer to transport than oil and oil products. In case of a spill, the LNG quickly evaporates into the atmosphere because methane is much lighter than air.

Curiously, we observed that gas evaporation—a quite ordinary natural phenomenon—decreased during our passage through the Arctic. It is well documented that liquid methane evaporates at a temperature of minus 165 degrees in a cargo-oil tank of an LNG carrier (approximately 0.1-0.15 % of the tank volume per day). However, due to the cold external conditions, evaporation decreased by 25% compared to nominal parameters when our ship was in the Arctic, where the air temperature stood at minus 18 degrees Celsius. It seems the Arctic is a facilitator for LNG transportation.

To cross the NSR a number of measures were utilized to minimize risks in maritime transport. These measures began with transporting the product on the appropriate ship with a crew trained to work in Arctic conditions. The Ob River tanker and its crew fully met the requirements and successfully coped with the task.

In addition, the training sessions held at GM&T are worth mentioning. Technicians from our Shipping & Logistics Department did a lot of preparatory work. They purchased maps and sailing directions, evaluated the crossing routes jointly with the owner of the vessel and discussed a number of emergency scenario procedures. For example, emergency drills and exercises were conducted and used to agree on the appropriate crisis protocols together with the ship owner. At our Shipping & Logistics Department offices in Singapore and London, special rooms were prepared and equipped for real-time emergency management.

The ships' crew was selected on professional criteria. The owner of the vessel assigned the best navigators, mechanics and officers for this crossing. The command personnel (navigators and mechanics) came from four different nationalities—Croatia, India, Pakistan and Russia. The Russians were graduates of the Admiral Makarov State Maritime Academy, who, back in 2010, started as student trainees in this company, and were now assigned to the captain and junior mechanics as junior assistants. The sailors were Filipinos.

The Ob River's journey confirmed that it is technically feasible for an LNG carrier to cross the Arctic with cargo. Moreover, with proper training, LNG can be transported through the Russian Arctic on a regular basis provided the economics make good business sense, of course.

We also made our dreams come true by organizing and executing this crossing. Gazprom once again demonstrated its leading role in the global gas business. The successful operation highlighted Russia's leading role beyond Arctic exploration, which our grandfathers and great-grandfathers had already proven. Access to the Arctic and the NSR also properly displays the advantages Russia has been endowed with as a nation state and as a naval super power.

Depending on product availability and market conditions we hope to make at least one crossing through the NSR in 2014. This year we chartered two more LNG carriers from Dynagas—Yenisei River and Lena River—which, like Ob River, were designed to work in the Arctic during summer-autumn navigation.

Shipping via NSR from the Gulf of Finland to ports in Southeast Asia, rather than through the traditional Suez Canal and Indian Ocean, cuts the distance by almost 35%. In economic terms, this can result in a significant reduction of marine transportation costs. In addition, fuel consumption and loss of LNG from evaporation are reduced.

Absence of the risk of terrorism and piracy in the NSR is an equally critical factor. Unfortunately, these problems are present in the Gulf of Aden, the Indian Ocean and the Strait of Malacca. Costs associated with these problems are irrelevant to the NSR. Our voyage also has refuted the hypothesis that insurance fees in the Arctic are higher. We paid less than if the ship had sailed through the Indian Ocean.

Finally, tolls are a significant item of expenses for any crossing through the Suez Canal. Despite the fact that we had to pay icebreakers and ice pilots on the passage through the NSR, the costs were lower than payments for passage through the Suez Canal.

Beyond significant but purely financial expense-reductions, emissions of marine fuel combustion such as sulfur oxides, nitrogen oxides, particulate matter and greenhouse gases into the atmosphere are reduced. This is very important to us because a reduction in the environmental load is one of the main performance indicators in maritime transport.

Together with existing ships our fleet may exceed 15 LNG carriers by the end of this decade if all of Gazprom Group's plans are implemented—including the Vladivostok LNG and Baltiysky LNG projects. As an active player in the LNG shipping market and in the LPG and petroleum products markets, the Shipping & Logistics Department of GM&T is fully capable of making deliveries to its clients today further adding to Gazprom's reputation as a reliable global energy supplier.



Gazprom Marketing & Trading's LNG Vessel 'Yenisei River' Saved Four Survivors in the Mediterranean



One of Gazprom Marketing & Trading's (GM&T) newest time-chartered LNG vessels, the 'Yenisei River,' rescued four sailors after their yacht began flooding off the French coast on 30 October 2013.

The Dynagas-owned 155,000-cbm new-build, which was delivered to GM&T in July, braved moderate to rough seas as it rushed to aid the yacht 'Caprea,' which was taking on water.

'Yenisei River' had just left the Fos Cavaou LNG terminal with a re-export cargo when it received distress calls from both the 'Caprea' and the local coast guard at 1640 local time on Wednesday, 30 October 2013.

GM&T and Dynagas said that at 1645 the 'Yenisei River' altered course and proceeded at full speed towards the yacht, reaching 'Caprea' about two hours later.

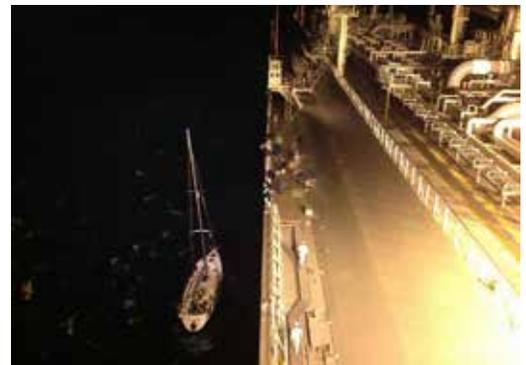
"It was clear that the sailing yacht and her crew were in imminent danger," the companies said.

Four people, of German, Swiss and Italian nationality, were transferred to the 'Yenisei River' and taken care of on-board by Captain Arvind Saran and his crew. They were airlifted from the vessel by helicopter

shortly after, allowing the LNG carrier to resume its passage.

Mr. Nikolai Grigoriev, Managing Director of Shipping & Logistics, said, "We commend the captain and his crew for responding so quickly to the distress call and performing so professionally in the rescue operation. We also thank Dynagas for ensuring that their sailors are fully trained to deal with emergency situations. We are also very proud that Gazprom and its fleet continue to contribute to maintaining safety of operations at sea."

Adapted from Tradewinds Online News, Lucy Hines, on 31 October 2013



About Gazprom Marketing & Trading Ltd

Gazprom Marketing & Trading Limited (GM&T) is a UK-registered wholly-owned subsidiary of OAO Gazprom ("Gazprom"), the world's largest gas company by asset base, accounting for 18% of the world's total natural gas reserves and for about 70% of natural gas reserves in Russia. GM&T is headquartered in London and was established in 1999 to manage Gazprom's marketing and trading activities in the liberalized markets of Europe.

GM&T is responsible for the optimization of Gazprom's energy commodity assets and downstream expansion through its marketing and trading network. With subsidiaries in USA, Singapore, France, Germany, UK and Switzerland, GM&T trades energy commodities including gas, power, oil and oil products, carbon, LNG and FX.

The Shipping & Logistics (S&L) business unit provides safe, reliable and economical shipping solutions to the Gazprom



Marketing & Trading Group (GM&T) with responsibility for supporting the multi-commodity trading activities of GM&T, shipping a diverse range of products from LNG, LPG, Oil, Oil Products and Helium.

First SIRE Inspection by Gazprom Group

The LNG tanker 'Lena River' underwent an inspection in Huelva, Spain by an inspector from Gazprom Global LNG (GGLNG) under the Oil Companies International Marine Forum's (OCIMF) Ship Inspection Report (SIRE) program. It was the first ever SIRE inspection conducted by Gazprom Group.

SIRE is an inspection risk assessment tool that was launched by OCIMF in 1993. It has been widely adopted by all oil and gas majors shipping their cargoes by sea, as well as tanker owners, operators and charterers, terminal operators and government bodies concerned with ship safety. A SIRE inspection is widely recognized as a benchmark for satisfactory tanker quality and ship safety standards and has become increasingly common as the oil and gas industry continues its drive for safer ships and cleaner seas.

GM&T's Technical & Marine Assurance Department now offers the inspection service on a worldwide basis to any interested ship operator wishing to have its vessels inspected in the name of Gazprom. Two other ships—an LNG vessel and an oil tanker—are already scheduled to undergo a Gazprom SIRE inspection before the end of the year.

Nikolai Grigoriev, Managing Director of Shipping & Logistics, commented on the Huelva inspection, saying, "We are very pleased to have successfully completed the first SIRE inspection on behalf of Gazprom Group. I would like to acknowledge the leading role of GM&T's Technical

& Marine Assurance Department in this accomplishment. This action is emblematic of Gazprom's and GM&T's commitment to maintaining safety at sea and reflective of our on-going work, in co-operation with other oil and gas majors, in the development of and compliance with the international standards of marine operations."

About OCIMF and SIRE

The Oil Companies International Marine Forum (OCIMF) is a voluntary association of energy companies with an interest in the shipment and terminalling of crude oil, oil products, petrochemicals and gas. Its mission is to be the foremost authority on the safe and environmentally responsible operation of oil and LNG vessels, terminals and offshore support vessels, promoting continuous improvement in standards of design and operation. The current membership of OCIMF comprises 98 companies worldwide.

The SIRE program is a tanker and barge risk assessment tool used by charterers, terminal operators and government bodies to assist in the assurance of vessel safety. First launched in 1993 to provide a standardized inspection format, with objective reports capable of being shared, it has now gained industry-wide acceptance as a benchmark for vessel inspections and standards. At the heart of the SIRE system is a large database of objective technical and operational information about a range of vessels used for carrying oil, gas and chemicals.



Yamal-Europe Pipeline—A Showcase of Polish-Russian Co-Operation

By: *Mirosław Dobrut, President of the Board of EuRoPol GAZ s.a.*



EuRoPol GAZ is celebrating a special anniversary. Twenty years ago, on 25 August 1993, an agreement was signed in the presence of Russian President Boris Yeltsin and Polish President Lech Wałęsa between the Government of the Republic of Poland and the Government of the Russian Federation “to build a pipeline system for the transit of Russian gas through the territory of the Republic of Poland and the delivery of Russian gas to the Republic of Poland.” The parties agreed in the document that Gazprom and the Polish Oil and Gas Company would establish a joint-stock company responsible for the construction and operation of a transit gas pipeline system in Poland.

Less than a month later in 1993, EuRoPol GAZ Joint-Stock Company was set up in Warsaw on 23 September and was included in the Polish commercial register on 15 December, whereupon it commenced operations.

The business faced a number of major challenges. The Polish section of the Yamal Gas Pipeline was to include two lines, 684 km each, and five compressor stations with a total capacity of 600 MW to be located near the communities of Kondratki, Zambrów, Ciechanów, Włocławek and Szamotuły. However, financing the project turned out to be quite a challenge. The company with equity of PLN 80 million (less than 21 million USD) was looking for project financing at the level of about 1.5 billion USD. It was necessary to secure major long term debt financing which was to be repaid from future proceeds from gas transport

services. The shareholders decided to provide project financing.

The project could start because Polish Oil and Gas Company provided a loan to cover the cost of Polish design offices, contractors for preliminary construction, assembly works and securing access to land for the construction of the initial 107 km section of the gas pipeline. Gazprom immediately secured the delivery of pipes with payment deferred for many years.

In January 1997, the company signed its largest Loan Agreement with Gazprombank, a major milestone in the life of the project. The loan provided full financing for the entire project. EuRoPol GAZ did not use up all the money under the loan facility, as it used its gas transit proceeds to finance the construction of three compressor stations. By the end of 2010, liabilities under 11 credit and loan agreements were repaid. At present, the company is only servicing the loan provided by Gazprombank and it plans to repay the entire liability related to this facility by 2018.

EuRoPol GAZ needed six years to complete this international project, which literally and symbolically bridges the East and the West, Western Europe with the world’s largest natural gas deposits on the Yamal Peninsula in Russia. On the symbolic day of 23 September 1999, the Company celebrated the completion of the first line of the Yamal Gas Pipeline in Poland, as it made the final weld on the pipe work (known as the “golden weld”) to immediately allow the flow of natural gas from Russia to Poland and Germany. The last of the five compressor stations that were expected to service the needs of the Polish section of the gas pipeline was commissioned in 2006.

Throughout the life of the project, much effort was put into ensuring compliance of construction works with the most stringent quality standards. Both the gas pipelines and compressor stations received Security Certificates confirming compliance of the

erected facilities with Polish and international standards and regulations that warranted that they could be operated safely.

The construction of the Yamal-Europe trunk pipeline was one of Europe's largest energy sector projects of the late 20th century not only in terms of budget, number of particularized companies involved or the use of innovative technologies, but also in terms of its fundamental importance for the energy security of Poland and Western Europe at that time. The successful completion of the project is the result of international collaboration and involvement of many companies. The project was unique in a number of aspects: political, organizational, technical, business and financial, and as such it set new standards.

As an international investment vehicle and operator, EuRoPol GAZ is uniquely successful and a showcase

of Polish-Russian cooperation. The engagement and commitment of prominent specialists and a fruitful collaboration between Polish and Russian experts have led to the establishment of a business that is efficiently managed, according to state of the art international standards, ensuring effective and reliable transportation of Russian gas to Poland and Western Europe.

As of 1 October 2013 some 353 billion cubic meters of gas had been transported through the territory of Poland since the Yamal-Europe pipeline was completed. EuRoPol GAZ is confident in its future, as it knows that the modern technologies applied during the construction of the pipeline and the outstanding, well-integrated team of highly skilled professionals will be capable of facing any challenges.

Working to Solve the Chicken-or-Egg Problem for Alternative Fuel Vehicles

By: Dr. Heinz-Jakob Neußer, Head of powertrain development at Volkswagen



Dr. Neußer noted that registrations of natural gas vehicles are on the rise, but their absolute market share is a miniscule 0.2%. What needs to be done to establish natural gas drive systems—which emit a relatively small amount of CO₂—as a viable alternative?

There are around 900 natural gas stations in Germany right now, but that's not enough to make the complete switch to single-fuel natural gas vehicles. There are several areas you have to look at, but the most important question is, what is the state of your infrastructure? For us as an automobile manufacturer, this means we can't sell single-fuel vehicles, so we continue to carry bi-fuel vehicles instead.

Small petrol tanks only help in emergencies

The latest Passat already has a 31-litre petrol tank on board. The next-generation of natural gas vehicles—starting with

the new Golf—will come with a normal tank that gives the range of a petrol vehicle on top of its natural gas drive systems. With this combination, the vehicle can cover more than a thousand kilometers.

Does that mean I'll lose trunk space?

Volkswagen is not compromising on space. From the very beginning, the modular transverse matrix was designed to give the options—from battery-powered electric cars and plug-in hybrids to conventional petrol and diesel motors and natural gas drives. Since CNG is part of the company's platform strategy, it can implement natural gas drives in plenty of brands—Seat, Škoda, and Audi in particular—with relatively little effort. This will help solve the chicken-or-egg problem in alternative drive systems. Infrastructure providers are waiting until enough vehicles are on the roads so that their investments will make sense financially. By taking the lead and putting cars on the roads, Volkswagen is betting that CNG infrastructure will soon be viewed as a sound business opportunity.

Does that mean that all of the vehicles based on the modular transverse matrix will also be available with natural gas drive systems in the future?

Volkswagen can now offer a natural gas option in all of its vehicle classes. For example, the Golf will be followed by the release of the Golf Variant. As for the sister brands, the

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Working to Solve the Chicken-Or-Egg Problem for Alternative Fuel Vehicles

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strength of presence in their specific segments will obviously help determine how quickly natural gas alternatives are introduced. In principle, though, natural gas drive systems can be implemented in any vehicle that's based on the modular transverse matrix.

Are there any indicators that natural gas vehicles will also succeed in international markets?

As a result of the gas boom, Americans are deliberating how they might establish their own CNG infrastructure. There are around a thousand natural gas stations in the U.S. right now—just a few more than in Germany. However, the environmental protection authorities at the federal level and Californians are interested. We'll have to see if progress is made on construction of the necessary infrastructure.

What about in China?

With the new Santana, Volkswagen has brought CNG to taxi fleets in the country. In China, that's a fairly significant part of the overall vehicle population. CNG is becoming an increasingly important topic there, just like all over the world.

What are customers saying?

CNG technology makes financial sense to those who use it because it pays for itself in short order. With a natural gas vehicle, three euros can take you 100 kilometers. The cost of An Eco Up! is around 2,000 euros more, but drives can recoup that in two to three years depending on how much they drive.

As a manufacturer, Volkswagen primarily benefits from the way these vehicles reduce its carbon footprint. Using existing, controllable technology, Volkswagen can lower its fleet's CO₂ emissions by a considerable margin. Methane has a more

favorable carbon-hydrogen ratio than petrol—CH₄ compared to C₆H₁₈—which means that burning methane already results in 12.5% less CO₂. Combine that with the better fuel values you get with basically the same amount of methane, and it has improved the overall carbon footprint by around 25%.

What would an engine be like if it was optimized to run on natural gas instead of two different kinds of fuel?

As long as there's no comprehensive infrastructure in place, there's a need for the two-fuel solution. In the distant future, when natural gas is available everywhere, it will still be possible to optimize corresponding engines and squeeze out the odd percentage point of efficiency. In particular, Volkswagen could get more out of the 130-octane rating natural gas offers. Generally speaking, everything done to improve petrol-driven engines will also benefit those that run on natural gas. Efforts in areas like friction reduction, heat management, and combustion optimization have the potential to achieve overall efficiency gains of 10% or more.

Meanwhile, the Up! runs on a naturally aspirated engine. Isn't turbo also the future of natural gas engines?

The downsizing concepts Volkswagen is working with in its petrol-based vehicles also apply to natural gas engines, of course. Natural gas combustion also involves higher stoichiometric air requirements than petrol, so a turbocharger is the perfect way to achieve a high level of performance. Still, you have to have something to offer at the 50-kilowatt entry level, and a three-cylinder engine doesn't need turbocharging anyway.

Can Volkswagen also imagine offering hybrid vehicles with natural gas engines?

The fact that the company is not doing so already isn't due to the physics of driving, but the issue of energy storage. That battery would be the third storage component on board, and as long as we live in a world where a petrol tank is needed, there's just no room. If Volkswagen does achieve a comprehensive infrastructure someday, there could definitely be CNG hybrids.

As long as bi-fuel drive systems are employed, won't customers be tempted to run their petrol tanks down to the fumes on a regular basis for the sake of convenience?

It's perfectly clear that the petrol tank is there as an emergency option in case no natural gas station is nearby. Running on CNG is around 60% cheaper, nobody's going to give that up if they don't have to.

Due to the different labelling systems, however, consumers can hardly compare prices on natural gas and petrol. Natural gas stations currently advertise their prices in euros per kilogram. In other words, a customer would have to convert back and forth between kilo and liter prices and factor in the fuel values at hand. Volkswagen is working with lawmakers on having petrol equivalents displayed at natural gas stations. As soon as this starts, customers will be able to calculate whether a natural gas vehicle is worth it to them.

Another key factor for customers is whether or not Germany's tax incentives on natural gas—which are set to

expire in 2018—will be extended. Our company is currently engaged in discussions on this, as well. Alternative types of fuel need support in getting off the ground. If and when a saturation phase is reached someday, every type of fuel will have the chance to demonstrate its own potential. Ultimately, our work on natural gas drive systems is mainly helping reach climate-related objectives—providing customers the same value while producing 25% less CO₂. This reduction could be even greater with biogas.

But don't a lot of customers take a critical view of fuels based on biogas?

Volkswagen does need to scrutinize how biogas is produced. When using waste material in the second generation of this technology, however, there shouldn't be any reason to continue the "food-or-fuel" debate.

Audi, meanwhile, is staking out a place even further up the value chain by methanizing wind power. To what extent does this represent a business model for your overall group?

Across the entire process chain all the way to the provision of fuel, Volkswagen needs to set examples that encourage others—oil companies, for example—to get into the business. That's what Audi's approach has succeeded in doing. As far as handling this subject when the number of players involved in this field rises significantly, decisions haven't been made yet.

New Political Risk for Gas Imports from MENA Region to the EU

By: *Dr. Theodoros Tsakiris, Assistant Professor for Geopolitics of Energy, University of Nicosia & Programme Director, Energy & Geopolitics, ELIAMEP*



The increased political instability in the MENA region over the recent years raises the important question of security of European energy supplies which the EU will need to address.

The overthrow of the Mubarak regime in February 2011 introduced us to a new period of geopolitical risk for the greater Middle East & North Africa (MENA) region. Although this volatile region has always been at the epicenter of political

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Arab Spring Creates New Political Risk for Gas Imports from MENA Region to the EU

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conflict since 1945, the conflict back then was primarily inter-state with the exception of the Iranian Revolution. The fall of the Shah reverberated throughout the Middle East because it constituted a threat not only for the regional balance of power, but also for the security of the ruling elites in most Arab oil producing states.

Almost three decades later, another popular revolt that began in Tunisia and swept through the entire MENA region overthrew the established regime. Mubarak's takeover represented the most authentic and comprehensive expression of Egyptian power. For more than a generation, they did not usher in a period of democratic rule as most Europeans would have hoped for. On the contrary, the brief rise to power of a revived political Islamic—yet not Islamist—party in the form of the Muslim Brotherhood appeared to have been equally threatening to at least half of the Egyptian population. This August, it led to the removal from power of Muhammed Morsi, Egypt's first democratically elected president in two generations.

In the spring of 2012, Syria's Muslim Brotherhood rose in revolt against another authoritarian regime that managed to hold on to power by consolidating its influence mostly among Syria's religious and ethnic minorities. This transformed Syria into a regional powder-keg since the ongoing civil war was *already* a proxy-battlefield where the interests of the region's principal powers collide.

Apart from the ever-present danger of Syria's civil war spilling over throughout the region and the de-stabilization of the Sinai Peninsula, the 2011 revolts have already profoundly impacted the security of energy exports and infrastructure by:

- Destabilizing southern Algeria where several international oil workers died in an Islamic-led attack against a gas sweetening plant in Manas;
- Leaving Libya in a state of perpetual political upheaval that is creating the

conditions for increased and radicalized violence, which may once again sever the flow of oil & gas exports to Europe;

- Creating a power vacuum in the Sinai Peninsula that has already resulted in the termination of Egyptian gas exports to Jordan. More importantly, the destabilization of Sinai and the continuous clash of the military cast with the Muslim Brotherhood are raising important questions regarding the security of the Suez Canal that is the principal route for all Arab LNG exports to Europe as well as a major oil transit chokepoint. In 2011 EU states covered around 10% of their natural gas needs from Arab Gulf exports which transited the Suez Canal, while Algerian and Libyan gas exports accounted for respectively 14% and 3% of total EU gas imports in 2011.

What can the EU do in order to re-stabilize North Africa? Despite the Union's considerable influence, the bloc and its principal Member States appear to have little control over the events unfolding there. That is why, within the greater framework of an emerging EU external energy policy, the European Commission and the European Council should focus their attention on the following two principal priorities:

- a. Systematic encouragement of hydrocarbon exploration within offshore EU areas that have remained largely unexplored. This includes the seas around Cyprus and Greece where there are serious indications of important potential reserves. In Cyprus this is already becoming a reality, and the first major exploration efforts are expected to take place in Greek deep and ultra-deep waters in 2014-2015. Russian companies should be made welcome to invest in these promising regions. They would maximize their chances of making new discoveries by consolidating their influence through a partnership with local and EU energy companies.

b. Rapid promotion of Europe's gas interconnectivity and diversification of the EU's import routes. Here the necessity of constructing the South Stream pipeline becomes paramount. Bringing South Stream on-stream, along with completion of Nord Stream's second phase, will

maximize Europe's transit security. South Stream and Nord Stream are the most important joint Russian-EU energy undertakings in decades and should therefore receive a regulatory status that would reflect this importance.

Iran's Representative Elected New Secretary General of GECF

During the 15th Ministerial Meeting of the Gas Exporting Countries Forum (GECF) held in Tehran, the group appointed the representative of Iran, Seyed Mohammad Hossein Adeli, as the new Secretary General of the organization.

The Russian Energy Ministry stated that at the meeting, ministers recapped the Forum's activity in 2013, adopted the GECF's working plan and its budget for 2014 and also discussed global gas markets trends.

The GECF is an assembly of the world's leading gas producers. The objective of the Forum is for member states to cooperate on the security of gas demand and supply. Russia highly values its involvement in the GECF and the coordination the group achieves.



The Forum was formalized at the 7th GECF Ministerial Meeting held in Moscow on December 23, 2008, when energy ministers adopted and signed an official intergovernmental agreement. The official GECF agreement entered into force on October 1, 2009, after being ratified by the five countries that signed it.

Currently, the GECF member countries are: Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Oman, Qatar, Russia, Trinidad and Tobago, United Arab Emirates and Venezuela. In addition, Kazakhstan, Iraq, the Netherlands and Norway have the status of Observer Members.

Gazprom Export Supports TOBB- ETÜ Students

Gazprom Export, the export arm of the world's largest integrated natural gas company, will award eight scholarships to students at Turkey's TOBB-ETÜ enrolled in the university's International Entrepreneurship Department's Russia Program, the first and only department of its kind in Turkey as of November this year.

The support will allow the students to spend their study-abroad program at the Moscow State University (RSU) throughout the entire academic year. This provides students with the optimal environment to familiarize themselves with the Russian economy, legal system, and culture, while perfecting their Russian language skills.

Alexander Medvedev, Deputy Chairman of the Management Committee of OAO Gazprom and Director General of OOO Gazprom Export, said "This is a great opportunity for the students to learn more about the Russian business environment, while we invest in the future of Russian-Turkish business relations. Gazprom Export believes in investing in young people as the pillars of these relations. We are happy



to collaborate with one of the leading, most business-oriented universities in Turkey, our neighbor and crucial trade partner."

TOBB President and TOBB-ETÜ Chairman of the Board of Trustees M. Rifat Hisarcıklıoğlu added, "I am very happy that such a partnership scheme has been established with Gazprom Export. Our economic ties with Russia strengthen by the day, and such a program offers the potential to equip our graduates with the set of skills to succeed in business life in the region. This program that we will establish with Gazprom Export builds a new bridge that will further both economic and cultural relations between Turkey and Russia."

TOBB-ETÜ Rector Professor Dr. Necip Camuşcu also commented on the program, saying, "The Turkish business world has exquisite relations with Russia. The students of TOBB-ETÜ, a university established by Turkish businessmen, will benefit from this program and they will contribute to the Turkish-Russian economic and trade relations by adding new dimensions."

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Gazprom Export Supports TOBB- ETÜ Students

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The students receiving the scholarship will be named “Gazprom Export Fellows” and will receive their end-of-year certificates at the “TOBB-ETÜ 2013-2014 Graduation Ceremony.”

Over the years Gazprom Export has set up numerous sponsorship programs, investing in culture, sports, and children’s projects in Russia and beyond. Since January 2011, Gazprom Export added education to its funding portfolio, when it started financing a five-year scholarship program for post-graduate students in the field of Russian-Polish relations, energy, and Russian culture and language at the University of Warsaw.

The Gazprom Export Fellowship Program, in partnership with TOBB-ETÜ, is Gazprom’s first sponsorship effort in the area of higher education in Turkey, marking the beginning of a new era.

Background

Gazprom Export is a 100% subsidiary of OAO Gazprom and acts as the company’s

export arm for natural gas and other fuels. The company is Turkey’s largest natural gas supplier since 1986, exporting 25.99 bcm of natural gas to the country in 2012. Gazprom Export has a close business relationship with its trade partners in Turkey.

TOBB University of Economics and Technology was founded in Ankara, Turkey, on 1 July 2003 by the Union of Chambers and Commodity Exchanges of Turkey (TOBB). The University consists of Faculties of Law, Engineering, Science-Literature, Economics, and Administrative Sciences, Fine Arts, Design and Architecture, as well as Medicine.

TOBB-ETÜ’s Department of International Entrepreneurship, established in 2010, is the first and only department of its kind in Turkey. One of the department’s objectives is to cultivate a qualified labor force for Turkish companies operating in Russia and other Russian-speaking countries.

For more information, visit <http://www.etu.edu.tr> and <http://www.gazpromexport.com>.

Synergy in Music: Gazprom Brings Three of Russia’s Finest Young Musicians to Singapore

In November 2013 three of Russia’s most prominent young musicians shared the stage with The Young Musicians’ Foundation Orchestra for a one-night only performance in Singapore. Under the baton of renowned Singaporean conductor Darrell Ang, ‘Synergy in Music’ celebrated the power of passion, talent and cultural exchange on a single stage.

‘Synergy in Music’ is part of a long-term initiative by the Gazprom Group, represented locally by Gazprom Marketing & Trading Singapore (GM&TS), to promote cultural understanding between ASEAN Member States and Russia. Last year, Gazprom

hosted legendary viola player and conductor Yuri Bashmet and his chamber orchestra, The Moscow Soloists, in Singapore for a one-night concert. Part of the proceeds from the public concert was donated to the Singapore Repertory Theatre’s Student Education Fund.

This year, violinist Alena Baeva, cellist Alexander Buzlov and clarinetist Valentin Uryupin travelled from Russia to Singapore to lead The Young Musicians’ Foundation Orchestra’s performance. Alena Baeva plays with numerous leading orchestras and has already produced three albums, while *The New York Times* has said that Alexander

Buzlov has “a great gift to make an instrument sing, bewitching the audience with his sound.” Winner of 18 international competitions, Valentin Uryupin is the most well-known Russian clarinetist of his generation, and is also making a name for himself as a conductor.

The trio arrived from Russia three days before the concert to conduct master classes with students from various music institutions, including the School of the Arts, Singapore (SOTA), Nanyang Academy of Fine Arts (NAFA) and the Yong Siew Toh Conservatory of Music, National University of Singapore. Many of these participants were international students from China, South Korea, Taiwan and Malaysia.

The master classes gave the students the opportunity to glean fresh insights from the three maestros on how to better their technique and style, be inspired by peers who have achieved success professionally and broaden their horizons with new knowledge about Russian culture.

At the SOTA Concert Hall, the young musicians executed a demanding repertoire comprising Beethoven’s overture to *The Creatures of Prometheus*, Felix Mendelssohn’s *Violin Concerto in E minor*, Camille Saint-Saëns’s *Cello Concerto no.1*, Gioacchino Rossini’s *Introduction, Theme & Variations for Clarinet and Orchestra*, and Carl Maria von Weber’s *Clarinet Concerto no.1*.

In further support of the arts scene in Singapore and Asia, Gazprom will make a donation to The Young

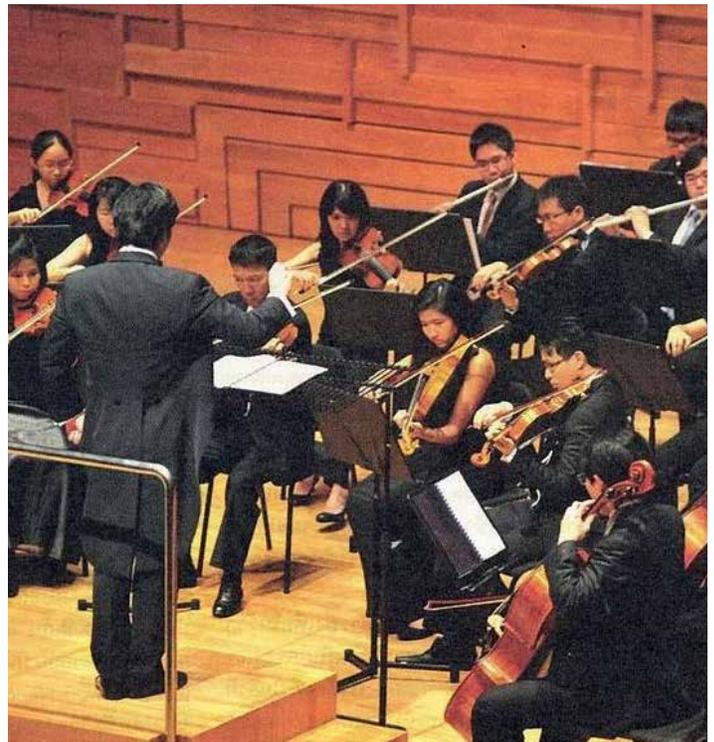
Musicians’ Foundation, to be managed through the Raffles Institution—Young Musicians Scholarship Fund. This contribution will be directed towards supporting the foundation’s objective of aiding young musicians in pursuing their dreams of a career in music.

“Music has always been a pillar of the Gazprom Group’s CSR program, and with Synergy in Music and this concert we cement our commitment to sharing Russia’s rich classical-music heritage with Southeast Asia, through Singapore,” said Serguei Edrenkine, general director of GM&TS. “Through the master classes and this donation, we hope to inspire and enable more youth in Singapore to pursue their dreams in music.”

About GM&TS

GM&TS started operations in December 2009 as a platform for LNG trading and marketing, shipping and originating carbon reduction projects in the Asia Pacific markets. Since then, the Singapore operation has grown significantly and the business now extends Gazprom’s reach beyond its core portfolio offering with trading desks in LPG and currency. GM&TS has secured its reputation in the market through actively trading across India, Japan, Australia, South Korea, Taiwan, China, Malaysia and Thailand.

For further information, please visit: www.gazprom-mt.com.





Exceptional Performance in the Polish Theatre

Standing ovation for Bashmet, Baeva and Bauer

In December 2013 the Polish Theatre in Warsaw hosted an outstanding performance of the world's most renowned Russian and Polish musicians. Violist Yuri Bashmet, violinist Alena Baeva and cellist Andrzej Bauer accompanied by Sinfonia Varsovia conducted by maestro Grzegorz Nowak, performed the most beautiful compositions of the Romantic period at a special concert celebrating the anniversary of EuRoPol GAZ.

The concert started with an introductory speech by Director of Polish Theatre Andrzej Seweryn, host of the evening, who welcomed the guests and expressed gratitude to sponsors of the concert and patrons of the Russian culture in Poland, Gazprom and EuRoPol GAZ.

Among the special guests were Alexander Medvedev, Deputy Chairman of the Management Committee of OAO Gazprom, Director General of OOO Gazprom Export and Chairman of Europol Gaz Supervisory Board and Kazimierz Nowak, the President of the Management Board of Europol Gaz, as well as prominent representatives of the gas industry. The concert was also attended by Alexander Alekseev, the Ambassador of the Russian Federation to Poland.

The concert in Warsaw was an exceptional opportunity to see so many celebrated

Russian and Polish artists on one stage. The concert begun with *Roman Carnival Overture* by Hector Berlioz performed by **Sinfonia Varsovia** orchestra under the baton of maestro **Grzegorz Nowak**, which was followed by Piotr Tchaikovsky's *Rococo Variations* played by Polish cellist **Andrzej Bauer**. **Alena Baeva**—one of the brightest stars of the young generation of violin player and a winner of XII International Wieniawski Violin Competition was the one to close the first part of the concert with a brilliant performance of Camille Saint-Saëns *Introduction and Rondo-capriccioso*.

In the second part of the concert **Yuri Bashmet**, the world's greatest violist and most charismatic Russian musician outstandingly performed *Harold in Italy* by Hector Berlioz. Unfortunately, due to the sudden illness, **Boris Berezovsky**, world-known pianist and the winner of the International Piotr Tchaikovsky Competition in Moscow, could not appear that evening on the stage of the Polish Theater. The concert ended with long ovations by the enchanted audience.

This year's concert was yet another great musical event, continuing an annual tradition in Warsaw thanks to Gazprom and EuRoPol GAZ. All proceeds from the concert were donated to charity.

“Energy for Life” in Wiener Hofburg

Vienna-based non-profit association *Energy for Life—Social Foundation* (Vienna), together with well-known cultural figures and children's on-stage performance groups, hosted the IV Children's Christmas Ball in Vienna's Hofburg Palace. The festival took place under the auspices of the mayor of Vienna **Michael Häupl**.

Around 1,000 children aged 6-12 attended the Christmas show based on a biblical story. The

young viewers were entertained with ballet, theatrical performance, dance shows and many more enlightening appearances in one of the most beautiful palaces in Europe.

The event organizers dedicated this festival to children at risk, orphans and children with special needs. Organizations such as *Caritas* (a catholic charity organization), *Diakonie* (a protestant church charity), *Austrian SOS Children's Villages*, *Volkshilfe* (a non-governmental organization, Lower Austria),

Waldschule Wiener Neustadt (a school for children with special needs in Lower Austria), and some other sponsors were delighted by the invitation and participated in the festivities.

The remarkable show in the Hofburg Palace in Vienna also provided a welcome break for patients at a children's hospital in Lower Austria who watched the performances live on the *Energy for Life* website from a children's hospital in Lower Austria.

Since 2010, the Christmas ball at Hofburg Palace, which has collectively brought together approximately 2,500 children, attracted strong public attention by its creative nature and focus on charity. One of the standout acts was the program's "Children for Children" performance ensembles. Organizations such as ballet school *Ballettschule Moza Wiener Hofballet*, dance troupe *BigMile Kids & Teens Club*, long-term participants of the project *Bellarina Dance Performance* in conjunction with

Ich bin O.K., an association supporting children with down syndrome, all performed.

The anchorwoman for the heartwarming event was **Arabella Kiesbauer**, the popular TV star in Austria and Germany. Another event highlight was the performance by **Ana Milva Gomes**, soloist of the *Sister Acts* musical. In addition, world football legend **Franz Beckenbauer** attended as the guest of honor.

Creative director **Alamande Belfor** made every effort to ensure that the festival was a success and a memorable one for the young viewers.

Themed "From heat energy to the warmth of children's hearts," Gazprom Export, as well as companies Gazprom Austria and OMV became trustees of the event, serving as a clear example of harmonious interaction between the major energy companies in the area of corporate social responsibility.



BLUE FUEL

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