

Project Financing of South Stream Serbia Issues & Options

11th July 2013

Executive Summary

- The South Stream Project has strategic importance for both Gazprom and Serbia, as it provides a direct export route to Serbia and other European markets for Russian gas
- It is a major investment for both sponsors, and requires careful planning and implementation
- The gas world is currently changing at fast pace and several projects are seeking finance
- The successful financing of a major pipeline project such as South Stream Serbia requires cooperation at the legal, regulatory, financial and commercial levels

About the Project

Project Description



- South Stream AG was founded in November 2009 (51/49 JV between OAO Gazprom and JP Srbijagas)
- There is a long history of Russian natural gas deliveries to former Yugoslavia, dating back to 1978
- The current annual gas consumption in Serbia is around 2.5 bcm, (approximately 1.4 bcm is supplied by Gazprom, with the intention to increase the volume of supply to 2 bcm)
- January 25, 2008 - Russian and Serbian governments signed a general intergovernmental energy agreement anticipating the construction of a South Stream section across Serbia
- Construction of the Project is scheduled to begin in the end of 2013

CAPEX and Indicative Terms of Financing

Estimated Financial Structure

- Total CAPEX: approx. EUR 1.9 bn
- Target structure – debt 70%+, equity up to 30%
- Debt financing: approx. EUR 1.4 bn
- Main sources of financing – loans from Russian and international commercial banks, ECA-covered project finance loans

Preliminary Schedule

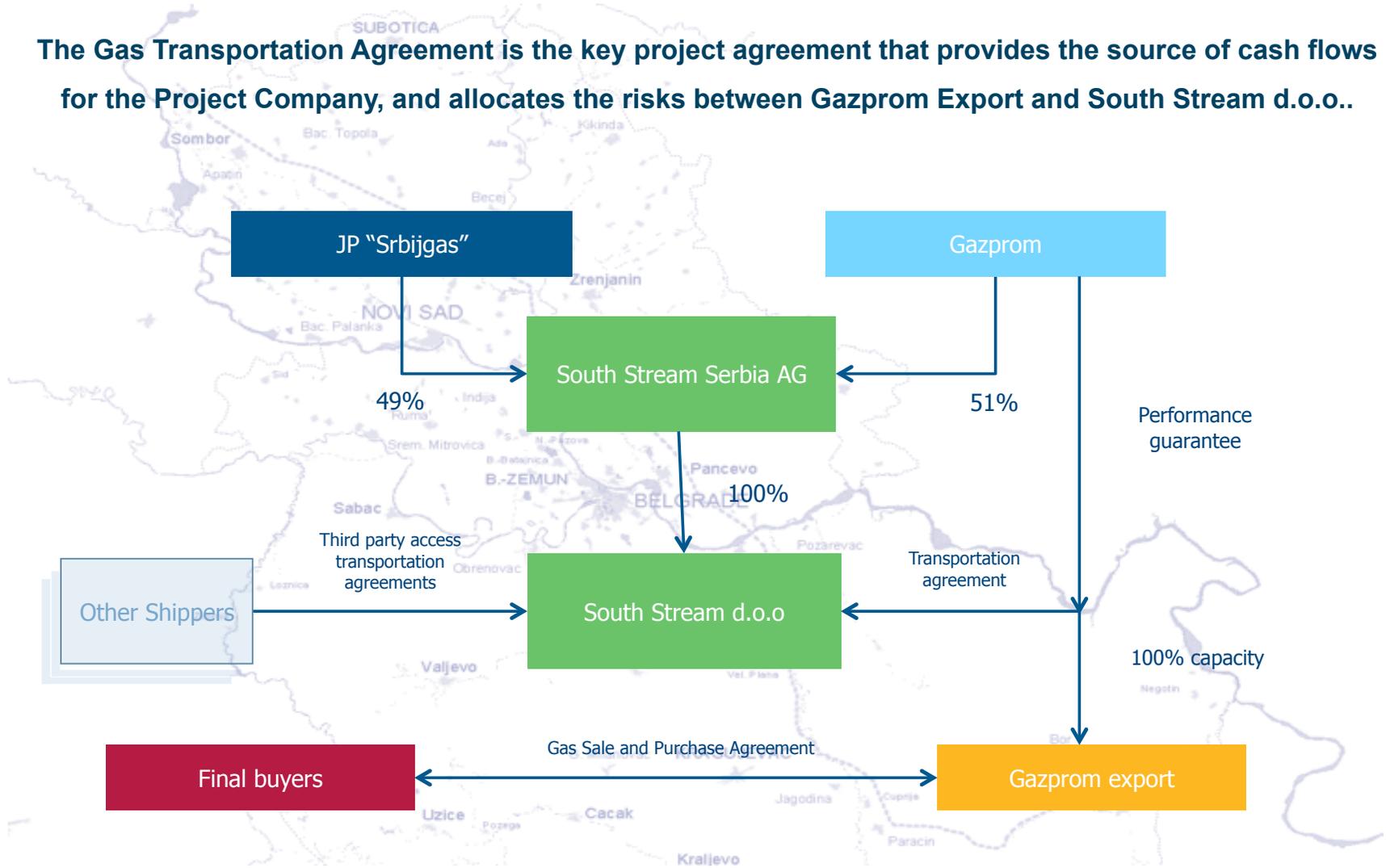
- Financial closing – 2014
- End of availability period – 2016
- Loan amortization starts - 2017

Indicative Terms of Project Financing

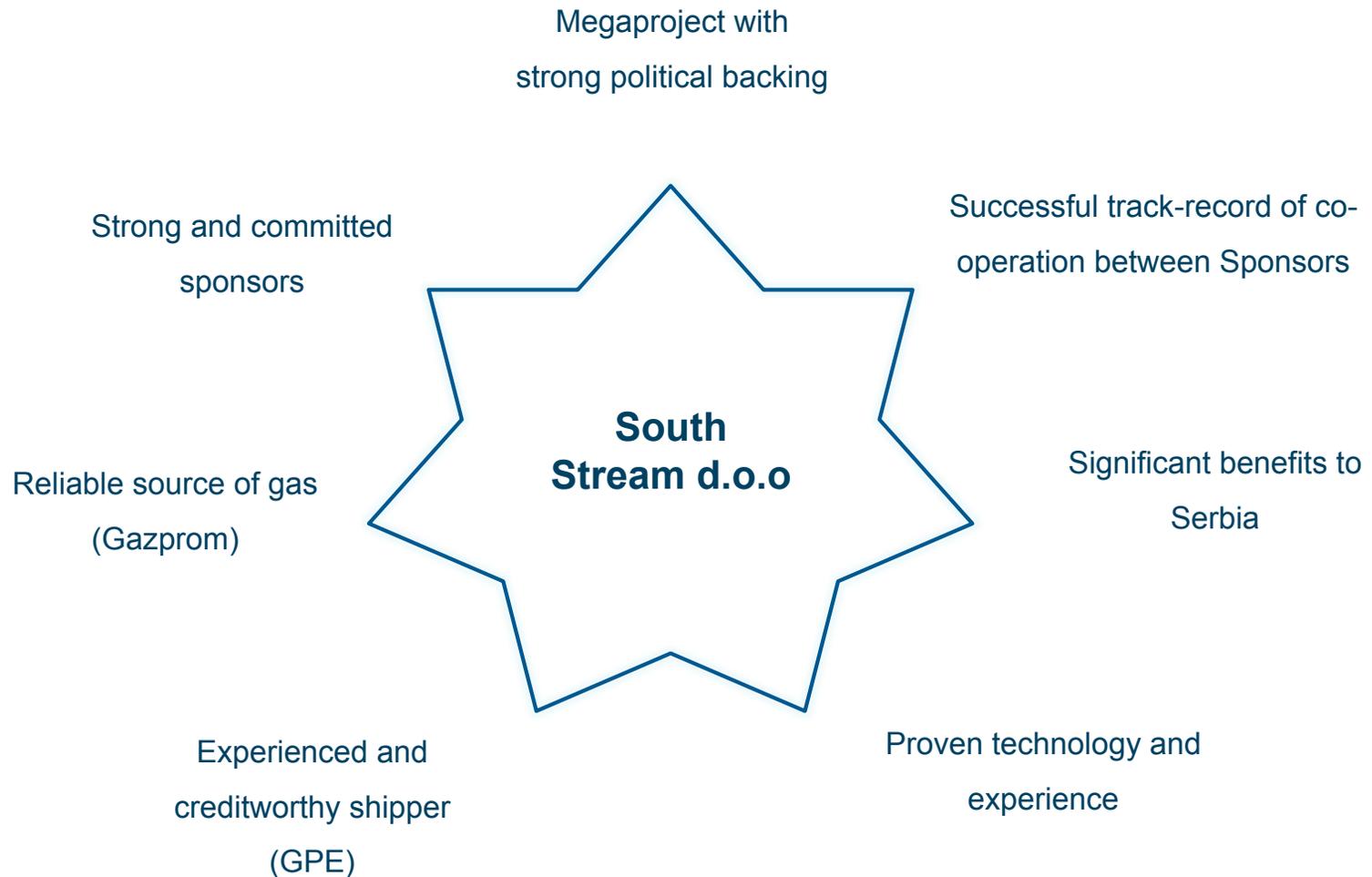
- Interest rate: to be updated after detailed market analysis and discussion with potential lenders.
- In accordance with the international project financing standards, the security structure normally provides, among other elements, for pledge in favor of the lenders of the assets and shares in the Project Company.

Contractual Structure

The Gas Transportation Agreement is the key project agreement that provides the source of cash flows for the Project Company, and allocates the risks between Gazprom Export and South Stream d.o.o..



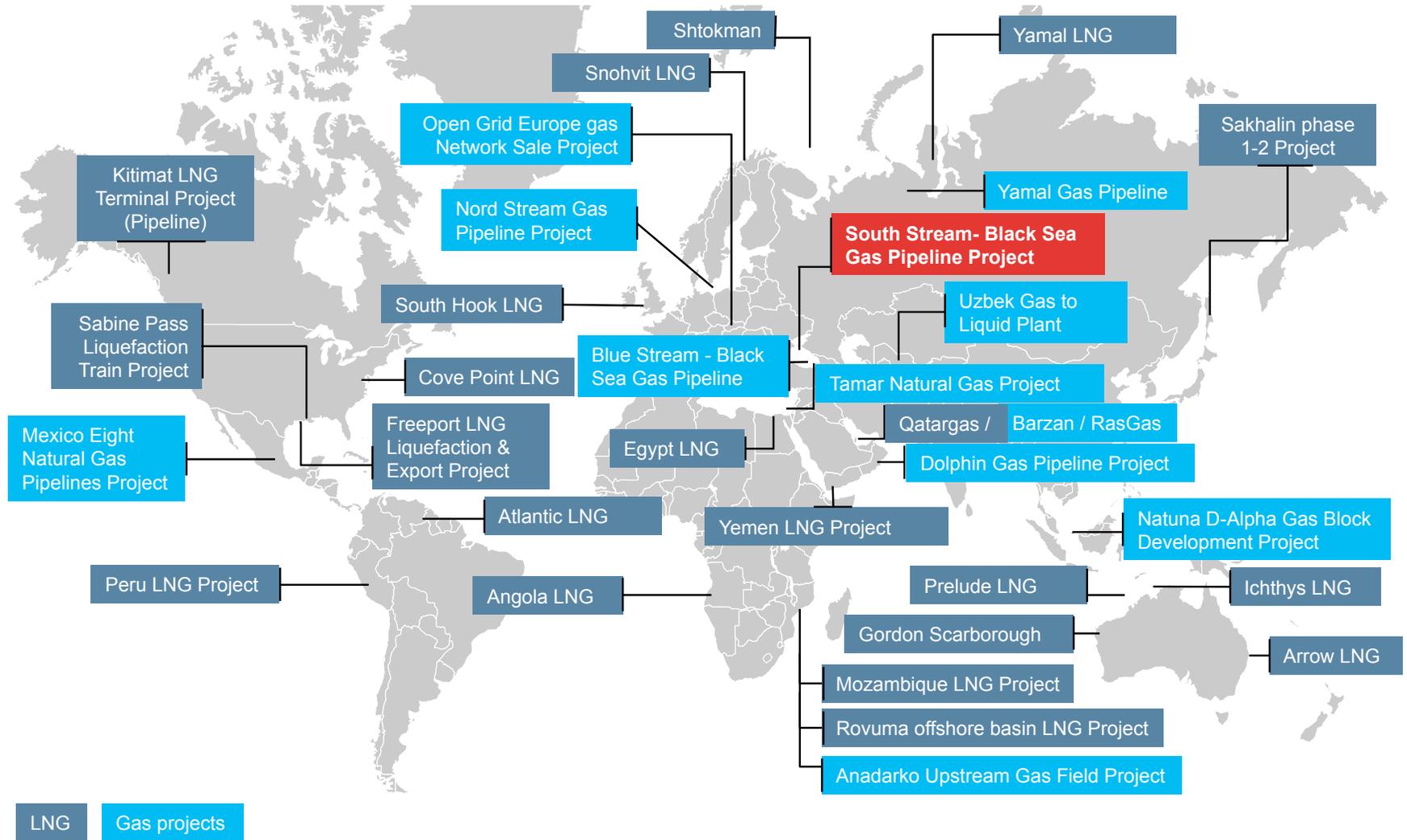
Advantages of the Project



Participation of Russian Banks in the Financing of South Stream

- Financing by Russian banks is subject to Bank of Russia regulations and to the banks' internal risk policy.
- Loans could be provided in RUR, USD or EUR with tenor up to 10 - 12 years, subject to market conditions.
- Availability of EXIAR coverage and Russian content could potentially reduce the cost of financing and/or increase available limits.
- Financing structure and security broadly similar to those applied by international banks for similar projects (i.e., Nord Stream), including pledge of assets and shares in the Project Company.
- Further analysis is required to determine the nature of completion guarantees required by the banks.

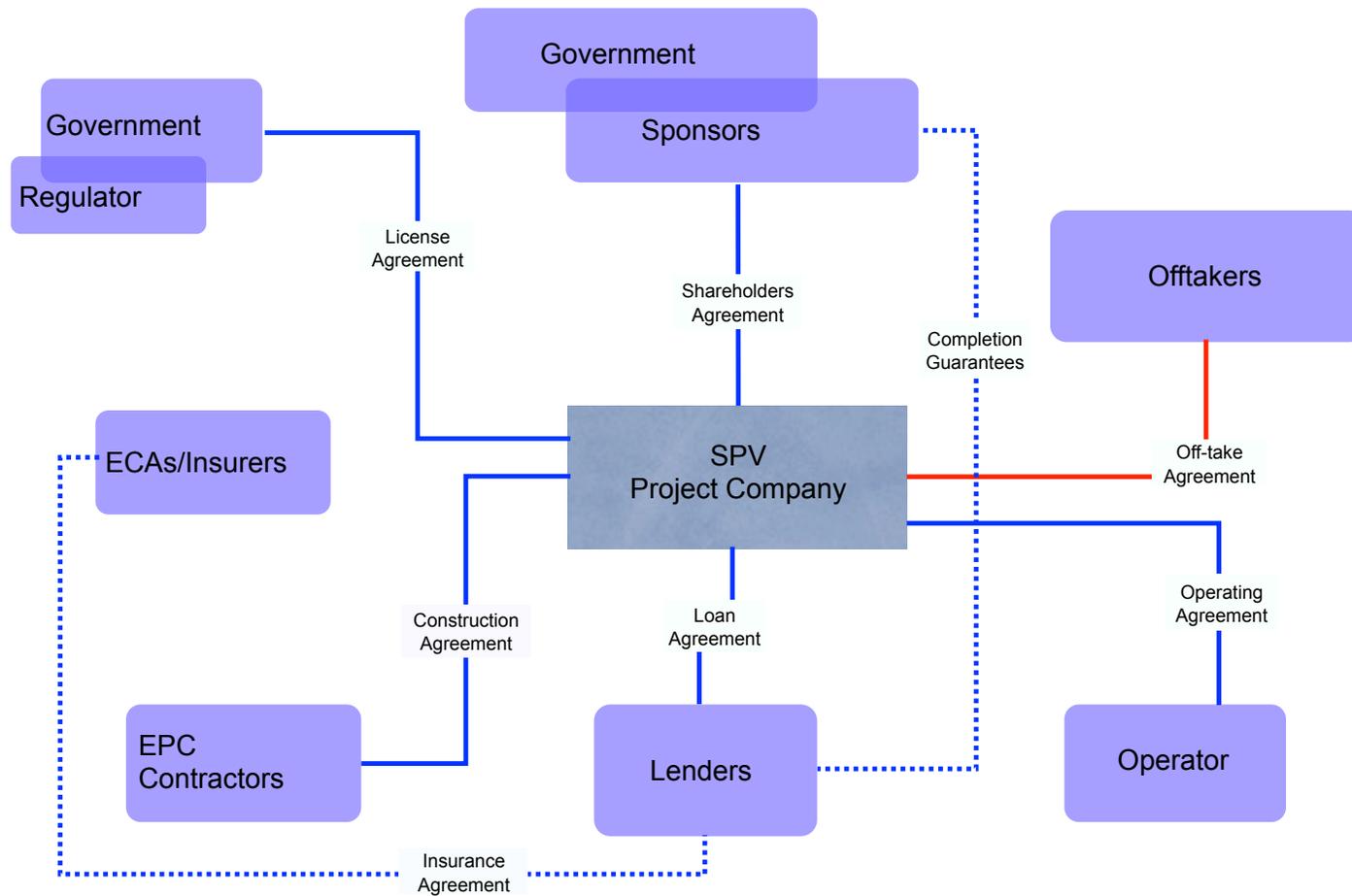
Major Gas Project Finance Deals



How projects are financed

Coordinated Efforts of Many Parties Make Successful Projects

The reliability of revenue flows results from a carefully constructed legal, contractual, and financial structure



Importance of Regulatory Framework



Dealing with the legal framework:

- Gas transportation is regulated by laws that vary:
 - In the US, LNG exports must be authorized
 - In Russia, access to strategic reserves is restricted and gas exports are strictly regulated
 - In the EU, regulation extends to contractual rights of shippers, sellers and third parties
- Subsoil rights deeply affect the position of property owners
- Financial regulation of offshore accounts, revenue “offshorization” and pledges of assets can play a key role in project feasibility

Importance of Regulatory Framework



Dealing with Government choices:

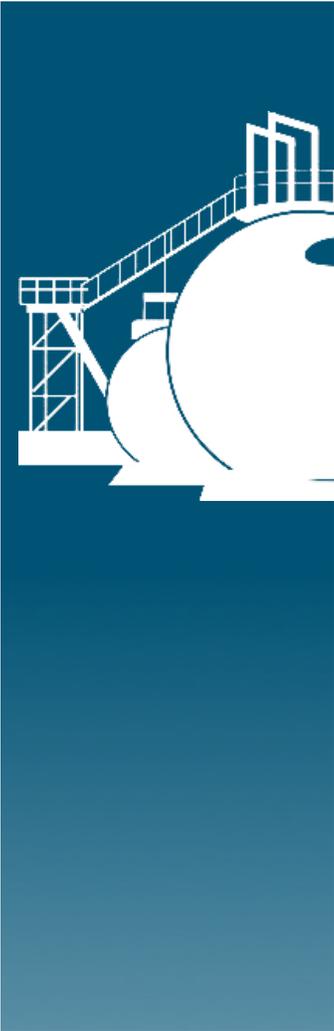
- Governments can choose to modify legal frameworks to facilitate projects:
 - Key role of National Regulatory Agency in Serbia
 - Russian review of LNG export regime
- Geopolitics often impact economic reality:
 - The geopolitics of the “Southern Corridor” in Europe distort market forces and financing options
 - EU & US seek to influence Greek gas privatization
- The tax regime for a project can mean life or death
- Sensitivity to public opinion has a strong impact on the feasibility of certain projects:
 - France barred shale gas development
 - China is actively exploring shale potential

Reliability of Access to Gas



- As tariffs are a pipeline's only source of revenues, it is crucial that the shipper be a reliable gas provider
 - Reliable independent assessment of proven reserves (usually overly conservative from the perspective of the Sponsors)
 - Physical access can be difficult or endangered
 - Transportation from the gas field or liquefaction plant can be challenging
 - The cost of extraction of the gas can be uncompetitive
- Shipping aspects can prove crucial to the feasibility of projects
 - Physical feasibility or availability of ships
 - Minimization of costs

Gas Sales and Bankability

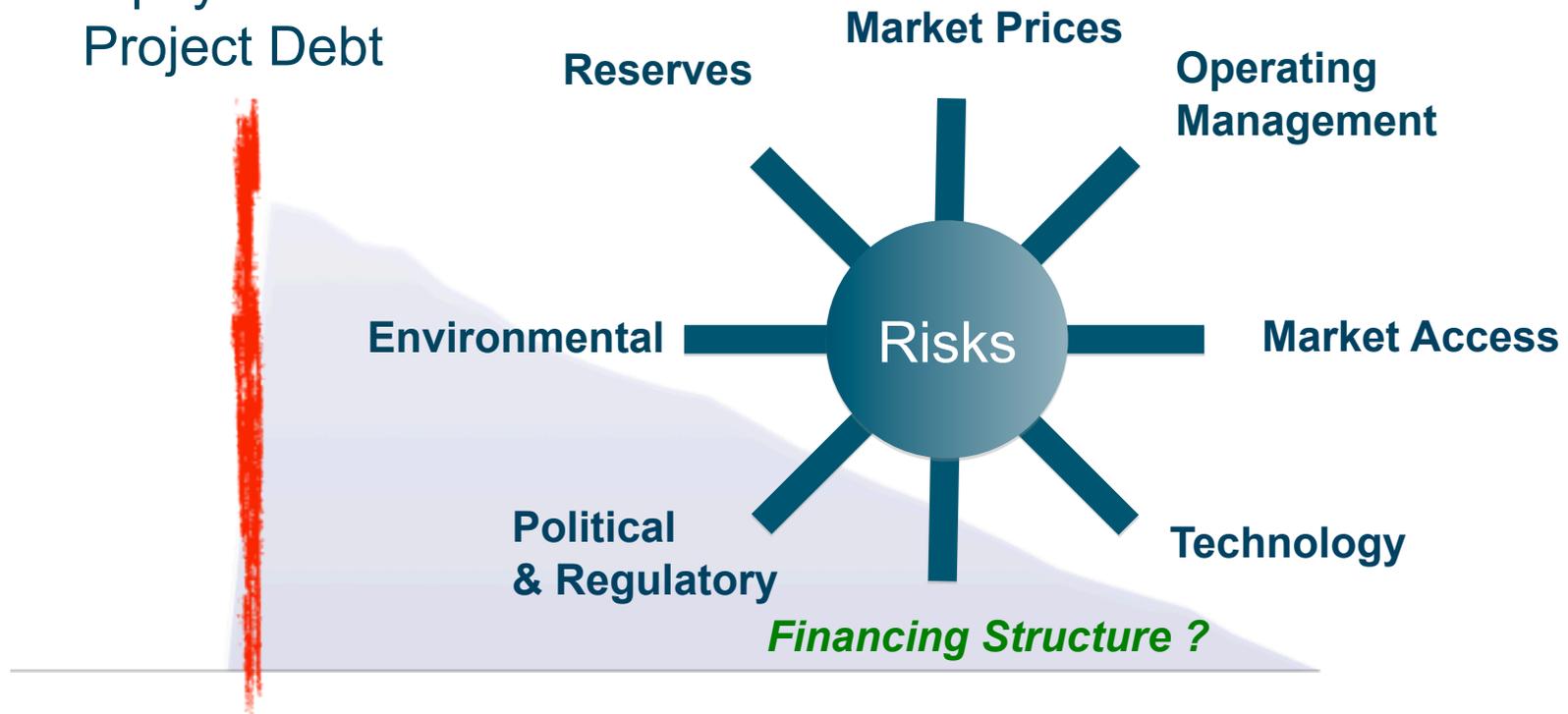


- Reliability of revenues is crucial to financing
- Long term, take or pay SPA contracts with creditworthy buyers have been the cornerstone of gas project financing
- Contracts have changed over time and will continue to evolve:
 - Quantity flexibility
 - Price formulae evolve
- However, a sound, reliable commercial structure remains a pre-condition for the international bankability of any pipeline project

Dealing with Project Risks

- Several project risks can be difficult to evaluate
- Project Finance requires clarity

Repayment of
Project Debt



Russian Focus: Significant Synergies

- Russian gas projects are part of a multifaceted approach to the gas markets
- Project sponsors in Russia have long and successfully relied on project finance
- New Russian gas projects will require upwards of USD 100 billion in financing
- The current environment is particularly challenging for large projects, but Russian gas have strong economics
- Financing requires careful planning and execution

 <p>Oil, gas & condensate fields development</p> 	 <p>Russia's first commercial natural gas liquefaction project</p> 	 <p>Development of the Yuzhno-Russkoye oil-gas-condensate field</p> 	
 <p>Development of the South Tambov gas field</p> 	 <p>Planning, construction and subsequent operation of two 1,224-kilometre natural gas pipelines through the Baltic Sea</p> 	 <p>Construction of gas pipeline to transport Russian natural gas through the Black Sea to Bulgaria and further to Greece, Italy and Austria</p> 	
			 <p>Production of natural gas and condensate from the Achimov horizon of block IA of the Siberian Urengoy reserve</p> 