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Press Release
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Further Drops in Russian Gas Deliveries to Europe Are Expected

According to forecasts, severe cold weather in European Russia is to stay through the end of January. Mean temperature in Moscow is expected at -25 ºC (Figure 1). It will be the record long cold wave in Central European Russia. In this part of the country, the share of natural gas in fuel balance of heat and power plants is close to 100%. It makes gas consumption in Russia extremely sensitive to the air temperature. In Moscow region, daily gas consumption in winter is 2.7 times higher than in summer. Colder winter means more gas consumed in Russia and less available for exports.

Figure 1: Mean Temperature in Moscow, Russia, ºC

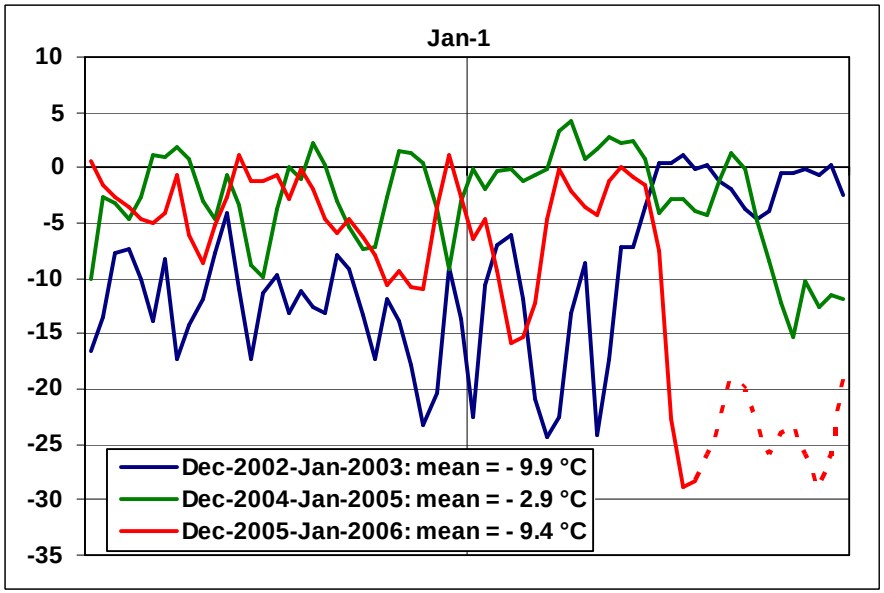
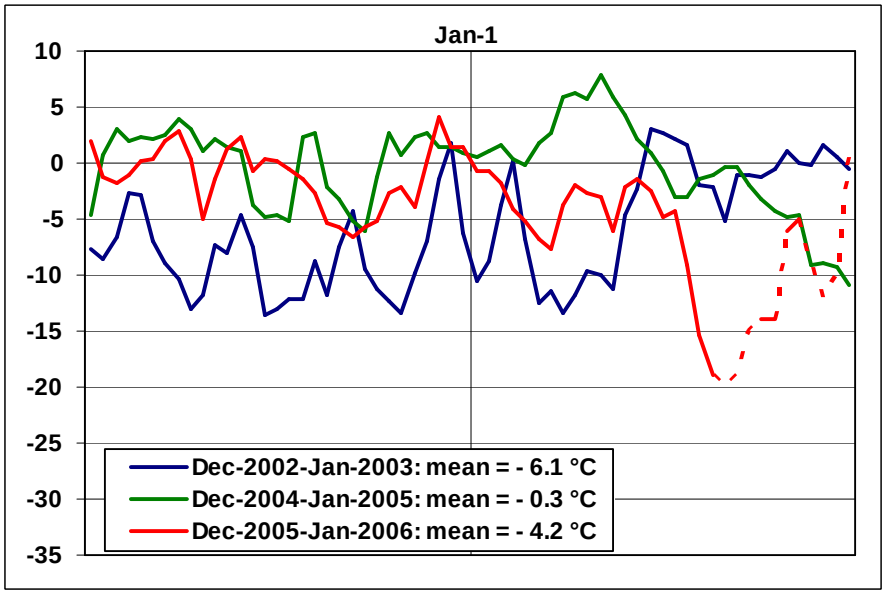


Figure 2: Mean Temperature in Kiev, Ukraine, ºC



We expect further drops in Russian gas supplies to Europe. Average daily export flow of January 2006 is likely to be **13-15% below the contracted volumes.**

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The charts above and Table 1 illustrate the effect of temperature on export flows of Russian gas through Ukraine. December 2002 was the coldest month in Russia and Ukraine in the last 15 years. January 2006 is likely to beat the Russian record and stay below the Ukrainian one.

Table 1: Daily Gas Balance of Ukraine, million cubic meters per day

	Winter 2002-2003		Winter 2004-2005		Winter 2005-2006	
	December 2002	January 2003	December 2004	January 2005	December 2005	January 2006 est
Gas input:						
Ukrainian production	53	53	56	57	58	58
Ukrainian storage withdrawal	160	133	137	114	136	160
Import	502	511	507	512	494	460
Total:	**715**	**697**	**700**	**684**	**688**	**678**
Deliveries and transit:						
Ukrainian consumption	352	330	303	292	297	340
Transit to South Russia	1	1	1	1	1	1
Transit to Moldova	12	12	11	11	10	11
Transit to Europe	350	354	384	380	381	326
Total:	**715**	**697**	**700**	**684**	**688**	**678**

Note: In this exercise, [Average daily volume] = [Monthly volume] / 31.

Note that export contract volumes now are higher than in 2002-2003, when the European contracts of Gazprom were fulfilled. Drop in supplies to Europe is caused mostly by the reduced gas flow from Russia to Ukraine. In the first days of January, the cuts were made for political reasons and now for natural ones. Estimated daily volumes of January 2006 are affected by both “gas war” and the cold wave.

Ukrainian gas storage facilities are capable to add 200 million cubic meters per day. Three quarters of total storage capacity are located within 200 km from western border of Ukraine. These storages can send gas only for exports. Formally, Gazprom uses Ukrainian storages for free, and as many free services, storages were unable to compensate for the loss of gas supplies from Russia. We believe a normal fee for the reservation

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of storage capacity would have helped both Gazprom and NAK Naftogaz of Ukraine. Slow response of Ukrainian gas storages also indicates a miscommunication between the two parties caused by the “gas war”.

In Russia, Gazprom is doing everything to provide steady supplies of gas. On January 19, 2006, Gazprom hit the record level of gas production at 1684 million cubic meters per day. Storage withdrawal is close to the maximum capacity of over 550 million cubic meters per day. However, Russian industrial consumers were unable to switch for backup fuels as required by emergency schedule. This has caused shortages of gas at the export terminals. Italy, Hungary and Bosnia were the first to observe the shortage because these countries are located at the end of export routes of Gazprom.

Technically, Gazprom can reverse the flow from southern Russia to Ukraine and supply gas from giant underground storages in Stavropol and Krasnodar regions. The withdrawal capacity of these facilities exceeds the regional needs. Now the idea of flow reversal is politically incorrect as it sends more gas to Ukraine instead of bypassing it. This backup option is likely to be implemented after the change of priorities of Gazprom.

We expect the average daily flow of Russian gas from Ukraine to Europe to drop further to 320-330 million cubic meters per day, or 13-15% lower than estimated contracted volumes.

Ukraine could have compensated about 30 million by increasing storage withdrawal. However, we consider it unlikely. Such a step would require a good working cooperation between the parties, which was so untimely damaged by Gazprom.

Mikhail Korchemkin
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