



Gas competitive dynamics in NW Europe

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THE BOSTON CONSULTING GROUP

Northwest European gas market dynamics

Significant changes registered in NW European market over the past 18 months

- Market structure shift: Introduction of new sources of competition for supplies based on traditional contracts
 - Interconnection of markets holding market hubs with significant liquidity with markets whose supply is based on traditional contracts (long term Take Or Pay indexed to oil products)
 - EU regulation challenging long term booking of cross-border import capacities fostering additional market integration
- Increased exposure to international markets via LNG
 - Significant amount of spare LNG in the Atlantic, with other markets beyond NW Europe holding weak potential for additional LNG imports → LNG heading into NW Europe
- Financial crisis: Oversupply expected until 2014-2015, driven by slowdown of economic growth and installation of renewables
 - Prices in liquid hubs below price levels of traditional contracts in 2009-2010
 - Similar trend expected in 2010-2015, although gap could close progressively

2015-2020 market fundamentals supportive of price levels that are aligned with oil products based indexation

Long term Take Or Pay contracts based on oil products structurally challenged in Northwest Europe, following abovementioned market changes

- Risk associated to long term Take Or Pay structure difficult to hedge for Buyers when Take Or Pay volumes need to compete with volatile price signals from liquid market hubs
- Suppliers that hold with traditional contractual structures for 100% of volumes could bear market share risk
- A shift in contractual structure for part of the volumes to facilitate risk management for the Buyer could preserve market share, while delivering significant opportunities to preserve an attractive pricing for European sales