

A large, stylized graphic of a flame or fire, composed of several overlapping, curved, light blue shapes that create a sense of movement and heat. It is positioned on the left side of the slide.

Domestic Prices After Parity

A View from Gazprom Export

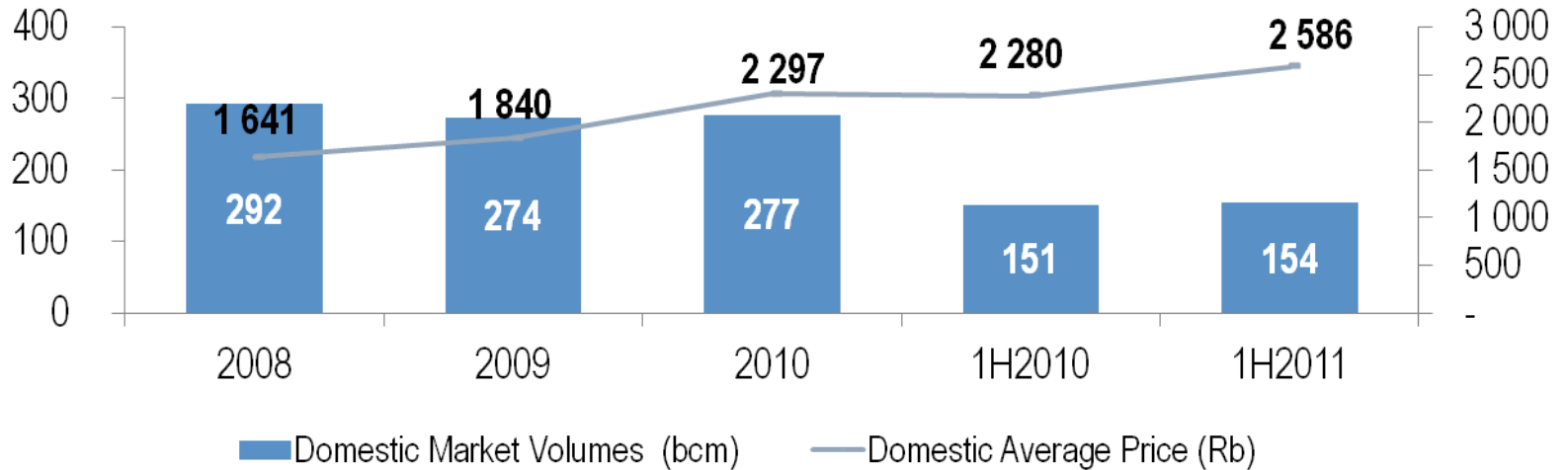
Sergei Komlev

Head of Contract Structuring and Price
Formation Gazprom Export

Russian Energy Sector and
European Investors, AEB
Conference

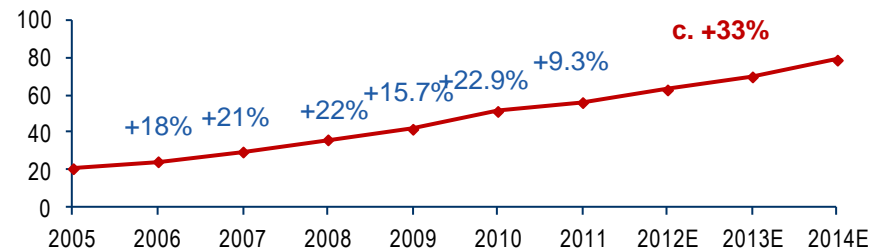
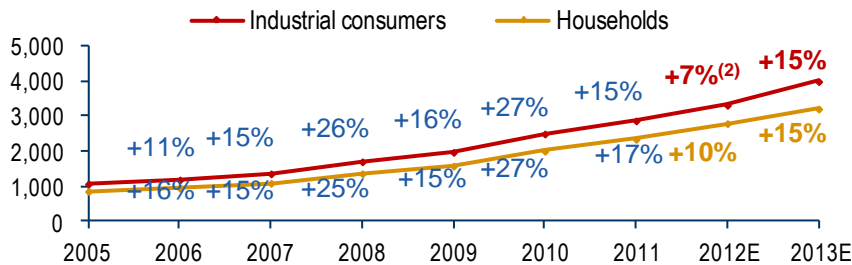
Moscow, 7 December, 2011

Domestic Gas Price Development



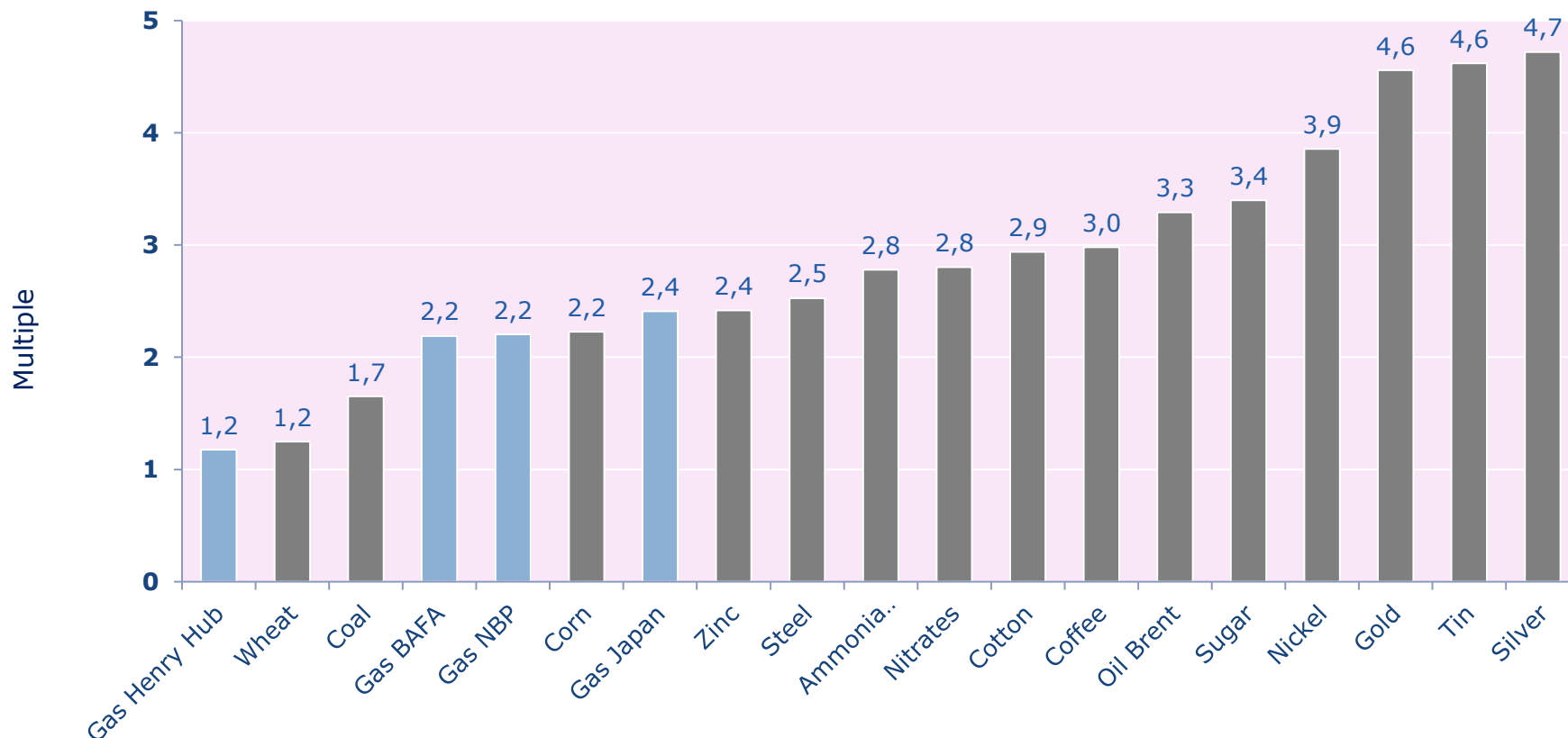
Parity with European prices to be reached by 2015

Regulated domestic gas transportation tariff is expected to reach RR74.6 per mcm per 100 km in 2014



Oil-Indexed Gas is Not Overpriced Compared to a Broad Range of Commodities

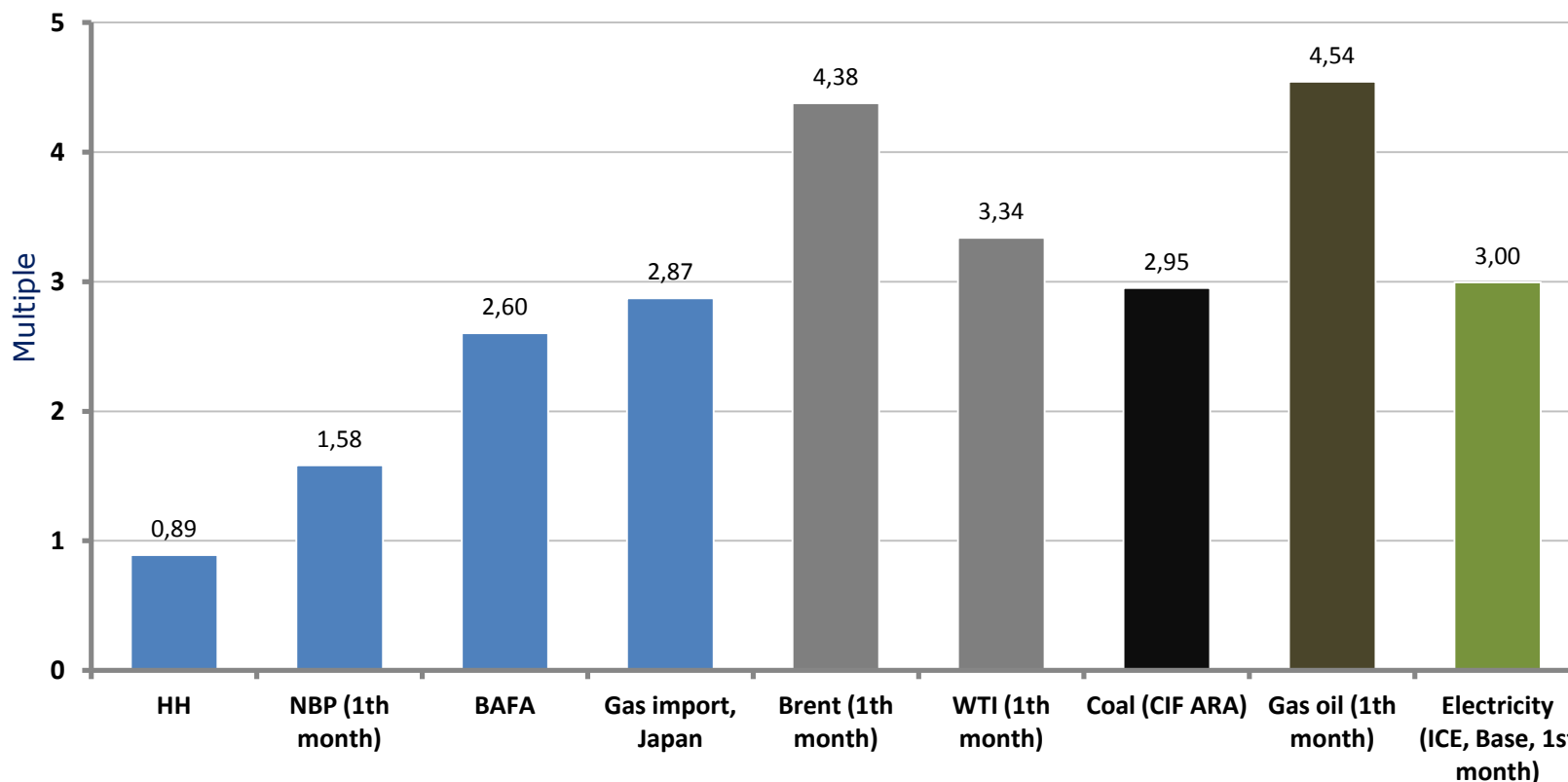
Commodity Prices 2010/2001 (USD)



Source: Bloomberg

Oil-Indexed Gas is Not Overpriced Compared to Other Energy Commodities

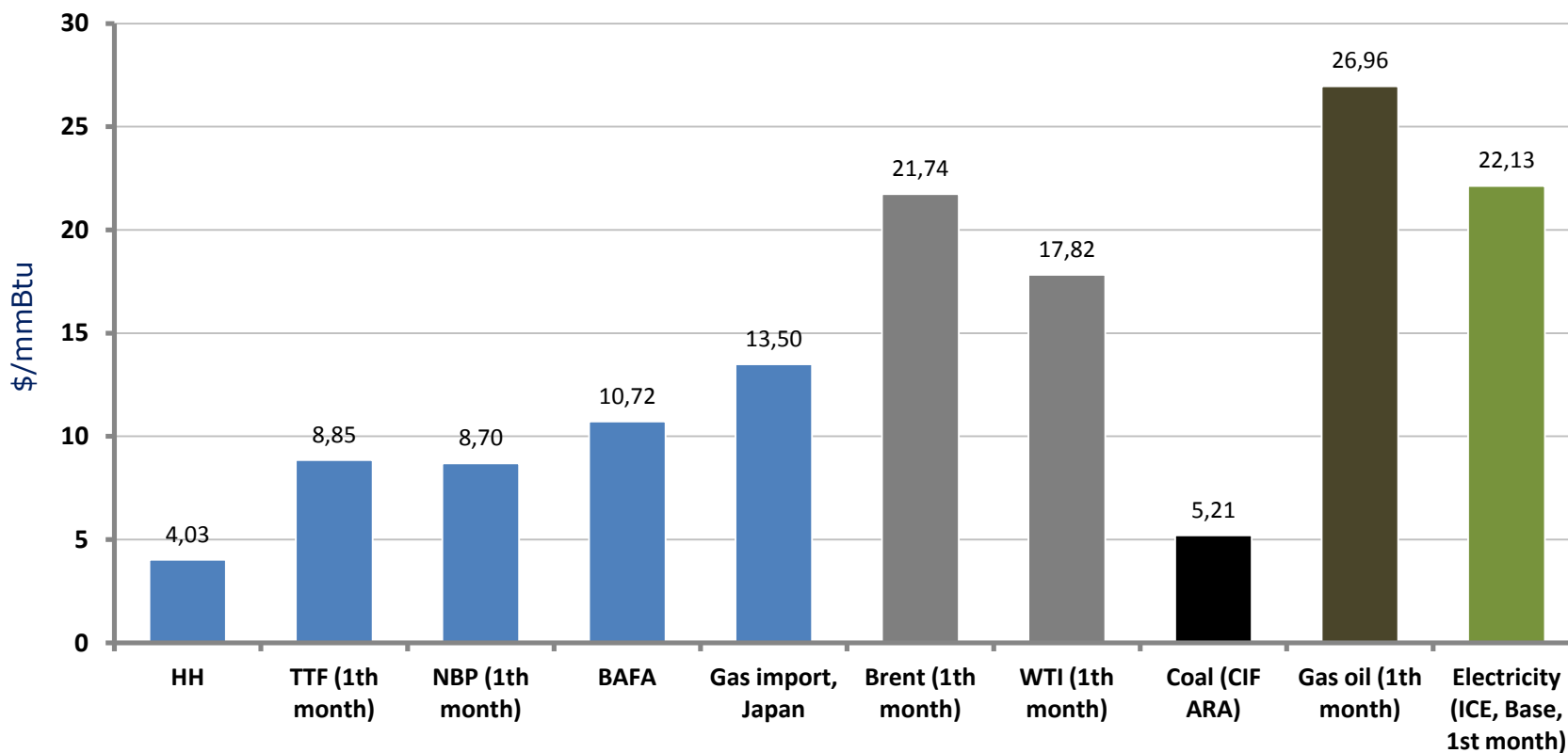
Energy Commodity Prices by Calorific Value in MMBTU, July 2011/July 2001 (USD)



Source: Bloomberg

Oil-Indexed Gas is Not Expensive...rather, Hub-Priced Gas is Undervalued

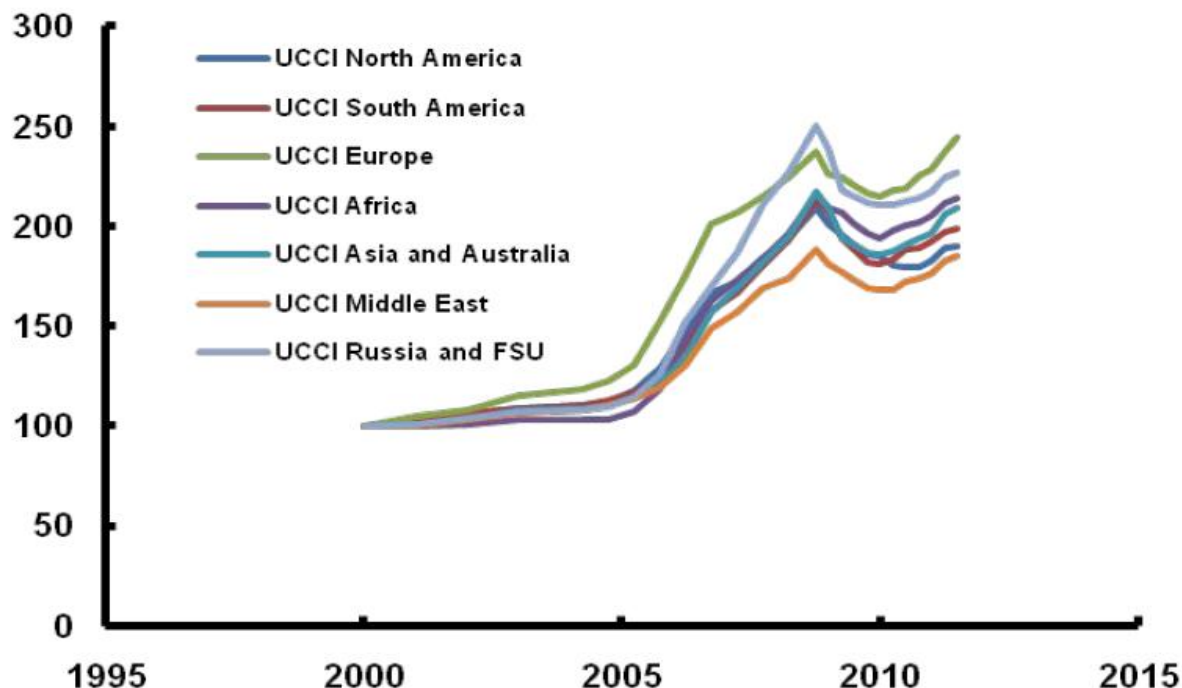
Energy Commodity Prices by Calorific Value, USD/MMBTU (July 2011)



Source: Bloomberg

The Consistency of Gas Indexation with Long Term Investments is under Question

Regional UCCI (USD)

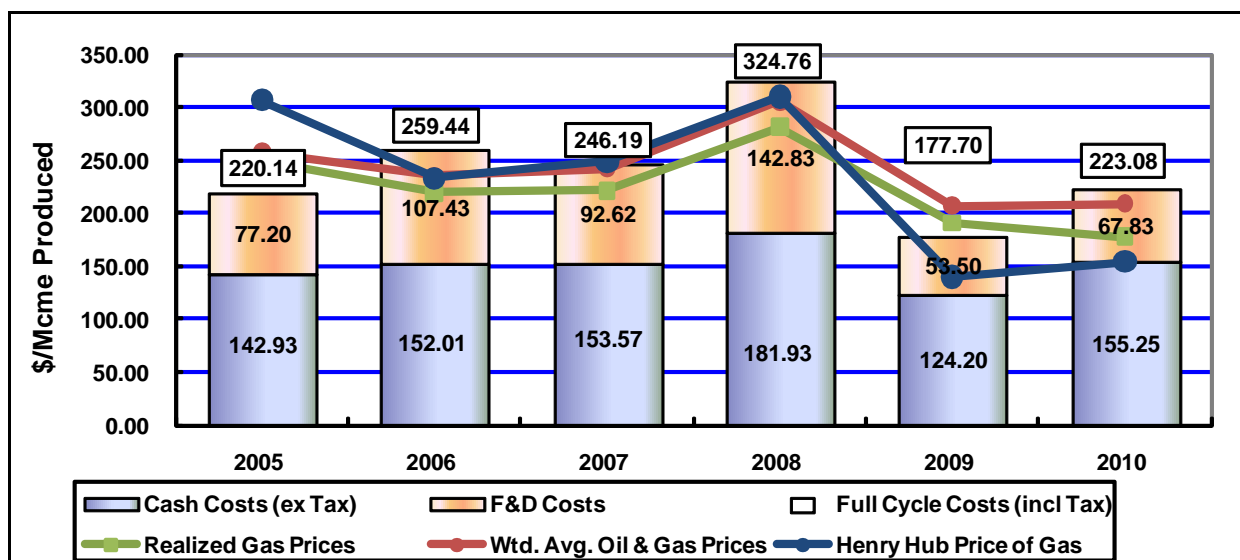


CERA's Upstream Capital Cost Index indicates that costs for gas production have already recovered globally. Yet, hub prices have not.

Source: CERA

U.S. Overproduction is Caused by Shale Gas Production

- In 2010 the all-in costs of shale developers were above \$200/Mcm or \$6/mmBTU
- All-in costs = All categories of direct cash cost of development and production during a given year
- Hedging gains in 2009 and 2010 allowed E&P companies to continue to drill despite low market prices



\$ Per Mcme	2005	2006	2007	2008	2009	2010
Operating Costs	96.48	98.16	102.40	131.09	96.07	120.50
G&A	12.18	14.71	14.95	16.80	15.63	16.18
Interest	12.13	14.23	17.01	13.34	12.50	9.76
Current Tax	22.14	24.91	19.21	20.70	0.00	8.81
Cash Costs (ex Tax)	142.93	152.01	153.57	181.93	124.20	155.25
F&D Costs	77.20	107.43	92.62	142.83	53.50	67.83
Full Cycle Costs (incl Tax)	220.14	259.44	246.19	324.76	177.70	223.08
Realized Gas Prices	250.37	219.36	221.54	281.31	190.89	177.81
Wtd. Avg. Oil & Gas Prices	257.98	235.96	241.60	305.84	206.86	209.40
Henry Hub Price of Gas	307.13	233.43	248.82	309.85	139.85	154.32

Note: Cash Costs and Current Tax in units of production. F&D costs are in units of reserve additions.

Why Do Producers Continue to Drill When Their Costs Exceed Their Revenues?

Drilling to Hold Leases

- Acreage leaseholders are typically required to drill in order to prevent leases from expiring
- Operators drill and produce even when returns from the sale of production are subpar
- Capital must be allocated toward these activities in order to protect leaseholds and to maintain the value of the large upfront investments made to secure leases

Shale Company Acquisitions and Joint Ventures

- Major oil & gas companies need to book reserves and these investments can very rapidly move the needle on enterprise value
- Such companies invest in shale primarily for the reserve bookings and not necessarily because of the efficiency of shale extraction
- Increasing political risk outside the U.S. has encouraged investments inside the U.S.
- Joint venture agreements provide shale gas producers with tax benefits

Shale gas producers are not immune to low prices because of their low cost base but rather due to the hedging strategies they employ. The U.S. shale gas miracle is in fact paid for with the money of the ill-fated financial investors who are the holders of these hedges.

USA & Continental Europe Pricing Models

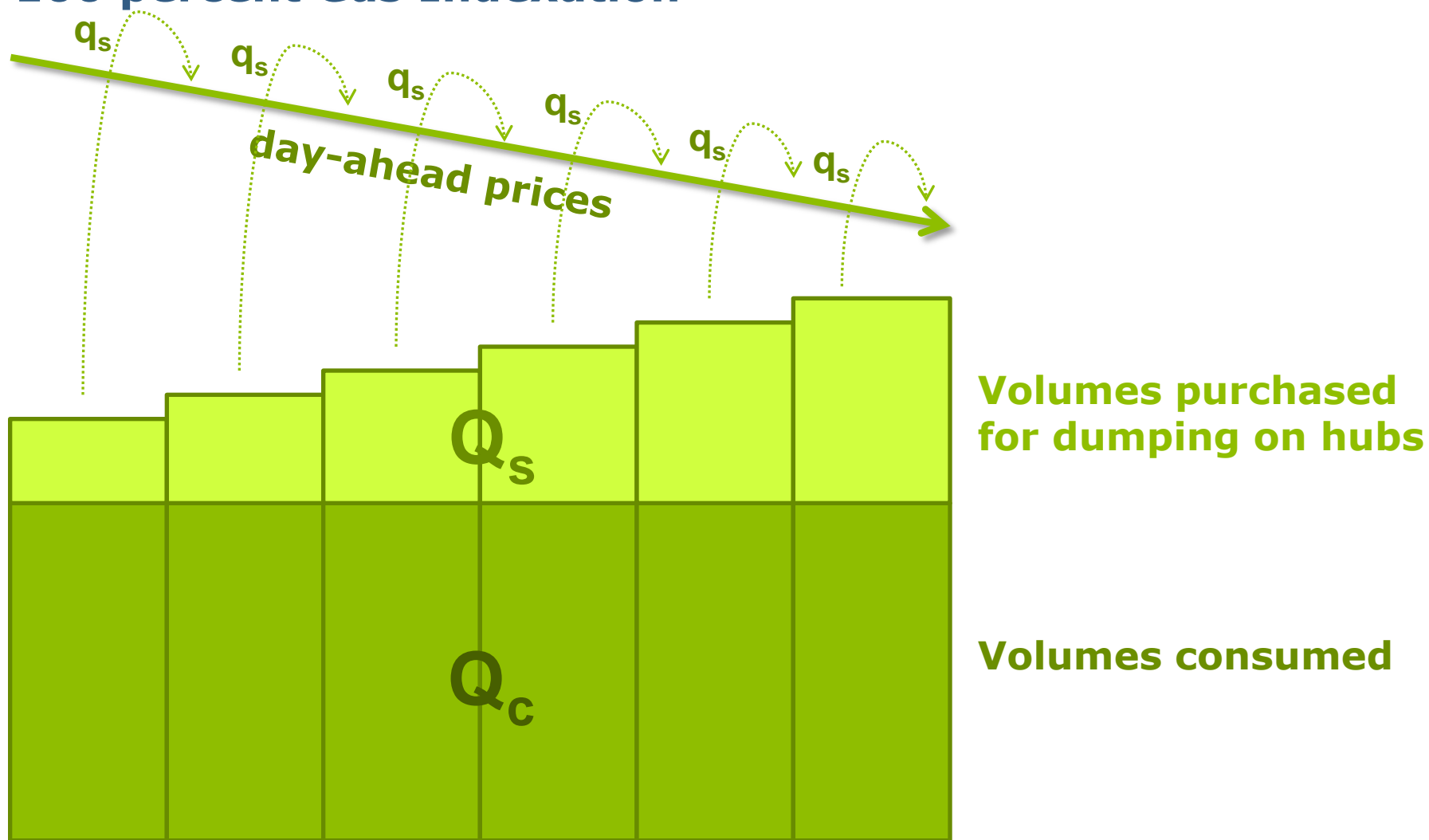
Fundamental Differences

1	USA	Hub price is a function of total demand and supply
	Continental Europe	Hub prices are function of arbitrage of different kinds
2	USA	One price which level is determined by Henry Hub
	Continental Europe	Multiplicity of prices. Company supply managers determine the price of gas portfolio
3	USA	Majority of gas is sold on hubs. Majority of LT contracts has diversion clause
	Continental Europe	Less than ¼ of physical trade on hubs represent primary sales. The remaining volumes of gas traded come from LT contracts for pipeline gas
4	USA	High churn ratios
	Continental Europe	Churn ratio below 4 (low, but sufficient for balancing market)

Gazprom Supports the Status Quo in Continental Europe

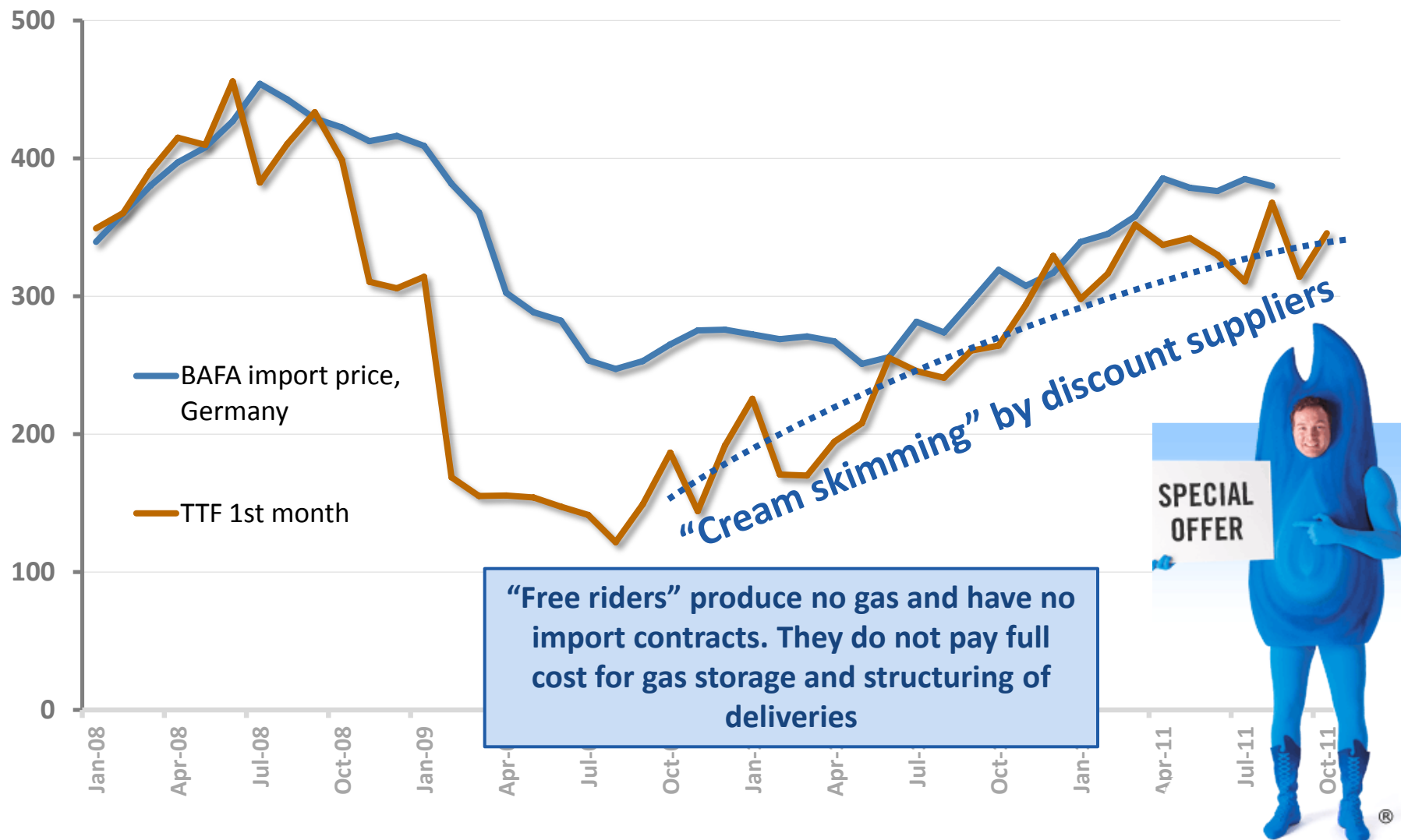
- The existing market structure on the Continent is satisfactory and offers win-win options for both buyers and sellers.
 - However, the balancing nature of the Continental market has to be recognized.
 - This market has to be treated in a way that allows long-term oil-indexed contracts and spot gas to co-exist and complement each other.
 - Lessons from the crisis have already been taken.
 - Our clients do not believe in the miracle of cheap spot gas anymore.
- A move to overall gas indexation in long-term contracts is unacceptable to gas producers, and not only because the low churn ratios at Continental European hubs raise doubts as to the quality of their price signals.
 - Turning to gas indexation would not change the balancing nature of the spot gas market in Europe.
 - But gas indexation would change the balance of interest in favor of importers; it would create the opportunity for predatory pricing at the hubs and devalue the entire supply portfolio of producers.
- A move to the American model – that of hub pricing without the cornerstone of long-term contracts and direct sales by gas producers at the hubs – is not a suitable option.
 - Europe is increasingly import-dependent and there are oligopolistic structures on both sides of the market.
 - There is no need to open a Pandora's Box of endless conflicts.
 - Acrimonious, rather than cooperative, relations between buyers and sellers are not in the best interest of Europeans as they undermine the long-term security of supply.

Dumping by Cartel of Buyers in Case of 100 percent Gas Indexation



Dumping possible until Q_s equals Q_c

Reforms Sponsor “Cream Skimming” and “Free Riding” resulting in Unfair Competition



THANK YOU FOR YOUR ATTENTION!