



Russian Natural Gas: The Role of Independent Producers



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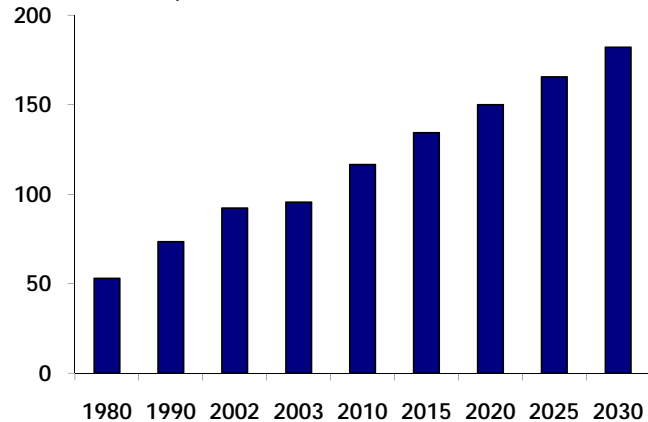
- changes in the balance of oil and gas supply and demand in Russia and Europe;
- the effects of domestic and international oil and gas price volatility and changes in regulatory conditions, including prices and taxes;
- the effects of competition in the domestic and export oil and gas markets;
- our ability to successfully implement any of our business strategies;
- the impact of our expansion on our revenue potential, cost basis and margins;
- our ability to produce target volumes in the face of restrictions on our access to transportation infrastructure;
- the effects of changes to our capital expenditure projections on the growth of our production;
- inherent uncertainties in interpreting geophysical data;
- commercial negotiations regarding oil and gas sales contracts;
- changes to project schedules and estimated completion dates;
- potentially lower production levels in the future than currently estimated by our management and/or independent petroleum reservoir engineers;
- our ability to service our existing indebtedness;
- our ability to fund our future operations and capital needs through borrowing or otherwise;
- our success in identifying and managing risks to our businesses;
- our ability to obtain necessary regulatory approvals for our businesses;
- the effects of changes to the Russian legal framework concerning currently held and any newly acquired oil and gas production licenses;
- changes in political, social, legal or economic conditions in Russia and the CIS;
- the effects of, and changes in, the policies of the government of the Russian Federation, including the President and his administration, the Prime Minister, the Cabinet and the Prosecutor General and his office;
- the effects of international political events;
- the effects of technological changes;
- the effects of changes in accounting standards or practices; and
- inflation, interest rate and exchange rate fluctuations.

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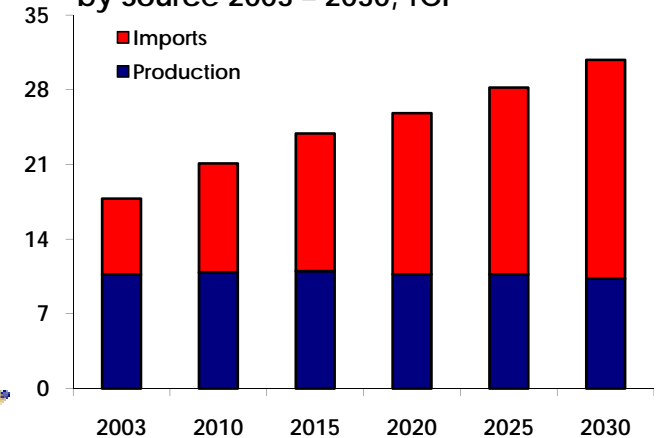
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Natural gas – fastest growing primary energy source

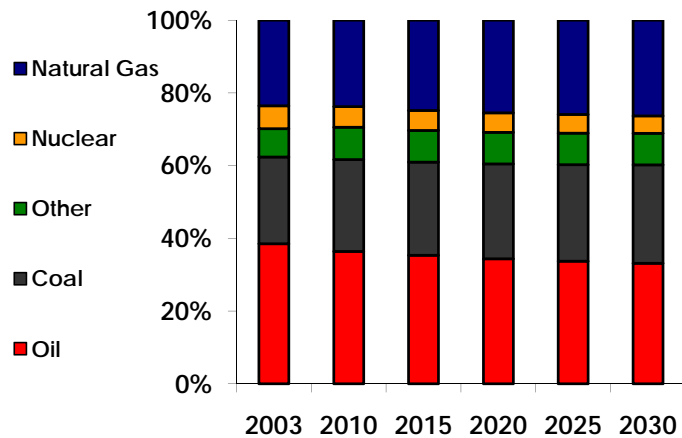
World Natural Gas Consumption 1980 – 2030, TCF



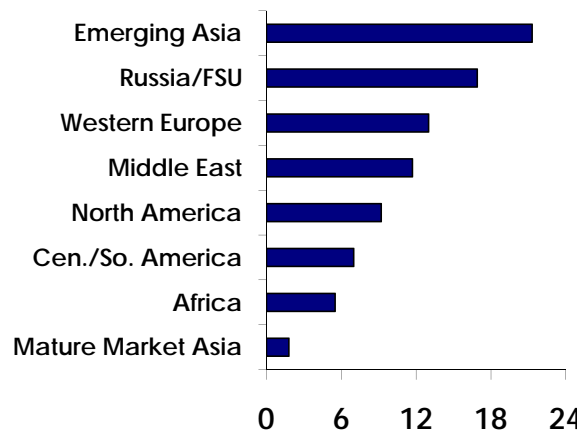
Natural Gas Consumption OECD Europe by Source 2003 – 2030, TCF



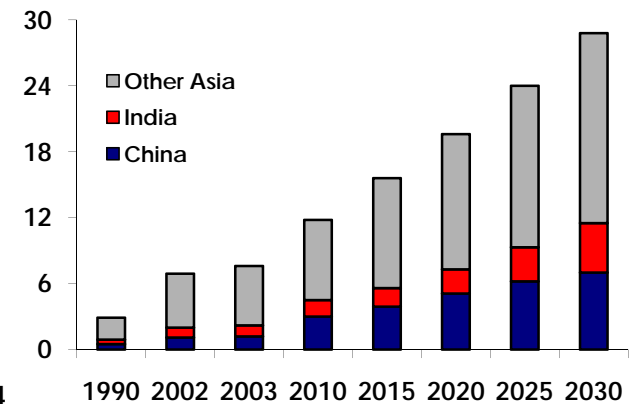
World Energy Consumption by Fuel 2003 – 2030 Percentage of Total



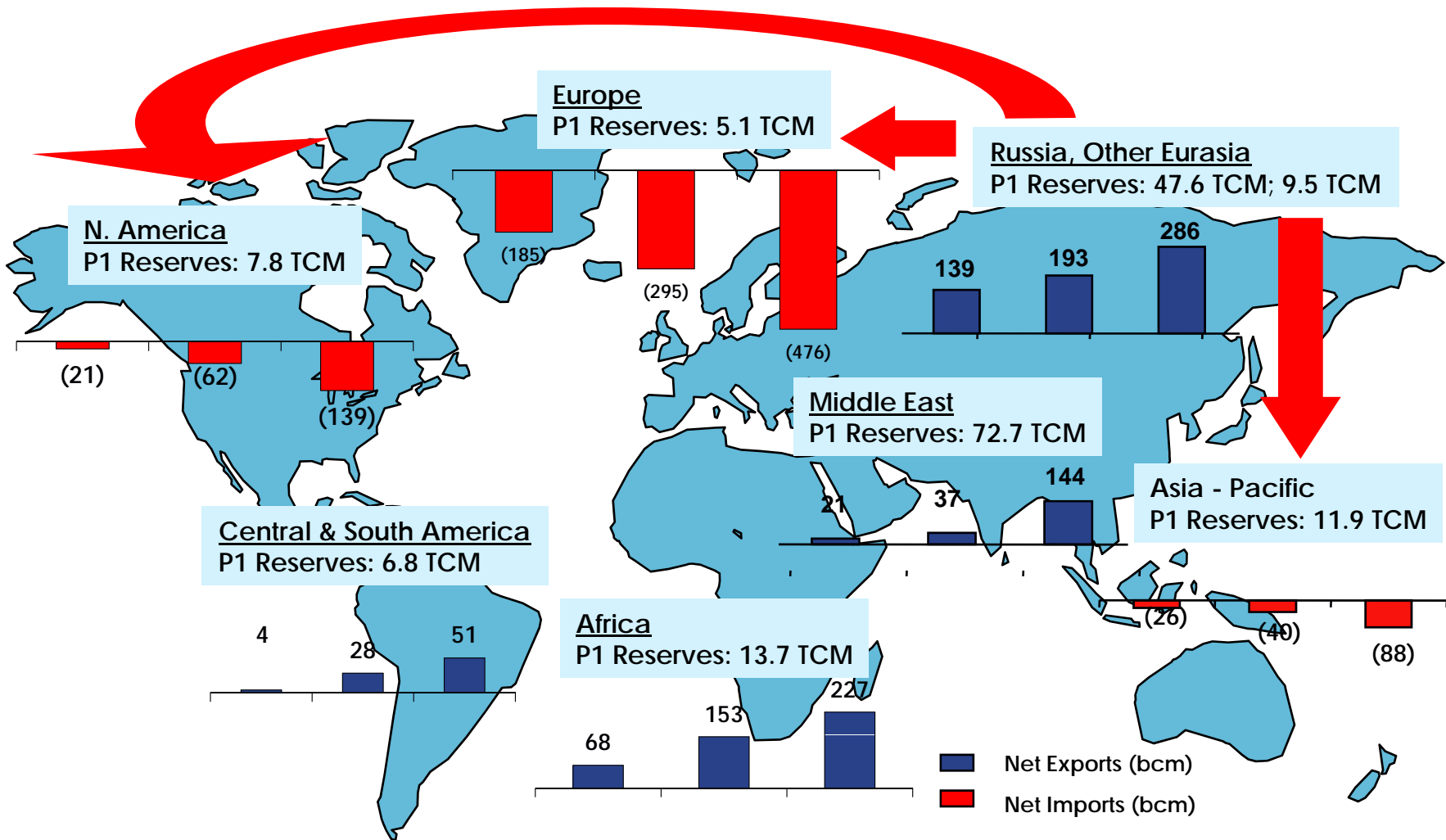
Increases in Natural Gas Consumption by region and Country Group 2003 – 2030, TCF



Natural Gas Consumption in Emerging Asia 1990 – 2030, TCF



Global gas balance – “Call on Russian Gas or LNG”



Source: US Department of Energy (Production and demand), I (P1 reserves as of 1/1/2007)

Note: Net Export/Import figures refer to 2000, 2010 and 2020, respectively



Natural gas - supply and demand

European Union Gas Demand¹

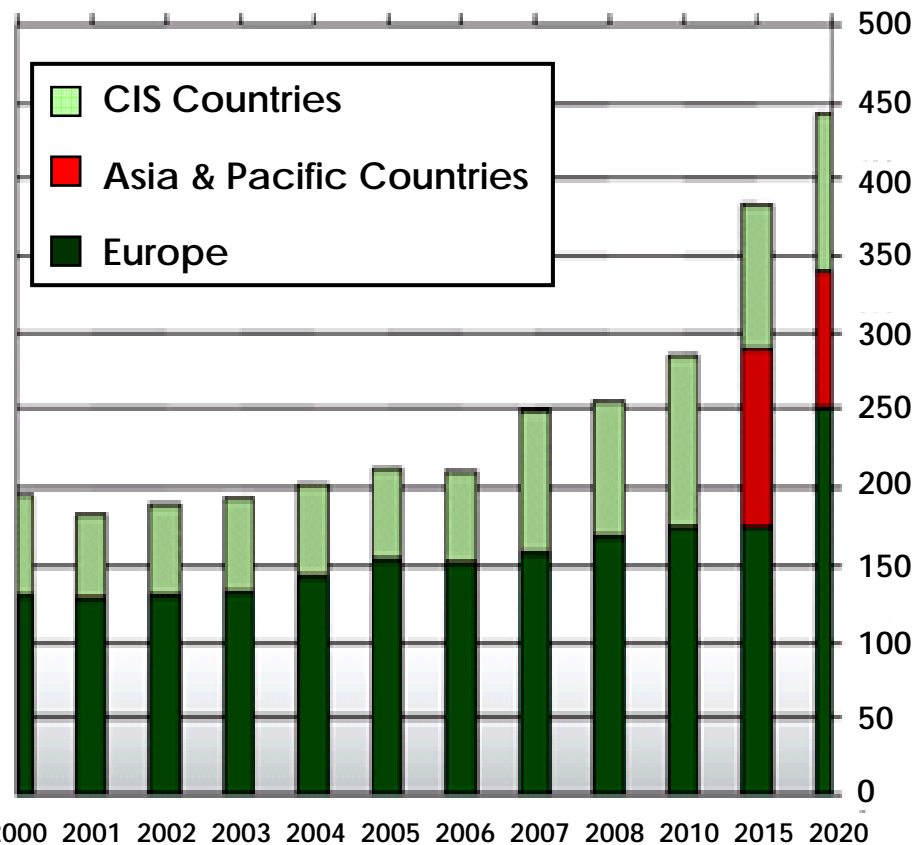
BCM	1999	2010	2020
Pre 2004 - EU 15	386	500	597
Accession Countries - 15	76	142	179
EU - 30	462	642	776

China Gas Demand

BCM/year	2005	2010	2015	2020
<i>Forecast sources:</i>				
PetroChina	63.7	106.8	153.4	210.7
ERI/SPPC	64.5	120.0	160.0	250.0
BP	42.0	74.0	135.0	177.0
CNOOC	61.0	100.0	150.0	200.0
EIA/DOE	51.0	79.0	127.0	184.0

Source: ¹ Observatorie Mediterranee de L' Energie

Breakdown of Russian gas exports, BCM



Source: Institute of Energy Policy, Moscow

Declining Indigenous Production + Growing Demand = Increase in Exports

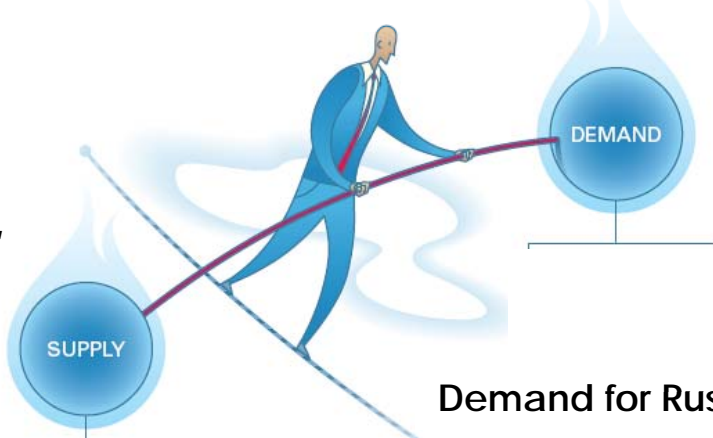
Russian Gas Market Overview

Russia's energy market climate

- ❑ Continued strong domestic demand growth for natural gas by ~ 2.0 to 2.5% p.a. (average demand growth of ~ 2.2% from 2000 through 2006)
- ❑ Liberalized natural gas pricing environment in process (full market based prices based on European net-back parity expected by 2011)
- ❑ Continued competition for new license acquisitions by existing competitors and new market entrants
- ❑ Continued State involvement in energy industry
- ❑ Continued inflationary pressures on operating and capital costs
- ❑ Continued lobbying efforts to minimize industry tax hikes
- ❑ Long-term supply challenges requires significant investment of capital in more remote and harsh environments
- ❑ Increasing natural gas demand pull from Europe and Asia creating tension on supply to domestic market

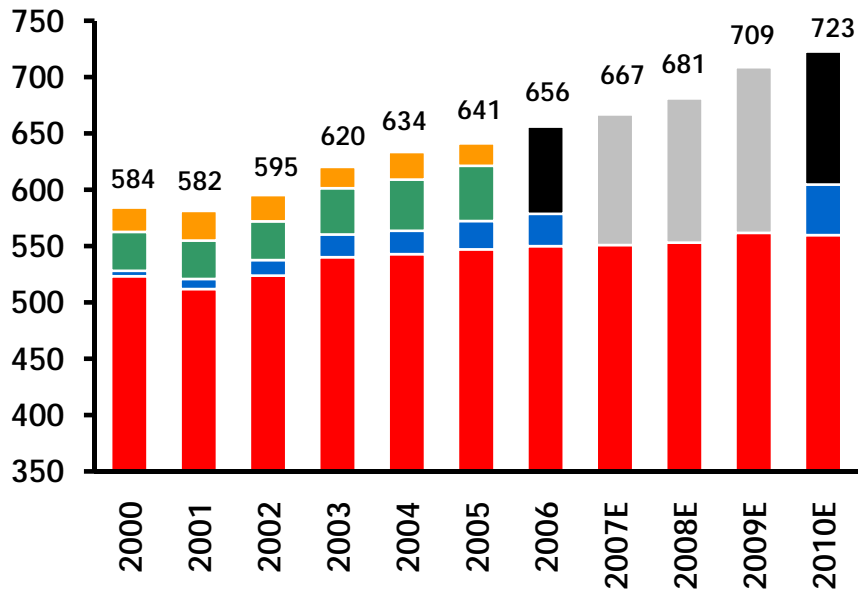
Supply & Demand - A tight balancing act

Slower to respond due to complexity of production, delivery and storage



Can move quickly and dramatically, due to weather, economic activity and large volume customers (such as power generators)

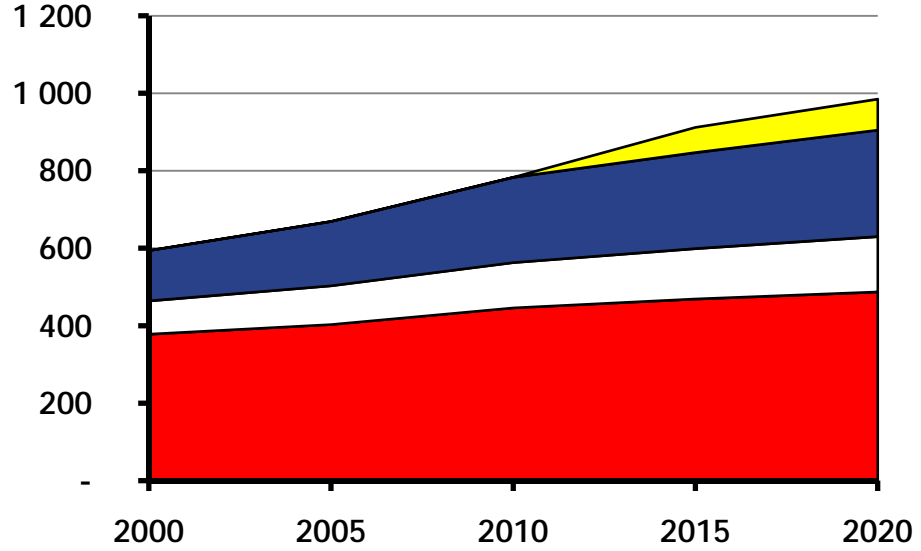
Russian Gas Supply, BCM



- Gazprom
- Oil companies
- Oil cos. & Independents
- Novatek
- Other independents
- Oil cos. & Independents

Source: UBS, "Russian Gas" July 2006

Demand for Russian Gas, BCM



- Russia
- FSU
- Europe
- China ?

Source: Lambert Energy Advisory; RF supply estimates to China,



Russia's domestic natural gas environment

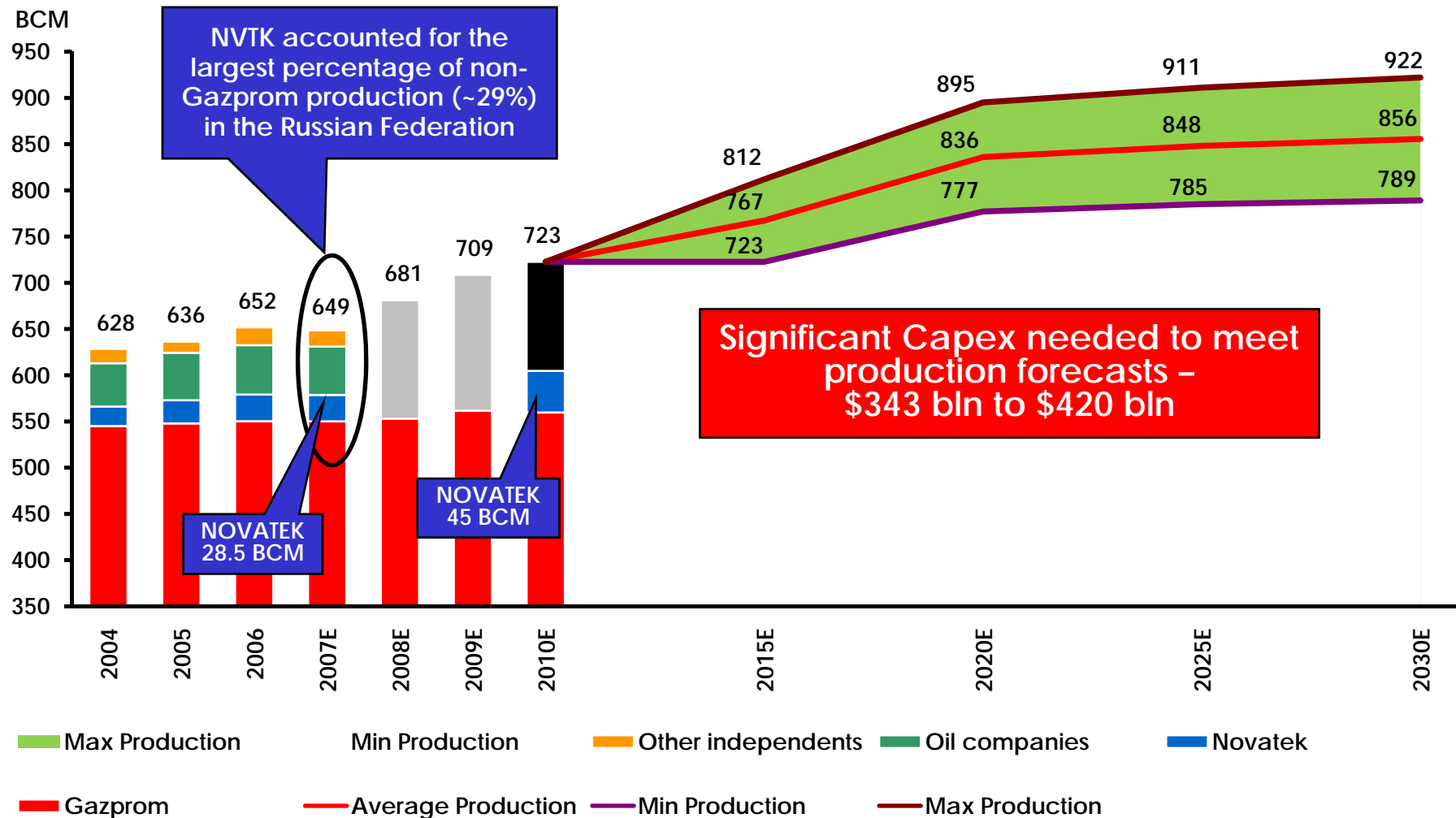
GAZPROM

- ❑ Declining production from the “Big 3” fields: mid-term production guidance relatively flat
- ❑ Large resource base but lengthy development lead-time (production increases not expected until c. 2013)
- ❑ Significant current and forecasted capital expenditure program for development and maintenance projects
- ❑ Securing supply contracts from Central Asian producers

INDEPENDENTS

- ❑ Independents and oil companies have the potential to meet supply gaps
- ❑ Established production platforms already in place
- ❑ Resource portfolio and aggressive investment and production plans discussed
- ❑ Mechanism for access to transportation network under negotiation

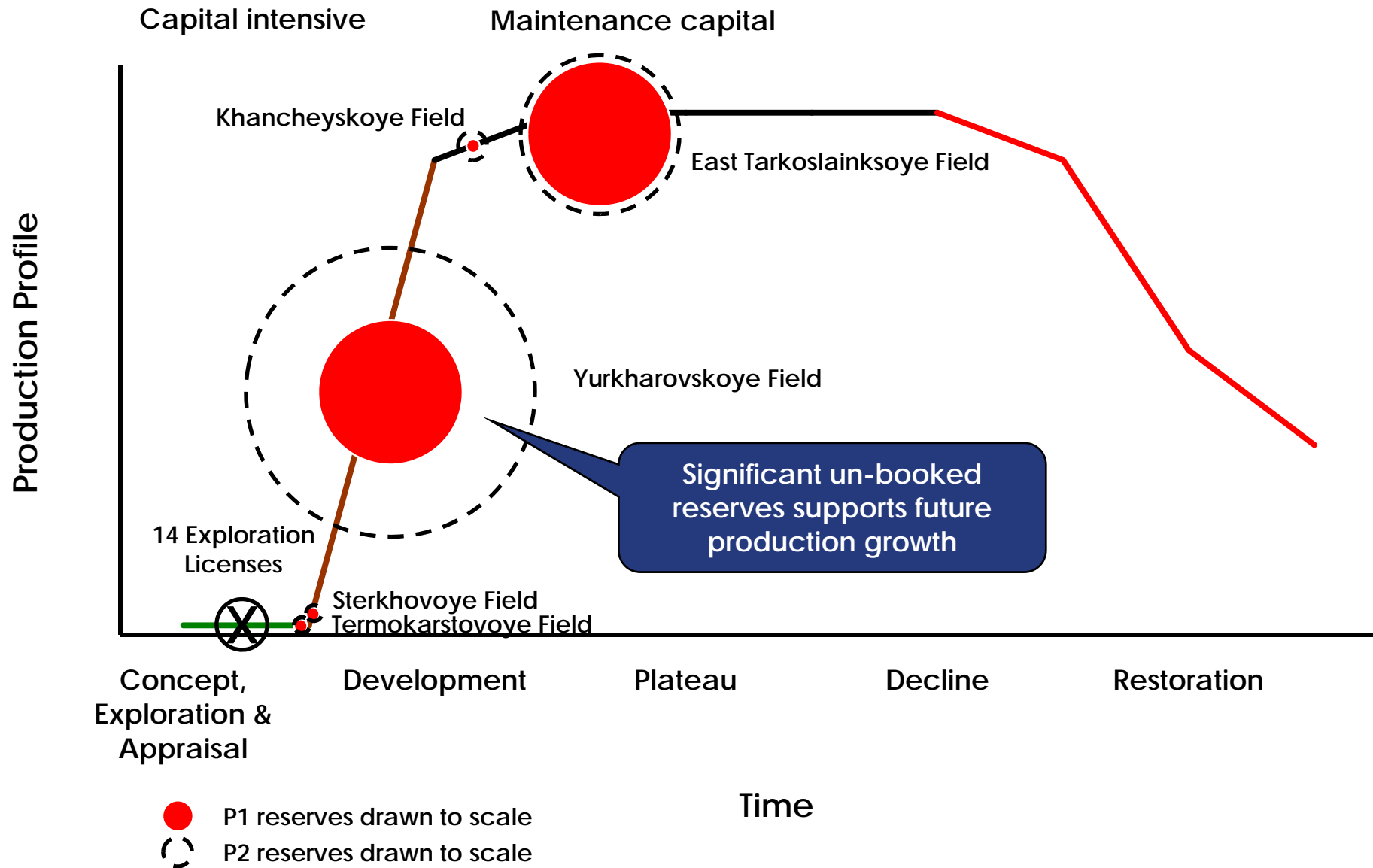
Russian natural gas production and forecasts



Source: UBS, "Russian Gas" July 2006, Russian Energy Strategy, 2007 and Company Data



NOVATEK's current development profile



Growing market share for independents

European supply deficit growing

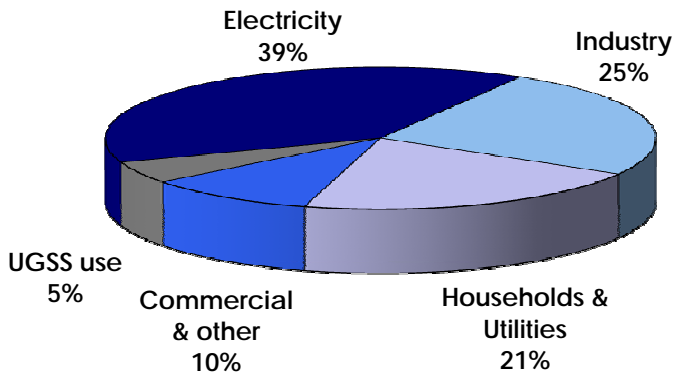


Gazprom export volumes increasing



Need for Independents' gas increasing

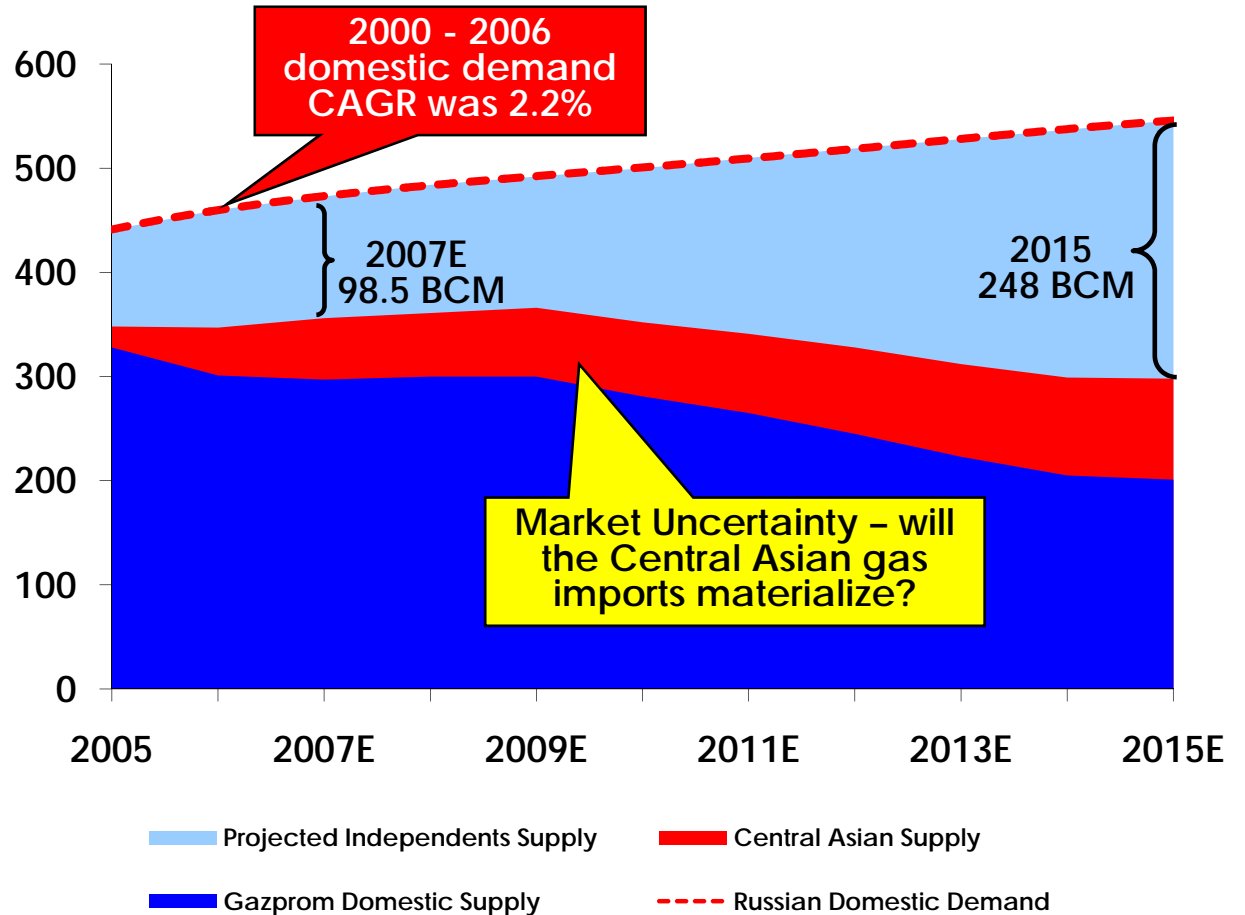
Gas consumption, 2007E



Source: Company estimates



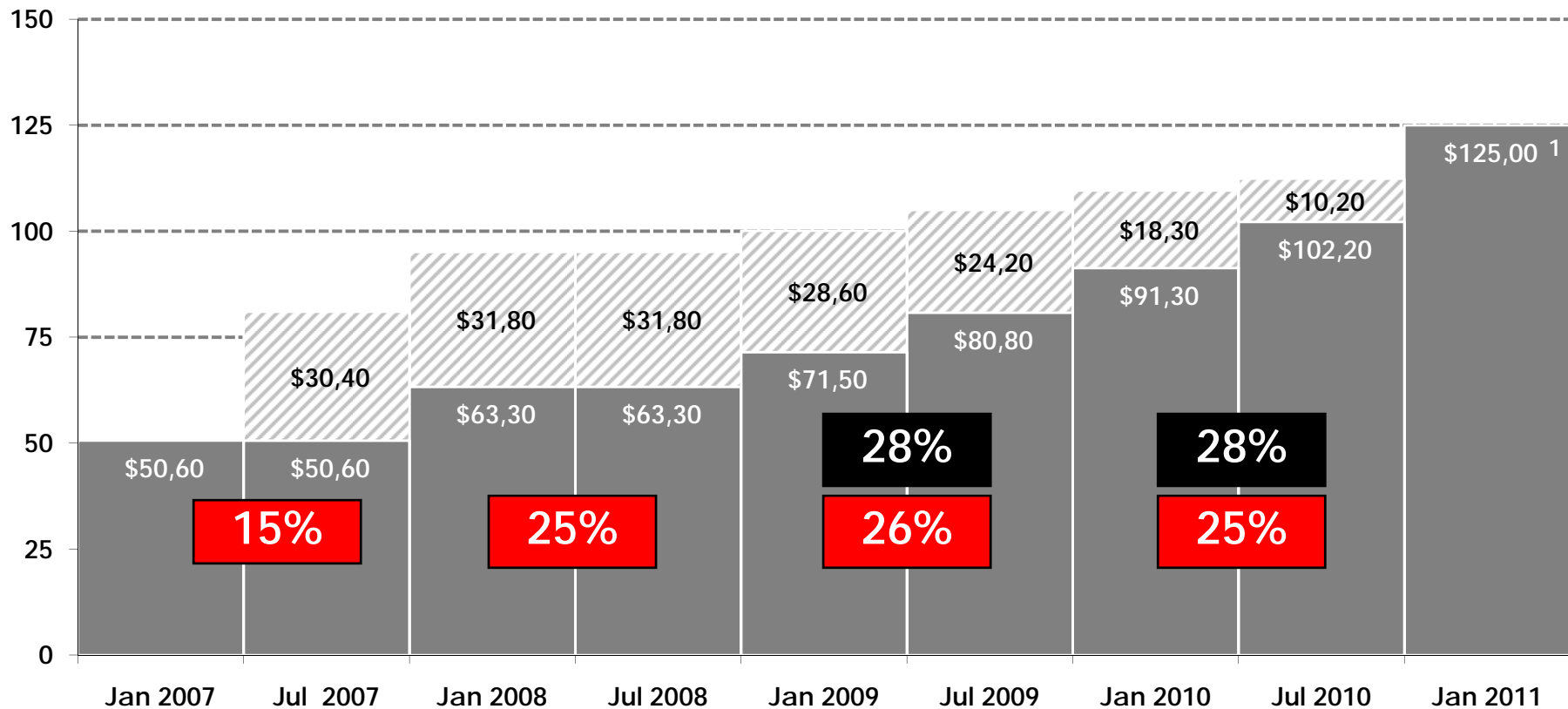
Russian Gas Market: Demand, Supply, BCM



Source: UBS, "Russian Gas" July 2006

- Domestic demand has been significantly underestimated
- Forecasted demand growth of 2.0% to 2.5% per annum

Pricing update to achieve export netback parity



Source: Industry and Energy Ministry, average regulated price for the Russian Federation

Notes: 1. Based on netback parity at November 2006

 July 2007 Gazprom received approval for higher prices for gas deliveries to new customers and for increased supply over agreed volumes to current customer

Gazprom is subject to regulated prices for domestic gas sales, whereas NOVATEK is not subject to regulated prices and, as a general rule, realizes higher average prices for natural gas sales on the domestic market

Critical Energy Drivers

Cause	Effect	Consequences	
Emerging Economies	Rising Consumption	Resource Competition	Higher prices
OPEC	Income Dependency	Production Cuts	Higher prices
Geopolitical	Disruption of Supply	Supply Restrictions	Higher prices
Green Movement	High entry costs	Restrict new Access	Higher prices
Peak oil Theory	Declining Production	Lower Supply	Higher prices
Low oil Price environ.	Investment Disincentives	Declining Production	Higher prices

Conclusion

- ❑ Despite comments in the press, the Russian gas market, particularly Gazprom and NOVATEK, is making the appropriate capital expenditures to ensure natural gas supplies to international and domestic markets
- ❑ In the mid-term, all of the incremental growth in Russian gas supplies are expected to be delivered by the independent gas producers and oil companies
- ❑ Adequate transportation corridors are in place or are being considered to ensure security of supplies to respective markets
- ❑ We do not expect a punitive mineral extraction tax for natural gas because of the significant investments required to ensure adequate supplies
- ❑ The Russian government fully supports natural gas price “liberalization”
- ❑ Demand for natural gas is expected to remain robust

Russian natural gas – the fuel of choice



www.novatek.ru