

Overview of Questions and Answers Session on Investor Day

London, February 9, 2010

Sell-side analyst session

Pavel Kushnir, Deutsche Bank

Mr Medvedev please could you quote three figures about 2009? Firstly, what was the contracted gas volume which was supposed to be delivered to Europe? Secondly, what was the minimum contracted quantity? Thirdly, what will be the make-up volume which European consumers have fallen short of consuming and consequently will have to pay for and consume during the next five-year period?

Alexander Medvedev, Deputy Chairman of Gazprom Management Committee and Director General of Gazprom export

Unfortunately, I do not have my PC at hand so as to be able to come up with complicated calculations to give you an answer. Nevertheless, it would be possible to try and do this estimation together. In the presentation, we quoted the amount of gas volume which has been exported to Western Europe, which is 140.3 bcm, and the volume which is subject to take-or-pay payment is currently being verified. We have already received payments under a number of our contracts, including from E.ON Ruhrgas, after agreeing upon various terms and conditions as part of our negotiations. As I have already mentioned, the volume of commitments within the take-or-pay format is a sacred cow of sorts, and the reason why we are not able to give you the exact February figure is because, currently, we are supposed to come to final resolution with the shortages in deliveries within January. As you know, nobody came up with claims against us because of us falling short on these supplies in January, but nevertheless, in the spirit of partnership, we believe it possible and necessary to discuss the volumes which were supposed to be delivered in January. In any case, we are not going to lose a single cubic metre of gas which was subject to payment in January. One remembers reading in the press quotes of up to six billion, which is the top threshold, and I do believe that we will additionally require maybe two to three weeks in order to finally agree upon the volumes in question. However, I would like to draw your attention to the fact that not all of these make-up volumes fall into 2010, because the average timeframe for them is five years. Therefore, depending upon the final agreement, the make-up volumes may be between 500 million and one billion cubic metres. Hopefully I have answered your question.

Pavel Kushnir, Deutsche Bank

Could you be more specific as to this 500 million or one billion being for 2010 only?

Alexander Medvedev

Yes.

Lev Snykov, VTB

A question about pricing. As far as I understand, it might be difficult to disclose the information on top of what was already mentioned, with respect to European contracts and their price conditions. Is it possible to give an estimation of the effect which the newly concluded contract might have with respect to the pricing part of it? In other words, what are the changes in the basket for the calculation of pricing under the European contract within 2010? To what extent might they affect prices, compared to the current basket or the past basket?

Alexander Medvedev

In this particular instance we have two factors at play, which is an adjustment of the contract terms plus the current dynamics of the oil prices and respectively for the refined products. As I have already mentioned, our foundations for pricing have not changed. On top of that, there is an additional factor which, at its core, is the application of the pricing formula, which takes into account the condition for pricing as well as the intra-fuel competition. This being an inner circle of sorts, without mentioning it in the press, I should say that this kind of question with respect to the uncompetitiveness of the Russian gas is a bit absurd because if you are looking for somebody who is not competitive then you should be looking at our buyers. This may not be related to the level of our prices but rather to the way they operate in the market, and I am stating that, not as a side observer but as a fully fledged market participant in Belgium, France, Netherlands, Austria and Italy.

If anyone believes that one should retain, while operating in the market, the old level of profitability, despite the crisis, then God helps them. One should also keep in mind that, if we look at the price structure on the side of the end user then, depending on the country, the share of taxes will constitute 30-45%. When speaking to the analysts I very much enjoy using Russian sayings, so the one I am thinking about is that you should not be complaining about the mirror if your own face is not right.

I must admit that our negotiations with our main counterparties have ended successfully because, as I can see, they have become aware of the realities of the market in times of economic crisis. Having said that, I should also say that I am ready to extend my commitments to sell one billion cubic metres with very strong obligations to buy for the forthcoming three-year period. Simply because nobody is ready to venture into this exercise, we can see that all are aware that the spot component is important but it is not defining the terms and conditions for gas market operations in Europe.

As a side comment, I am not going to disclose the source of information, but we have a proven source of data that the LNG spot price at the pinnacle of the crisis were being sold at a more expensive price than our long-term contract prices.

Nadezhda Kazakova, JP Morgan

Has the long-term contract pricing formula somewhat changed and taken into account the possible changes in the pricing basket?

Alexander Medvedev

I believe everybody knows that one cannot act as the server of two masters, so we decided not to spoil the heritage we have from the past, so our price formula does not include the spot component, in terms of the main volume of our sales. Nevertheless, we were able to take into account the market specifics and realities in working with our consumers. In the kind of setting that we are in here, one can definitely say that, apart from the take-or-pay and the price formula, there is also a number of important conditions which do bear material significance. That applies to the rules according to which a buyer nominates his or her prices and volumes, in terms of in between the daily periods as well as in intra-day quoting. One also has to take into account the situation when things might start changing their course in case the volumes exceed the minimum contracted levels. That is to say that gas as a phenomenon of life is much broader than our understanding of it, and the comprehensive solution that we have been able to achieve took into account the specifics of the current situation but did not subject to doubts the basic principles which have been developed over decades.

Once again, I would like to underscore that one should not confuse work between an exporter and importer and the way an individual importer is marketing and selling gas in that or this market. Speaking about our subsidiaries or joint ventures in their common portfolio within Continental Europe, annual contracts for the duration of one gas year or one calendar year already exceed 60%, while the balance of such contracts are split approximately 50:50 between contracts which are one to three years and three to five years in duration. No exemptions or advantages being granted to our joint ventures through Gazprom export. No matter whether it is a dependent, related or associated buyer, or an independent importer, all of them have to operate under equal terms and conditions. We are very proud that our companies have accumulated sufficient experience and background and were able to establish the necessary systems, including risk management, which enable them to effectively pool their portfolio, on the basis of our gas as well as the gas they receive from other sources, and maintain competitiveness inside the other national markets in Europe.

I would also add that, when working with imported gas, we have a dual system of operation, which means that it is either Gazprom which acquires this gas into its portfolio and then sells it through Gazprom export, like in the case with the Turkmen gas, and on the other side of it we have a different system whereby gas from Uzbekistan or Kazakhstan is being marketed and sold through our subsidiary, which is Gazprom Germany, but at the same time the profit centre is still Gazprom, whereby Gazprom Germany works on the basis of commission which covers only the costs for overheads and in instances where funding is being raised, the funding costs as well.

Thierry Bros, Société Générale

I have two questions. The first is related to the make-up volumes. I think you have asked your buyers to pay a percentage of the average price for 2009. If they take those volumes in two or three years' time, how are they going to be invoiced? Will they be invoiced at the 2009 level or at the 2011 price level?

Secondly, you did not mention GDF Suez in your buyers, so do you have any comment on this? Also on GDF Suez, on top of the take-or-pay contract, could you give us some colour on the Nord Stream and the likelihood of GDF Suez entering there?

Alexander Medvedev

As far as not mentioning GDF Suez, I did not mention them simply because we did not have any negotiations with them about reconsidering prices or did not consult each other in terms of price reconsideration, because they did not have the right to initiate such a request. This is something which they still do not have. Despite this, in the spirit of partnership, when the time comes, we will initiate negotiations with them and, according to the already achieved positions, we will, if necessary, adjust our contract terms. Unfortunately, the image of a character from the well-known movie, *Playing the Victim*, would not be suitable.

As far as their participation in the Nord Stream project is concerned, they are indeed quite interested in entering it and so the idea of GDF Suez becoming part of the group has been supported by all of the shareholders in the Nord Stream, but such entrance on their part will be possible only after the funding for the first pipeline within the project of Nord Stream is over. Maybe Mr Kruglov would also share with us a comment on that.

Andrey Kruglov, Deputy Chairman of Gazprom's Management Committee, Head of the Department of Finance and Economics

When trying to achieve a result, there is something which I describe as being able to act on time or slightly earlier. I do believe that if one is to consider starting negotiations, this will become possible after the financial structure is defined, with respect to the Nord Stream, and so we are hopeful that this will happen sometime in April or May, so with the first flowers sprouting from under the snow.

Karen Kostanian, Bank of America

Please could you specify which are the volumes and which is the year that you are making plans for the Asian destination? During the several years of negotiations, how close were you able to come to any pricing agreements, specifically as far as the pipeline gas is concerned to be delivered to Asia? Secondly, your export contracts are linked to an intra-fuel basket, so why, in the domestic market, you are insisting on this relationship to the export component but not to some sort of a domestic intra-fuel basket, which will be based upon coal or something else?

Alexander Medvedev

The background to our negotiations with CNPC is quite extensive right now and I would also remind us that, even before commercial negotiations started about our suppliers along the eastern and western corridors, we had been actively considering participation in the west-east project in all of its parts within the value chain from the production all the way to transportation and sales.

Having said that, one should also note that the set of foreign counterparties we had was not the most optimal because we lost the opportunity to jointly represent our position and that was why the project collapsed. However, we were able to learn lessons from that project, and so our negotiations covering organisation of supplies adhered to some very simple principles, the main of which was that, when considering a certain price range, gas should be sold at the JCC oil price parity, which is exactly what happens when LNG is supplied to China. Therefore, I am quite confident that, if not the current generation that definitely the next generation of Russians and Chinese will be able to leave with the Russian pipeline gas being delivered by pipeline to China. This confidence is based upon understanding that the Chinese energy balance needs the supplies of the Russian gas by pipeline. We are going to hold our second round of negotiations in the second half of February and we will definitely try and adhere to the Chinese principle of 'Work hard and achieve progress every day, no matter how small.'

Andrey Kruglov

Also, I would like to say that, in terms of pricing in the domestic market, I first and foremost would call your attention to the fact that the main maxim which Gazprom was trying to prove and used as an argument was the equal profitability of supplies both to the external and the domestic market. Therefore, the equal profitability as a notion does call for the principles of pricing for the domestic and external markets to be compatible with each other. The experience which we have accumulated throughout the decades in the issues of pricing and pricing formulae in the external market, and the rational which we were able to develop to support it during this multi-year experience of long-term export contracts, doubtless should be applied and will be applied when dealing with issues of pricing in the domestic market as well. The fuel basket, which was able to withstand the test of time, is accepted by practically everyone and to add new elements or to deduct any element from it means to initiate a new debate about the extent to which the addition or deduction is justified, which would again bring about various methodological arguments about the extent to which this fuel basket was correctly formulated.

These kind of calls to reconsider the existing principles of pricing within the long-term contracts are occasionally brought up. For example, during the crisis year, the mineral fertiliser producers got in touch with us, insisting that we should relate the gas price to prices for mineral fertilisers, trying to state that mineral fertilisers are also a bit of a commodity, which is a tradable good, and so the prices should take this into account. Yet again, I should repeat the experience and the precedents that we have gone through, and an introduction of something new or the deduction of an already existing element bears a bit of methodological or short-term consideration without taking the long-term future into account. Yet again, this might lead everyone into the situation where we will be arguing with each other on methodologies in terms of how one should assess the heat generation and the market valuation etc. Maybe these arguments and debates about what kind of fuel basket there should be will cease once gas becomes a fully blown commodity and is appraised as such. Until then, we believe that the currently existing pricing principles have been proven by time and by experience, and so, in terms of the compatibility, I will finish as I started: the equal profitability in the external and domestic markets should follow the same kind of scenarios in order to take the new realities in the market environment into account

David Stedman, DAIWA SMBC

Firstly, thank you very much for coming to London. There are obviously a number of moving parts to your gas sales to Europe. You explained this morning about the new contract to Poland and the make-

up gas which we have been discussing this afternoon. Can you just run through, for each of the three main regions – Russia, Former Soviet Union (FSU) and Europe – what is your assumption of underlying volume growth for 2010?

Alexander Medvedev

Without doubt, one should distinguish here between the FSU market and the West European market. As has been described in the press, we have agreed with our Ukrainian counterparties about the volume of the Ukrainian gas acquisitions, which essentially will remain at the levels of 2009. Considering various crisis events in the economics of the former Soviet Union countries, we do not expect any significant incremental gas demand in these countries, particularly taking into account the fact that we have now switched over to the European principles in pricing. If we look at the level of energy consumption ratio within the GDPs of these countries, we will be able to note that these indicators do not fit any standards, either the European ones, or the FSU countries. That is thanks to the Ukraine, which for quite some time has been posing itself as the energy paradise. I do not know whether anybody has noticed or remembers the satellite images published of the Ukraine during the first crisis of 2005-6. It was quite visible, looking through the infra-red lenses, that Ukrainian territory was fully illuminated and looked like an energy paradise, despite the then crisis.

As far as Western Europe is concerned, as I mentioned, we have several contracts which are about to reach the plateau level and amongst them are the contract with Eni as well as Botas. Here, I should also mention the contract that we are discussing now with the PGNiG company from Poland. In terms of our exports of 160 bcm, we did not quote it based upon the historic trends but rather upon the minimum levels of the take there may be within the contracts, as well as the additional volumes that I have described, as well as the make-up volumes which are the result of the gas not being taken this year.

Another important factor which is frequently being overlooked, and I remember seeing it in your comments, amongst various issues, is about the dynamics of the gas volumes in the underground storage. If I remember the phrasing correctly, it was whether, Gazprom is expecting that in Q3 or Q4 the European demand might slump because the gas is going to be recovered from the underground storage. Actually, it has been historically that Q2 and Q3 were the times when the gas was being injected down. I do not have 100% information about all of the underground storage facilities in Europe, but we have authentic data about what is going on with the underground storage which we either own 100% or which we participate in, in terms of capacities. The comeback of the global cold led to a situation where all those that have underground storage were actively recovering and continuing to recover the gas from underground. Therefore, as far as our situation is concerned, we have about 3.5 bcm of active gas in such a state and we will have to inject it because we expect that the lion's share of such gas will be recovered from underground by consumers and, come the summer, we will again be injecting it down. This is something which is reflected in our forecasts of our exports.

Another factor which should be taken into account is new projects for underground storage. Two of them are already going through the injection stage. This is major underground storage in the Netherlands and a smaller but important one, which is the Banatski Dvor in Serbia. In both cases, we are going to inject both active and passive gas, and this injection operation will take several years, which is the new volume, which is also included into the figure of 160 bcm. Those of you who have been pessimists, it is time for you to become optimistic.

Oswald Clint, Sanford Bernstein

Could we talk about production, please? Could you give us an indication of your average decline rates on your base production, and what techniques you are using to try and mitigate or slow those decline rates? Also, everybody likes to talk about their flow rate per well. I am curious to know what sort of flow rates per well you are seeing from your new fields in the Yamal Peninsula. Finally, could you clarify the JCC pricing for potential Chinese pipe imports? My understanding is, some of the Australian contracts going to China may have an upper limit on the pricing at a certain oil price. I just wanted to be sure: is that also part of the discussions you are having with the Chinese?

Vlada Rusakova, Member of Gazprom's Management Committee, Head of the Strategic Development Department

If we were to meet each other about 10-15 years ago, I would have told you that would have been between 20-25 bcm in terms of the annual decline, so currently the level of decline is 17-19 bcm. In all of our projections we use this particular level of decline because we have done a lot of reconstruction works in the currently operating sites and booster compressor stations. We are changing detachable flow tubes of gas-compressor units on the booster stations, increasing the compression rate up to 3.0. We carried a lot of wells maintenance works on our existing fields, including change of pipping and compression pipes for the smaller diameter to increase the speed of gas flow in the pipe and to limit accumulation of liquids in bottom-hole, as well as side-tracking in wells with destroyed bottom-hole formation zone and mechanical admixtures and sand accumulation.

Well production rate is quite a specific category, because a lot depends on the gas dynamics of a reservoir. In the Yamal Peninsula average well production rate based on a gas dynamics survey is about 0.5 – 0.7 million cubic metres per day.

Alexander Medvedev

In China, it is not only CNPC as a company that is buying LNG, but they are very well aware what kind of price they should pay for LNG. As a consequence, the kind of price formula which is being debated will turn out to be quite complicated and complex. It will have different components to suit different scenarios of the dynamics that will be demonstrated by oil prices. The ultimate objective is to achieve a risk distribution mechanism which will be acceptable to both the buyer and the seller. If anybody is confident that the period of cheap commodities is over, then one should be worrying more about what will be happening in the higher price ranges for oil, rather than the low ones. This in no way rules out the need to try and reach agreements on possible scenarios in case prices fall below the \$30 per barrel range. Within such a scenario, there will be a definite need to protect the interests of a supplier who, against such a low price, will have to continue spending money to invest into production and transportation.

Masha Radina, Nomura

Taking into account the fact that the 115 bcm within the first pipeline from the Yamal can be fuelled up from the Bovanenkovo field, what are other fields that the company is planning to commission into operation in the Yamal by 2020 besides Bovanenkovo?

Vlada Rusakova

As far as Bovanenkovo is concerned, the 115 bcm is what we are going to get from the Cenomanian top horizons in the subsurface. An additional 25 bcm we will get from the bottom horizons, which makes about 140 bcm, all up to 2020. We also intend to commission into operation Kharasavey field, which is about 32 bcm a year. Of course, it will not reach 32 bcm immediately, it is the design output. Other fields, including Tambey, we plan to commission after 2020.

Masha Radina, Nomura

The South Tambey field?

Vlada Rusakova

Not South, our Tambey field [Gazprom holds licenses for the North Tambey and West Tambey]. Trying to answer the smile that I read on your face, I should say that, in the Yamal programme [the Programme for comprehensive development of fields in the Yamal Peninsula and adjacent offshore areas], the whole of the Tambey gas will be put into the pipeline. We are at the same time considering various possibilities and experiments which will be done and we will see the way it will all come out.

Masha Radina, Nomura

The question is on the liberalization of the Russian market, where you sell the bulk of your volumes. Taking into account the way the Russian economy declined last year, and the fact that you have already obtained the 26% tariff increase, in what year will it be possible to achieve the point of net back parity?

Vlada Rusakova

These are very diverse trajectories. We will very quickly come to this parity if the oil prices go down. If oil prices start growing, we will postpone. By 2010-11, we were guaranteed of 15% increase a year. To start with, you were quite correct in saying that was 26% if 2010 compare to 2009, so I believe that this is a very good result. Still net-back parity is just our guide, not our objective. Our ultimate objective is to be able to compete in the domestic market with different types of fuel, and so I am hopeful that this will happen in 2012 or 2013.

In the market, one finds several products. There is oil and coal, which you find under the free price, and gas is under regulated pricing. Right now we want to diversify fuel balance and, like I mentioned, we need to reduce the dependence upon one type of fuel so as to improve energy supply reliability and to reduce the gas consumption ratio in the GDP. The way you can deal with this objective is to allow gas to compete with different kinds of fuels, specifically through environmental friendliness and technological effectiveness. This is something which will create a normal type of situation in the market. Right now, almost 53% of the consumption of the Russian energy resources is gas. If the situation continues the industry will never come to energy efficiency and new technologies.

Masha Radina, Nomura

Gazprom, as a result, might achieve the 40-50% higher tariffs which will come from liberalisation. What do you think about possible changes in the tax burdens that the industry will be subject to, taking into account that last year everybody believed that the export duty would be raised as well as the mineral resource extraction tax as well?

Vlada Rusakova

As far as the export duty is concerned, I believe, it will remain as it used to be. It is not going to be changed. As far as mineral resource extraction tax is concerned, we continue to work with the Government, provide it with the required data, give arguments, explain our point of view. Mr Kruglov spoke about it during the meeting. We are currently working on the tax differentiation rate. Maybe, with respect to individual fields, the mineral extraction tax will be at zero, because conditions of fields development are changing, we enter new regions, costs are growing.

Florence Roche, Société Générale

This is a question for Mr Kruglov. Could you please give us an idea of Gazprom's funding need for 2010? Would it be mostly debt refinancing or new debt? Could you please give us some comments as well on the relative pricing attractiveness of the bank loan market versus the bond market for Gazprom currently?

Andrey Kruglov

As far as 2010 is concerned, our borrowing programme has the same figure which we had last year, which is 90 billion roubles. Approximately that would be about \$3 billion. This figure is specifically targeted at raising the borrowing to fund the investment and operational costs, and we are not expecting to raise funding for any new acquisitions like was the case last year and during the preceding period. We anticipate that the level of debt will go down compared to the end of 2009. Whereas by the end of 2009 it is to be at the level of 53 billion roubles, we plan that by the end of 2010 it will decrease, including the payment for the loans which were taken to acquire the 20% of Gazprom Neft.

In terms of the range of instruments which we may consider, again, the level of attraction in bank loans or bond issues is to be determined by the market. If you look at the past year, the level of CDS market was, to my mind, and I believe that many market players share this view, not adequate to the level of risk which Gazprom as a company could and did bear. Going into the bond market against the kind of terms and conditions which would not meet your interests, which are being defined by the market but which, in our view, were not adequate, was something we decided against. Therefore, we used the bilateral loans with our various partners in the financial community. Nevertheless, when the situation improved, we deemed it possible to issue this bond issue, which we did quite successfully, as I mentioned in my presentation. Back in September, we came out with a short-term ECP (European Commercial Paper) borrowing program. Principally speaking, the price was even lower than the one we originally planned for. Thus depending upon situation we shall look at what kind of instrument would be most appropriate. Basically, we are very closely following and scrutinising all of the

opportunities and possibilities to use innovative funding instruments, being the first ones among Russian companies to apply them. I do believe that the situation in 2010 will turn out to be, hopefully, more predictable, and more fitting the plans that we have put together so far. We are not going to raise from the market more than what we planned for, specifically the 90 billion roubles which is part of the budget already.

Pavel Sorokin, Unicredit

Two brief questions. Firstly, looking at the presentation, one can see that you are planning a five-fold increase in the sales of the gas processing side products, which are sulphur and other products. How are you going to take this into account in your reports, and what will be the share of the revenue within this particular line? Which are the products, apart from sulphur, which may bring about this major revenue-growing? Secondly, are there any plans for additional free float for Gazprom Neft in order to make it more attractive in the eyes of investors, as well as to raise money in the market?

Elena Vasilieva, Deputy CEO, Gazprom

The increase in the demand for sulphur had a visible influence on separate results in our IFRS report for 2008, but in 2009 there was practically no longer a demand for it, and the sulphur sales share in total revenue was minimal. So basically we were able to achieve similar figures for 2007 and for the subsequent period. So, in 2008, our sulphur sales were at 30 billion roubles while in 2009 and 2007 it was one billion. In our reports sulphur sales are in the line item of the gas and oil processing products.

Vlada Rusakova

If you look at the top chart, you will notice the way the inputs are changing by 2030. Instead of the cinnamon gas, which is a dry gas, methane, we are now getting the gas which contains ethane, propane, butane and other components. All of these products are gas and chemicals output. As the input range is changing, we anticipate developing gas processing from gas chemicals within the currently existing sites in the cities of Orenburg and in Astrakhan and we are also planning to develop it in the Novy Urengoy area and in the east of Siberia. We have a number of projects which are currently going through the stage of feasibility studies, and some of them are independent projects, while others are being done with foreign companies such as Dow Chemicals and BASF. All of this is stated in the presentation which we have already given to you today, but this is in no way related to sulphur. There is no sulphur on the slide.

Andrey Kruglov

As far as the free float for Gazprom Neft is concerned, this is a possibility which is not being ruled out, since the possibility to increase the amount of stock in free trading for Gazprom Neft is written in the strategy for the development of the company, which was presented to the board of directors. In terms of speaking about the specific execution of it and the way it is going to be done is a bit premature, because no specific decisions have been made about it.

Anisa Redman, HSBC

The domestic market in Russia, where Gazprom for quite a long time was just making losses, is currently being viewed as very prospective. Does Gazprom intend to try and suspend the right on the part of the buyer to notify Gazprom upon the termination of the contract with the two-week notice like was in the case the OGK-1?

Andrey Kruglov

Certainly, because if we are trying to achieve market principles for everyone in pricing as well as in the issue of contracting, we will certainly be trying to base ourselves upon these kinds of rights to be equal, for our domestic as well as external consumers. The long-term contracts were something that various companies in the energy industry were loudly crying out for and so it started happening, and then last year a lot came back saying they would now like to switch back to annual contracts so that they could reconsider the volumes. Once we have agreed upon something we should basically stick to these commitments and obligations.

Anisa Redman, HSBC

So is there a risk of this being changed within the immediate future for Gazprom – that somebody will offer a lower price and will take away the customer?

Denis Fedorov

As far as OGK-1 is concerned, I can tell you that, between NOVATEK and OGK-1, this contract is less attractive than the one it had with Gazprom. This is the first thing. Then, back in the days when RAO US negotiations were going on, the RAO US was insisting upon a five-year contract, while Gazprom was insisting upon three-year contracts. Nevertheless a decision was made to enter into a five-year contract and right now, as far as I understand, our position is to stick to the five-year contract obligations and only in five years time we will reconsider our commitments.