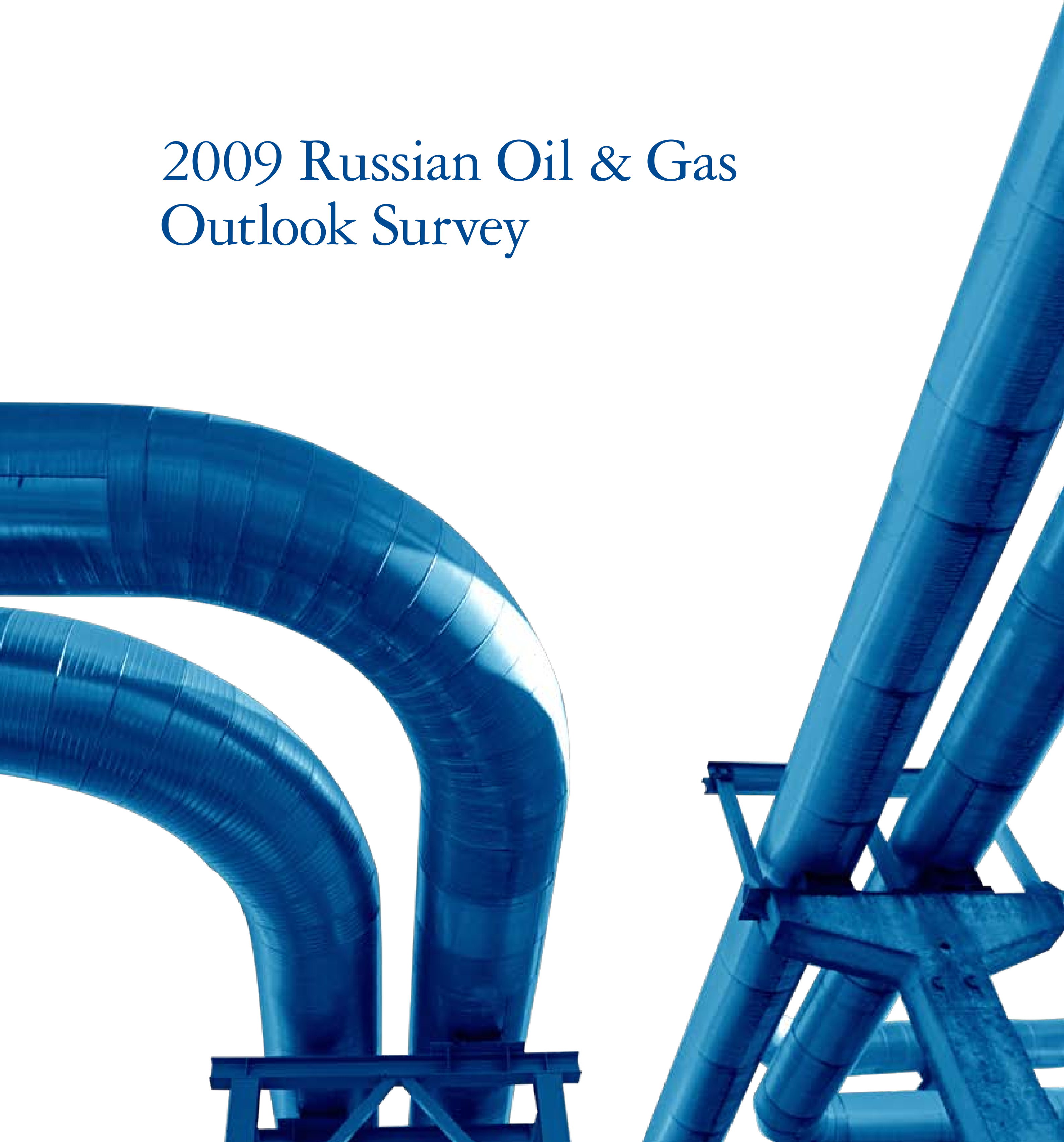
2009 Russian Oil & Gas Outlook Survey



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Introduction

Up until the middle of 2008, many people still persisted in the belief that oil prices were immune to the growing global financial crisis. The actions taken by governments in a number of countries around the world, as well as the seemingly insatiable demand of China and India, created the semblance of a buffer for the international oil markets. However, the last months of 2008 have proved otherwise, and the market remains unstable as oil prices roll back.

Our Oil and Gas CEO Survey is traditionally carried out at the end of each year. This year was no exception, and we interviewed our respondents from September to November. During this time the world markets went through unprecedented changes, including the creation of recovery programs for banks in Russia, Europe and the United States, and direct government interference in business through investments. The Russian government has also taken a number of measures to reform the tax regime in the oil and gas industry and exchange rate management.

The process of gathering information was the same as in previous years. We interviewed the managers of the companies operating in the hydrocarbon exploration, production and refinery markets in Russia, in conjunction with other major players in the Russian oil and gas market for both the public and private sectors. The scope of our research included large national and international vertically-integrated companies, as well as independent small- and medium-sized entities. Our goals and strategy were to not only collect statistical data but also to understand how the industry perceives current developments and economic conditions.

So what is the oil and gas industry currently concerned about? Many people are apprehensive about changes in export duties, as well as Mineral Extraction Tax differentiation according to geological conditions. Many companies either have started or intend to start reviewing investments in refinery. However, about 40% of respondents do not intend to change their investment plans significantly in the areas of exploration and production. Cost-cutting and efficiency-enhancing initiatives are being brought to the forefront. Companies are viewing the increase in services and energy saving efficiency as valuable opportunities to reduce costs. Lastly, although many respondents are considering headcount optimization, one of the key problems is still a talent shortfall.

You can find the opinion of Russian Oil and Gas CEOs on these and many other questions on the following pages. We would like to thank all those who participated in this survey and shared their vision of the current state and future development of the industry.

We would also like our readers to be optimistic in 2009!

Elena Lazko
Partner, CIS Oil & Gas Leader

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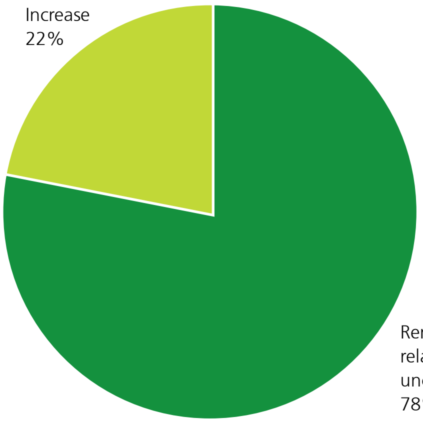
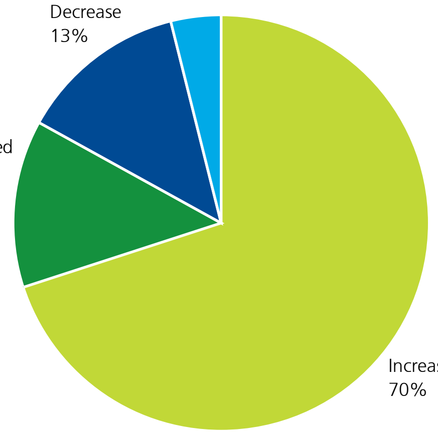
1. Russian domestic oil demand over the next five years will:

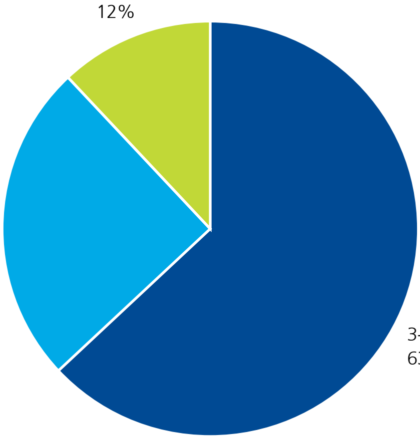


2. World oil demand over the next five years will:



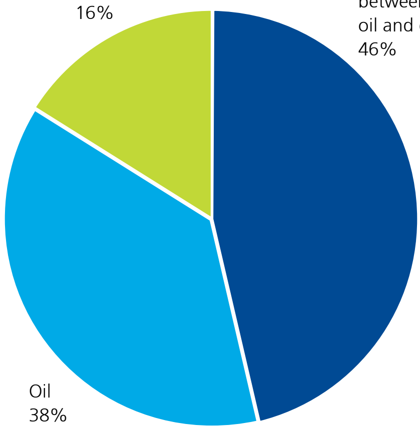
The prospect of a global recession sees a more mixed response to the question of global oil demand and indeed Russian domestic oil demand as well. This is the first time in the last three years of this survey that anyone has answered that they believe demand will fall or remain unchanged.

3. What will be the average annual increase in Russian domestic natural gas demand for the next five years?



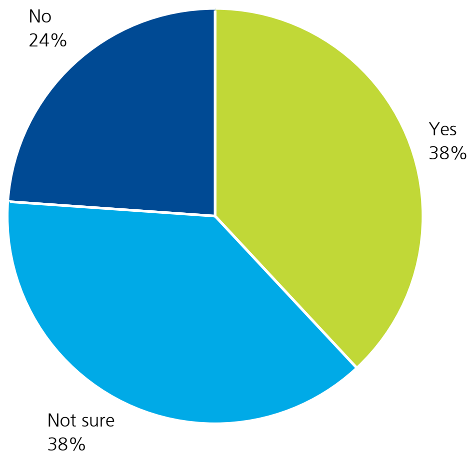
The expectation continues to be one of modest growth in the demand for Russian domestic natural gas. However, the responses were, on the whole, less confident than in previous years.

4. What will be the focus of your company's Russian exploration activities for the next three years?



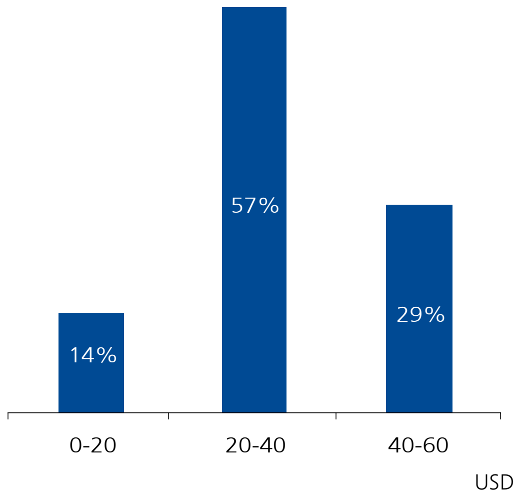
In line with the expected increase in demand for domestic natural gas, the proportion of respondents that expect to actively explore for gas continues to increase. For the first time, more than half the respondents see their future involving gas exploration.

5. Will your company increase their exploration activities in the next three years?



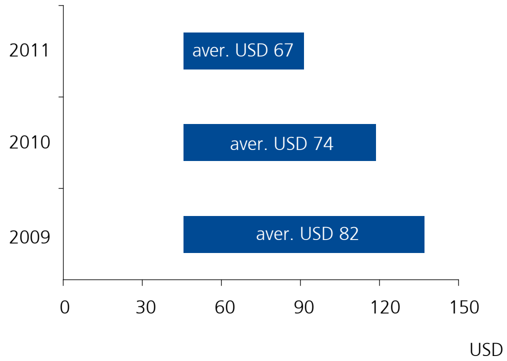
Despite the overall view of demand growth slowing, more of our respondents this year seem to expect an increase in the level of exploration. This may indicate a correction to a period of relatively lower exploration activity in the past few years.

6. What is the maximum price per ton which you would be prepared to pay for conventional West Siberia proved (P1)?



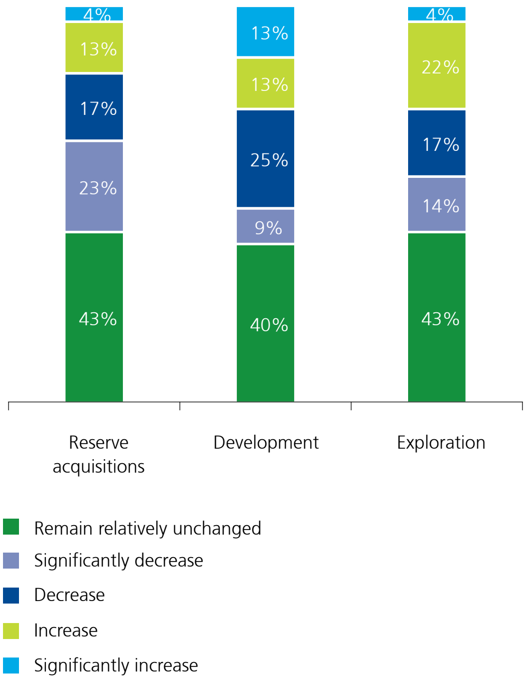
Again there is a divergence on the views of respondents with regards to the value of the reserves that are in place. However, the trend is upward, which is consistent with the generally higher price levels over previous years, despite the recent volatile price movements. It is also probably indicative of a new expectation of the floor price for these types of reserves.

7. What do you anticipate the annual average price (in USD per barrel) of Urals and Brent crude oil will be?



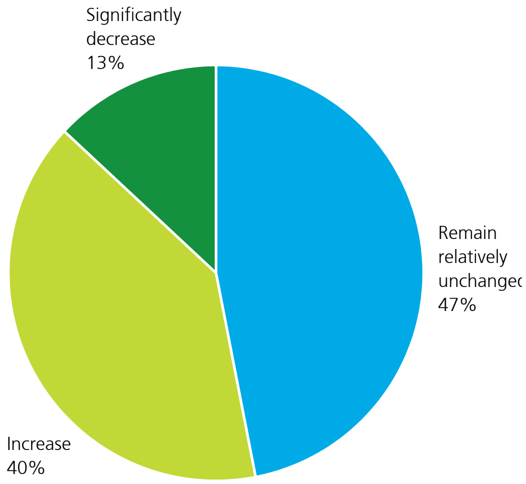
The oil price prediction game is always a difficult one. Again this year, we have quite a wide divergence between those who see the low- and high-end estimates. The respondents seem divided between the price regime of the past 12 months returning relatively quickly and those who believe that there has been a moderation in prices, back to the level of a few years ago.

8. What are your company's plans for capital spending in 2009 vs. 2008?

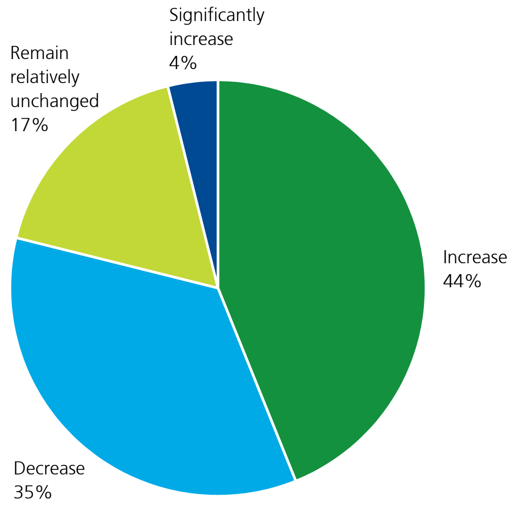


There is a significant reduction in the level of expected expenditure on reserve acquisitions when compared to last year. This, coupled with a less optimistic position for spending on development, seems to reflect the overall concerns for industry players. With external financial and market factors making projects potentially less attractive, it would seem that a rethink of capex is going to be a feature of the coming year.

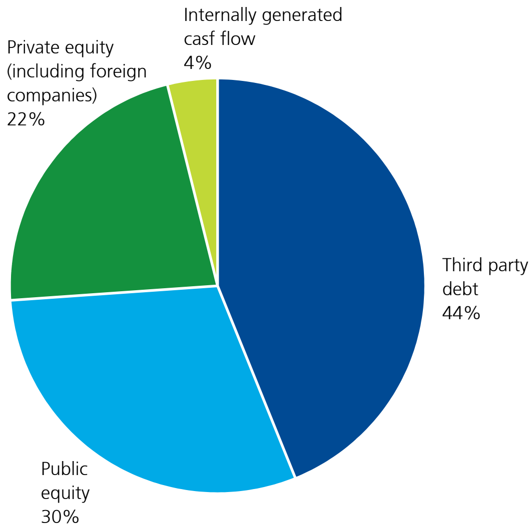
9. Compared to 2008, how will the Russian oil and gas industry's need for capital change in the next five years?



10. Compared to 2008, how will the availability of capital for the Russian oil and gas industry change during the next five years?

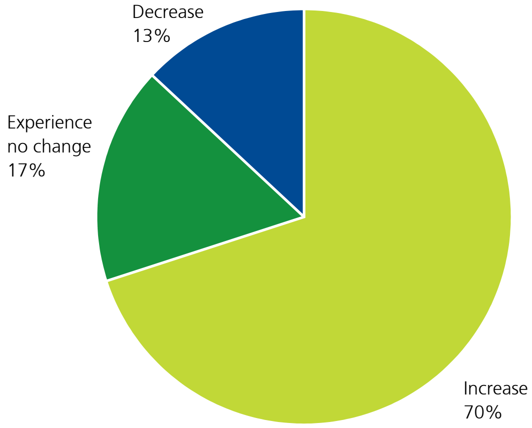


11. What will be the primary source of capital for the Russian oil and gas industry for the next two years?



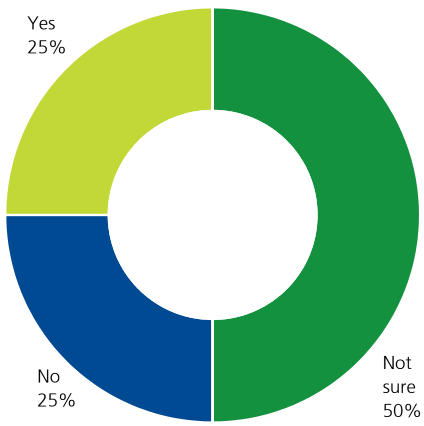
In the current global economic environment, we expected to see some changes in the position of the respondents, with regards to capital requirements and needs, and this is certainly the case. Although the perception of the need for capital is broadly in line with last year, there is a view that capital will be generally less available with no respondents believing that there will be a significant increase in the level of capital available. Again, it is perhaps no surprise, but the anticipated sources of capital for the industry also show some considerable changes from last year.

12. Compared to today, the frequency of mergers, acquisitions and restructuring in the global oil and gas industry in 2009 will:



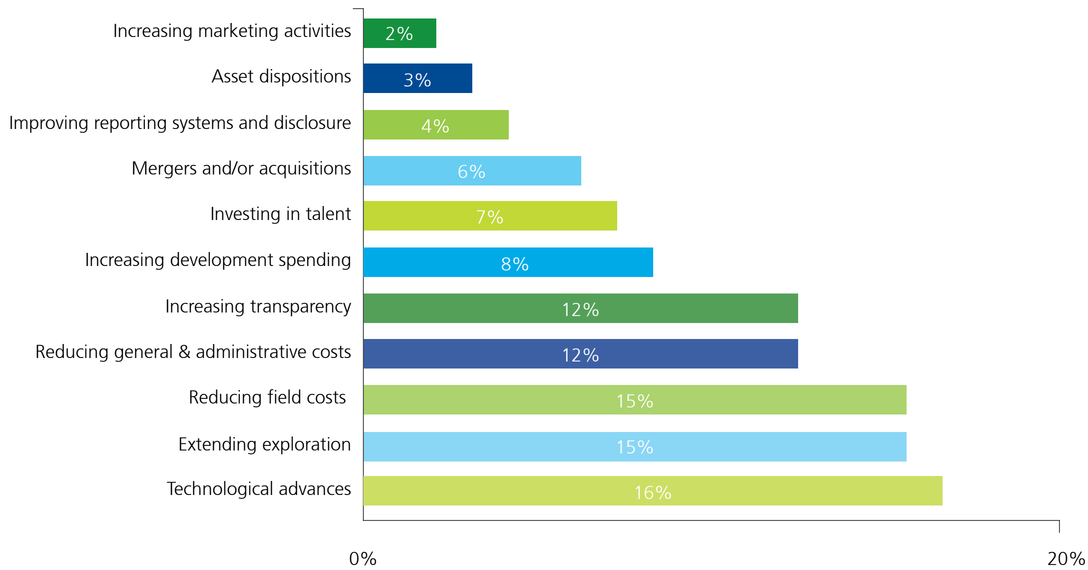
Despite the overall concerns about the state of the market and access to financing, the majority of respondents continue to expect an overall increase in the level of deal activity in the industry.

13. Does your company plan to actively market non-core assets in the next 12 months?



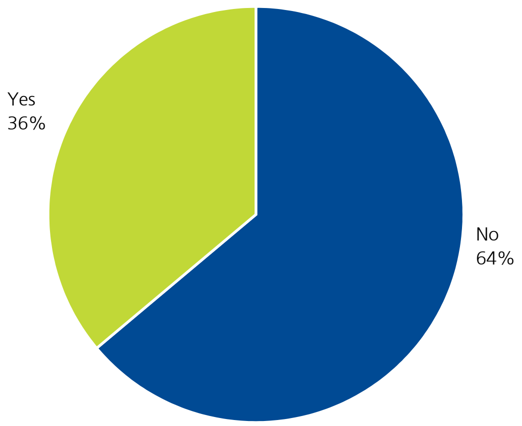
Although the respondents continue to expect deal levels to increase, the expectation of the individual respondents is that these may not be through non core asset disposals as often.

14. Please select the three most important areas for enhancing the value of companies active in the industry:

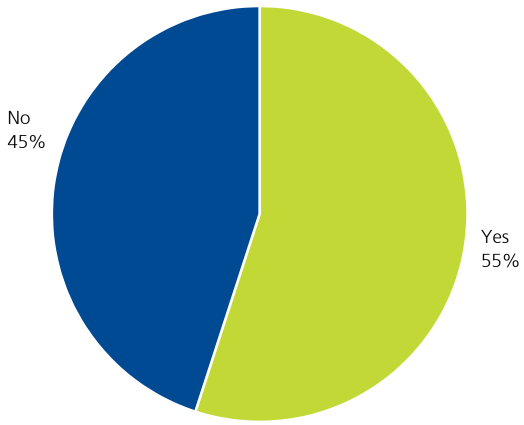


The responses to this question show a number of shifts, when compared with previous years. Understandably, there is a much greater focus on reducing costs and, in line with other answers in the survey, there is a reduction in the level of importance associated with investing in talent. There is also a reduction in the relative level of importance of development spending.

15. In the next three years, does your company plan to increase its total refining capacity?

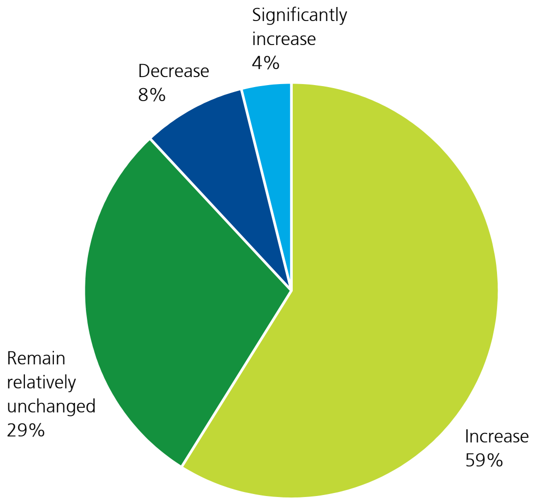


16. In the next 3 years, does your company plan to increase its total transportation capacity?



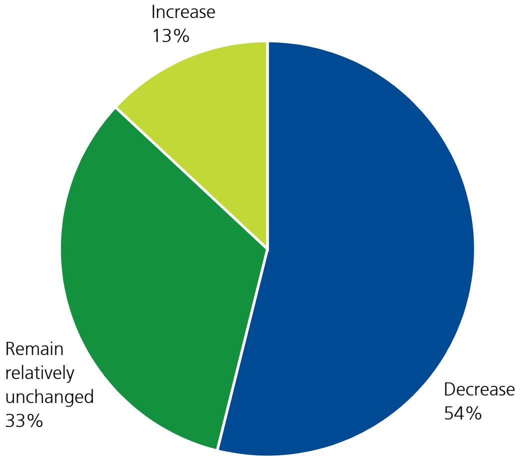
These questions point to a potential direction for the industry.

17. Over the next 12 months, do you expect the level of government regulation in Russia which affects the industry to:

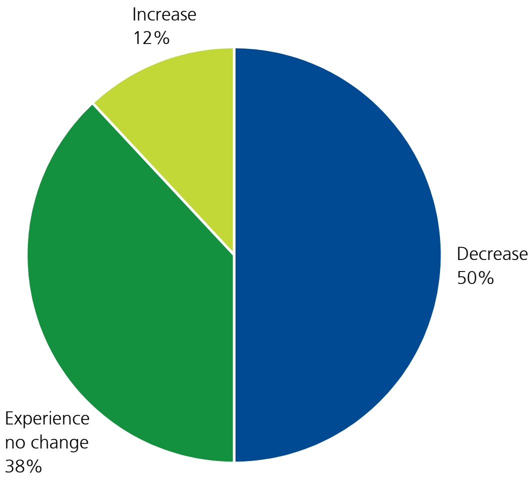


It appears that an enhanced level of regulation is a continued expectation from year to year in the industry. It would seem that the expectation of changing global economic and market conditions is not enough to lower the level of overall regulation of the industry.

18. Compared to 2008, the level of employment in the oil and gas industry will:

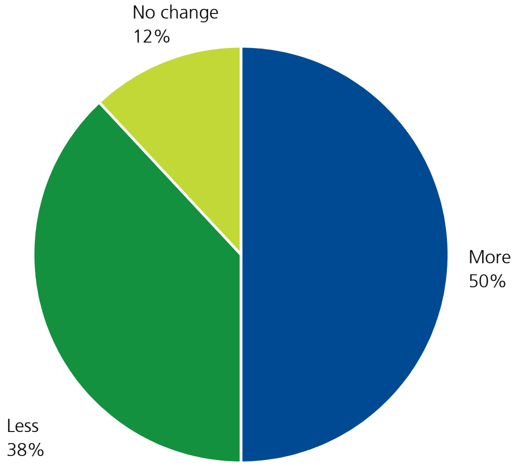


19. Compared to 2008, the number of employees in your company will:



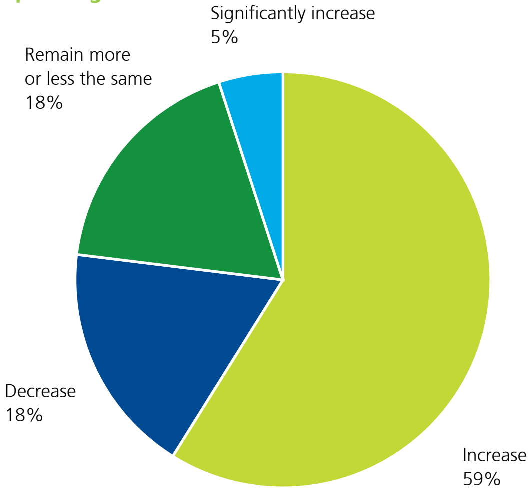
There has been a significant turnaround in the industry's expectation of employment levels. In previous surveys, the lack of available personnel has been seen as a limiting factor for the growth and development of the industry. However, there is now an expectation of job cuts both within the respondent companies and the industry in a broader sense.

20. Do you anticipate more or less difficulty securing rigs and crews in the next 12 months?



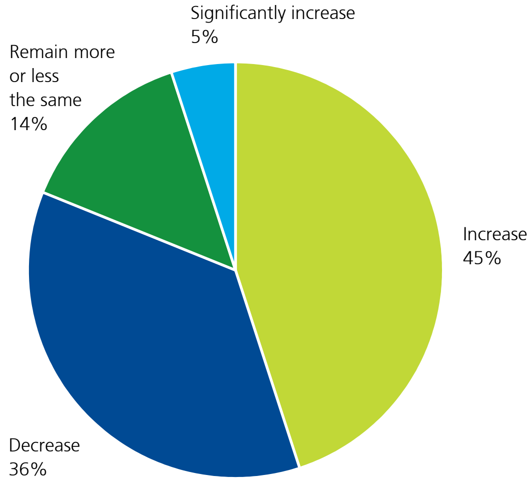
Again there is a significant turnaround from previous surveys. There is an expectation of an appreciable easing in the market for rigs and crews.

21. As a proportion of overall expenditure over the next three years, will the level of health, safety and environmental spending of companies operating in Russia:



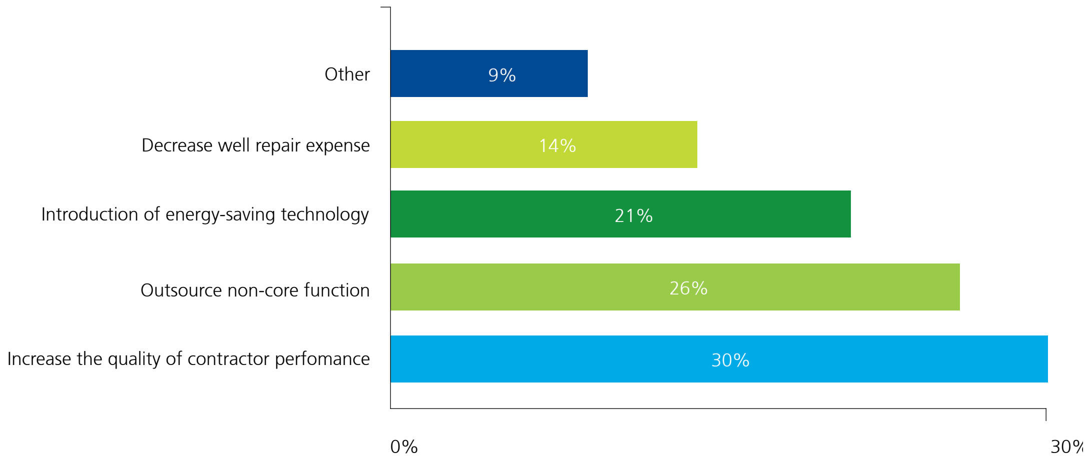
HSE spending is expected to increase in relative importance, despite the worsening global economic conditions and harsher times for the industry.

22. What will be the average annual change in operating costs per well in 2009 as compared to 2008?



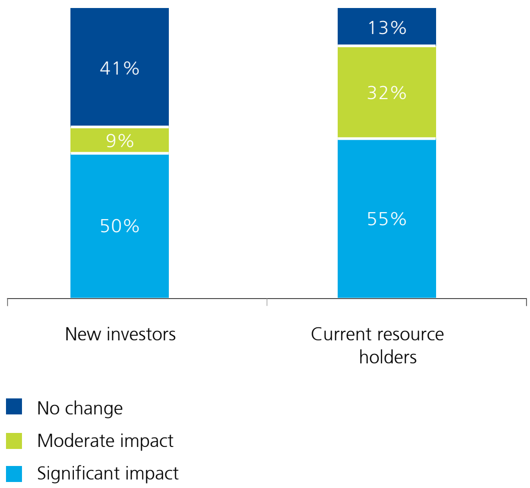
With such turbulence in the global financial markets, uncertainty over currency levels, inflation, and availability of labor, it is not surprising that the answer to this question is quite mixed.

23. In the next three years, how will your company seek to control/reduce operational expenses? Please select 3 items:



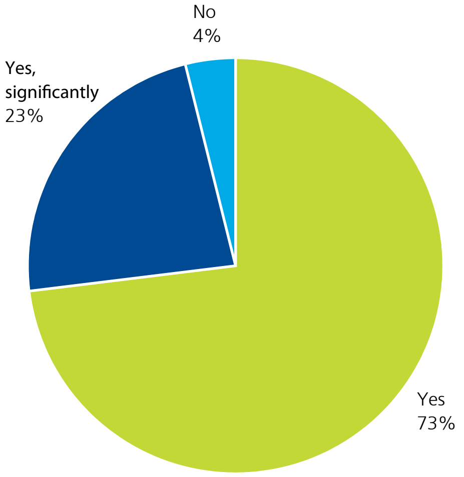
The answers to this question indicate that consideration is being given to putting pressure on suppliers and contractors as a way of managing costs. Should the outsourcing of non core functions become more prevalent, this will represent a tendency in the local market.

24. To what extent has the introduction of the law on strategic industries influenced the market for:

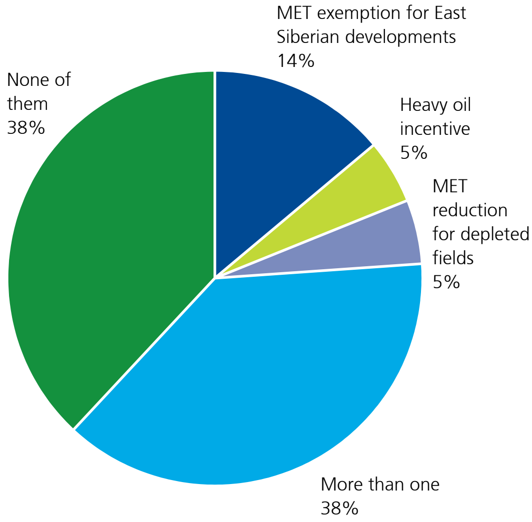


Perhaps unsurprisingly, given the level of concern over over increasing regulation, respondents generally see a moderate impact from new legislation. It is particularly of concern to new investors, rather than those already established in the market.

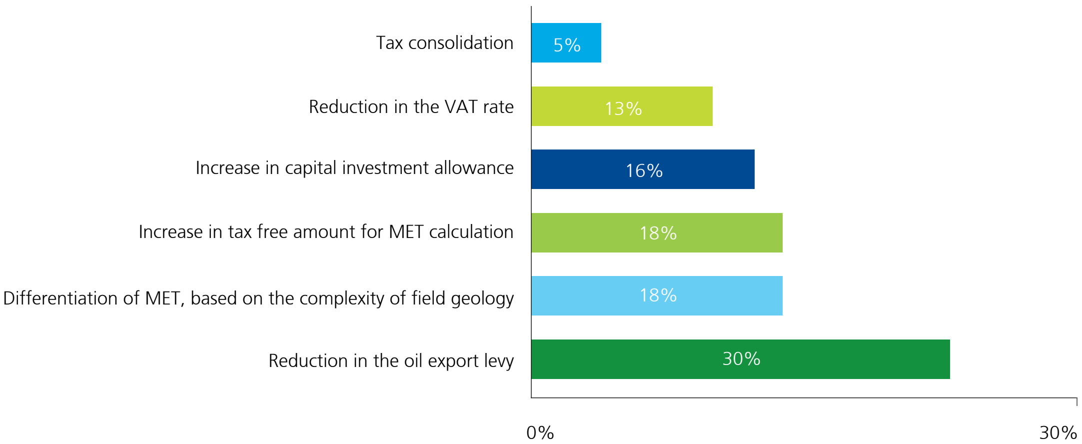
25. Overall, do you believe that the MET incentives effective from 2008 will stimulate additional exploration development or production in Russia, over the next 3 years?



26. Which, if any, of the 2008 MET incentives is your company likely to utilize?

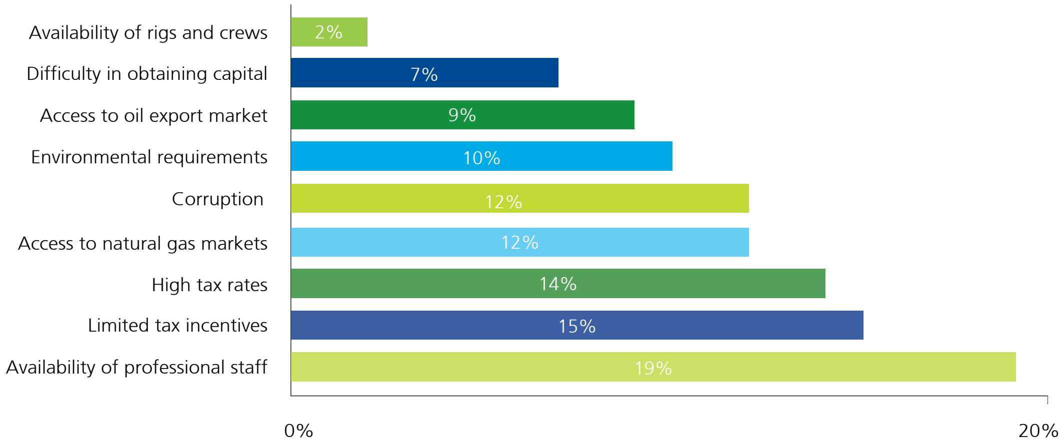


27. From the following list of tax changes and incentives, please select the three which are the most beneficial to the industry:



One of the industry's key concerns in the current environment is the level of tax burden on operations. There have been efforts over the past two years to introduce incentives for MET and, more recently, there have been calls for the further modification of the oil export levy, MET and other tax burdens. In these questions, the respondents have indicated that consideration of a range of additional tax incentives would be welcome for the industry.

28. For companies operating in Russia, please select the three most critical of these commonly cited problems facing the oil and gas industry today:



Tax rates and the lack of tax incentives are again at the top of industry players' list of concerns. This year, as compared to earlier surveys, the availability of capital is also higher on the list of industry concerns.

29. If you could change anything in the O&G sector (even at the executive government level), what would it be?

This year, another interesting set of comments were received. Here are some of them:

- Pipe access conditions
- Fiscal policy. Remove the massive downstream refining subsidy, reduce the total and upstream tax burden, and lengthen fiscal policy views to roughly ten years or more
- The laid-back approach to the prevention of corruption
- Encourage a realistic attitude by the Government towards the size of the oil and gas development challenge
- Limited access of independent gas producers to the UGSS gas transport system and as a result to the end customers
- Access to new resources