



“Can prices negotiated years ago in long-term LNG contracts survive in today's volatile global market?”

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Agenda

1. Europe is currently a “battleground for pricing”, with the Americas largely hub-based and Asia oil based
2. Several factors may push European pricing towards hub indexed mechanisms
3. The Atlantic could stall, spread and even seep into Asia
4. The pace of change hangs in the balance – the impact is global
5. Will Hub based trading infect Asian prices? So far crude is resilient
6. It is dangerous to assume tomorrow is just another today...let alone all my yesterdays
7. Defend, analyse, anticipate, act – Commercial teams need new adroitness

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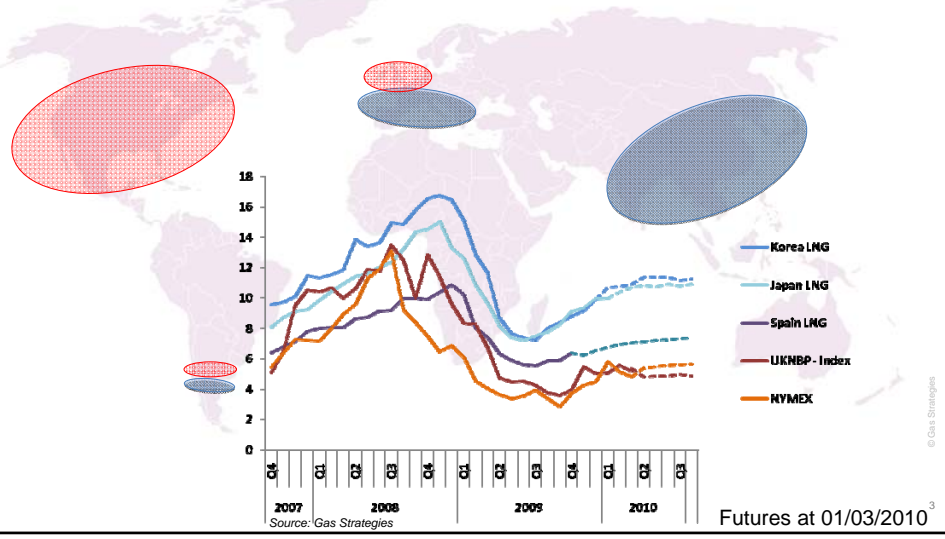
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Europe is currently a “battleground for pricing”, with the Americas largely hub-based and Asia oil based



Gas pricing Hub “Henry Hub” Gas pricing Hub (NBP/TTF) and oil/oil products Oil related pricing



Source: Gas Strategies

Futures at 01/03/2010

Several factors may push European pricing towards hub indexed mechanisms



More liquid LNG market

Shale Gas

European-Russian Relations

Henry Hub/NBP

Europe acts as outlet for divertible LNG

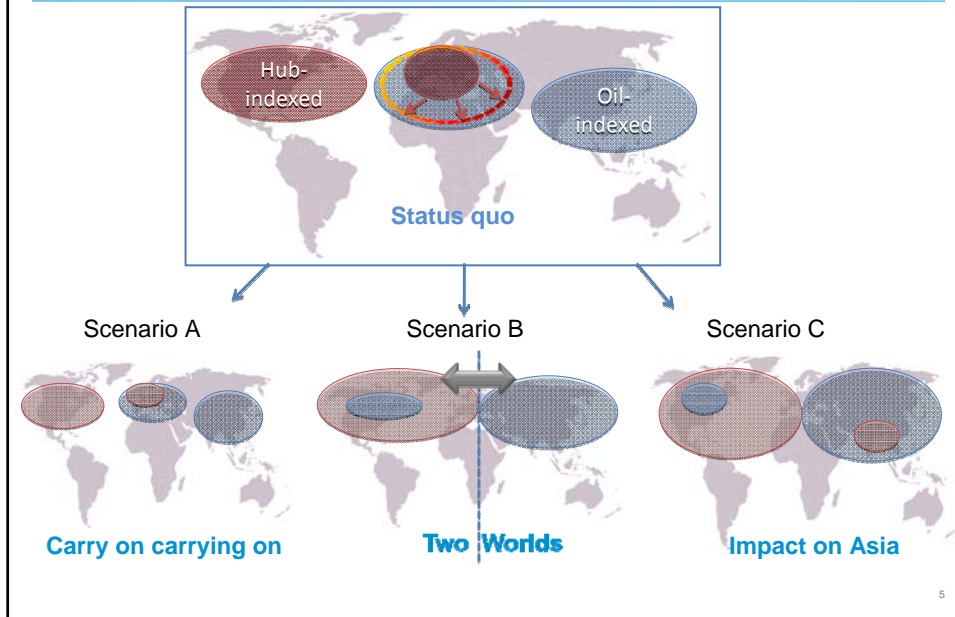
Recession

Take or Pay flexibility

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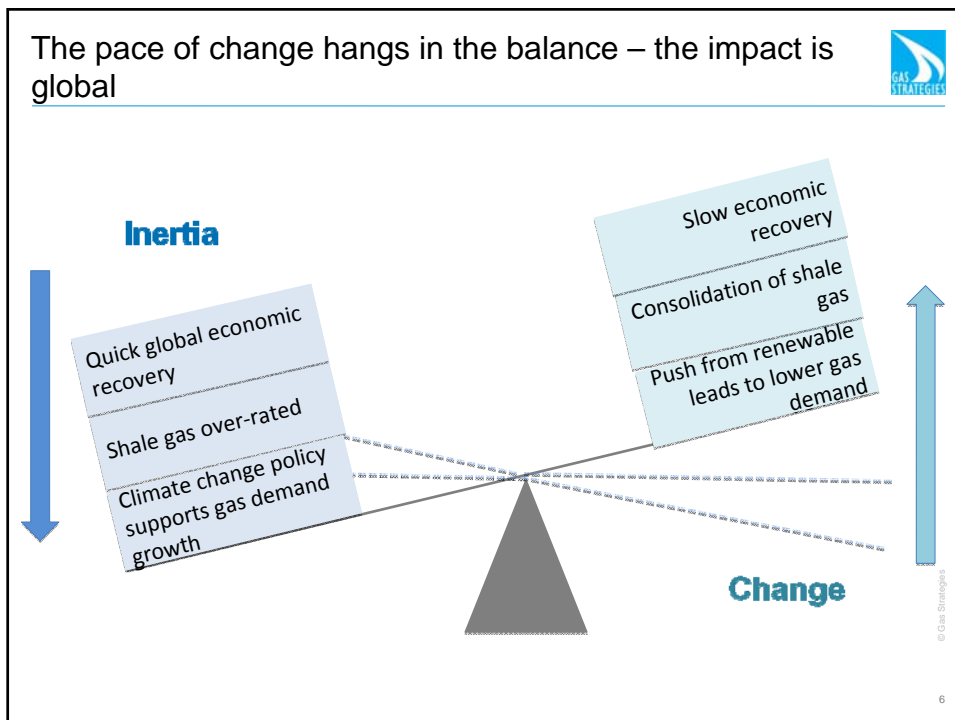
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The Atlantic could stall, spread and even seep into Asia



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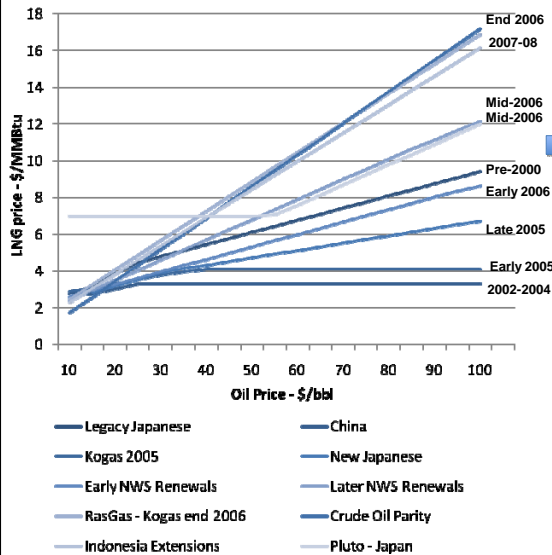
The pace of change hangs in the balance – the impact is global



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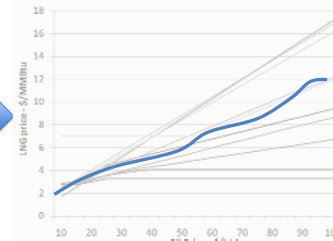
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Will Hub based trading infect Asian prices? So far crude is resilient



Source: Gas Strategies

Asian Hub?



- Role of China/India to handle flexibility
- Changing behaviour from key players – contractual flexibility
- Export of Atlantic Basin contractual practices in Asia Pacific (FOB vs DES)
- Intra-national cargo swaps

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It is dangerous to assume tomorrow is just another today...let alone all my yesterdays



- Over-extrapolating the immediate 'now' into the future and locking into conditions right before things changed has caused a series of hindsight regrets
- A few "examples from the past":
 1. HH pricing will be universal – always
 2. Extreme buyers' market low ceilings
 3. Buyers locking into high Brent in Asia with no S-curves
 4. Pricing on EU market prior to arbitrage opening
 5. No re-openers in hub-based contracts in buyers' market

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Defend, analyse, anticipate, act – Commercial teams need new adroitness



1. Anticipate the pressure

Defend existing positions through active portfolio management and opportunistically take advantage of changes

2. Exploit market fundamentals

Are you applying fundamental analysis of future market shifts or relying solely on past assumptions?

3. Identify & analyse solutions

Anticipate future Price Reviews, including attention to adequate hedging and risk mitigation against new pricing indices

4. Negotiate changes

Analyse counterparty position, articulate your own; maximise opportunity of negotiated, not arbitrary outcomes

5. Include short term LNG

In the light of an increasingly liquid market, commercial teams need greater flexibility and speed of action to engage in short term trade.

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Thank you for your attention

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