

Significant Demand with little local supply

- Oil Shocks (70' s)
- Japan “Best Mix”
- Japan - ships not pipe
- Korea - trunk line

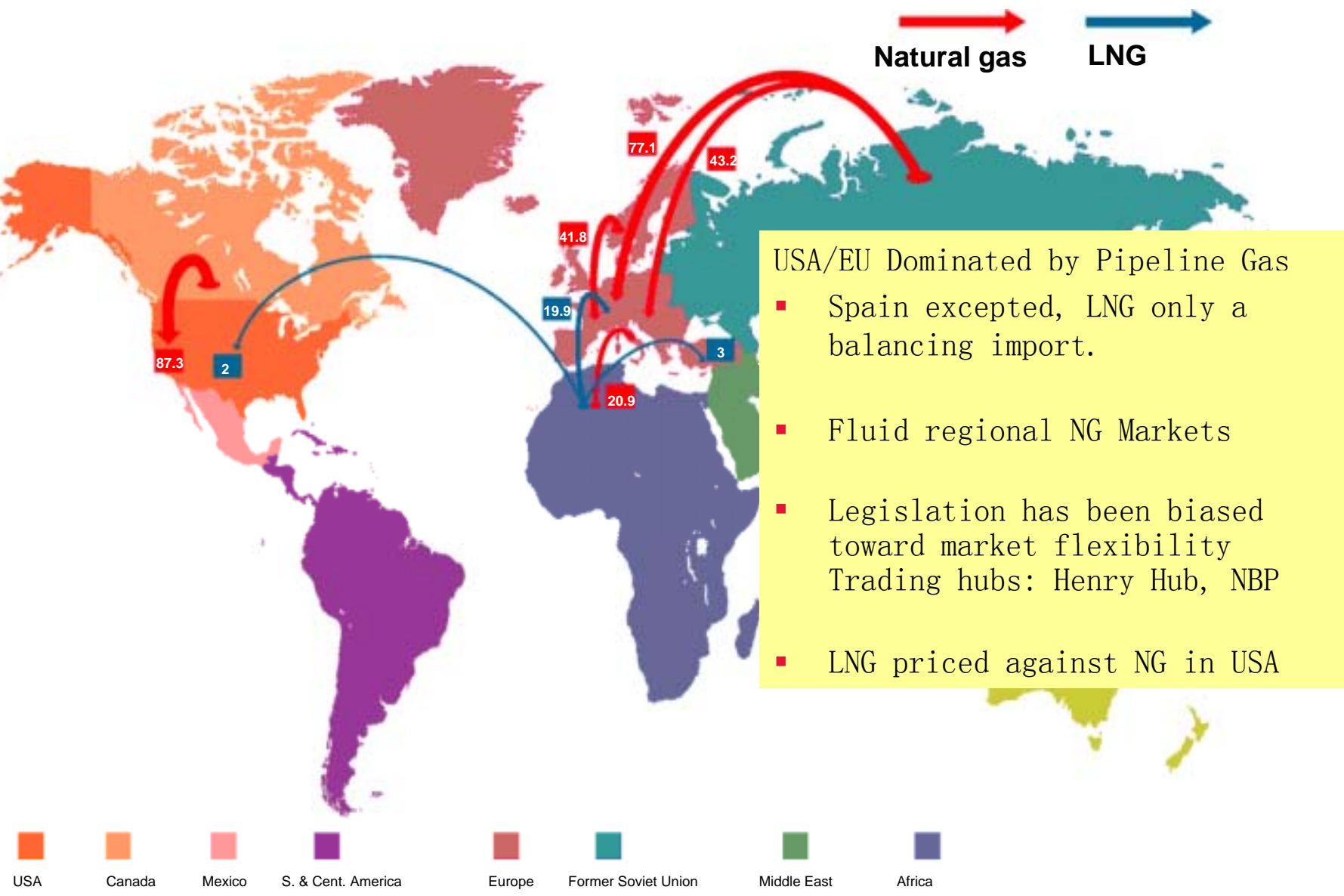
Transportation investment

Stranded Gas, little domestic demand.

- High drilling and Liquefaction cost.

Perfect Supply and Demand synergy.
 High Capex = long term commitment.
 Bi-lateral term contracts prevail.
 Limited trading for seasonal swings / planning surprises.
 Alternate = oil, thus priced off oil

By Contrast – Atlantic Natural Gas



USA/EU Dominated by Pipeline Gas

- Spain excepted, LNG only a balancing import.
- Fluid regional NG Markets
- Legislation has been biased toward market flexibility
Trading hubs: Henry Hub, NBP
- LNG priced against NG in USA



Alpha Wave

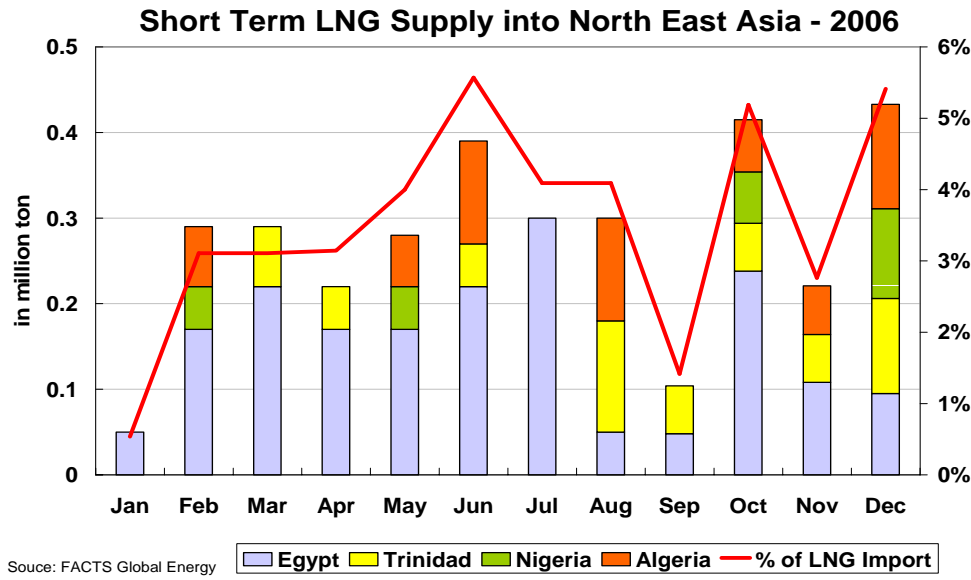
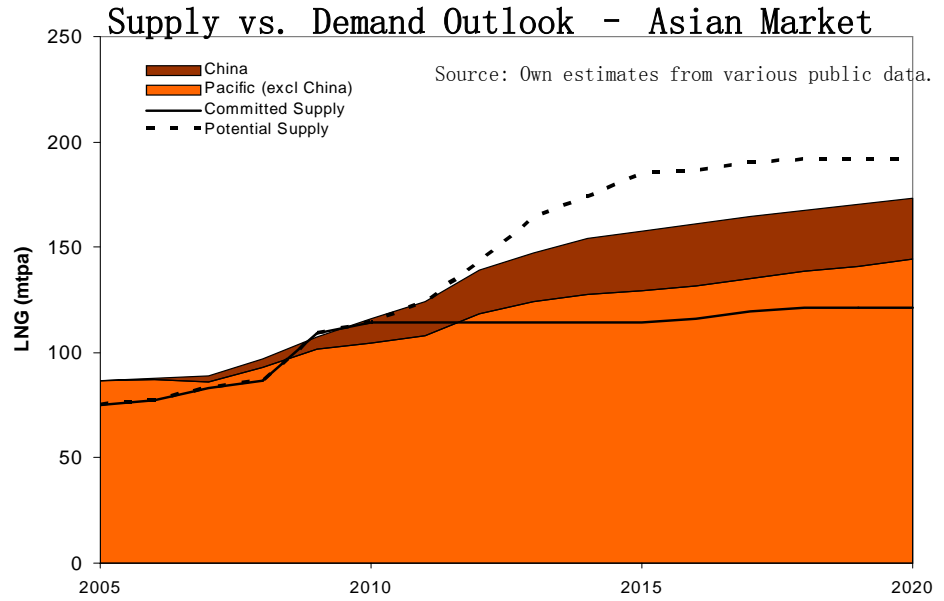
- Short term regional shortfalls 2007-2010 due to demand surges

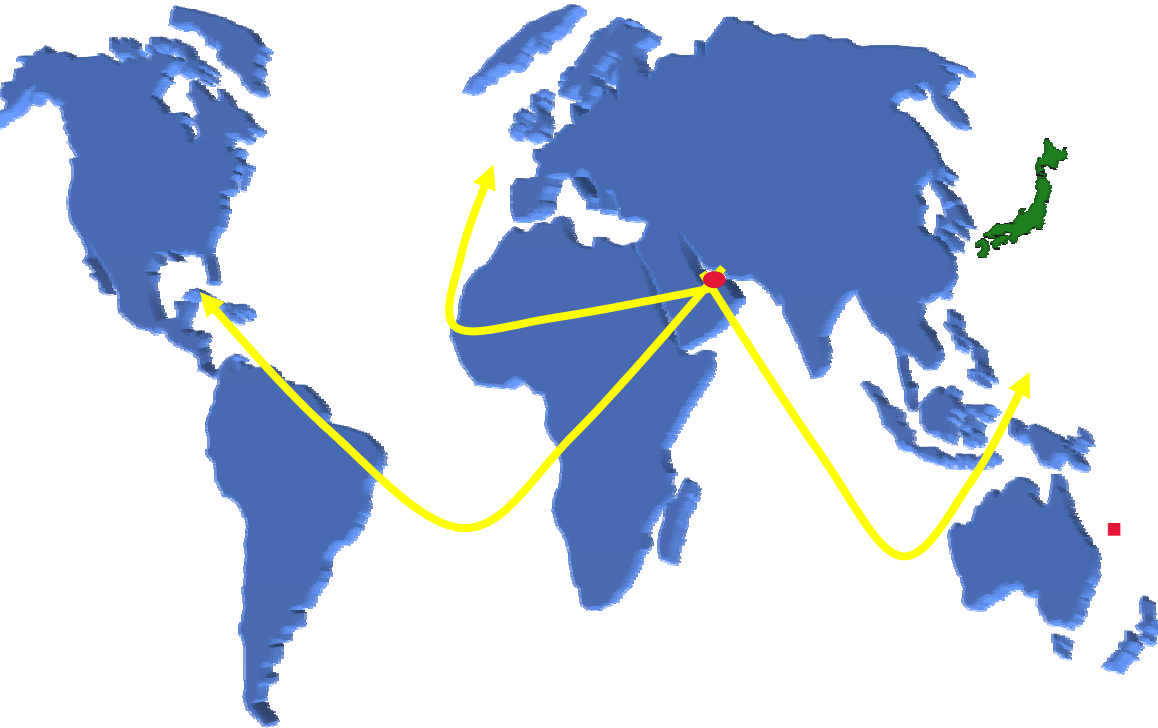
Beta Wave

- Underlying growth dominated by China and India

Structure

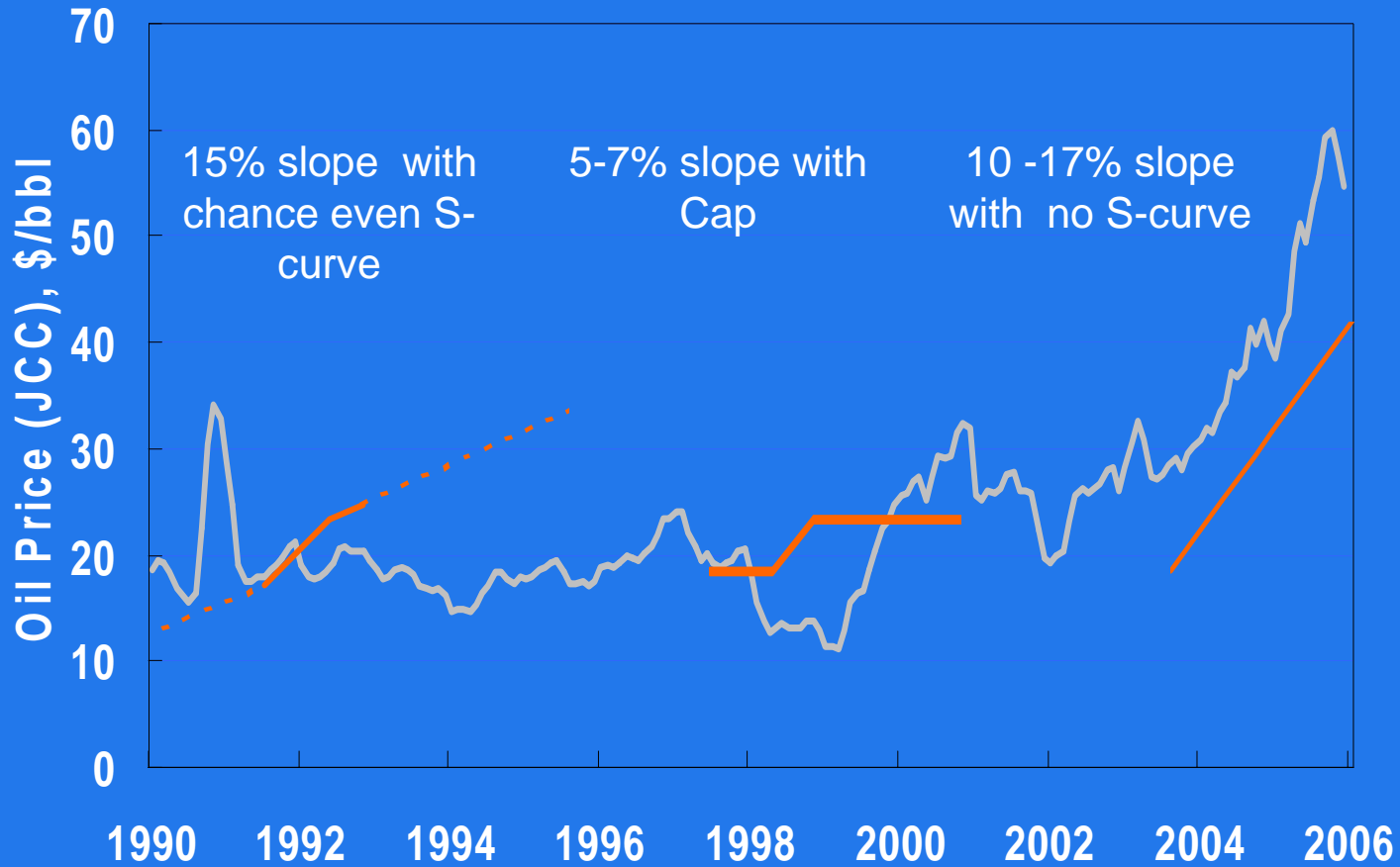
- Long term contracts dominate:
 - Security of supply
 - Growing influence of NOCs
 - Lack of fluid regional market
 - Spot supply still only a stop-gap, avg. 3% in 2006



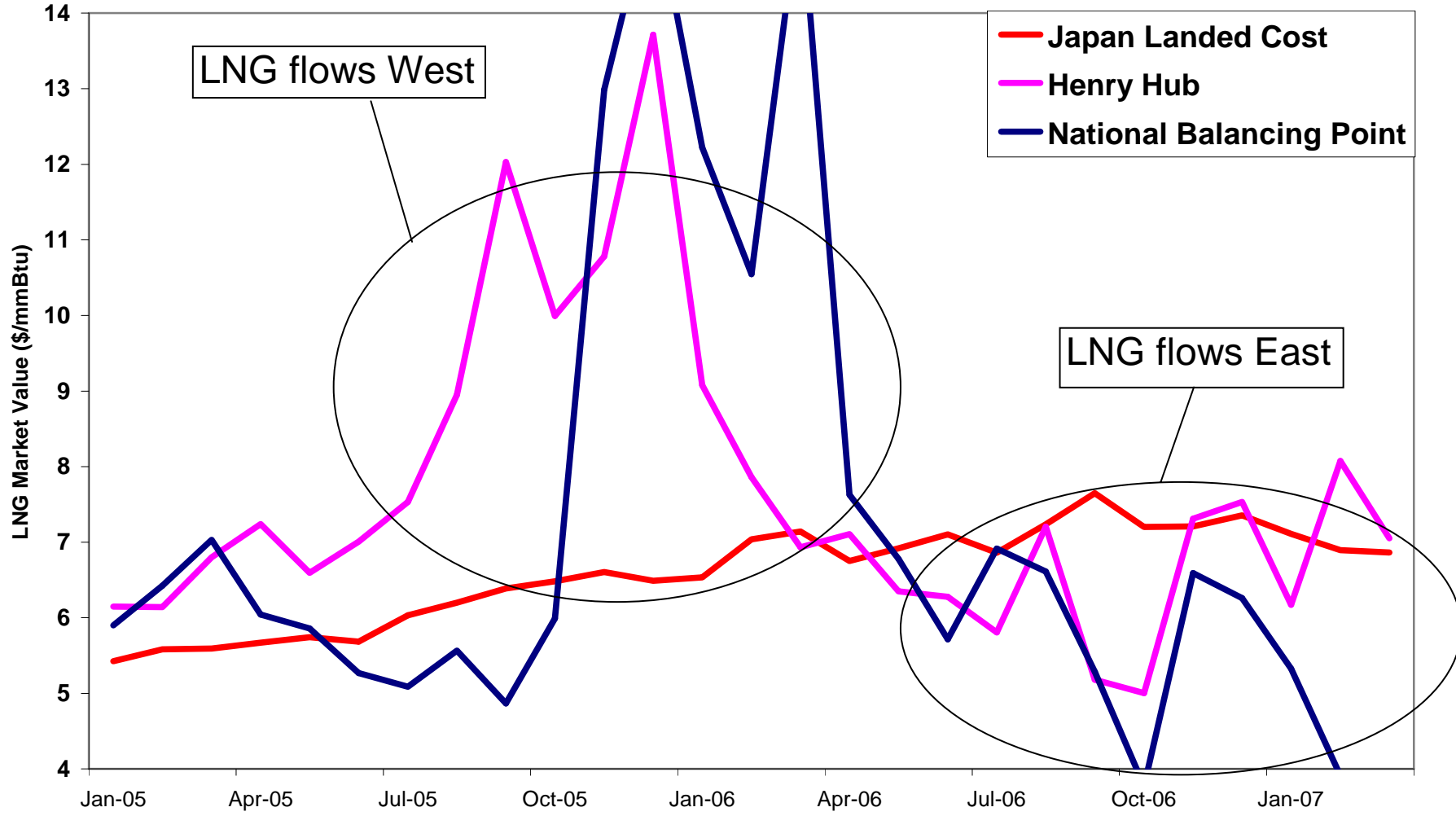


- Qatar (and Iran in the future):
 - Surplus Capacity
 - Geographical ambivalence
 - Value seeking
- Gorgon: selling to both markets on regional pricing models.
- Global Companies:
 - Multi-market access at both ends of supply chain
 - Control of LNG fleets
 - Eager to capture highest value via flexibility
- Continuance of Oil-based pricing in Asia vs. Natural Gas in Atlantic maintains arbitrage possibilities

➤ Quality differences remain a hurdle to liquid global trade.



LNG Market Drivers for Arbitrage



Source: World Gas Intelligence

- ★ LNG will increasingly flow between the Atlantic and Asian Markets.
- ★ Cycles of over and under-supply regionally will bring on arbitrage opportunities.
- ★ Asia preference: long term contracts with pricing linked to alternate fuels.
- ★ For the near future, the Atlantic and Asian markets will remain distinct, providing windows of opportunity to both sellers and buyers.
- ★ Increasing connection between Atlantic and Asian Markets.