

New Oil Market Balance: growing competition for access to resources and market share

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РОСНЕФТЬ



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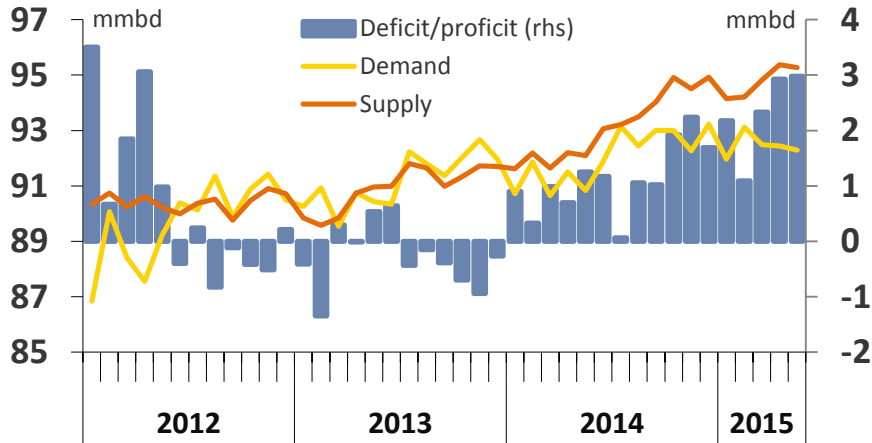
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Lack of balance and clear prospects on the oil market



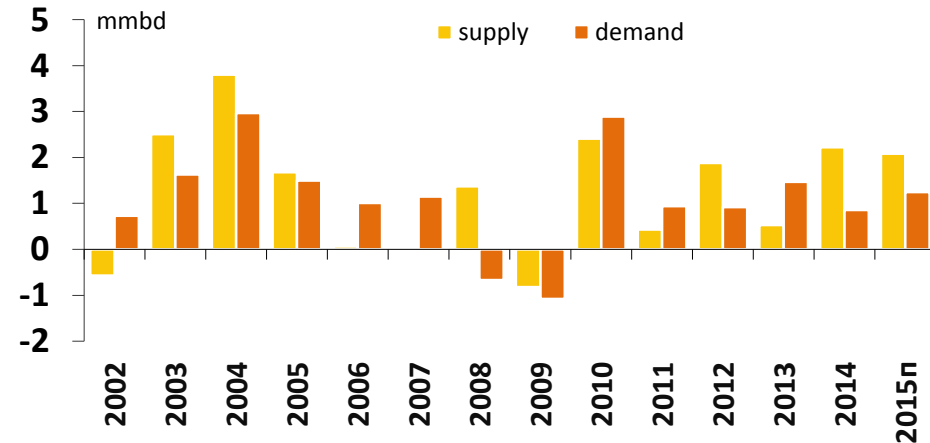
Global supply and demand of liquid hydrocarbons



Source: IEF estimates based on EIA data

- Supply of liquid hydrocarbons keeps exceeding demand
- Despite low oil pricing, imbalance persists this year

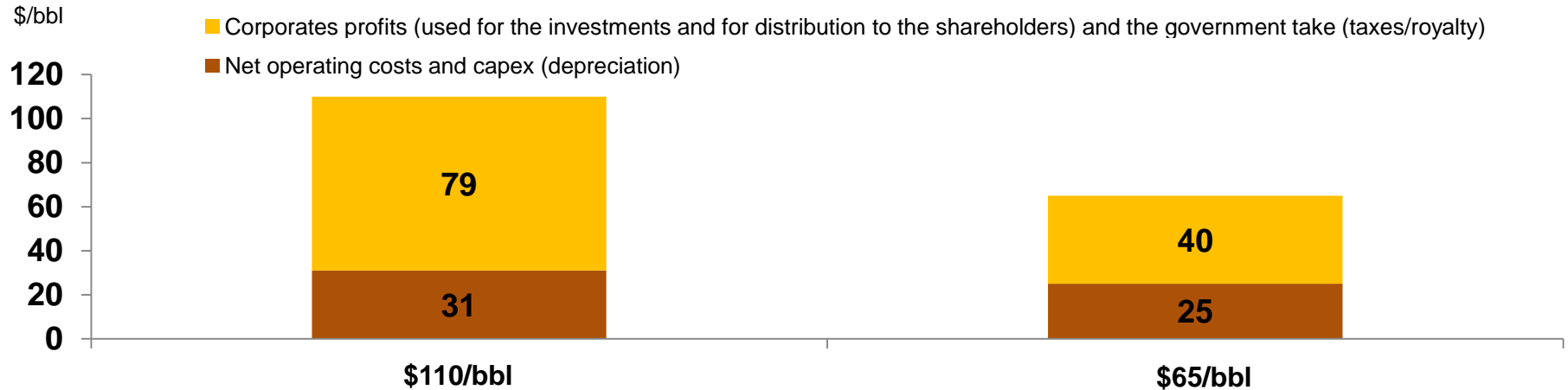
Incremental supply and demand of liquid hydrocarbons



Source: IEF estimates based on EIA data

- Global liquid hydrocarbons production significantly increased in 2014
- Yet, global demand growth stagnated
- Industry experts expect supply to exceed demand this year

Breakdown of Oil Pricing



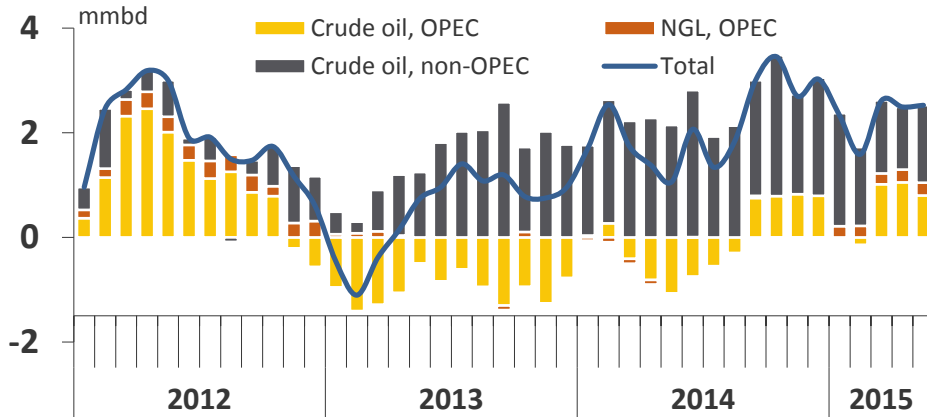
Source: Rosneft estimates based on Wood Mackenzie, IHS data

- Producers' revenues significantly decreased as compared to the high oil price period, with the negative implications for both the corporates (by 50–60% in upstream for IOCs) and the governments (in terms of tax proceeds)
- **Corporates:** a drop in revenues reduced upstream investments by 20–30%, declining shareholder returns and deteriorating industry investment case in general
- **The governments:** lower oil revenues triggered shrinking government expenditures with negative implications on the economic growth and consequently on the energy demand

Oil production keeps growing fast



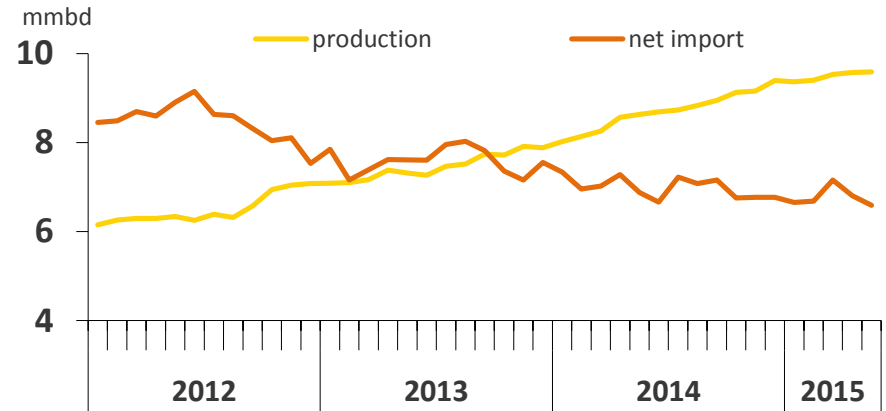
Breakdown of global liquid hydrocarbons supply growth, YoY



Source: IEF estimates based on EIA data

- Since 2013 crude oil production growth has been driven by non-OPEC countries
- OPEC countries have ramped up production since mid-2014, triggering market imbalance and dramatic price reduction
- Incremental supply keeps exceeding demand growth despite of more moderate growth in non-OPEC countries production

US crude oil output and import



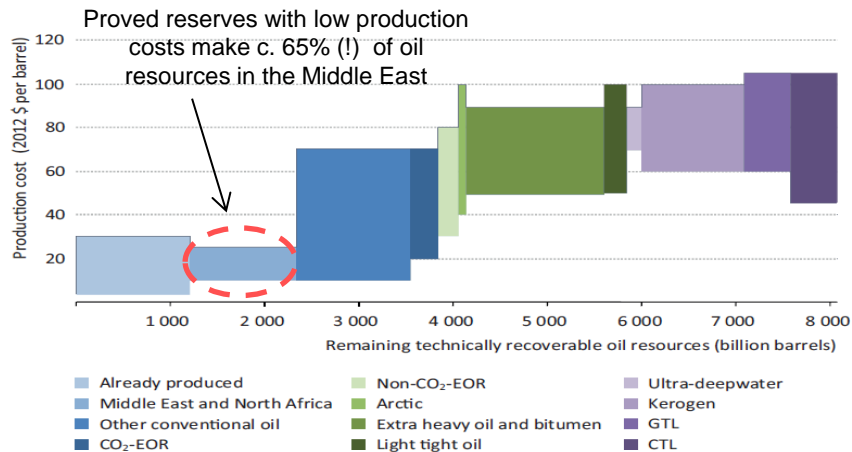
Source: IEF estimates based on EIA data

- US shale oil production increased by over 1.5 mmbd, while the total US liquids output was up by 2 mmbd in 2014
- Remaining crude oil export ban still impacted the global market via shrinking crude oil import volumes

Middle East countries enjoy low lifting costs with the main pressure coming from budget constraints

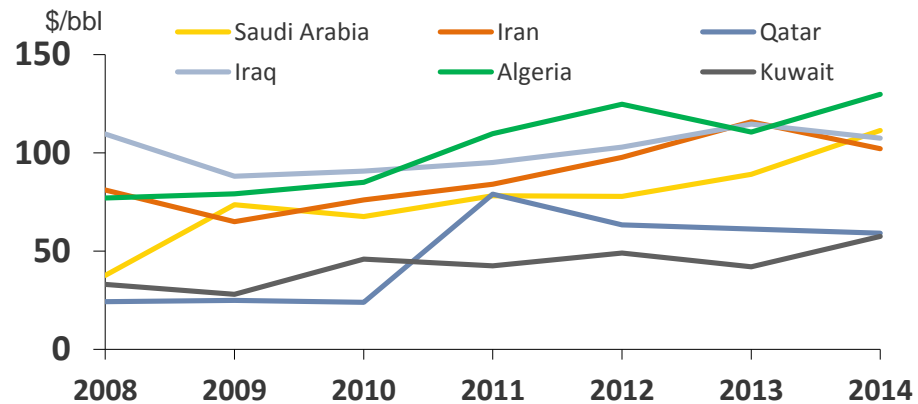


Production costs for different oil sources



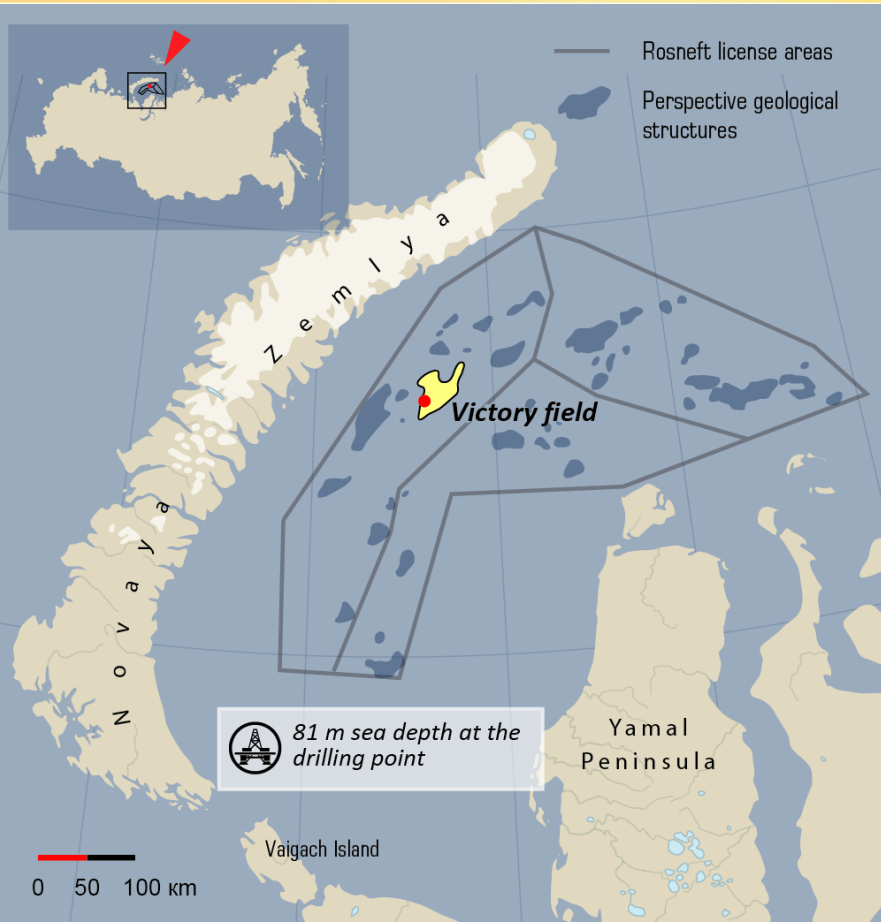
- In line with the situation 50 years ago, the Middle East accounts for 60–65% of ‘easy’ oil resources

Break-even budget price levels for certain OPEC countries



- Most of Middle East countries require relatively high oil prices for meeting their budget obligations
- Recent crude oil price slump resulted in a significant budget deficit and depleting the sovereign funds amount even in Saudi Arabia

Unique discovery in Kara Sea - Victory field

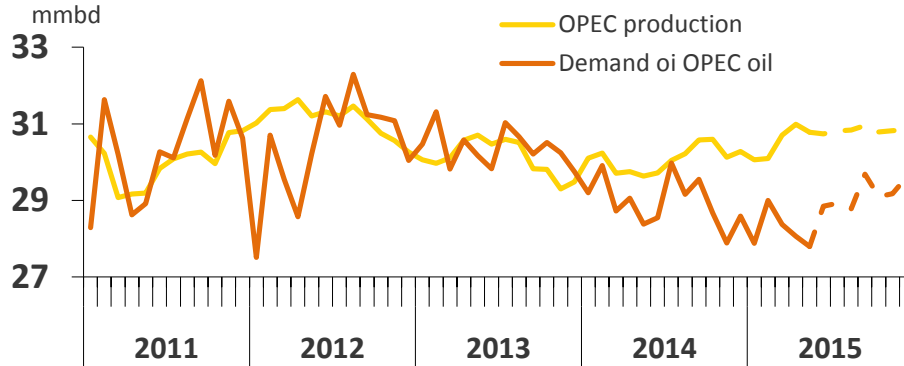


- Discovery date: September 2014
- Sea depth – 81 m., vertical well depth – 2113 m.
- The drilling was completed in record-breaking time
- The well proved oil resources in place at the East-Prinovozemelskiy-1 license area in the Kara Sea
- The discovered field was named Victory
- The oil extracted from Victory field is ultra light with low sulfur content
- Total recoverable reserves booked with the Russian state balance
 - 130 mn t of crude oil;
 - 396 bcm of gas

OPEC strategy lacks efficiency: OPEC keeps ramping up production

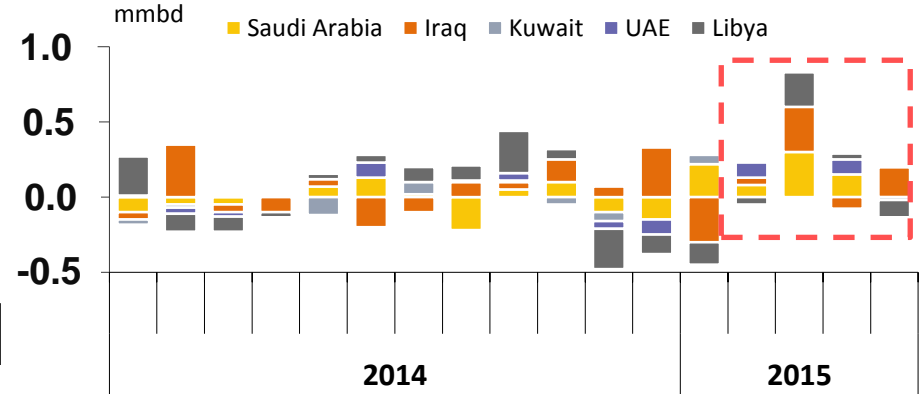


OPEC crude oil output, quota and global demand in OPEC oil



Source: IEF estimates based on EIA data

Incremental crude oil production of certain OPEC countries, MoM



Source: IEF estimates based on Bloomberg data

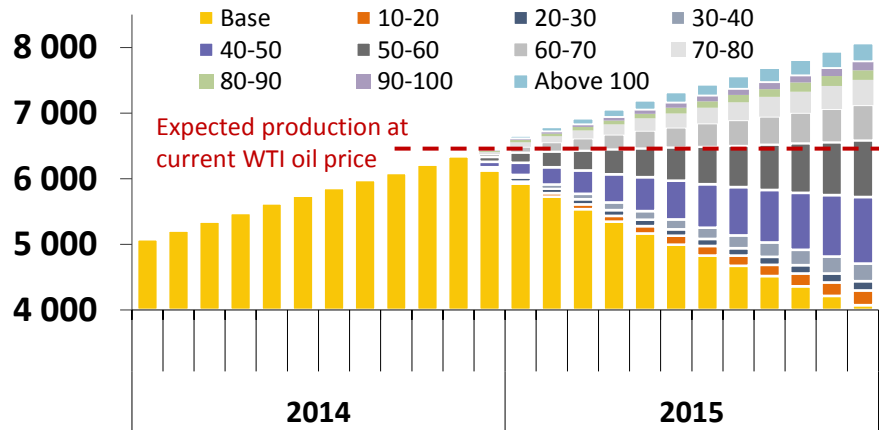
- Current OPEC output exceeds the established quota and market demand
- Certain countries continue raising their output to compensate reduced proceeds from oil export in conditions of lower oil prices
- Iraq and Iran plan higher output despite quota limitations.

- Saudi Arabia raised its output from 9.5 mmbd in Dec 2014 to 10.25 mmbd in May 2015
- Iraq also increased crude oil production and export in Jan-May 2015. It plans to keep increasing it

Non-OPEC countries maintain production



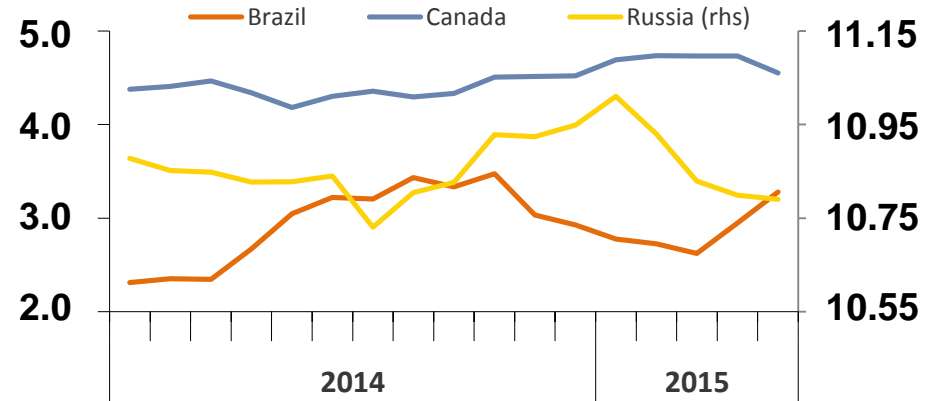
US shale oil production forecast under different Brent pricing scenarios, kbd



Source: Rystad Energy

- Production is quite flexible under different oil pricing
- Even under WTI at \$50/bbl, the output will just stabilize by the middle of this year, while higher oil pricing may trigger further production growth

Oil production in Russia, Brazil, Canada, mmbd



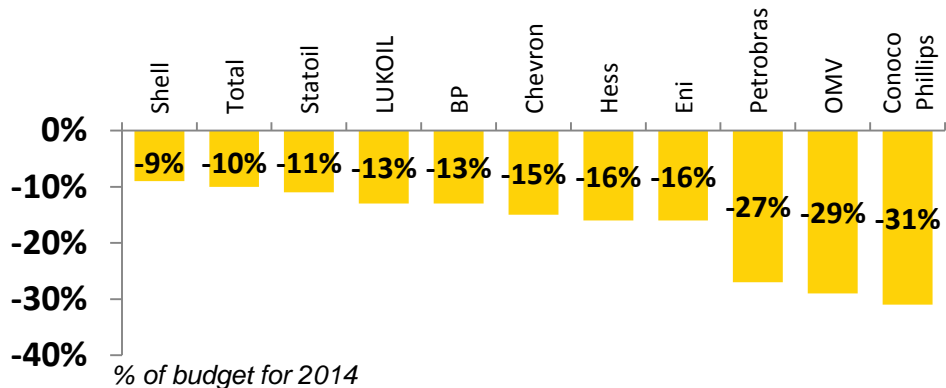
Source: IEF estimates based on EIA data

- Canadian oil sand projects and Brazilian deepwater offshore projects kept raising production in lower price environment
- Russia maintained production at high level despite declining oil prices

Low oil prices reduce investments, not the output



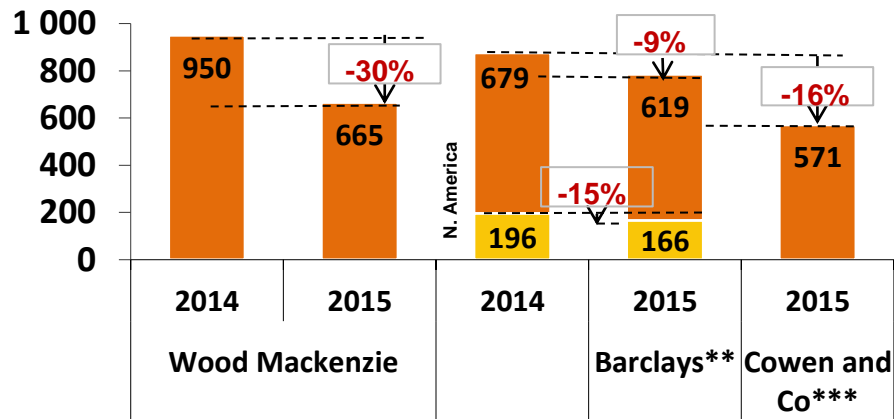
Investment budget cuts by major oil companies in 2015



Source: Wood Mackenzie

- Oil companies indicated Capex budget cuts by \$65 bn in 2015
- The oil industry investment could go down by \$100 bn this year, according to WoodMackenzie
- Goldman Sachs estimates that the greenfield projects with ~\$1 trillion of required investments (excl. US shale) could become loss-making under \$70/bbl oil price scenario

Forecasts of global oil capex cuts, \$ bn



Note: * Data for the oil companies announcing their E&P plans as of early March 2015.
 ** Barclays E&P Spending Outlook (Brent \$70/bbl, WTI \$60/bbl)
 *** Cowen and Co.'s Annual study of E&P capex budgets (WTI 70 \$/bbl)
 Source: Wood Mackenzie, Barclays, Cowen and Co

- Oil price slump could reduce investments by 9–30% in 2015, while 2009 cuts amounted to only 15%

Residual global liquid hydrocarbon resources in place



at 01 Jan 2014

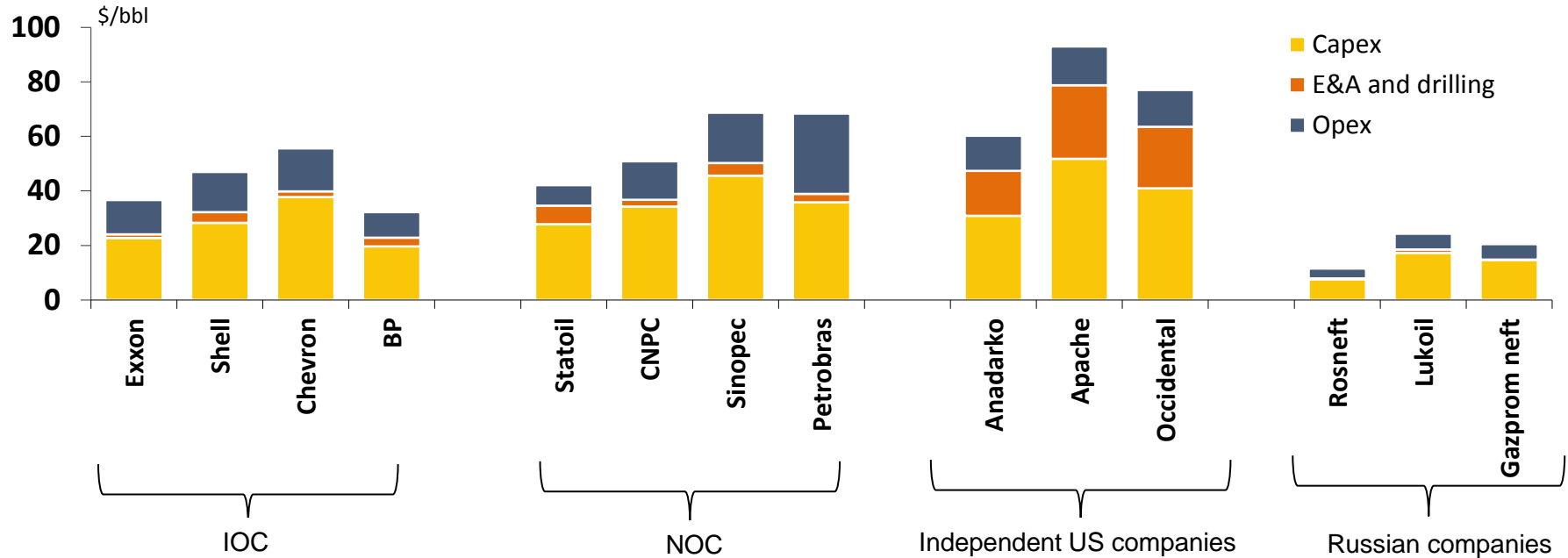
	Proved reserves 1P, bn bbl	Recoverable resources, bn bbl	Total, bn bbl	Share, % of total
Conventional oil	1.250	1.000 – 1.500	2.250 – 2.750	61–66%
Ultra heavy oil	257	177	434	10–12%
Natural bitumen	170	481	651	15–18%
Tight oil (including shale oil)	11	321	332	8–9%
Total	1.688	1.979 – 2.479	3.667 – 4.167	

Source: Rosneft estimates based on VNIIZarubezhgeologiya data, BP, Wood Mackenzie, IHS, EIA, USGS

Russian brownfields and greenfields are highly competitive



Oil costs breakdown by companies in 2014



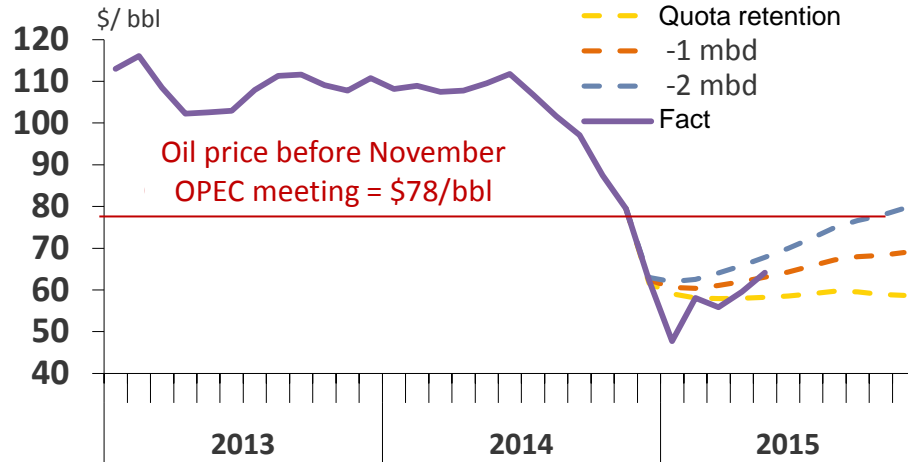
Source: IEF based on Wood Mackenzie data

- Russian oil production remains stable thanks to low cost base and the tax system which mitigates price shocks for the companies

Possible oil pricing path alternatives



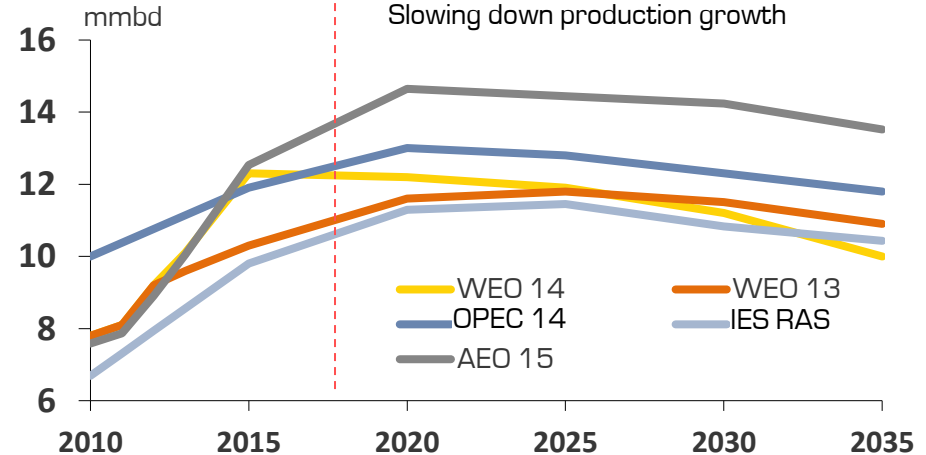
Oil price scenarios for different OPEC meeting outcomes in November 2014



Source: according to EIA based on short-term oil model (SOM)

- Oil price decline to \$80/bbl would have been a reasonable outcome with revitalizing impact on the market in the medium-term
- \$80+ scenario would require a 2% decrease in the total supply (or a 5% cut from OPEC)

US liquids production forecast by different agencies



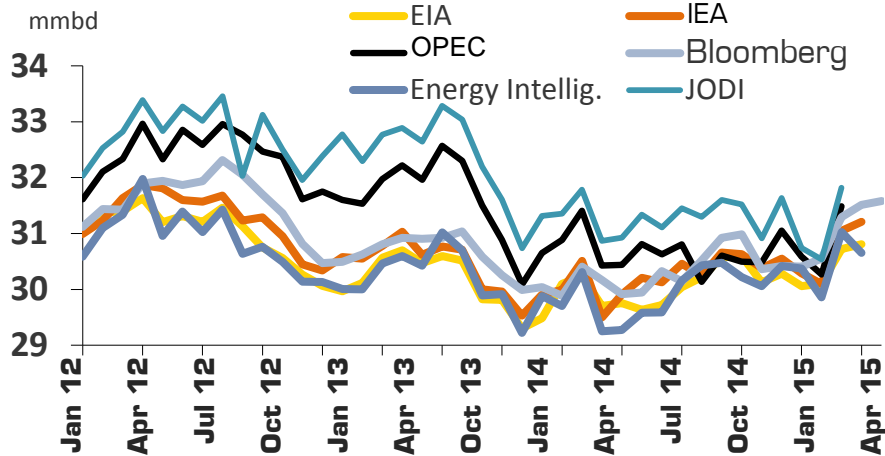
Source: EIA based on scenarios data

- OPEC concerns that supply cuts will evolve in a snowball fashion are not well grounded
- US production growth forecasts built even in conditions of higher oil prices suggested further growth only for 3-4 years before it stabilizing

Markets overreact to energy agencies' reports



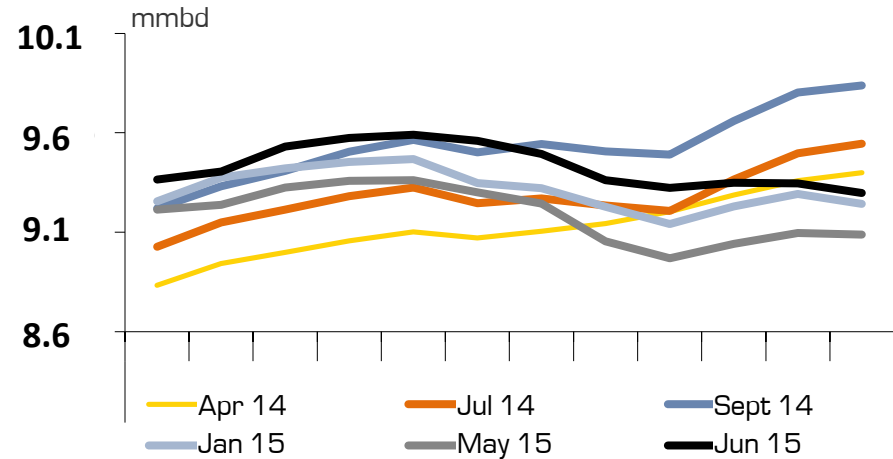
OPEC crude oil production data according to different agencies



Source: EIA, IEA, OPEC, Bloomberg, Energy Intelligence, JODI data

- The estimates provided by JODI and OPEC significantly exceeded the estimates of other agencies in 2013 – 2014
- The gap in the estimates were narrowing so far this year, as OPEC did not raise the forecasts, while other agencies raised their growth projections

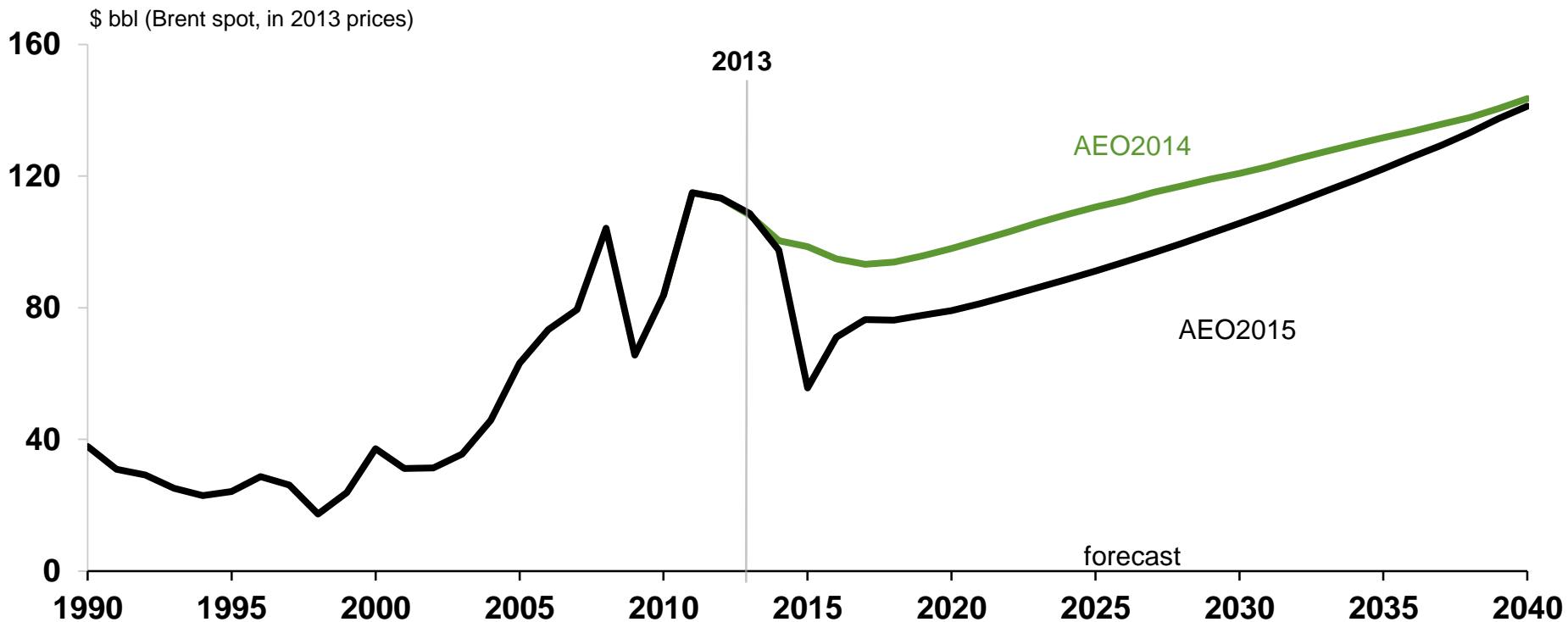
US oil production estimates revision by EIA in 2015



Source: IEF estimates based on EIA data

- 2015 US oil production estimates by EIA varied significantly. Production estimates differed by 0.2–0.4 mmbd even in 2015 reviews

Crude oil prices will be gradually approaching long-term curves



Source: EIA (Annual Energy Outlook 2015 Reference case and Annual Energy Outlook 2014 Reference case)

International investors hold ~26% stake in Russian oil majors



International investors' interest in Russian oil majors

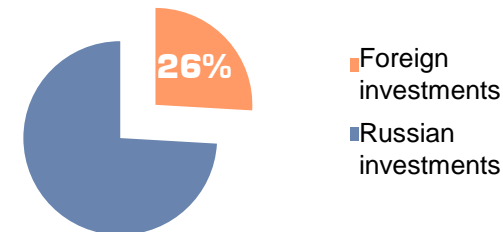
Company	International investors' interest (min estimate based on ADR/GDR holdings)	Market capitalization as of 01.05.2015, \$bn	International investors' stake value, \$bn
Rosneft	27.25%*	53.9	14.7
Lukoil	34.02%	43.6	14.8
Gazprom Neft	27.60%*	13.4	3.7
Surgutneftegaz	7.16%	26.5	1.9
Tatneft	29.90%	12.3	3.7
Bashneft	n/a	6.98	n/a
Total	26%	149.7	38.8

Note: share of foreign capital was estimated as ADR/GDR program divided by total shares outstanding.

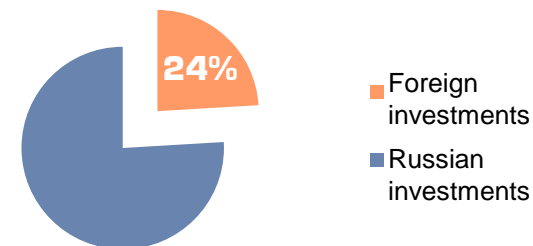
* – foreign interest in Rosneft was estimated based on GDRs amount and BP Russian Investments Limited ownership

* – foreign interest in Gazprom Neft was estimated taking into account share of foreign interest in Gazprom (it controls 95.68% in Gazprom Neft).

Share in the charter capital



Share in Russian oil production*















* Based on foreign interest in Russian oil majors (including non-completed takeover of 46% in RussNeft by Glencore), Gazprom, NOVATEK, PSA operators and independent oil producers capital.

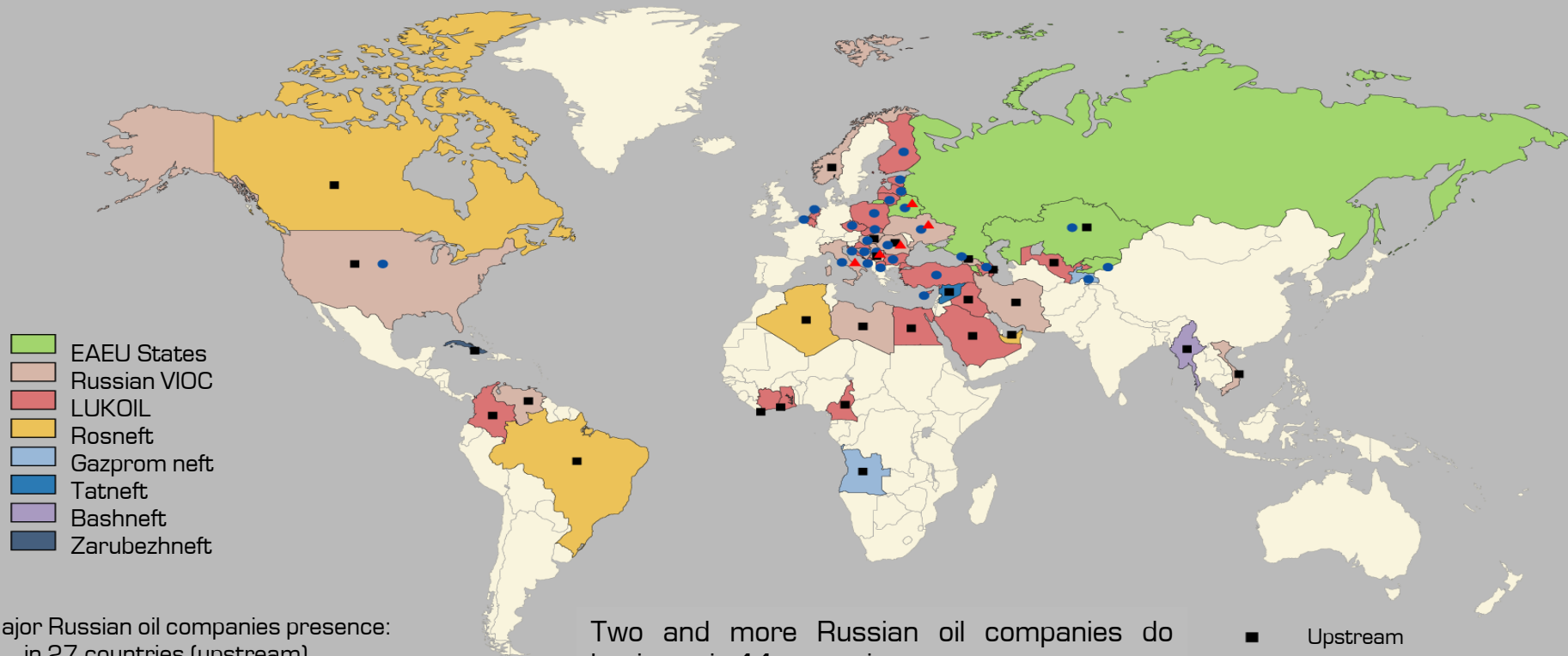
International investors stay in Russia despite geopolitical tensions



Russian oil upstream projects with foreign participation

 ExxonMobil	Sakhalin-1 (30%), core shareholder
	E&A in Arctic offshore under the Strategic Partnership Agreement with Rosneft (2011)
 Shell	Sakhalin-2 (27.5% minus one share)
	Salym Group in KhMAO (50%)
 Eni	E&A in Arctic offshore and in the Black Sea under the Strategic Partnership Agreement with Rosneft (2012)
 Total	Kharyaga PSA (40%), core shareholder
	NOVATEK (18.24%)
 BP	Rosneft shares (19.75%)
	Taas-Yurakh Neftegazodobycha (20%) under the Strategic Partnership Agreement with Rosneft (2015)
 Statoil	E&A in Western Siberia and in Yenisei-Khatanga basin under the Strategic Partnership Agreement with Rosneft (2015)
	Kharyaga PSA (30%)
 CNPC	E&A in the North-Komsomolsk area and on the shelf of the Sea of Okhotsk under Agreements with Rosneft (2012)
	JV Vostok -Energy with Rosneft to produce oil in the Irkutsk Region
 Sinopec	Veninsky Block in Sakhalin-3 (25.1%), E&A stage
	Udmurtneft (51%)
 ONGC	Sakhalin -1 (20%)
	14 subsoil acreages in the Tomsl Region – via Imperial Energy
 JAPEX, Marubeni и др.	Sakhalin-1 (30%) – via Sakhalin Oil Development Co. (SODECO)
 Mitsui	Sakhalin -2 (12.5%)
 Mitsubishi	Sakhalin -2 (10%)

International investments of Russian oil companies



- EAEU States
- Russian VIOC
- LUKOIL
- Rosneft
- Gazprom neft
- Tatneft
- Bashneft
- Zarubezhneft

- Major Russian oil companies presence:
- in 27 countries (upstream)
 - in 5 countries (refining)
 - in 28 countries (marketing)

Two and more Russian oil companies do business in 11 countries.

- Upstream
- Refinery
- Retail site



Thank you for your attention!

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