

Oil Market Crisis and The Prospects For Crisis End



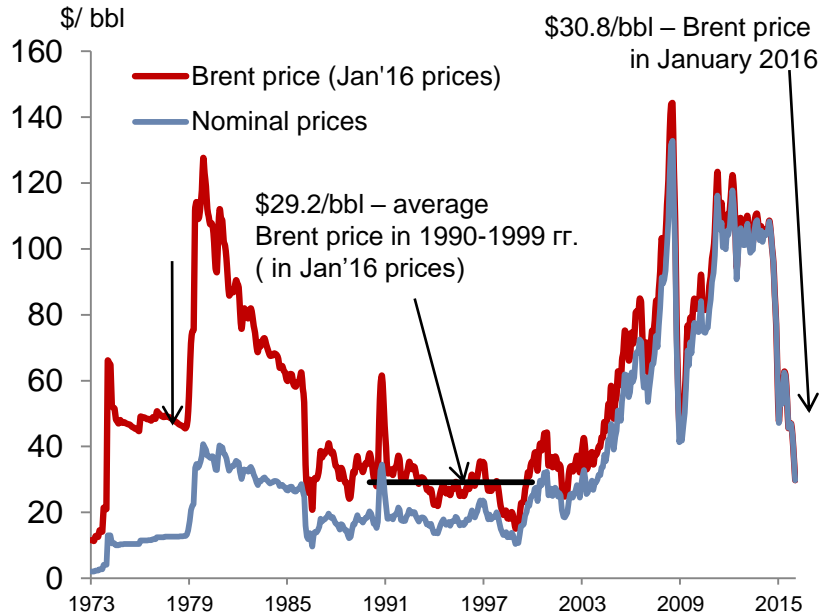
**CEO of Rosneft Oil Company
I. I. Sechin**

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London - February 2016

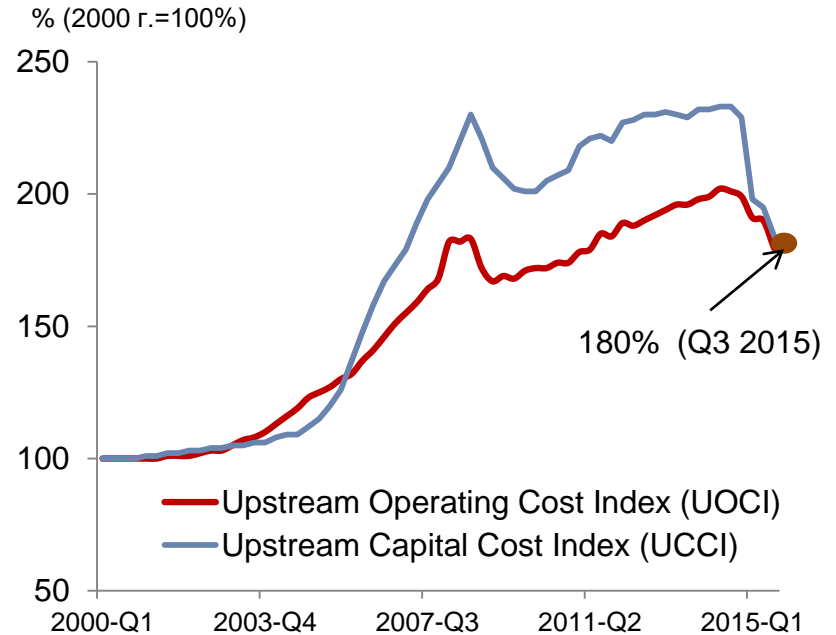
Oil prices are abnormally low



Oil price in real terms



Oil production opex and capex indices



➤ The current prices in real terms are close to the values of the 90's.

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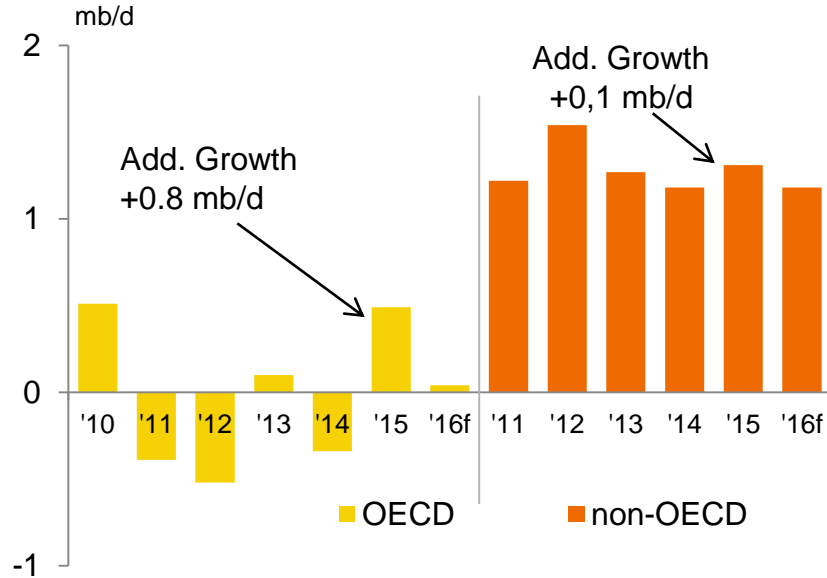
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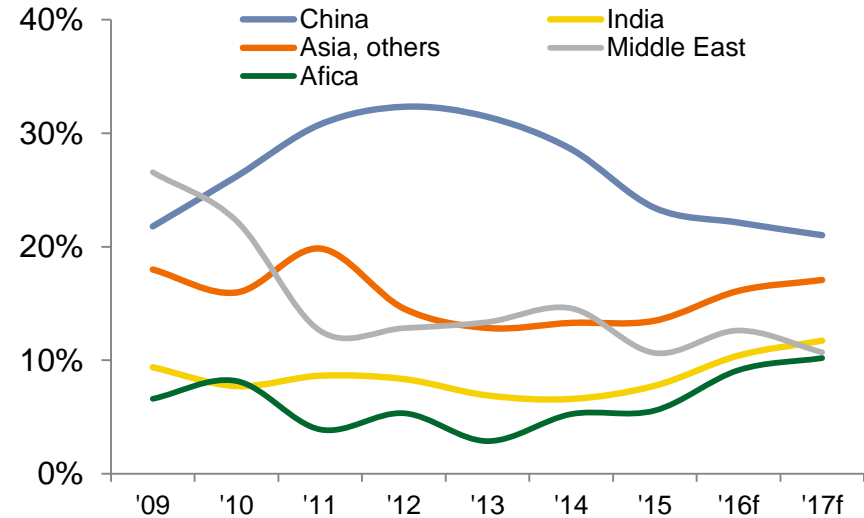
Price decrease has diversified and accelerated demand in 2015



LHC consumption growth (YoY) in developed and emerging countries



Share of emerging regions in the increment of the global consumption of LHC



➤ In 2015 global LHC consumption grew by twice the growth in 2014.

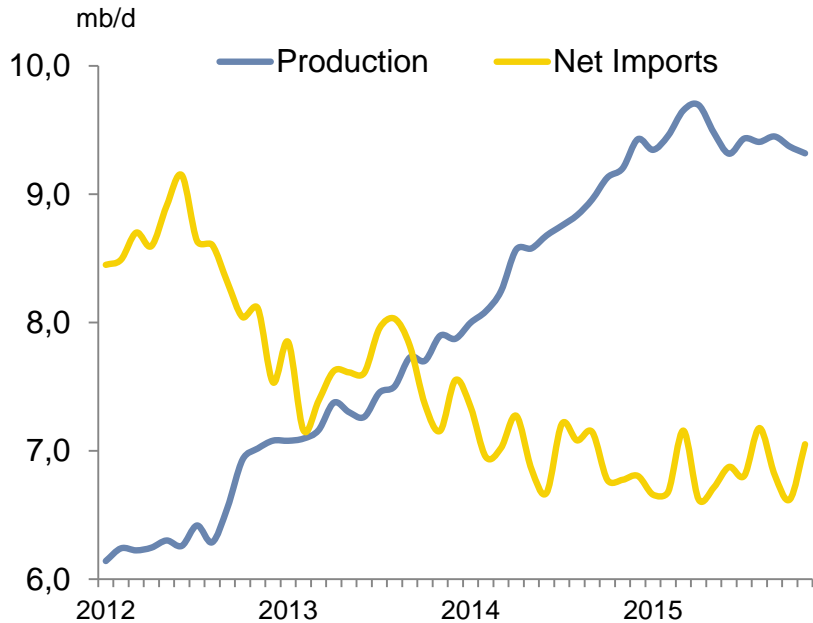
➤ China's share of global growth has declined.

➤ The share of India, other Asian countries and Africa has grown.

Explosive growth of shale oil production in the USA stopped in 2015

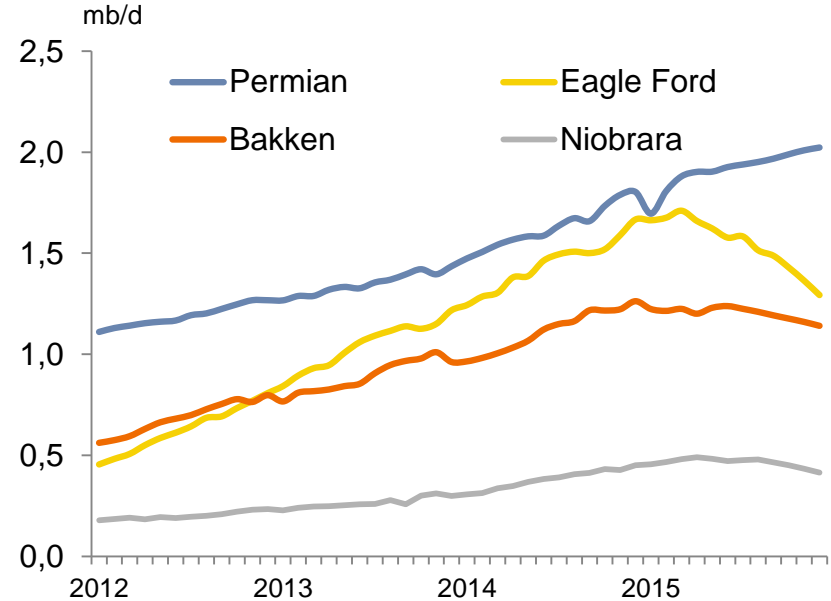


Production output and net import of crude oil in the USA



➤ In 2015 oil production in the USA stabilized at the level of 9.3 – 9.4 mb/d.

Oil production at the main shale plays in the USA

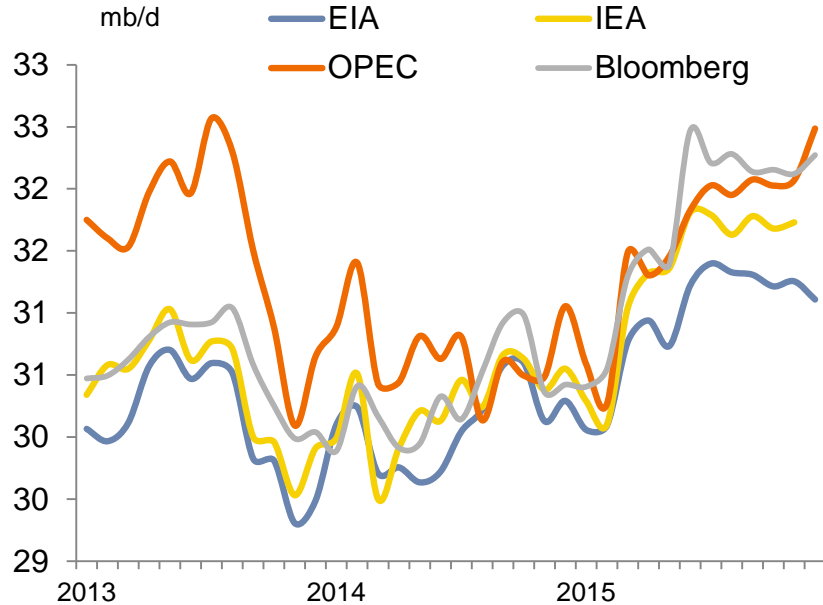


➤ In December, 2015 the production at the key shale plays in the USA declined by 5.4% down to 5.05 mb/d.

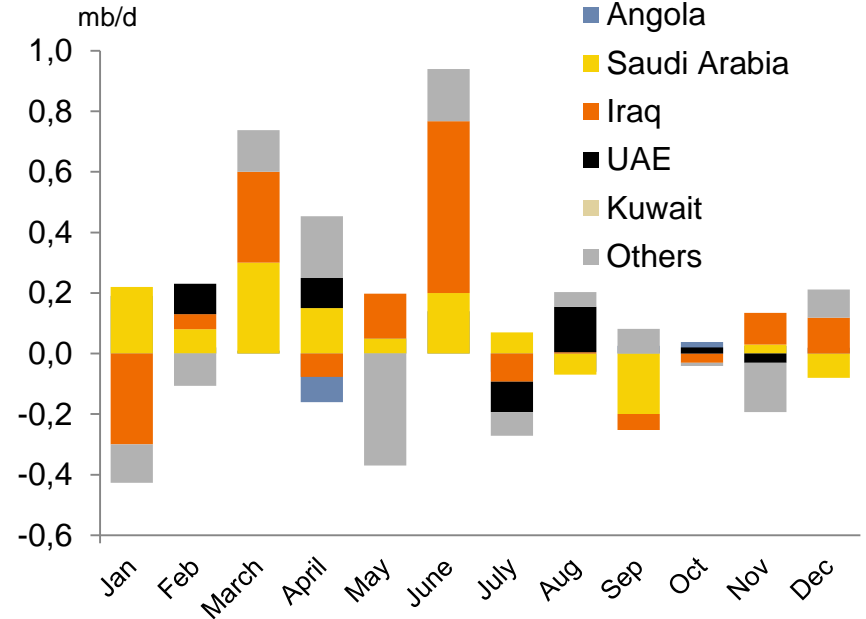
Increased OPEC production has aggravated the imbalance in the oil market



Crude production output at OPEC (except Indonesia)



Increment of crude production output in a number of OPEC countries (MoM)



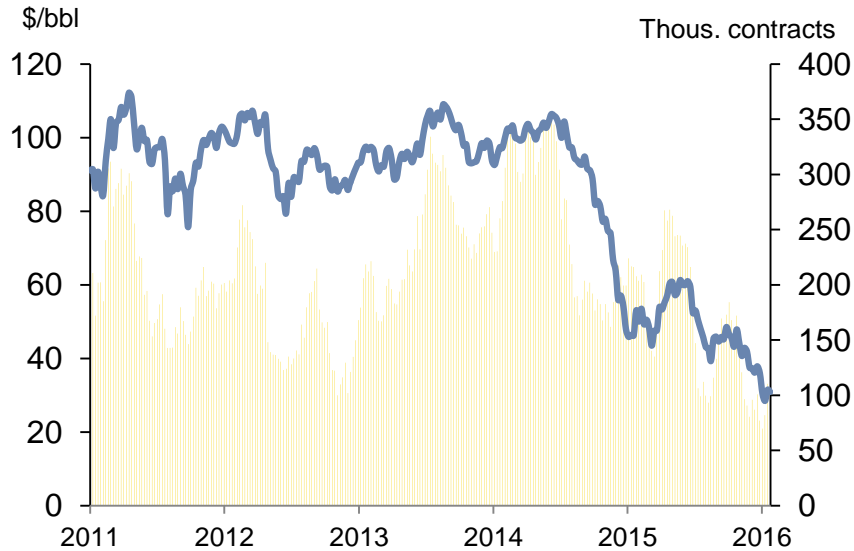
➤ OPEC production by far exceeds the official quota of 30 mb/d.

➤ In 2015 OPEC oil production grew by 2.6 mb/d (YoY).

Positions of major traders on futures markets for oil



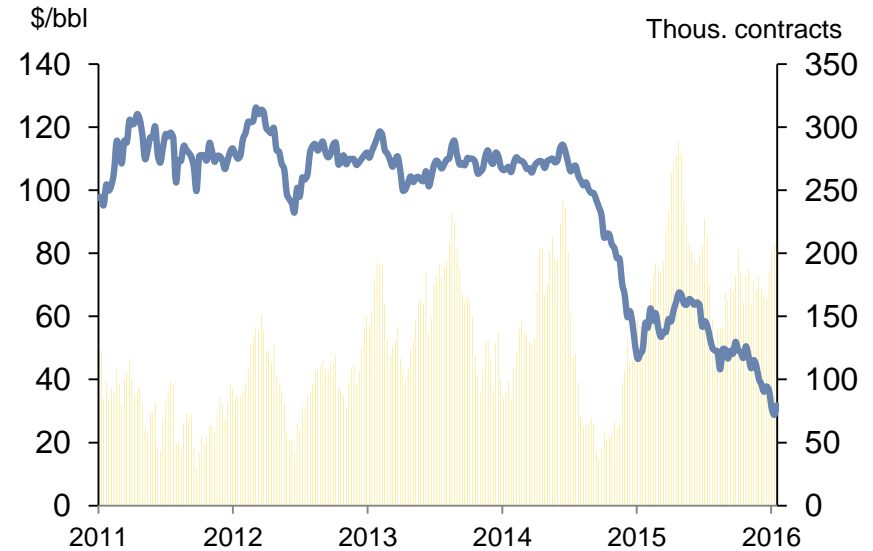
WTI prices and trading positions at NYMEX



Net position of major traders at NYMEX WTI price

➤ Net positions at the beginning of 2016 show that the market got bearish to a record-breaking degree.

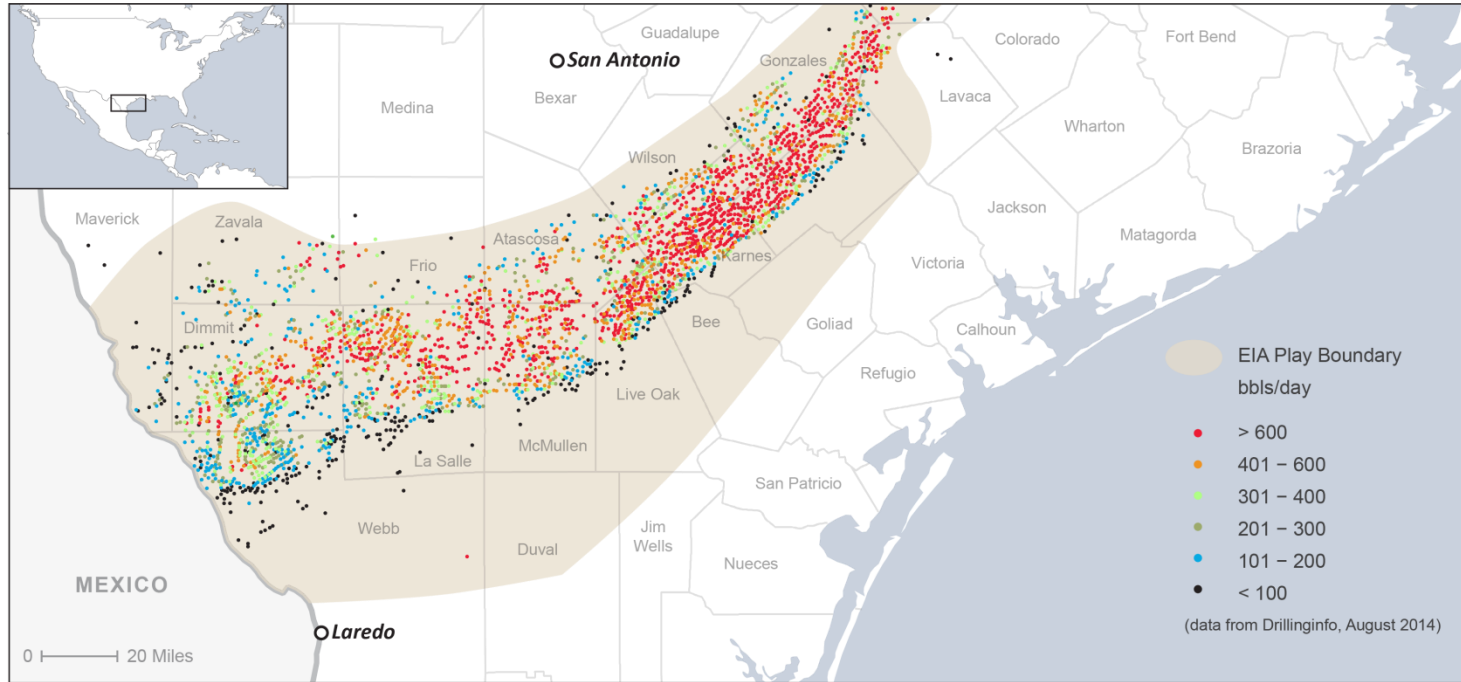
Brent prices and trading positions at ICE



Net position of major traders at ICE Brent Price

➤ Brent futures market shows less correlation between price dynamics and major trading positions.

Highest-quality wells make up small part of Eagle Ford

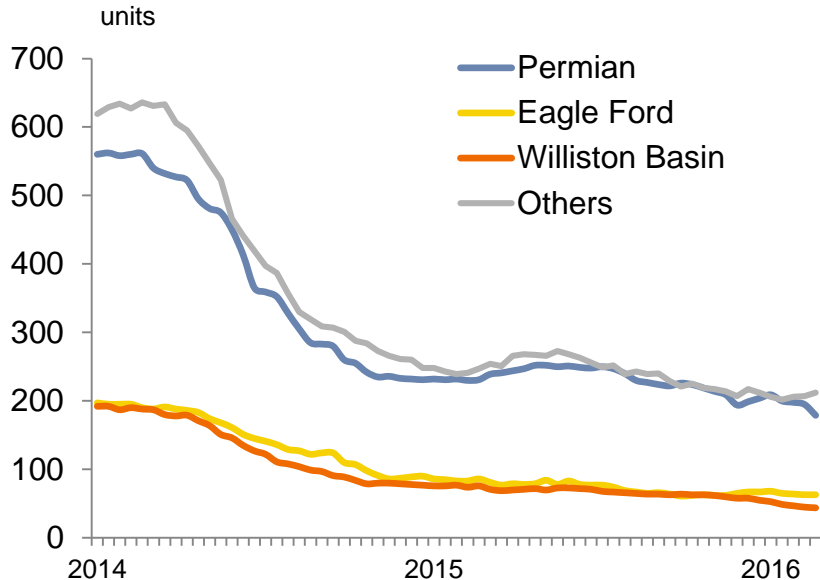


- ▶ The most productive areas, the so-called sweet spots, accounted for 81% of the production output, but also account for a small share of the total play area. And these wells are already drilled.

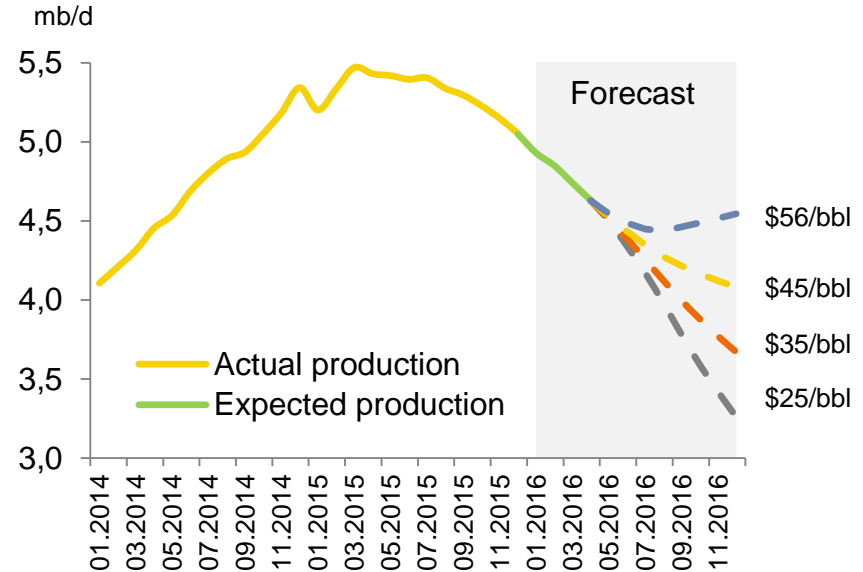
Scenarios of US oil and gas condensate shale production in 2016



Number of operating drilling rigs in the USA



Forecast for production output of oil and gas condensate at USA shale plays



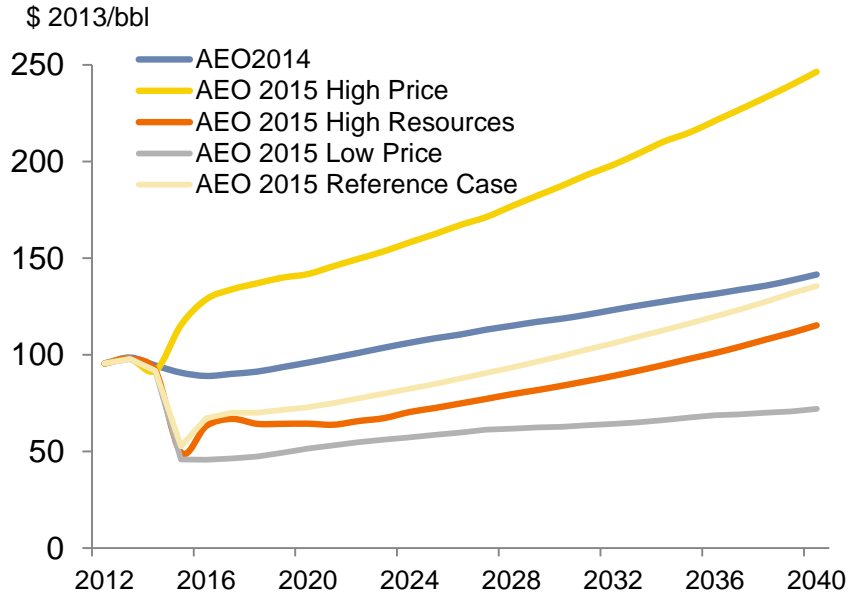
▶ Over the recent 12 months the rig count in the USA has decreased approximately threefold from 1,482 to 498.

▶ If oil prices stay flat at the level of \$35/bbl, by the end of 2016 USA shale plays will be producing 3.7 mb/d.

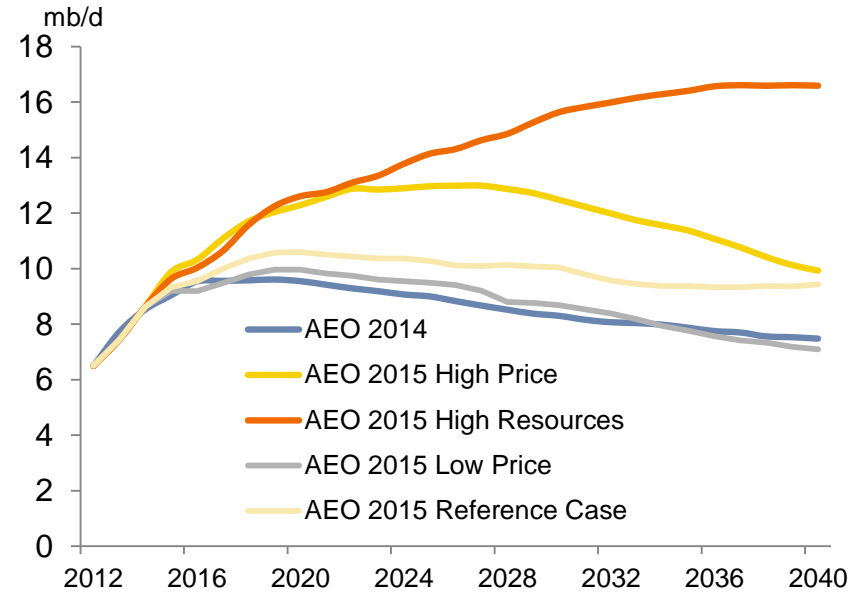
Long term oil production dynamics in the USA depend on the price outlook



Oil price outlook subject to different AEO scenarios



Forecast for crude production in the USA subject to different AEO scenarios



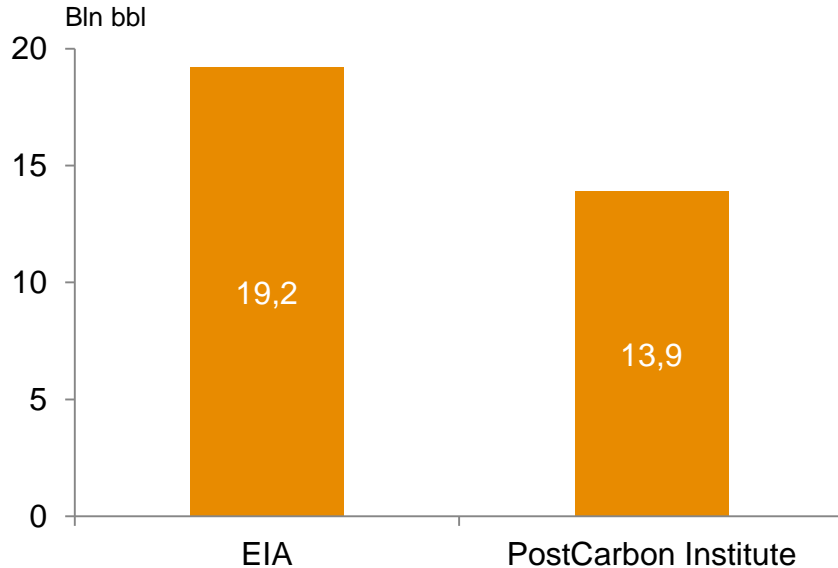
➤ Even the extremely high prices (over \$200 2013/bbl) cannot prevent oil production decline in the USA.

➤ \$50/bbl oil will not entail oil production decline in the USA until 2020.

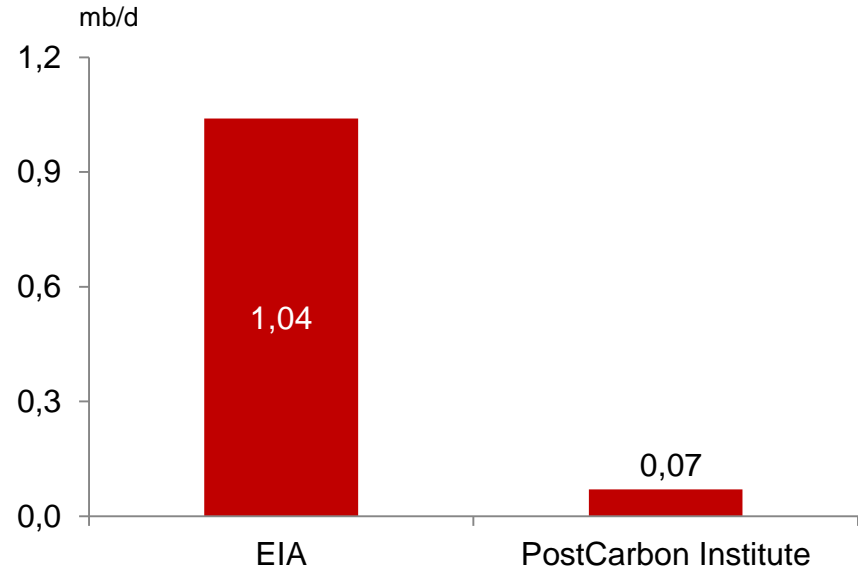
There is no consensus on the prospects for shale oil production



Accumulated production in 2012-2040 at plays Bakken and Eagle Ford in the USA



Daily production output in 2040 at plays Bakken and Eagle Ford in the USA

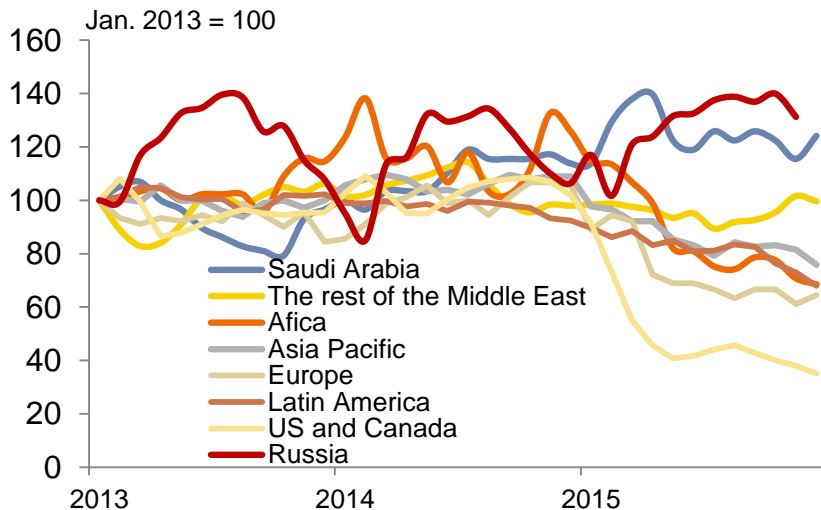


- ▶ The forecasts made by EIA and PostCarbon Institute agree on the timing of peak production for plays Bakken and Eagle Ford, but EIA predicts much more gradual production decline.

Drilling activity and investments have decreased everywhere except Russia and Saudi Arabia



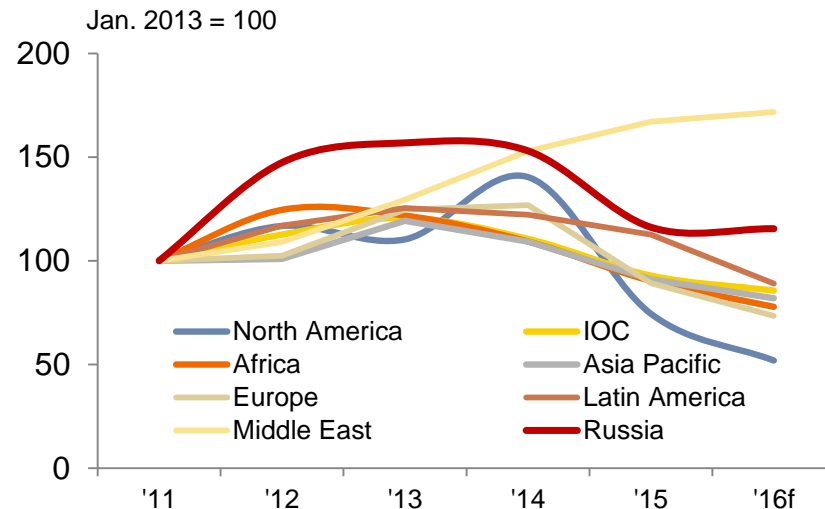
Dynamics of number of operating oil rigs* worldwide



*For Russia the data on the dynamics of exploratory and exploitation drilling are provided

- ▶ In 2015 the number of operating oil rigs worldwide decreased by about 44%
- ▶ With North America excluded, the decrease made up 17%.

Dynamics of investments into Upstream

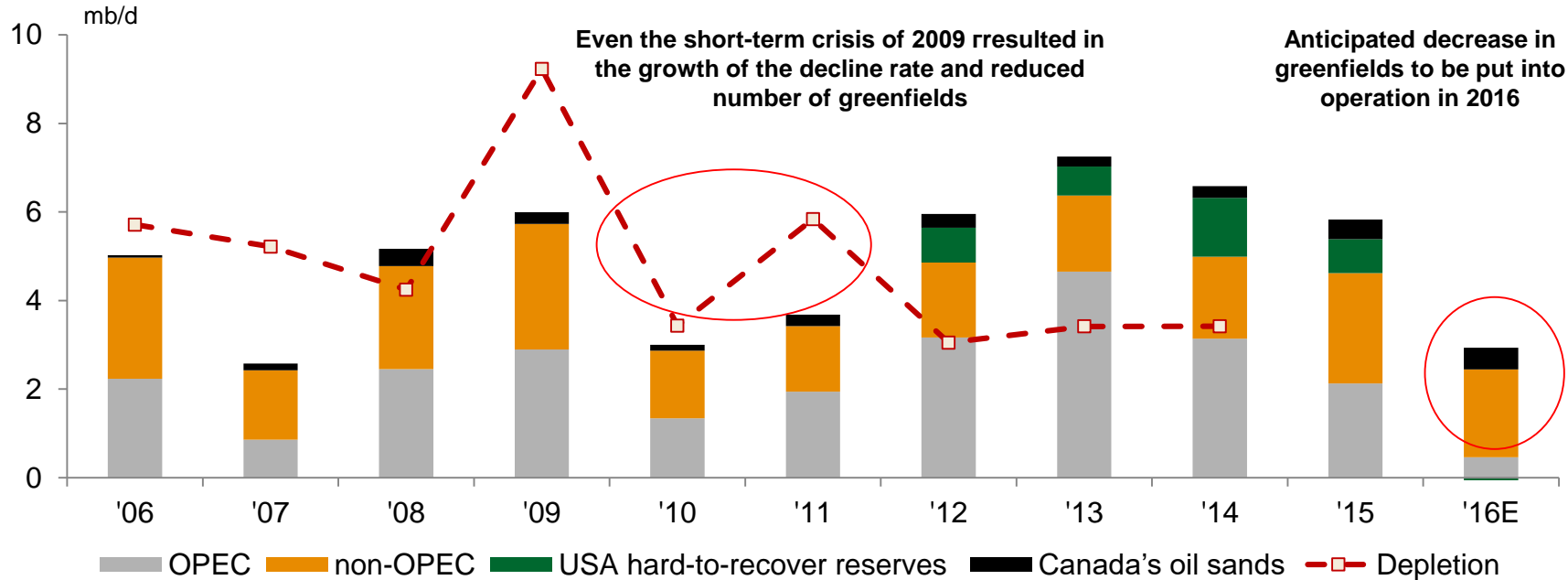


- ▶ In 2015, investments into Upstream have been cut by 23% to \$545 bln and will decline by another 13% in 2016.

Reduced drilling and investment reduction may cause supply deficit in the mid-term



The volume of greenfields to be put into operation and estimated depletion volume by the decline rate

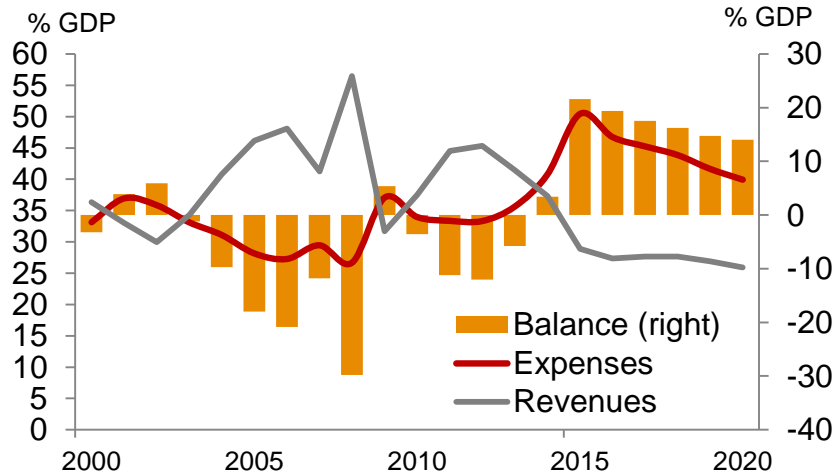


➔ The current growth of oil supply is accounted for by production from existing fields.

OPEC has budgetary and socio-economic challenges

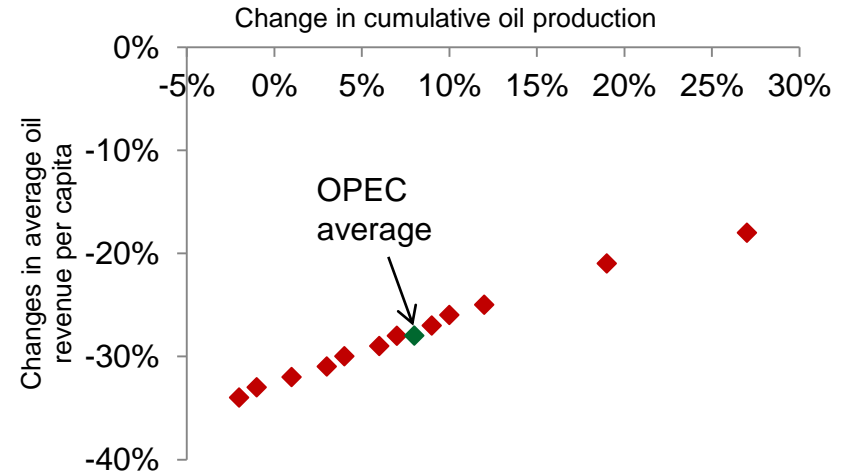


Revenues, expenses, budget balance of Saudi Arabia



- ▶ Saudi Arabia's budget deficit reached about 21.6% of GDP in 2015 and it will remain at the level above 15% of GDP during 2016-2020.
- ▶ From August 2014 to August 2015 the country's international reserves decreased by \$130 bln (-17.3% YoY) down to \$616.4 bln.

Change of production output and per capita oil sale revenues in OPEC countries in the event of oil price decline by 30-35%

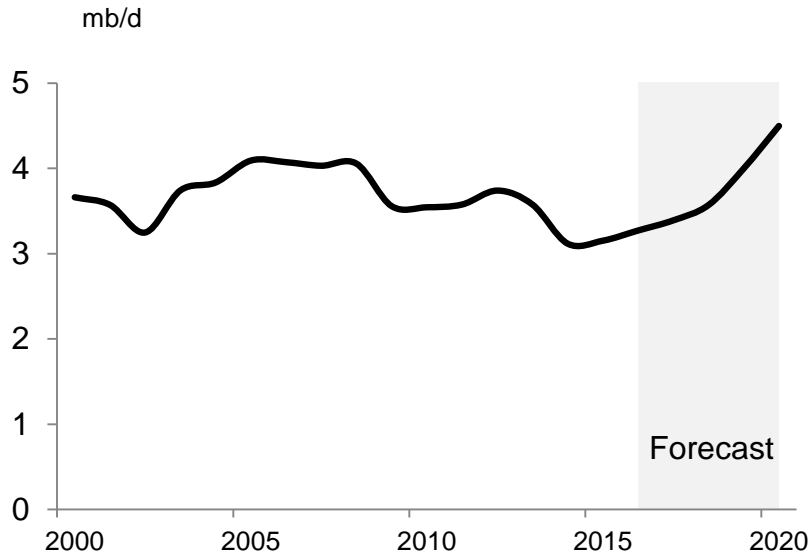


- ▶ The IEA estimates that the decrease in oil price will result in a 1:1 ratio decrease in per capita oil revenues in OPEC countries.
- ▶ Increased production by more than 7.5% will be required to offset the decrease.

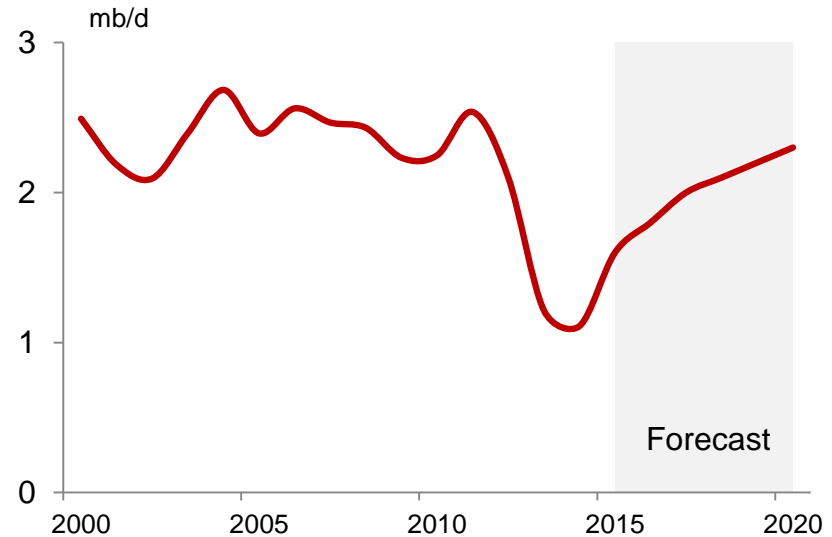
Iran's potential with respect to oil production and export



Oil production forecast in Iran



Iran oil export forecast

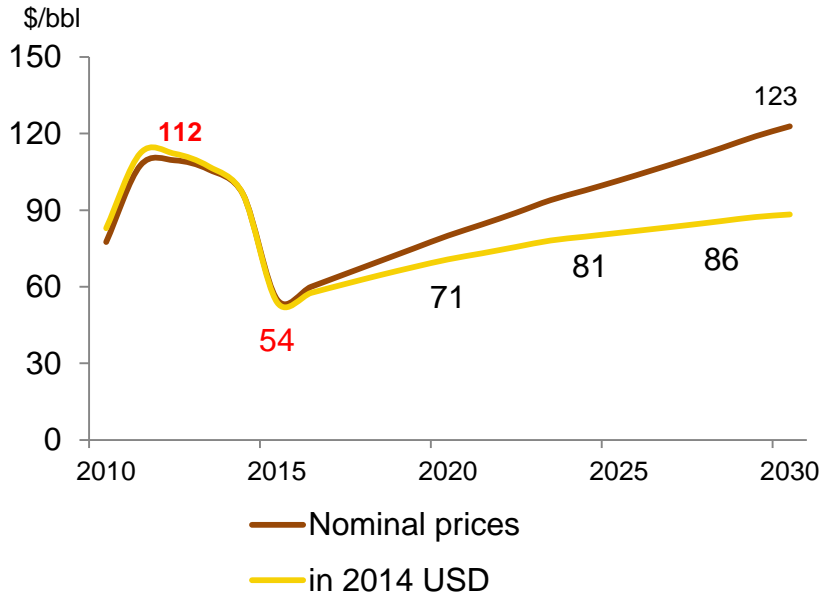


- Existing or mothballed capacity in Iran may increase production by 1.35 mb/d to 4.5 mb/d in 2020.
- In this scenario exports from Iran would increase by to 2.4 mb/d in 2020.
- Iranian oil inventories in their large-tanker fleet amount to approximately 40 million bbl.

Rosneft's and OPEC's long-term forecast

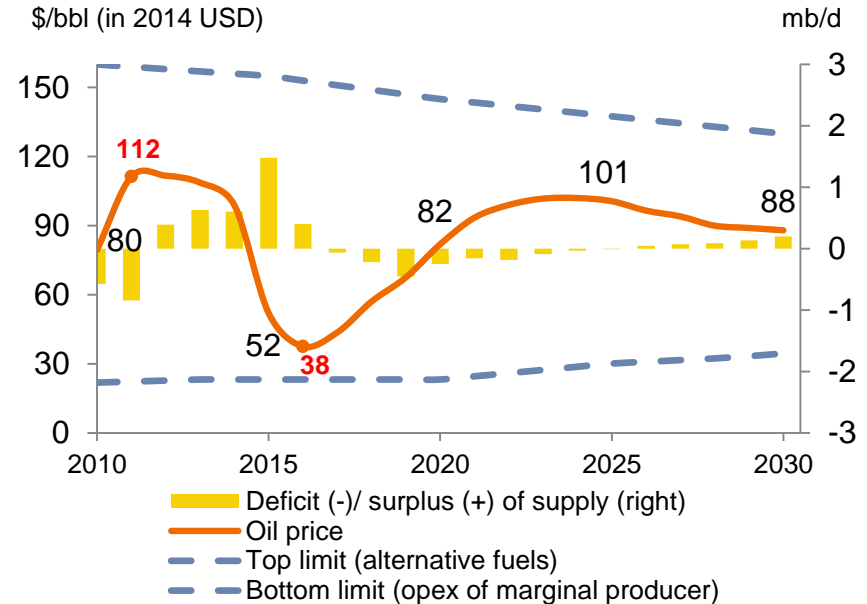


OPEC forecast for oil prices (till 2030)



- OPEC forecasts that the price of oil will rise to \$65/bbl by 2018, to \$71/bbl by 2020 and \$81/bbl by 2025 (in 2014 dollars).

Rosneft forecast (till 2030)

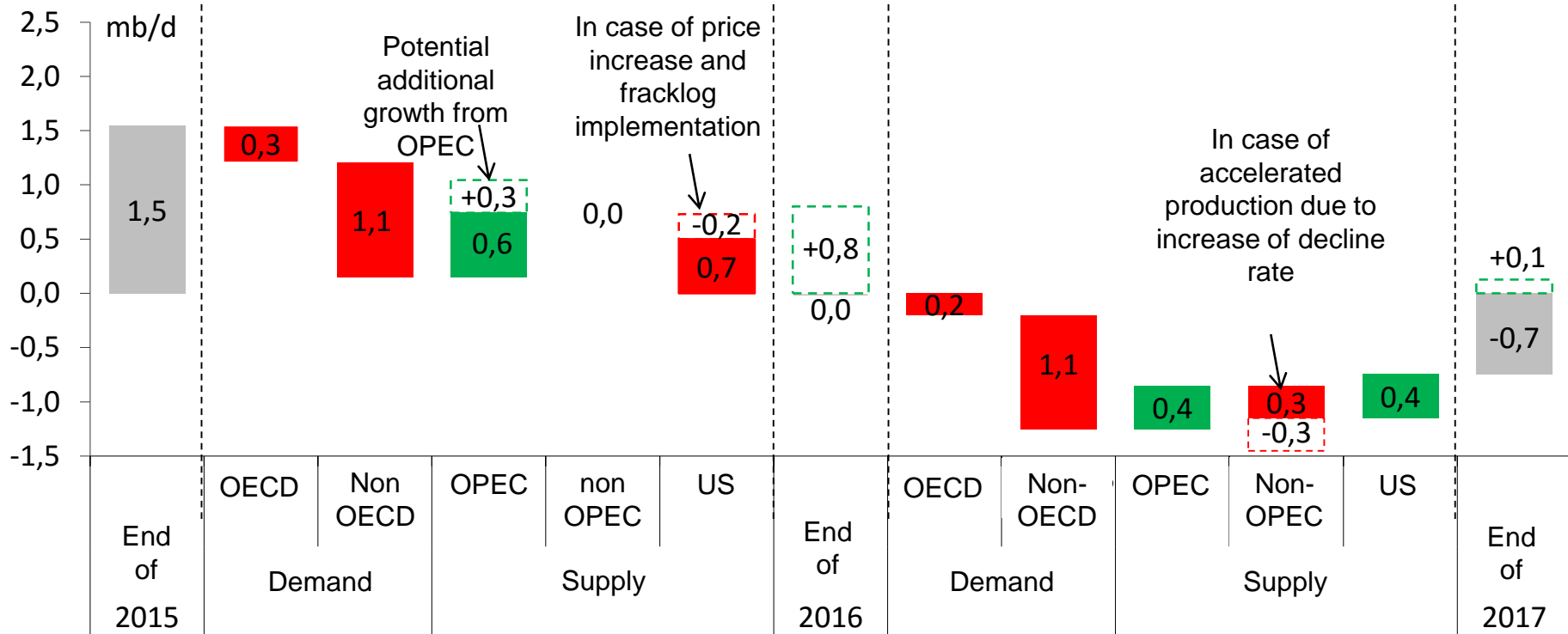


- Rosneft forecasts that the price of oil will rise starting from 2018 to \$57/bbl by 2018, \$82/bbl by 2020 and \$100/bbl by 2025 (in 2014 dollars).

Mechanism for balancing the market in 2016-2017



Mechanism for reduction of LHC supply in the global market in 2016-2017

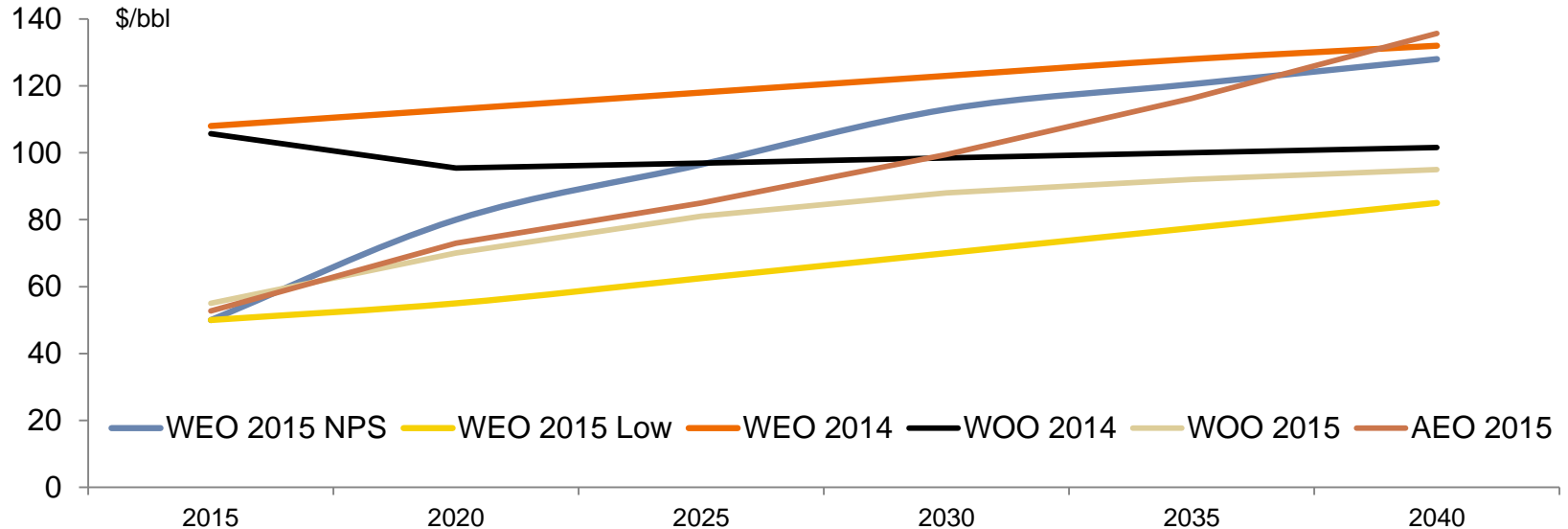


Sources: Rosneft estimates based on EIA Short-Term Energy Outlook January 2016, IEA Oil Market Report January 2016

Energy agencies are expecting growth of oil prices in mid-term and long-term



Forecasts for oil prices in real terms*



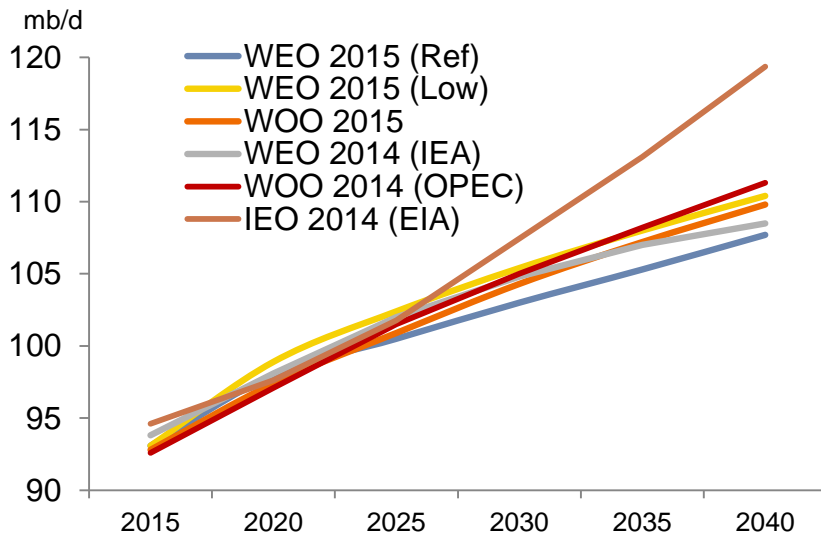
*(for reviews of 2014 and 2015, subject to the prices of 2013 and 2014, respectively)

- In 2015, energy agencies seriously revised their price forecasts.
- However, in general, main scenarios of 2015 contemplate that after 2020 oil prices will form long-term curves anyway, which were also expected in 2014, despite the current decline.

Price increase will be conditioned by growing demand and the need to produce more high-technology oil

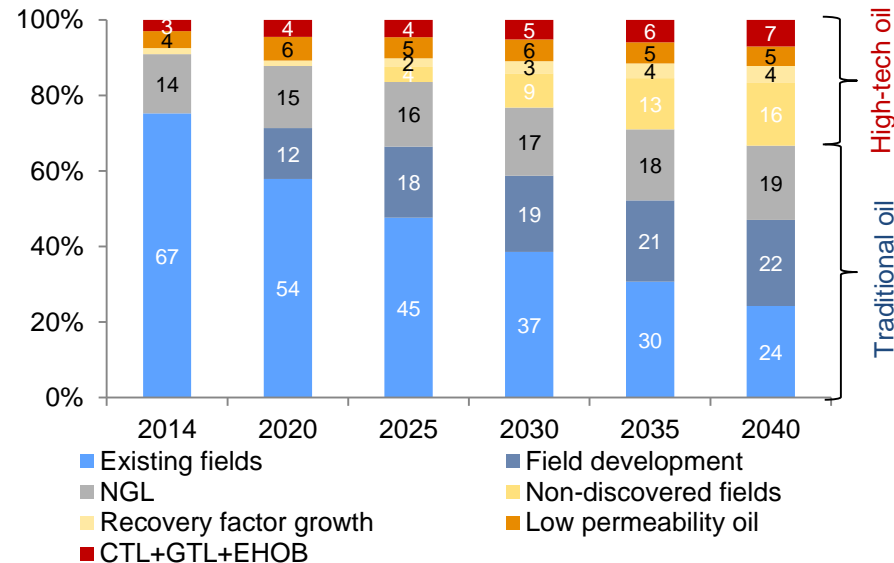


Forecasts on global demand for liquid hydrocarbons



- ▶ Energy agencies forecast that the demand for Liquid Hydrocarbons (LHC) in the long-term will grow steadily.
- ▶ LHC will amount to about ¼ of the global energy balance during the next 15-20 years.

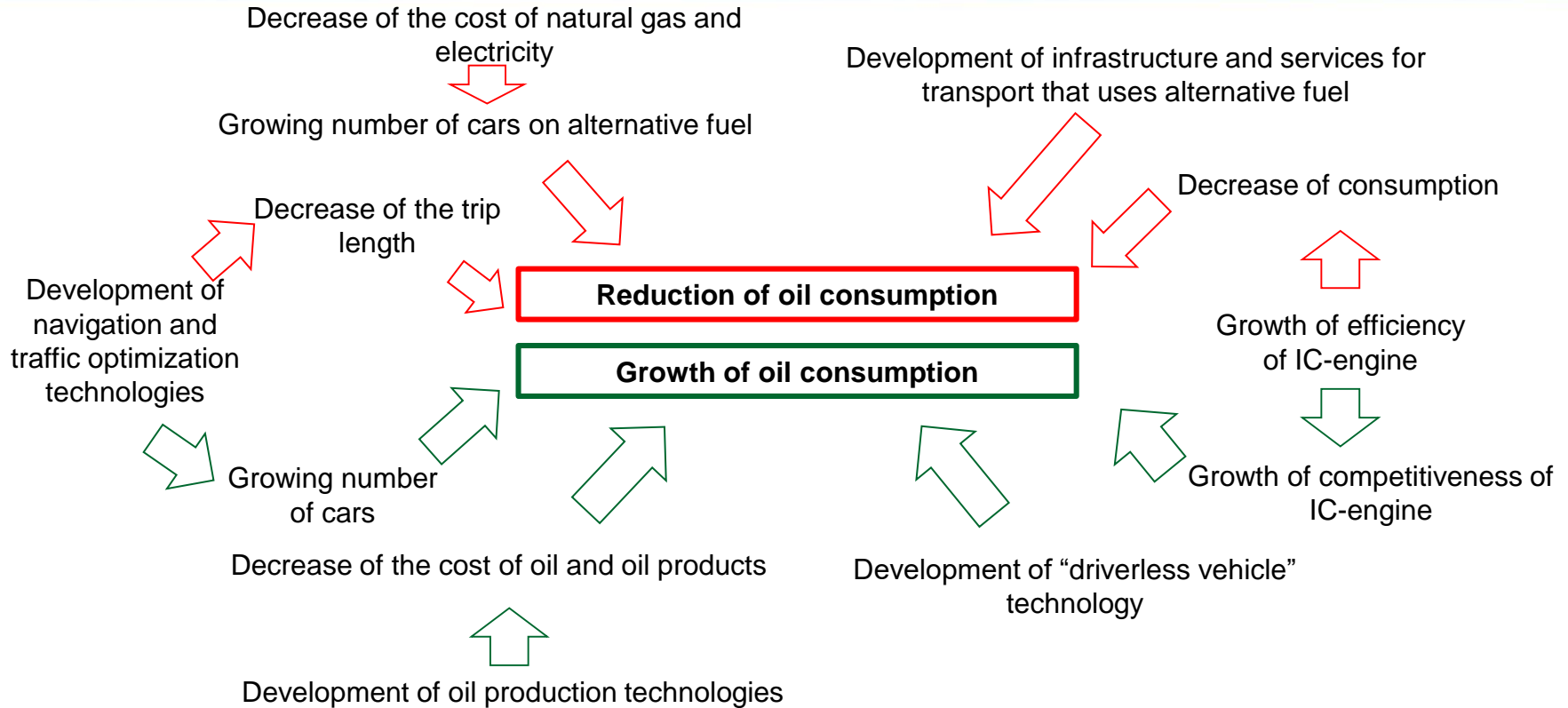
Forecast structure of global production of liquid hydrocarbons, %



- ▶ Technology development in oil industry will play a key role in securing its competitiveness.
- ▶ Share of high-technology oil will grow steadily, reaching 30%-40% in 2040.



New technologies are a risk and an opportunity for oil consumption growth



More than the structure of current global production, future production will depend on resources



NORTH AMERICA

2187

230

17

- High production cost and quick depletion of fields
- Speculative assessments of potential resources

RUSSIA

1084

136

10,5

- **Large** reserves, substantial potential resources
- Developed **new** large oil producing regions (East Siberia, Arctic, Sakhalin shelf)

MIDDLE EAST

1190

814

28

- Fields developed many years ago
- **Restricted areas** for new exploration

AFRICA

379

131

9

LATIN AMERICA

809

323

7

- Reserves added in the latest years
- **Hard-to-recover** oil (bitumen)

ASIA

202

45

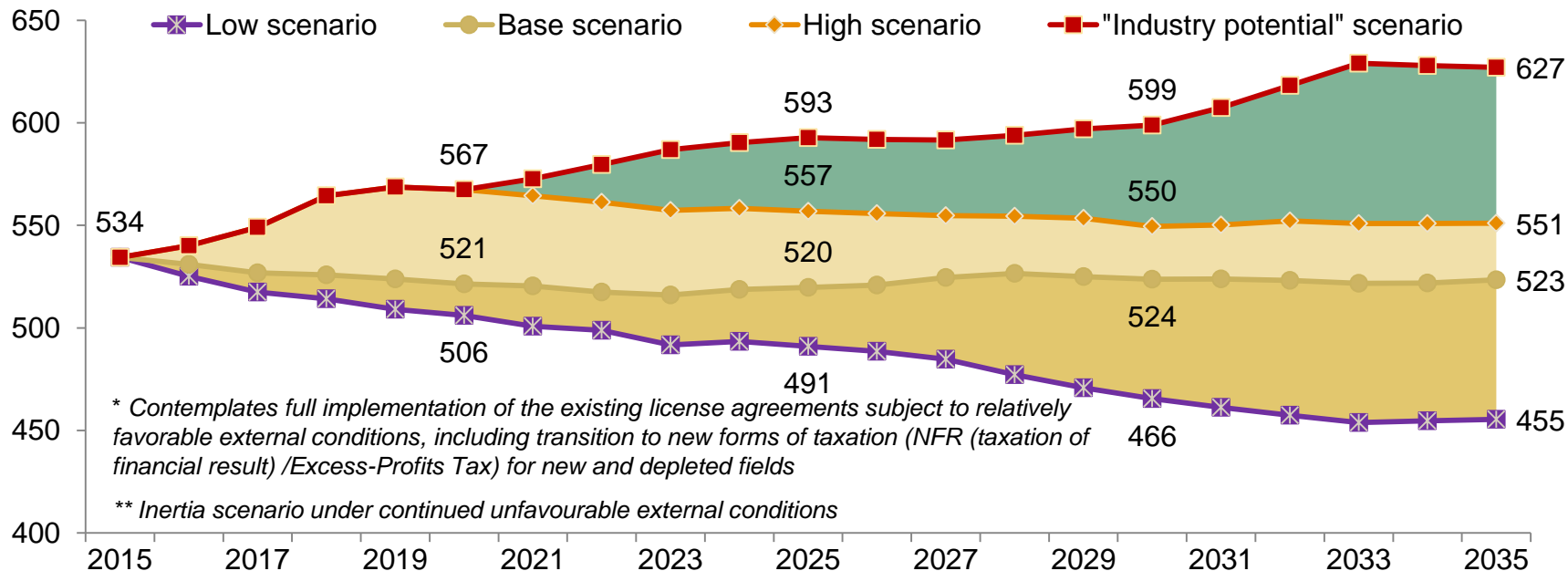
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- Potential resources, bln bbl
- Proved reserves, bln bbl
- Production, mb/d

Oil production in Russia depends more on tax than on oil prices



Scenarios of oil and gas condensate production in Russia in 2016-2035



- ▶ The key parameter characterizing the perspectives of oil production in Russia is the **tax treatment** for development of hard-to-recover, depleted deposits and continental shelf fields.



Thank you for your attention!

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