

Global Oil Markets at the Crossroads: Reducing Investments due to Uncertainty or Managing Risks?



Summit of Energy Companies

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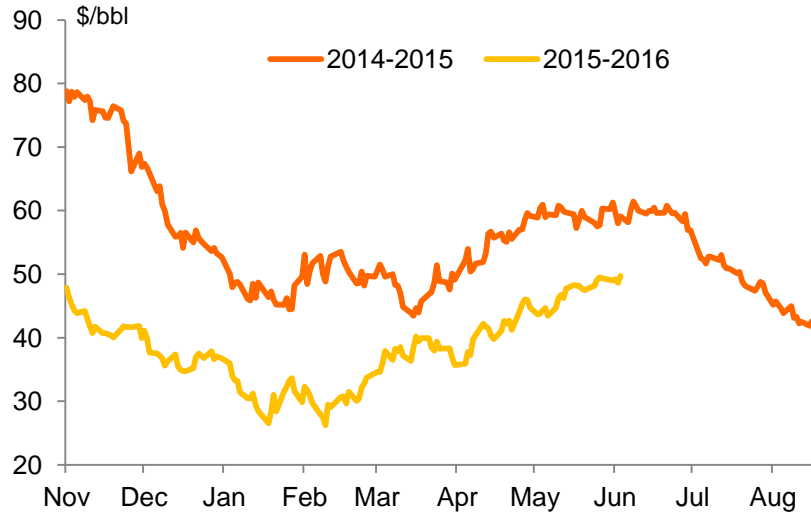
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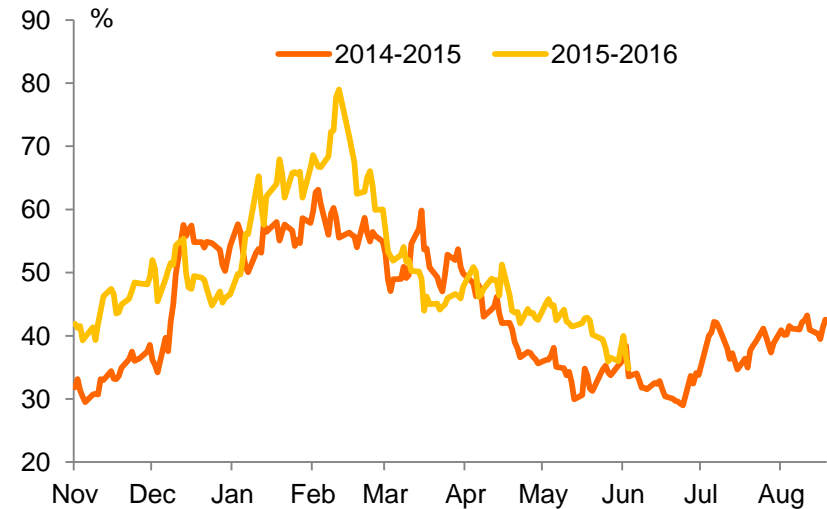
SLIDE 3. Volatility and Oil Market Price Dynamics



WTI price (November 2014 – August 2015, and November 2015 – June 2016)



WTI implied volatility* (November 2014 – August 2015 and November 2015 – June 2016)

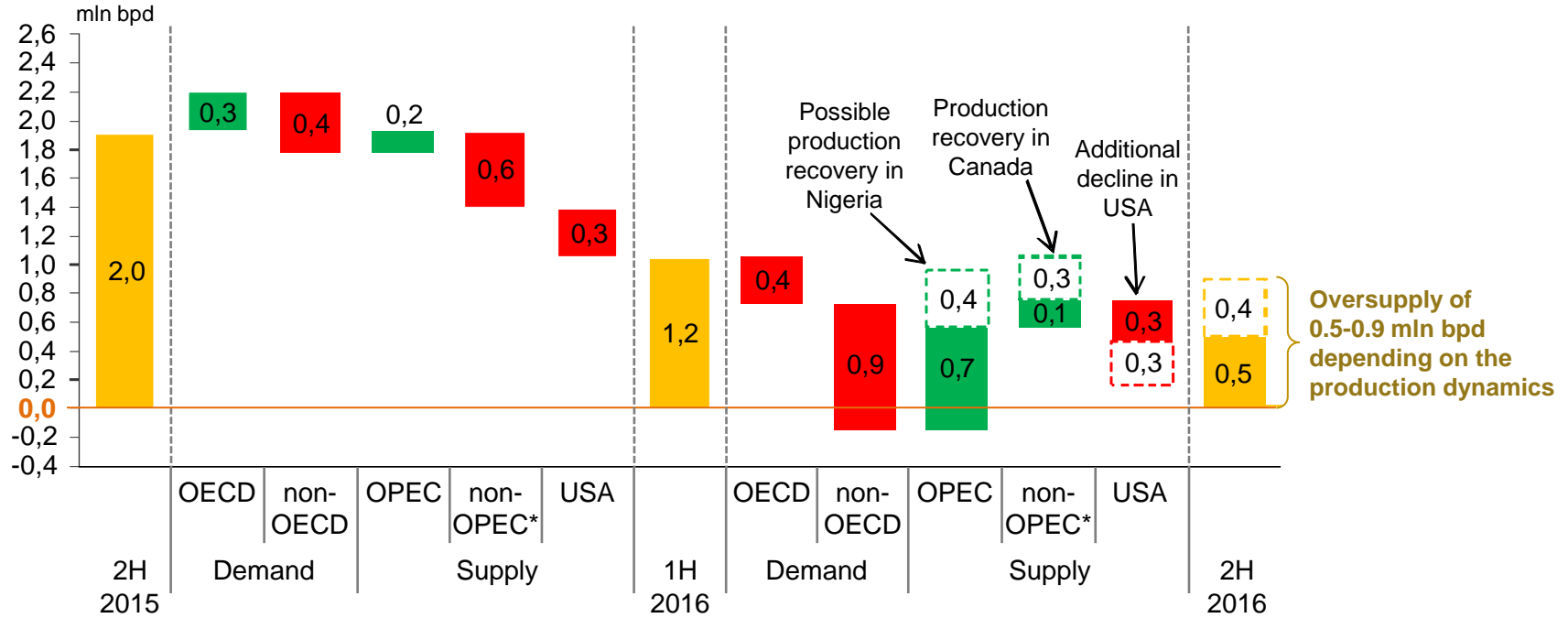


- ▶ Oil price dynamics in January-June 2016 mostly correspond to January-June 2015. After the decrease in 4Q 2015, oil prices recovered in 1Q-2Q 2016.
- ▶ Further price dynamics, however, remains uncertain for the next few months of 2016.
- ▶ The future path of volatility is similarly unclear.

SLIDE 4. Prospects for Market Rebalancing in 2H 2016



Change in liquids oversupply in the global market in 2016 – actual and estimated

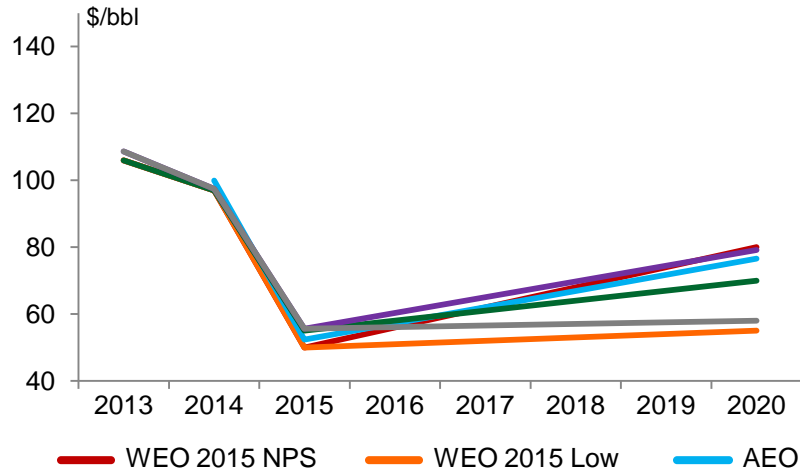


*Excluding USA

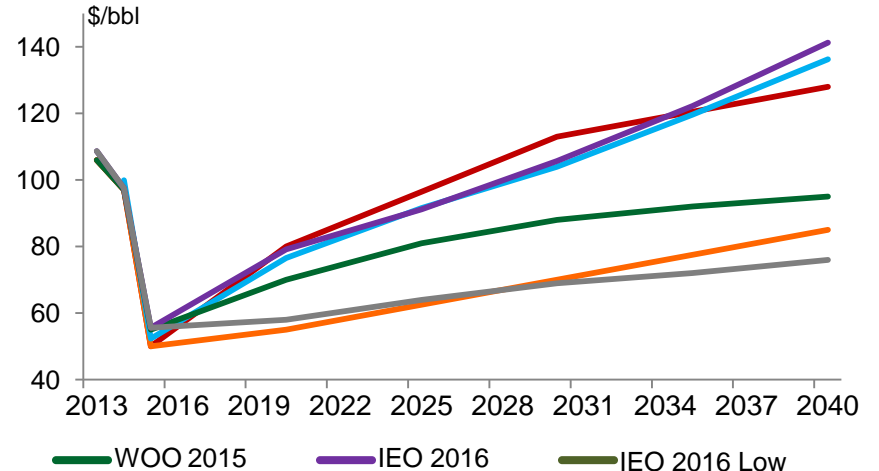
SLIDE 5. Energy Agencies Expect Gradual Oil Price Recovery



Oil price forecasts to 2020, in real terms



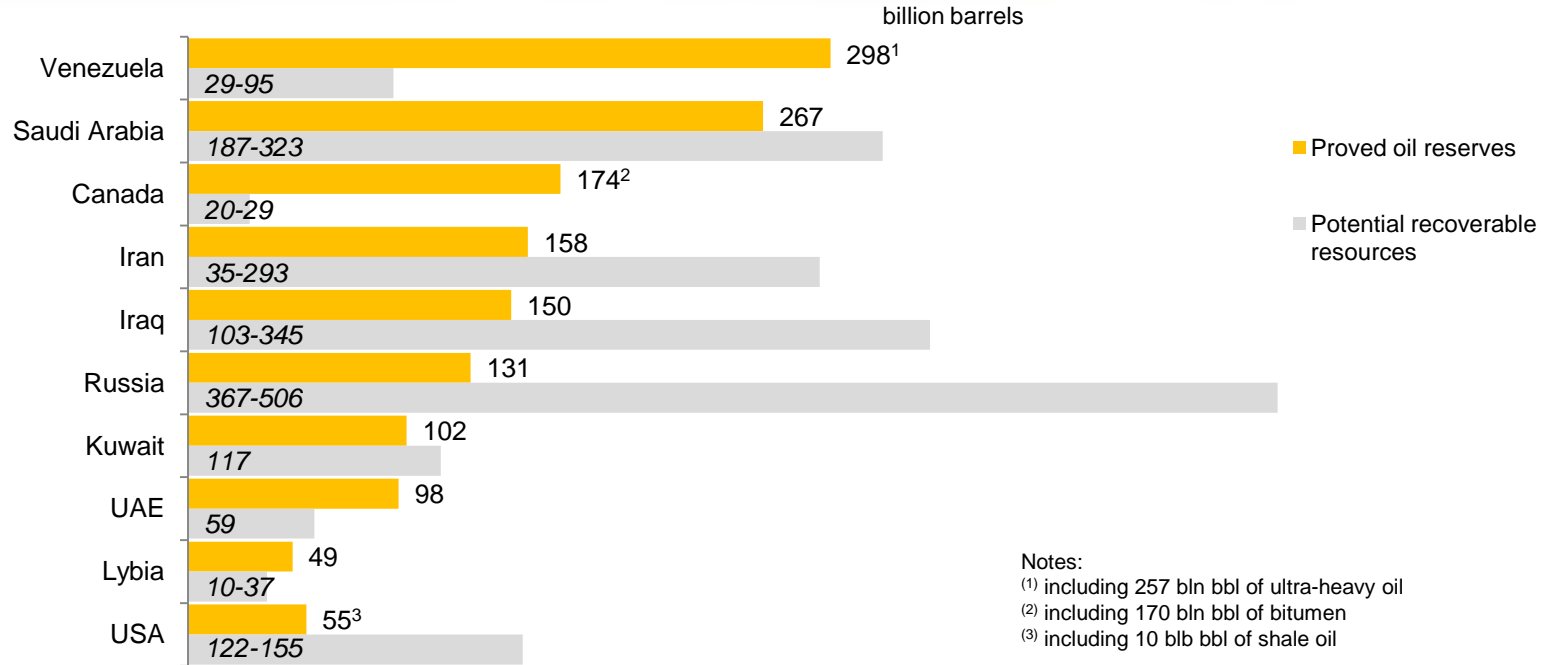
Oil price forecasts to 2040, in real terms



* For WEO and WOO – in 2014 prices, for AEO and IEO – in 2013 prices

- ▶ Base case and low oil price forecasts by IEA (WEO) and EIA (AEO and IEO) are relatively similar. OPEC (WOO) expects a slower oil price recovery.
- ▶ IEO-2016 oil price forecast almost completely duplicates AEO-2015 forecast. High oil price forecast implies higher oil demand and larger upstream investment in non-OPEC countries.

SLIDE 6. Resource Potential of the Largest Oil Producing Countries

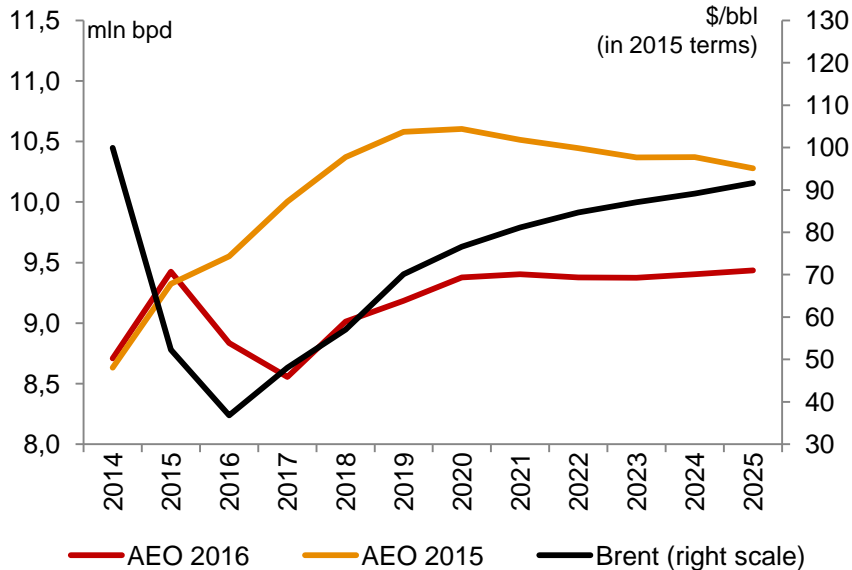


- Existing differences in geology and resource base influence the role of different countries in the global markets.
- Reserve monetization depends on the level of industrial development, industry structure, infrastructure availability, the state of technological and financial ecosystems and political risks.

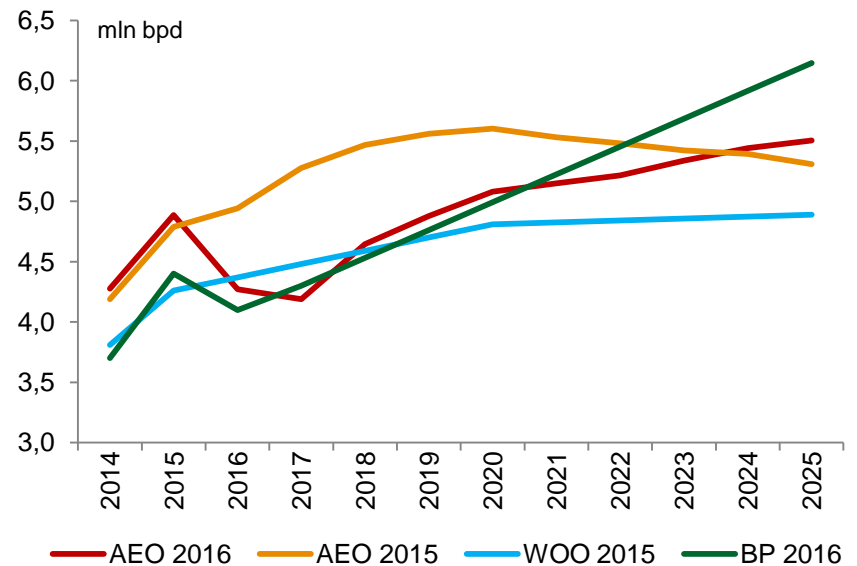
SLIDE 7. US Production Forecasts to 2025 Significantly Differ



US crude oil production forecasts



US shale oil production forecasts



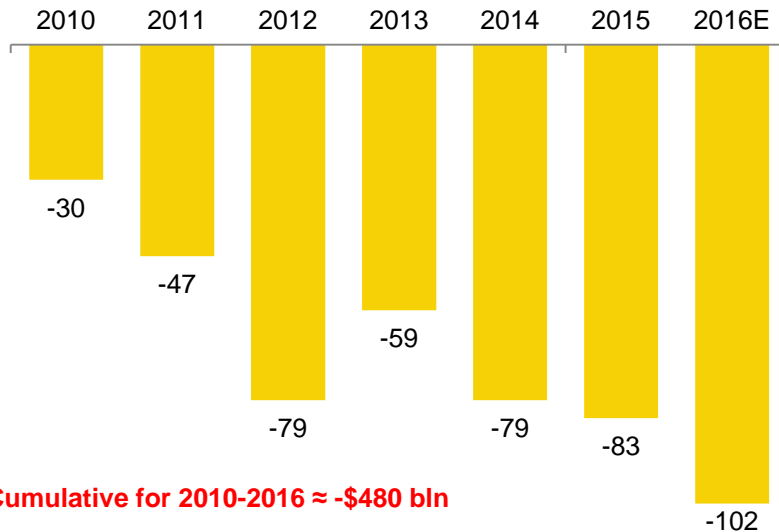
▶ 2016 forecasts significantly changed future shale oil production dynamics.

▶ EIA currently expects US oil production to decrease in 2016-2017, followed by recovery to plateau at the 2015 level, and stay there in 2020-2025, unlike last-year forecasts of growth starting from 2015.

SLIDE 8. US Shale Industry – Negative FCF and Outstanding Debt

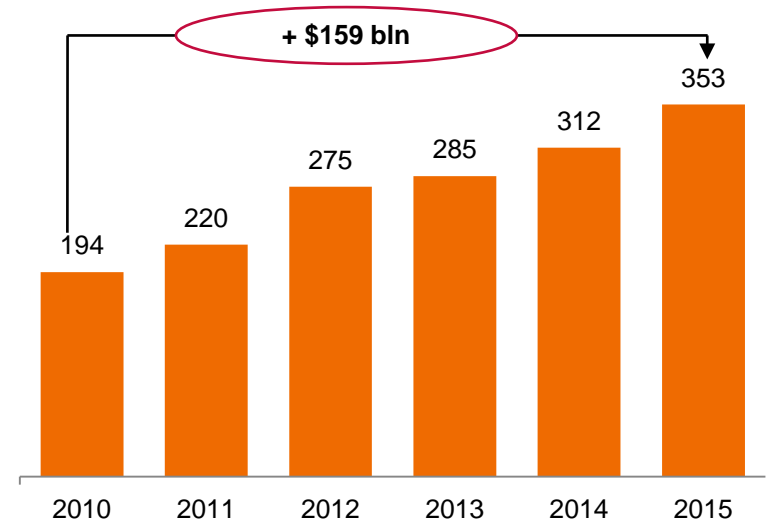


Free cash flow of North American oil companies, \$ bln



Cumulative for 2010-2016 ≈ -\$480 bln

Long-term debt of North American oil companies, \$ bln

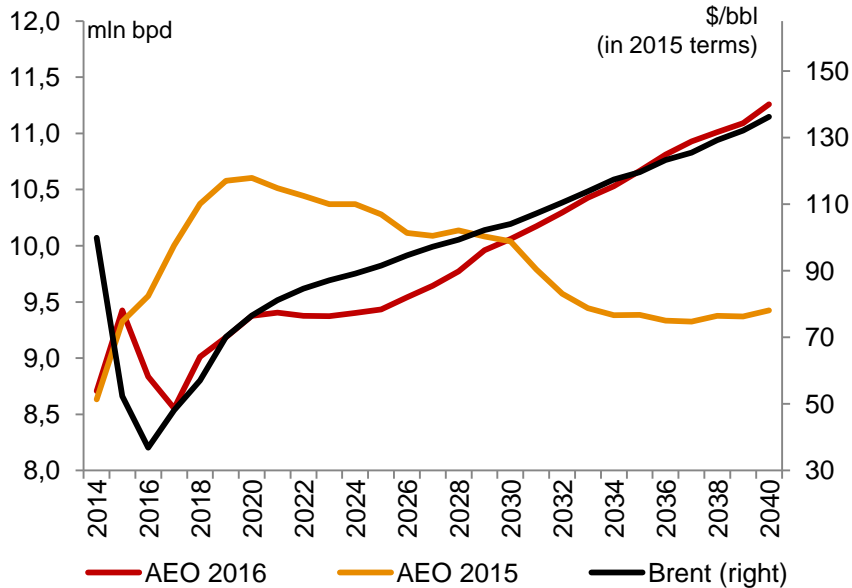


- ▶ Taking into account 2010-2015 data and 2016 estimates, US shale companies attracted **\$830 bln** from capital markets, whereby \$480 bln was put to a counter-productive use and over \$350 bln accumulated as debt.
- ▶ According to J.P. Morgan estimates, with 2016 oil price at \$55/bbl, 11% of shale market players will be exposed to bankruptcy risks, while with oil price at \$25/bbl, **60%** of them will be put to risk.

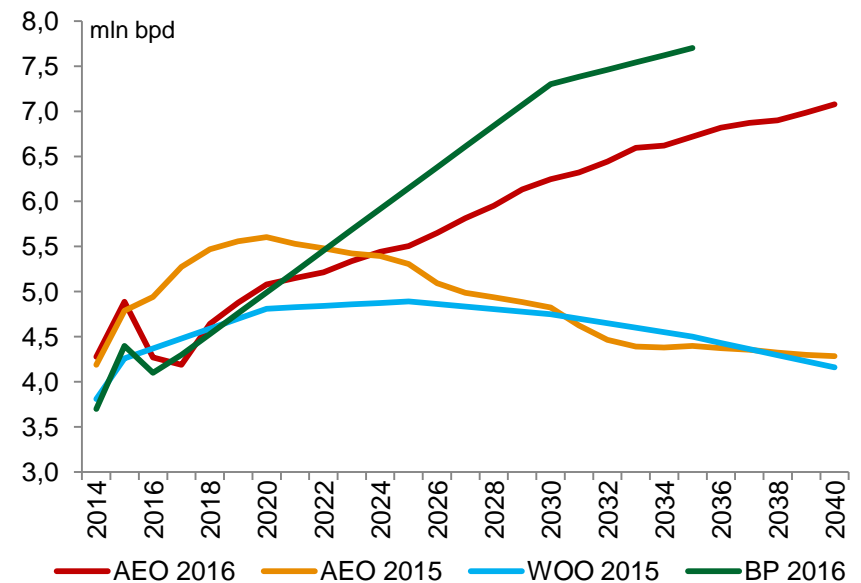
SLIDE 9. US Production Forecasts to 2040 Significantly Differ



US crude oil production forecasts



US shale oil production forecasts



- ▶ EIA expects US crude oil production dynamics to roughly coincide with oil price dynamics in the long term.
- ▶ 2015 forecasts expected shale oil production to decline after a peak in 2019-2020. Current forecasts see sustainable production growth after 2018.

SLIDE 10. US Elections – a Telling Example of Political Uncertainty



Democratic Party Proposals (Mrs. Hillary Clinton)

- ▶ full implementation of Clean Power Plan;
- ▶ 1/3 reduction in US oil consumption, increased use of biofuels;
- ▶ cancellation of tax reliefs for hydrocarbon production;
- ▶ 140 GW new solar power generation capacity by 2020 and up to 0.5 tln solar panels installed;
- ▶ 30% reduction in greenhouse gas emissions by 2025 and 80% GHG reduction by 2050 vs. 2005 level;
- ▶ limited coal production;
- ▶ \$60 bln in federal grants for clean energy projects;
- ▶ direct investment from the state budget in R&D projects and clean energy infrastructure.

Republican Party Proposals (Mr. Donald Trump)

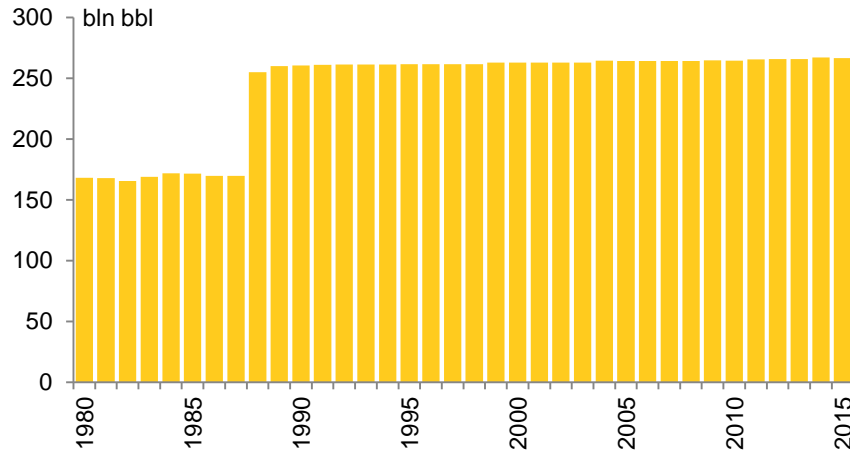
- ▶ lifting restrictions on hydrocarbon exploration and production on federal land (28% of the US territory);
- ▶ lifting government restrictions on fossil fuel production;
- ▶ government policy of non-interference in competition between different fuels including renewables;
- ▶ lifting the ban on Keystone XL project implementation;
- ▶ terminating energy imports from OPEC countries as well as from countries not friendly to the US;
- ▶ maintaining relatively low power and fossil fuels prices in the domestic market;
- ▶ deprioritizing environmental and climate change issues in the energy sector development.

- US energy sector development models presented in the election programs of two major parties are practically **opposite**.
- According to Platts estimates, implementation of Hillary Clinton's proposals may lead to a 0.5 mln bpd reduction in the US oil production in the mid-term, while realization of Donald Trump's ideas will stimulate oil production growth by the same amount.

SLIDE 11. Saudi Arabia – Changes in the New Environment

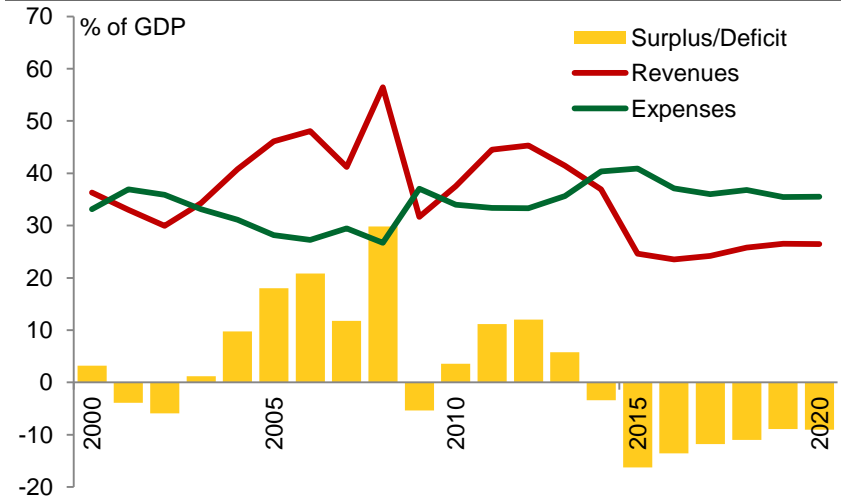


Saudi Arabia crude oil proved reserves



- ▶ Saudi Arabia proved oil reserves remained unchanged since 1988 when they were revised upwards from 170 to 255 bln bbl.
- ▶ Fiscal terms for oil production in Saudi Arabia are historically based on royalty (20% rate) and profit tax (85% rate). Lower taxes are expected to facilitate commercialization of the industry.

Saudi Arabia budget

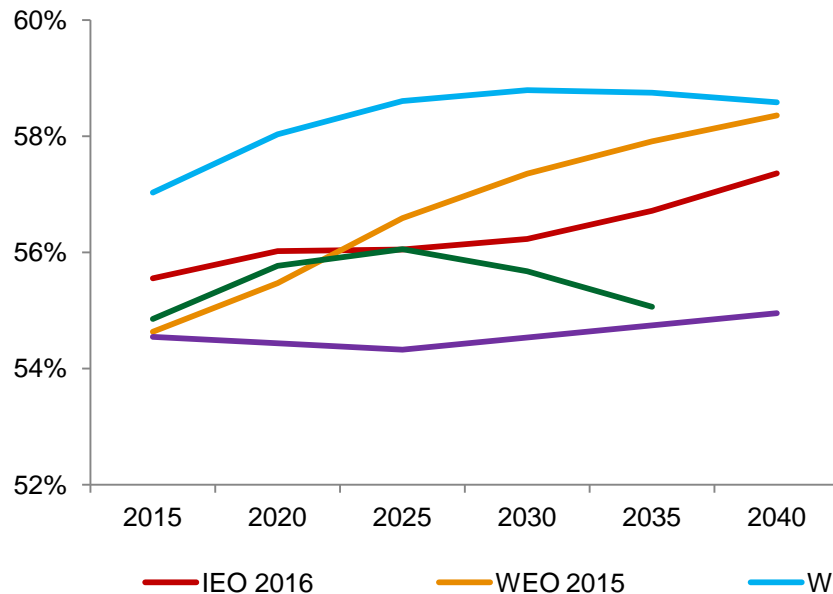


- ▶ In 2015, Saudi Arabia's budget deficit amounted to 16.3% of GDP and is expected to remain at the average level of 10.8% GDP in 2016-2020.
- ▶ The country's international reserves declined by \$165 bln to \$580.7 bln in August 2014 – April 2016.

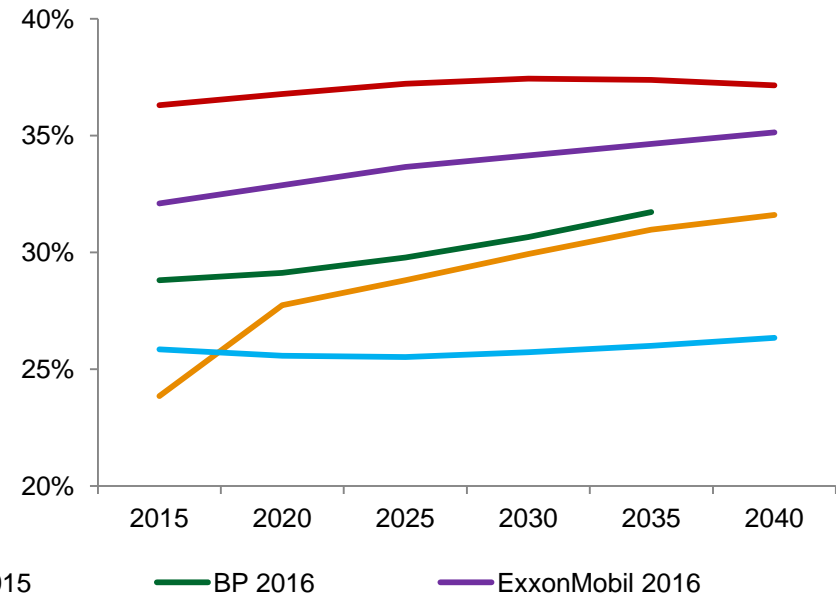
SLIDE 12. Transportation and Petrochemicals Expected to Lead in Liquids Consumption



Share of the transportation in the global liquids consumption



Share of the industry in the global liquids consumption

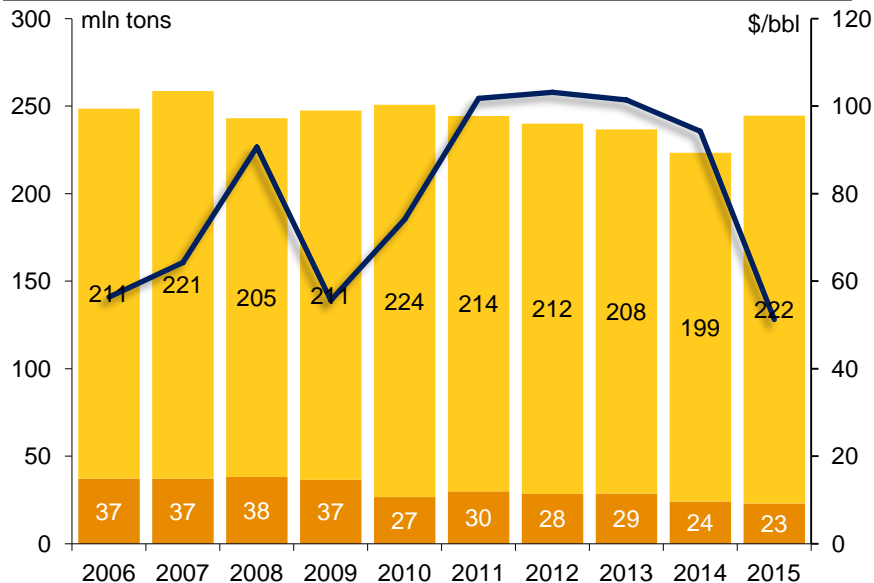


▶ Most leading energy agencies and energy companies expect the transportation and the industrial sectors share in liquids consumption to grow 1-3% over the next 25 years.

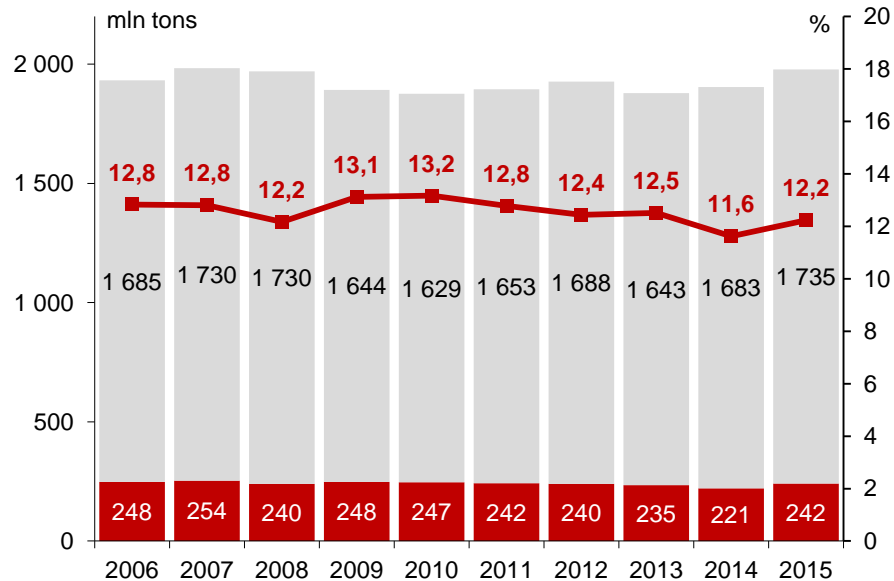
SLIDE 13. Russia – Sustainable Position in the International Oil Trade



Russian oil export



Russian share in the international oil trade



■ CIS
 ■ Other countries
 — Avg. export price (right scale)

■ Russia
 ■ Others
 — Share of Russia (right)

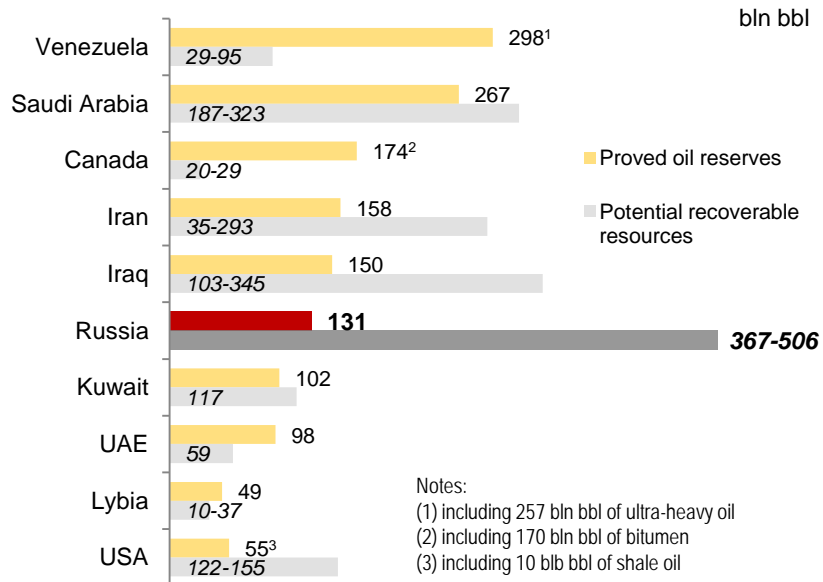
■ Russian oil exports are resilient in different price environments and are set to grow in 2016.

■ Russian market share of the international oil trade remains steady at 12-13%.

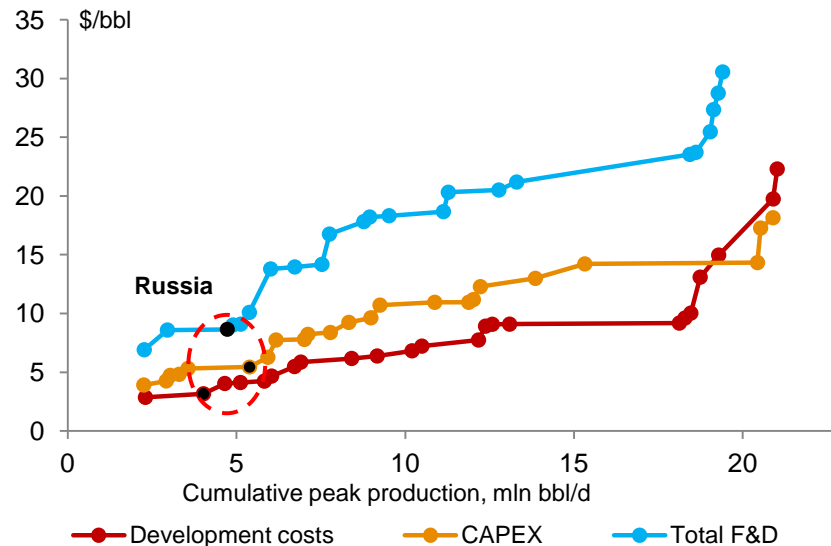
SLIDE 14. Russia Has Great Resource Potential, and Russian Oil Projects Are Cost Efficient Even In Low Oil Price Environment



Russia has great resource potential



Finding and development costs (excl. transport and royalty) for the largest oil projects



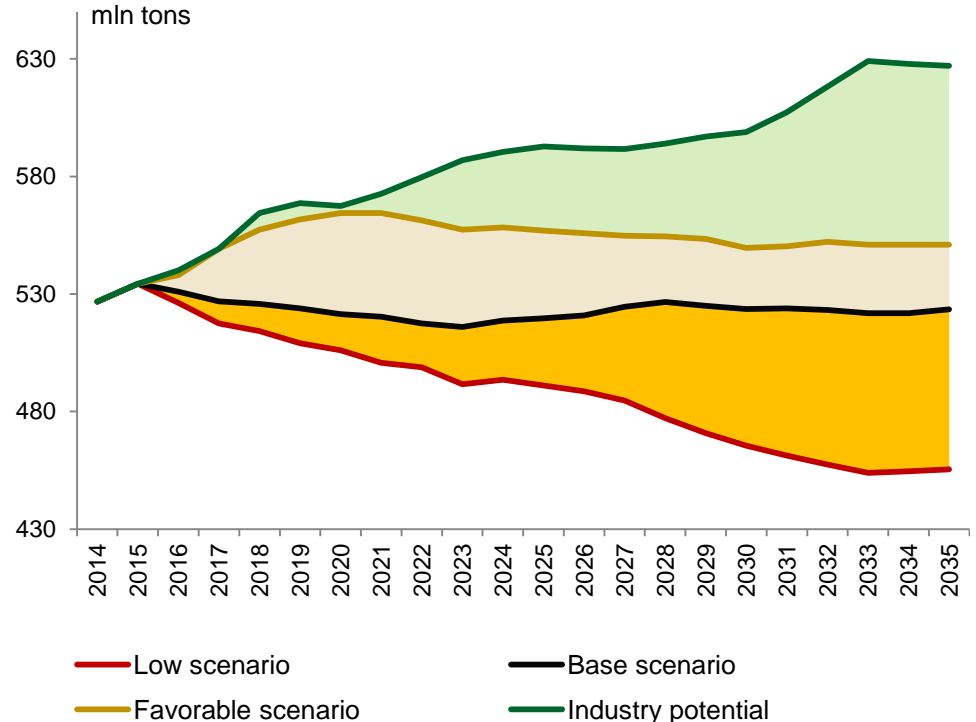
- According to Goldman Sachs, Russian oil projects generate positive free cash flow even at \$10/bbl and \$12/bbl of EBITDA at \$30/bbl
- According to Wood Mackenzie, 80% of Russian oil projects will remain cost efficient even if the oil price is \$20/bbl.

SLIDE 15. Russian Oil Production Has Developed in a Favorable Scenario, However, Below Its Full Potential



Russian oil and gas condensate production scenarios to 2035

Scenarios	Key industry assumptions
Low scenario	Delays in tax reform and in application of key new technologies
Base scenario	Energy Strategy-2035 Scenario
Favorable scenario	Timely introduction of incentivizing fiscal system
Industry potential	Additional demand for Russian oil, large-scale development of Arctic offshore resources

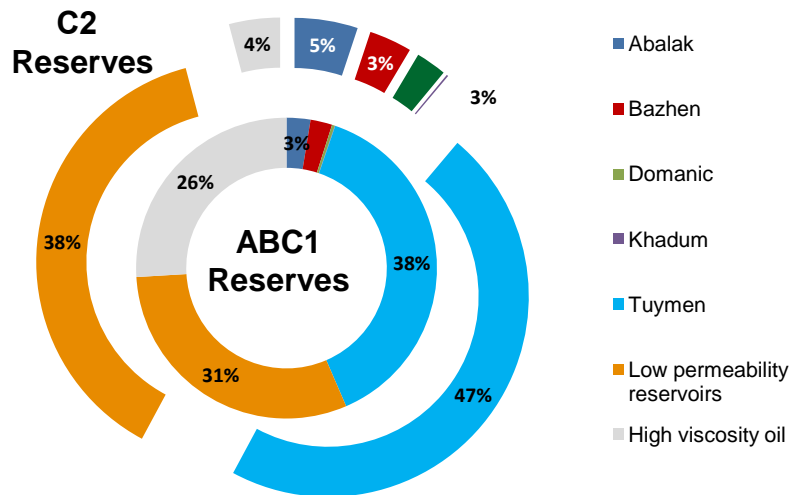


Sources: Institute for Energy and Finance based companies', Ministry of Energy of Russia data

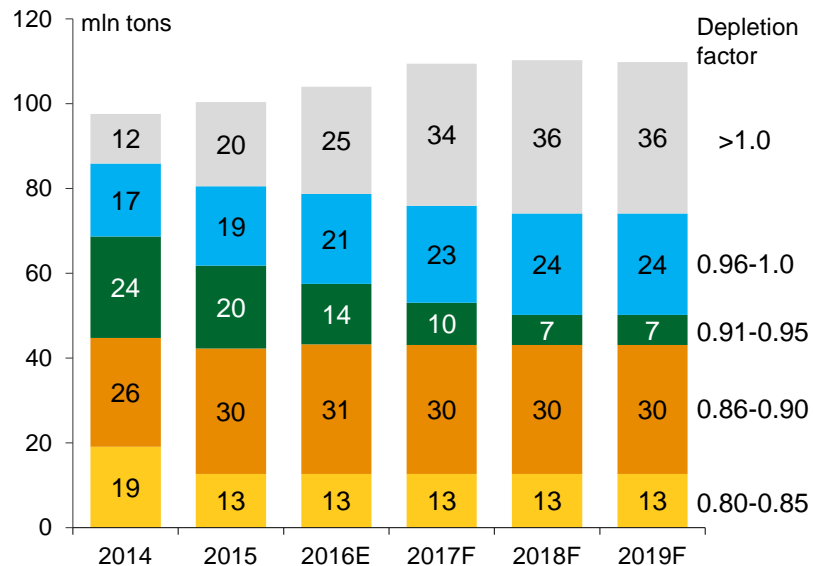
SLIDE 16. Two Major Sources of Russian Oil Development – Brownfield Production and Unconventional Reserves



Structure of Russian hard-to-recover reserves, 2015
(according to Russian ABC1+C2 classification)

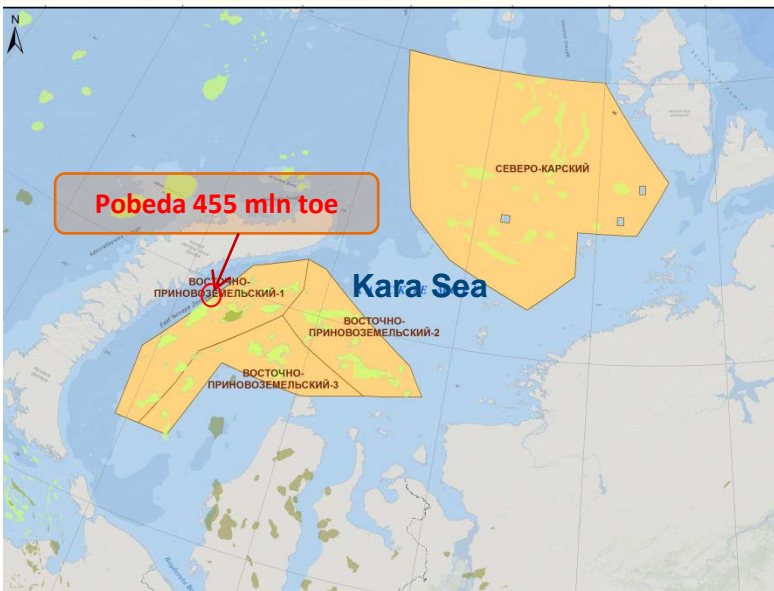


Russian brownfield production dynamics



- According to Goldman Sachs estimates, Russian unconventional reserves are the largest in the world and exceed the US reserves by 1/3.
- The future of Russian oil production is linked to enhanced oil recovery at brownfields which increase their contribution to the overall Russian production

SLIDE 17. Offshore Development – a Powerful Driver for the Russian Economy



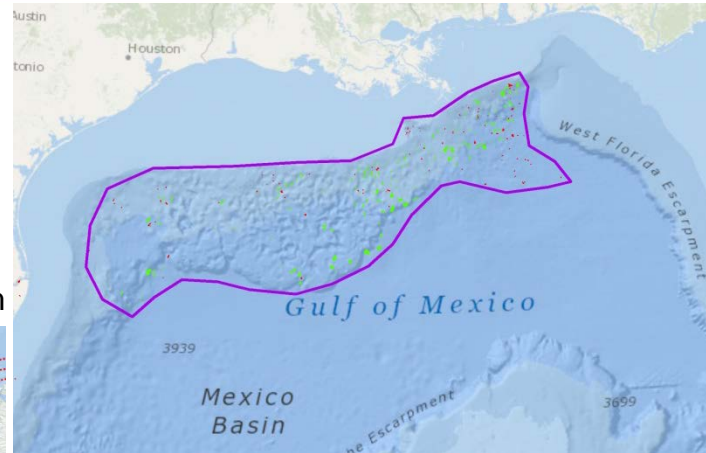
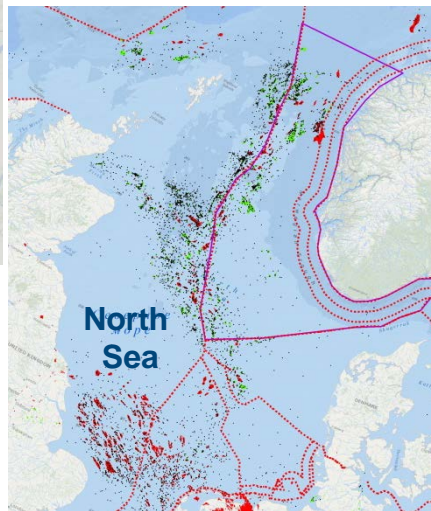
Kara Sea – the extension of West-Siberian oil and gas province

Acreage – c. **300** th sq km

More than **30** prospective structures

Resources – **87** bln boe or **12** bln toe

Norwegian oil sector of the North sea – **170** th sq km



The main oil and gas area in the Gulf of Mexico – **180** th sq km