

Welcome Adress to Participants of FT Commodities Global Summit 2016



**Chairman of the Management Board
of Rosneft Oil Company
I. I. Sechin**

Lausanne, April 12, 2016



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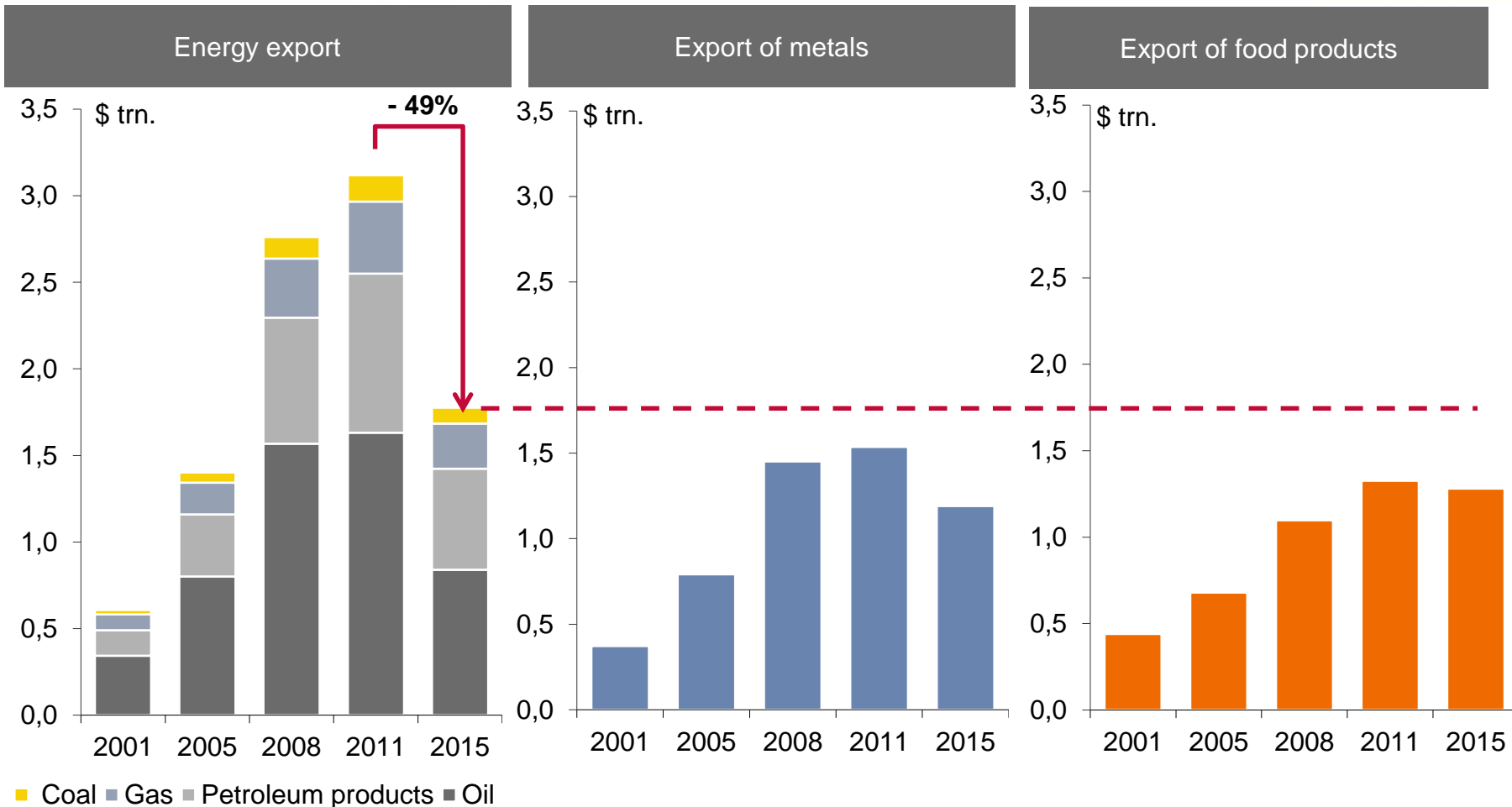
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Oil & Petroleum Products Remain Largest Commodity Market



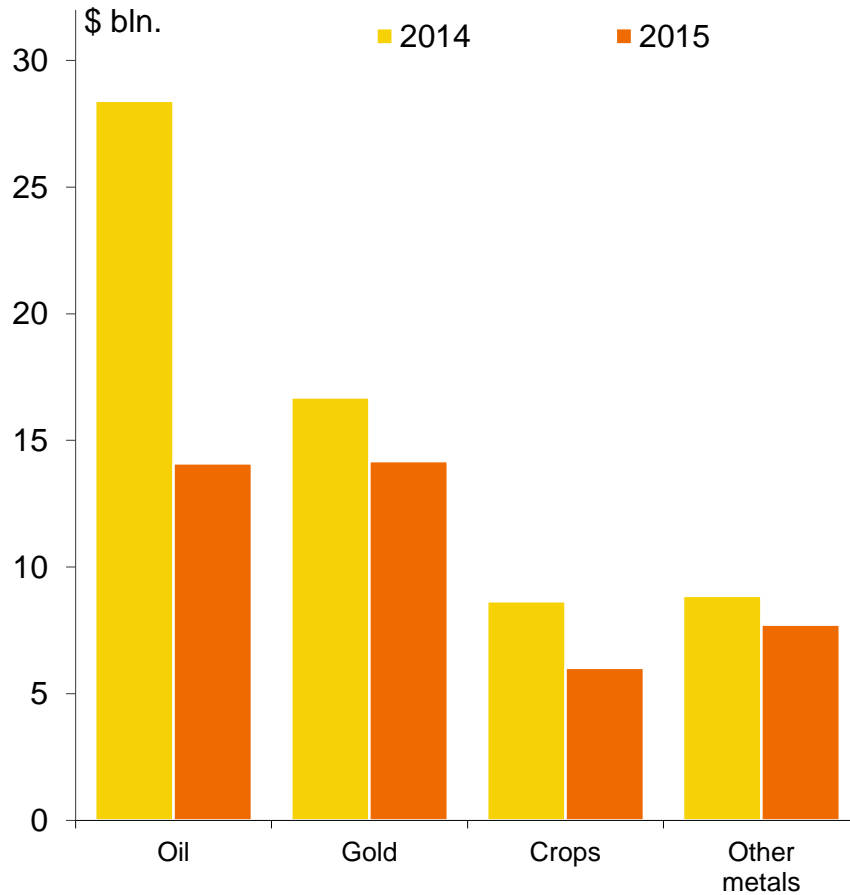
▶ 2000 to 2011, value of global energy exports exceeded aggregate export of metals and food.

▶ In 2015 the share of oil and petroleum products commodities markets reduced by only 10% despite sharp reduction in prices

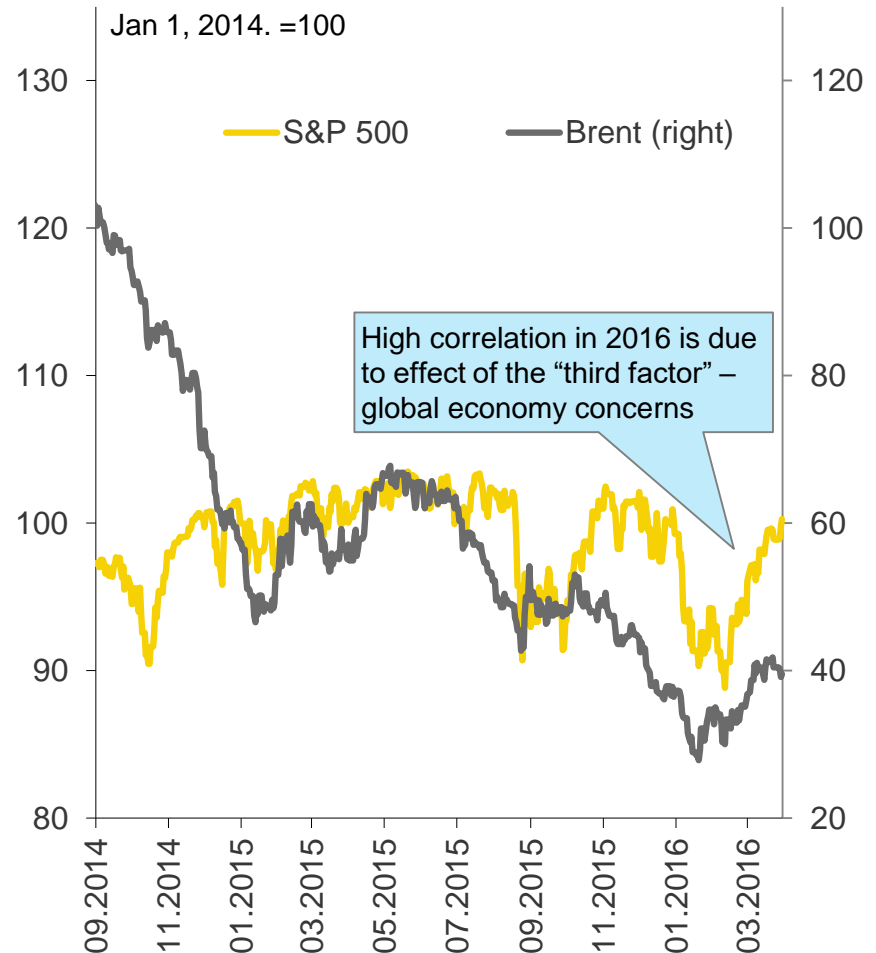
Oil remains the most important Commodity on financial markets



Average value of long positions on NYMEX market



Brent and S&P 500 oil prices

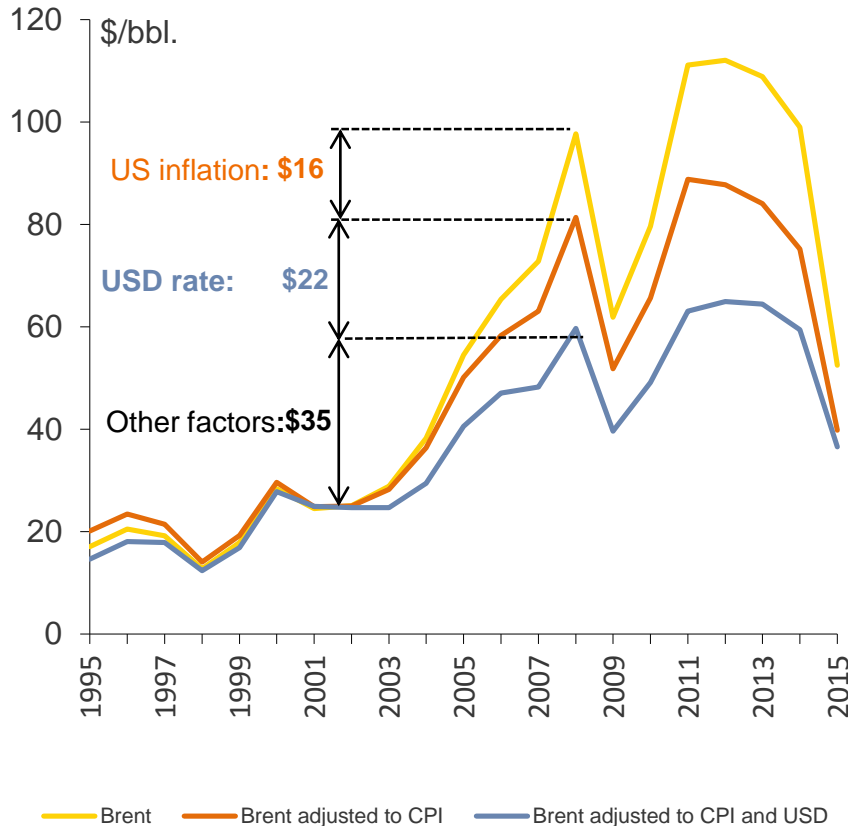


Sources: CFTC; NYMEX; Bloomberg; calculation of B.Bernanke.

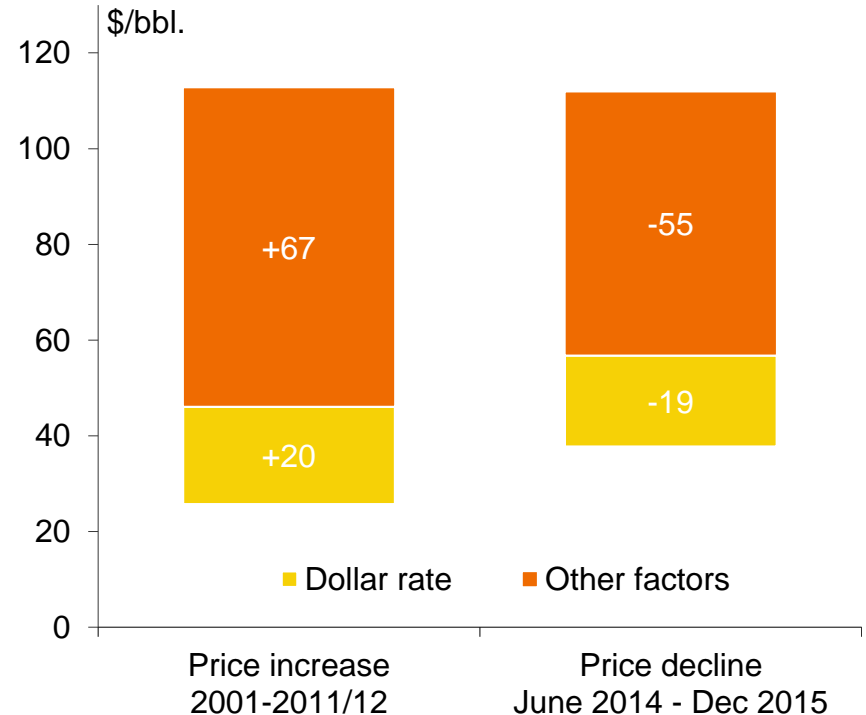


Super-cycle's raw materials prices were supported by weak dollar

Brent oil prices



Share of dollar rate in oil price changes: calculation of B. Bernanke



- Weakening of dollar rate* complemented about 30% in oil price increase in 2002-2008.
- According to calculations of B. Bernanke, the share of dollar rate in declining oil prices in 2014-15 also amounts to about \$20.

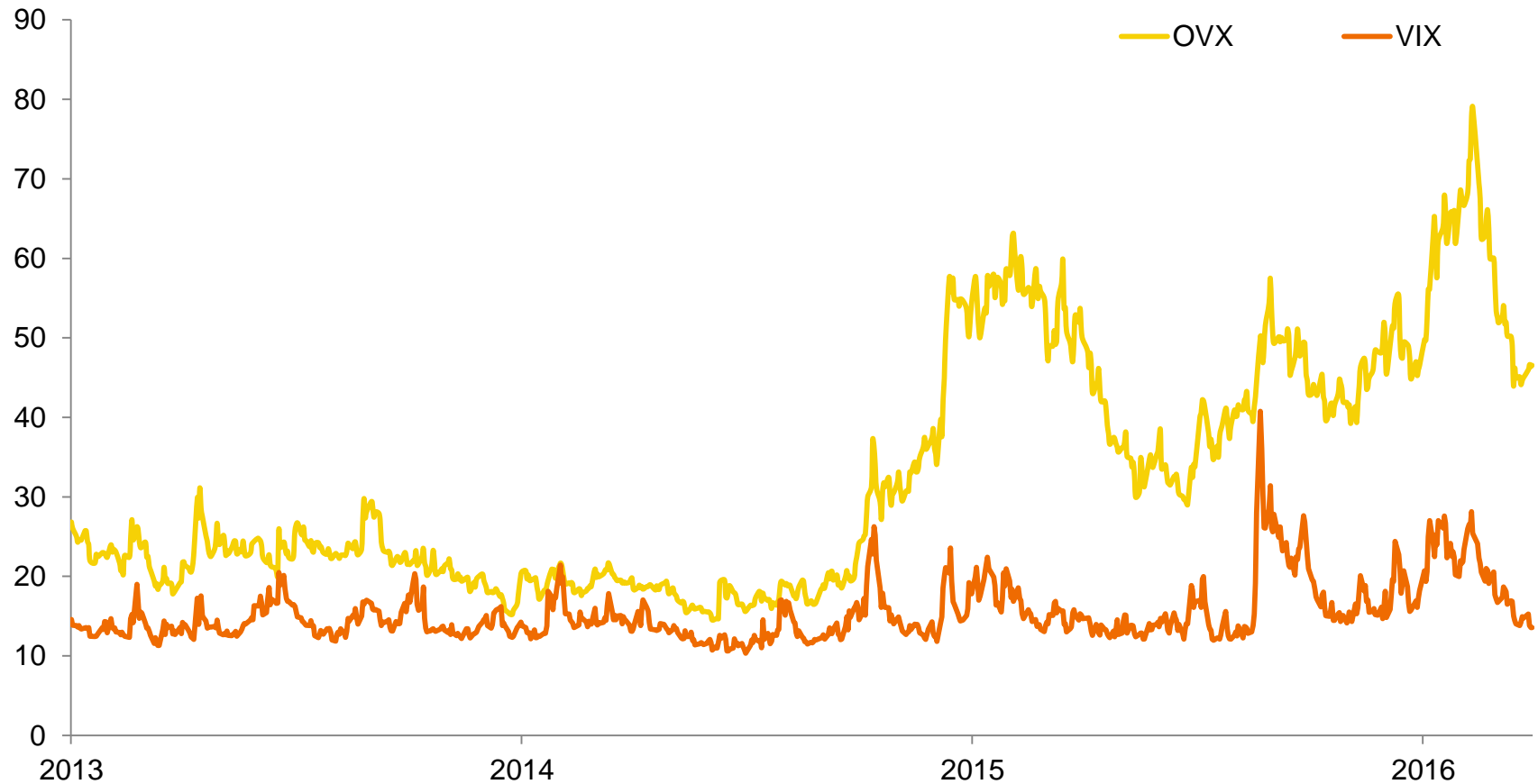
* - accepting oil price elasticity at dollar per unit rate.

Sources: US Bureau of Labor Statistics; Bloomberg; calculation of B. Bernanke and J. Hamilton

Volatility on oil market is significantly higher than on other commodity and finance markets



Implied volatility of WTI (OVX) and S&P 500 (VIX) index

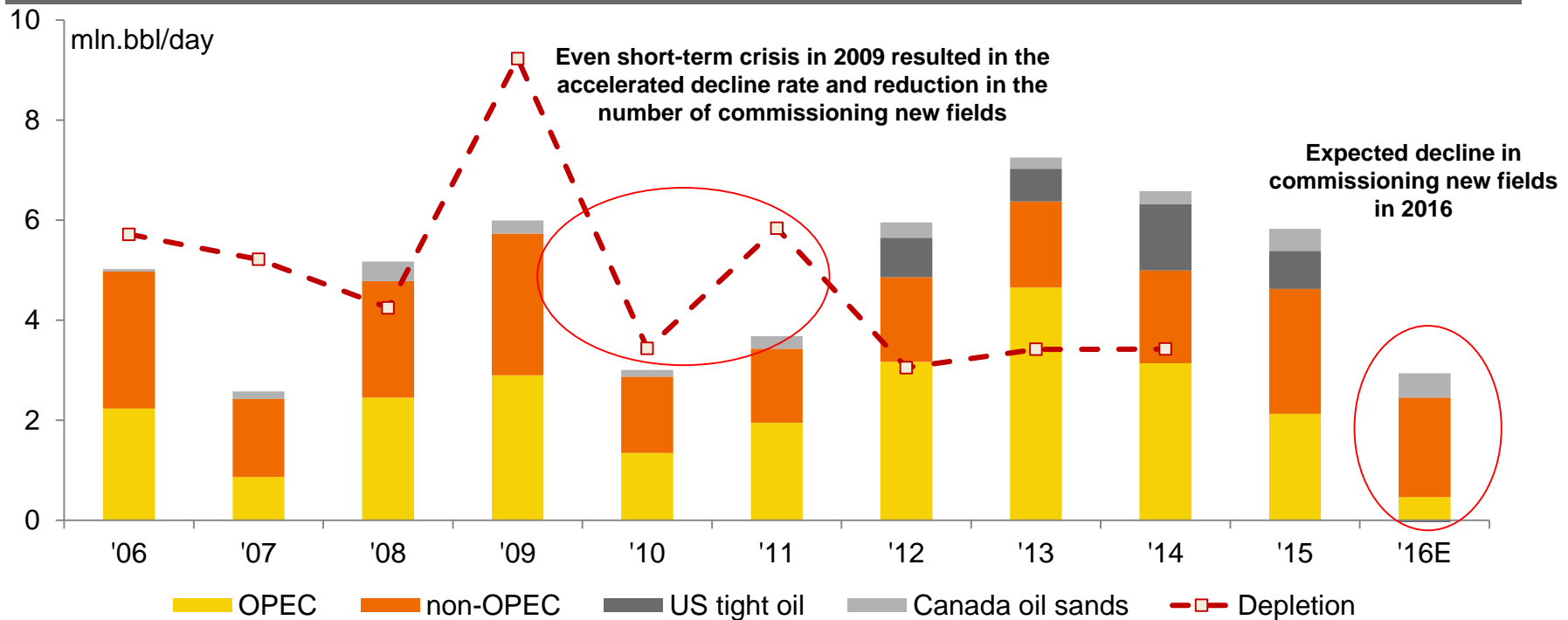


➤ In Q1 2016 oil price volatility exceeded volatility of S&P500 index 3 times.

Price drop leads to reduction of drilling and investments



Volume of commissioning new fields and estimated volume of depletion to decline rate

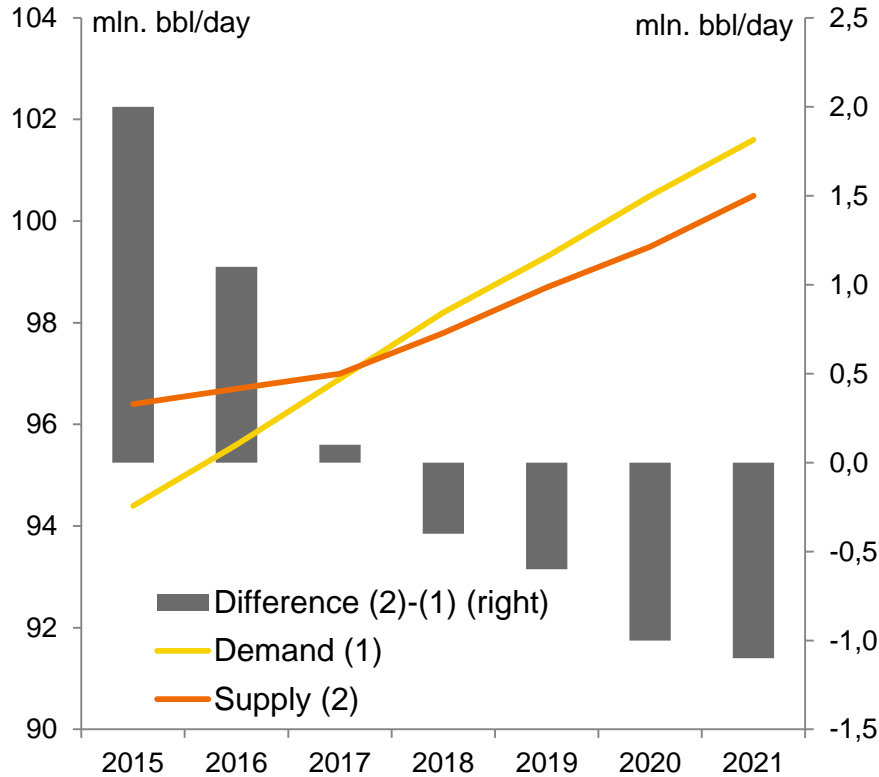


- Current increase of oil supply is caused by increased production at already existing fields
- Delaying the launch of new projects can seriously affect supply in 3-5 years.
- Reduction of capital investment also can lead to growth of the rate of depletion of existing fields, as the cost of increase of oil recovery rate and drilling additional wells on existing fields lead to their faster depletion.

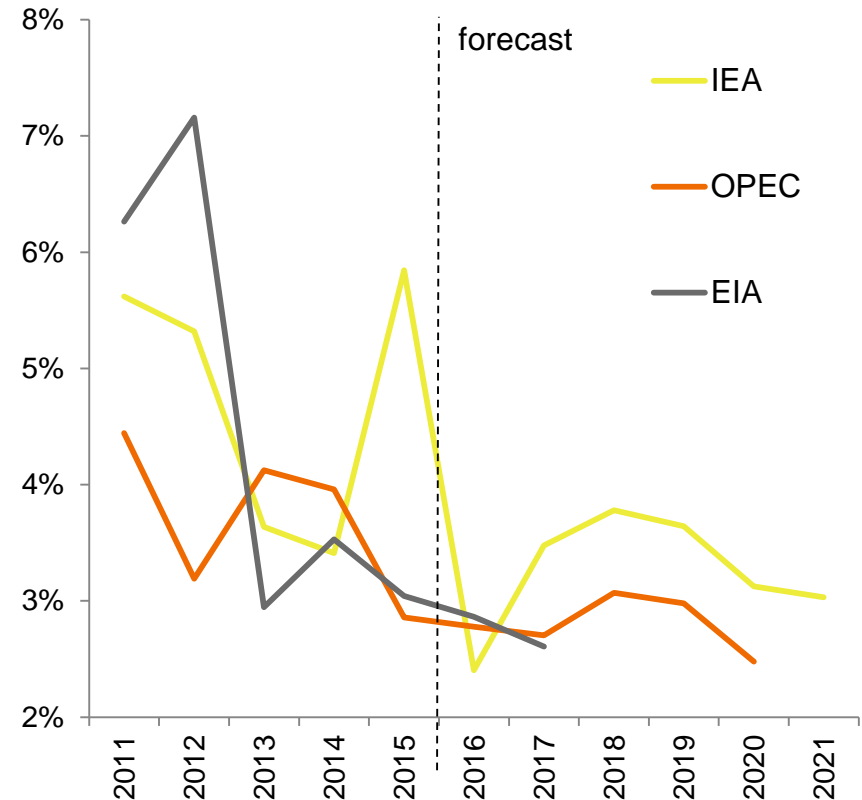
Current surplus and threat of deficit around 2020



Forecast on Balance between LHC supply and demand in IEA review



Global oil demand growth rates

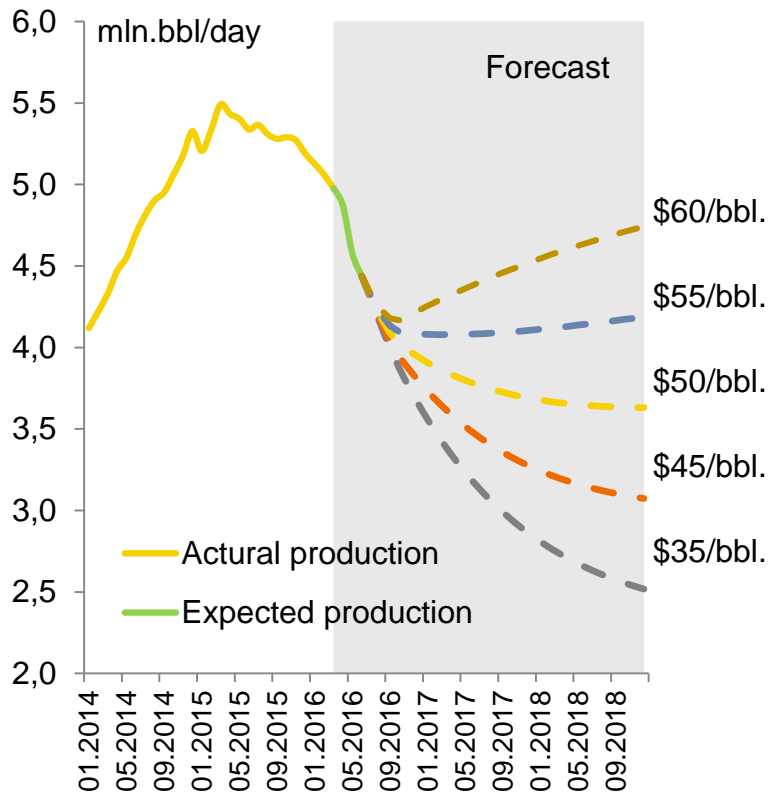


- ▶ IEA expects stable deficit of supply for 4 years after reaching balance in 2017.
- ▶ Consensus global demand growth rate expected to stabilize at 1,5% /year.

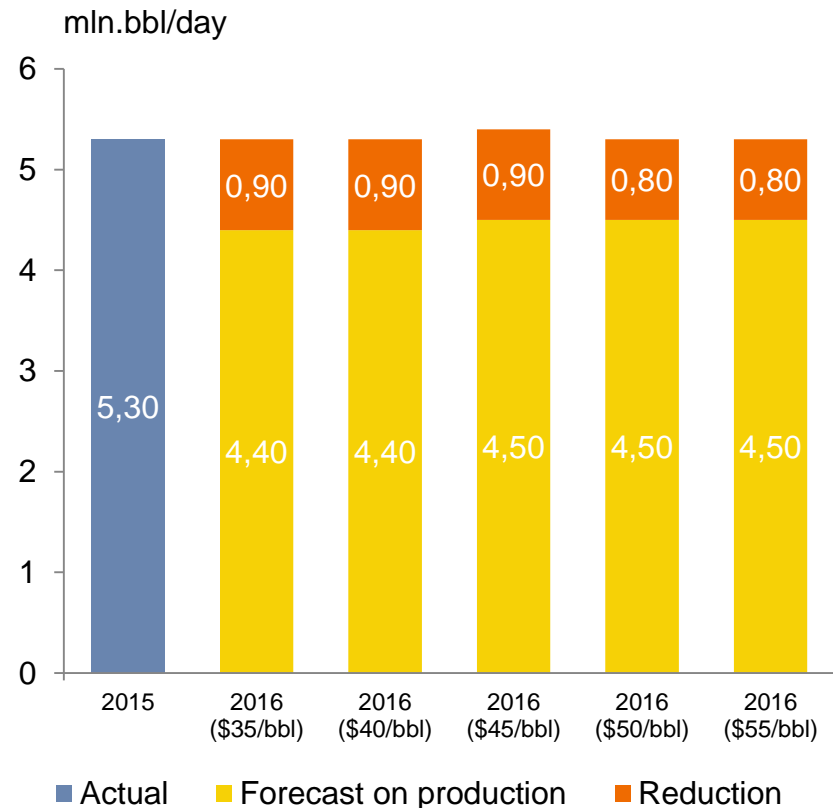
Prospects of shale oil production in the USA for 2016-2018



Average monthly production on the US shale formations



Annual average production on the US shale formations in 2016



- ▶ If oil prices remain at the level of \$35/bbl, then year-end 2016 USA shale production is estimated to be **3,7 mln bbl/day** only
- ▶ Stabilization of shale production in the USA requires an oil price of not less than \$50/bbl.

Technology development leads to reduced costs and increased performance



Technology improvements related to drilling

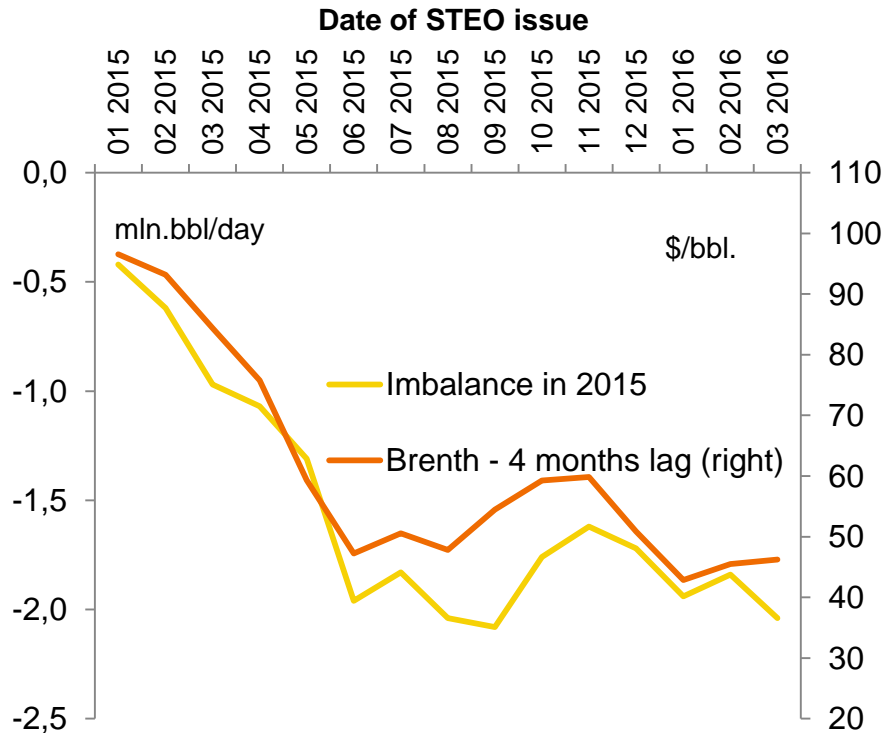
Technology improvements related to well completion

Increased performance	Decreased cost	Increased performance	Decreased costs
<ul style="list-style-type: none"> • Longer laterals (nearly a three-fold increase over the past decade) • Better geosteering to stay in higher producing areas 	<ul style="list-style-type: none"> • Increased drilling rates • Minimal casing and liner • Multi-pad drilling 	<ul style="list-style-type: none"> • Increased amount of proppant – superfracs • Number and position of frack stages • Shift to Hybrid (cross-link and slick water) fluid systems 	<ul style="list-style-type: none"> • Faster fracking operations • Lower proppant prices

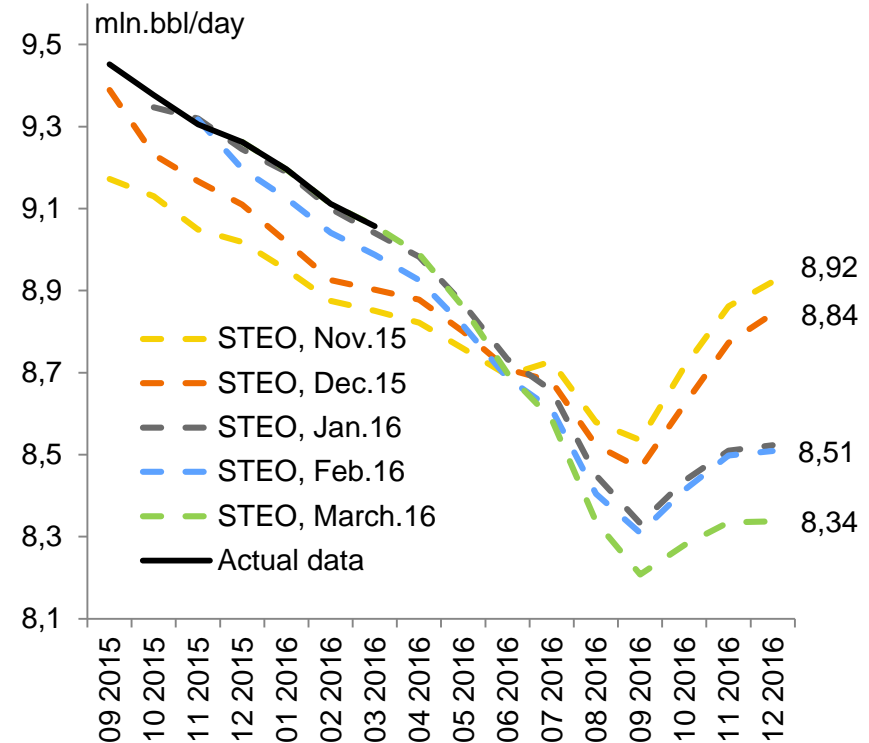
Problems of assessing historical data further complicate forecasting



Forecast and assessment of misbalance (demand minus supply) in 2015 in STEO reviews and Brent prices



Forecasts on crude oil production in the USA in monthly EIA reviews, Nov 15 – Mar 16



- Energy agencies in their 2015 reviews failed to measure the size of the global market imbalance, and merely updated their assessments to the price levels observed several months ago
- USA crude oil production at the end of 2016 was revised during the last 5 months by 10%. Assessments of «actuals» were also revised.



Thank you for your attention!

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