



ROSNEFT

SPEECH BY IGOR SECHIN AT THE SUMMIT
OF ENERGY COMPANIES «A NEW BALANCE IN THE
OIL MARKET AND ITS IMPLICATIONS»



ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2015

Dear colleagues and friends,

On behalf of the panelists, I would like to thank the organizers of the SPIEF, who provided us with this great opportunity to meet and exchange our views about what happened during the past 12 months, what has changed, where we were able to move forward and where we encountered difficulties and obstacles, and how we will move into the future. Looking back 12 months, **one should acknowledge that being on the verge of the oil crisis in the second half of the year, none of us was able to notice the signs of its coming.** Certain risks were not taken into account, which could dramatically affect global industries and the global economy overall. We certainly saw how the production of tight oil was growing in the United States. We were discussing these issues with our partners as well as with experts from the International Energy Agency and the OPEC Secretariat. But many believed that the situation was generally under control. And the esteemed OPEC executives advised us by the end of 2013 not to overestimate the excesses of the shale revolution. In September of last year, after the start of the oil price decline, they said that the excessive supply in the market was only seasonal, of a temporary nature, and the market would quickly find its balance. However, considering the results of 2014, supply grew by 2.2 million barrels a day,



while demand by only 0.9 million barrels.

And due to the remaining imbalances, the slump of prices became sharper in the fall of 2014, while OPEC, against this backdrop, took a waiting position and as a result the price sometimes went down to \$45 a barrel for Brent. There were even some moments of panic, but at the same time the very esteemed leaders of some of the oil companies were talking about the reality of prices at \$20 a barrel and even less. During the past month the price situation somewhat sorted itself out, but the imbalance between supply and demand remains. In May, the size of the imbalance grew to a record 3 million barrels a day. Moreover, there are certain signs of continued growth in production in a number of Gulf countries. Some sources of such growth, which played a certain role last year, such as Libya and Iraq, weakened but to a large extent owing to the high instability and even large-scale conflicts in that region. These factors are vital, both for the fore-mentioned countries as well as for Yemen and may affect the neighboring countries.

Therefore, there is neither a balance in the market nor clarity in terms of the future. It is obvious that under such circumstances we can see fiercer

competition for resources and for the reorganization of the sales market. The dramatic price decline activated this process. At the same time, some are putting a stake on dumping, while others on fundamental factors. Life will show who is more successful and has better foresight.

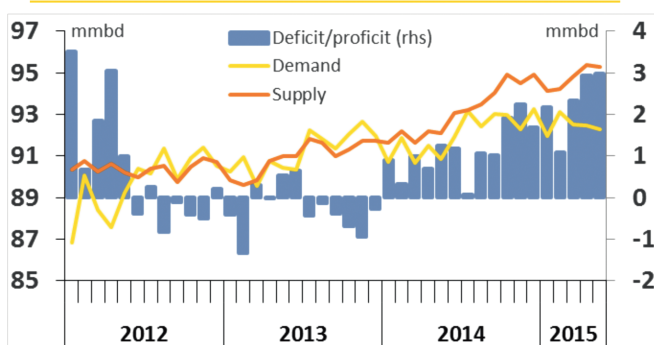
Now, going back to the consequences of the price drops, we would like to focus our attention on objective things related to oil pricing and the development of the market and the industry. At the same time, manipulation of prices, a situational behavior, looking to benefit from using financial and artificial tilting of the markets are not the kind of long-term elements of such development. As opposed to those factors, stable pricing is supposed to do such elements as the return on the justified

cost of putting investments in development capacity, which is necessary to ensure future demand. And **if the price is not adhering to the objective requirements, both producers and consumers will suffer.**

Now the issue that invariably comes to the surface is how it could happen that the oil price plunged twice in six months, why it is staying at current levels and what will happen to it in the future. The evident component of the price which is operational cost would in due time only grow. The component related to investment expenditures, including exploration costs, similarly shows the trend to grow. What has gone down? First of all, the price pressure was conducive to a certain reduction of the cost levels in terms of the marginal and the average ones.

LACK OF BALANCE AND CLEAR PROSPECTS ON THE OIL MARKET

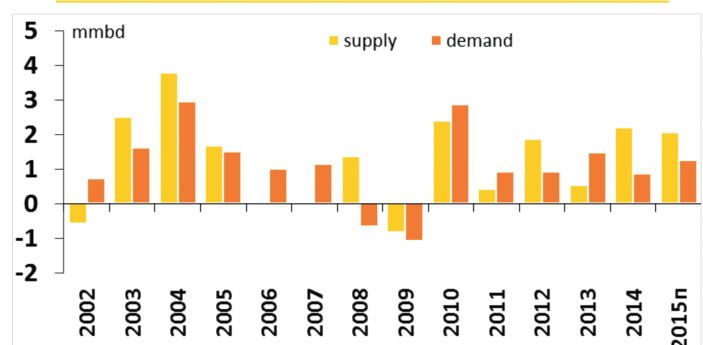
Global supply and demand of liquid hydrocarbons



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



Secondly, the important component in oil pricing was the demand for the price levels, which would balance around the requirements of the budgets of producing countries, but as soon as the OPEC countries gave up on regulating the market, essentially they gave up on their commitments to generate the profit sections, the revenue sections of their budgets. This important limitation appears to be significant. Now the question is how long the producing countries will be able to function under the high budget deficits?

Thirdly, the oil price today as opposed to what it used to be 40–50 years ago is not being defined using the formula “cost-plus”, but in a decisive way depends upon the correlation between demand and supply, as well as the derivative markets in terms of the financial instruments that are applied to it. Although one should concede that the adoption of the Dodd-Frank Act in 2010 and establishment of a council to oversee the financial stability in due time reduces the intensity of such operations and its effect on the price dynamics.

Essentially, we’re living in a different world compared to what it had been just a year ago. Prices contracted, just minimal costs remained, but at the same time unfortunately these costs do not take into account the full cycle cost. Doesn’t it show that in the oil price market, one finds dumping elements and the intention to reorganize the market. But this kind of phenomena cannot be long-term and

defining the future development of the industry.

This dramatic oil price decline, as my colleague and partner Bob Dudley recently mentioned, leads to a transfer of approximately \$1.5 trillion annually from suppliers to consumers. However, we do not see any significant effect of acceleration of the global economy in such a process. So it means that as we used to know before, it’s not about oil prices. The economy is being decelerated by the enormous imbalances that it has accumulated, debt and other factors, which are outside of the energy sector. So it happens that the global economy right now includes in itself the factor of subsidization, coming from one of its industries, because the things that have happened during the past few months are far from a normal pricing balance and rife with some serious consequences. There is an important question we should pay attention to. If the large-scale financial overflow from the energy supply sector into other industries doesn’t lead to the growth of the manufacturing sectors, where is it being accumulated? I believe that should require a very serious financial and economic analysis longer term. One of the lessons that we can learn in this very difficult period is in itself a very positive thing. A very unexpected thing in the middle of last year, both for the OPEC leadership and other market players, was the acceleration of shale oil production. As a result, in 2014 the level of its production

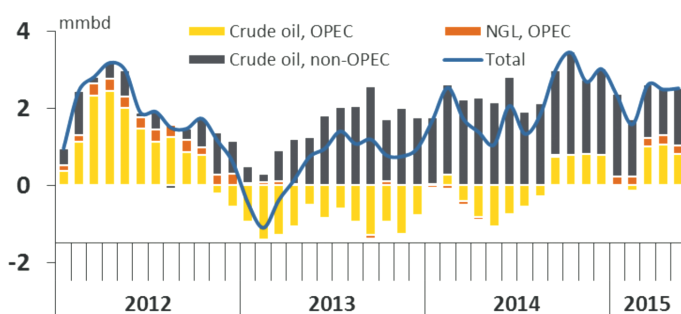
grew by more than 1.5 million barrels a day, while the overall production of liquid hydrocarbons in the United States went up by more than two million barrels a day. Let me remind you that it happened against the background of high oil prices. This lesson, I believe, is in the **growing role of technological progress, innovation and responsiveness of the industry to good factors** (including low level of taxes on shale production). In the United States there is a whole set of factors like that which include the ease of funding, advanced financial instruments and the possibility for price hedging, unprecedented capacities in the service sector, well-developed logistics. And it actively uses the multiplier effect that expensive shale production has on the whole economy.

Throughout many components we can state that **the United States has a set of factors for the full development of a competitive oil market** while in other regions, one finds individual elements of it. And **this, by the way, enables United States to send signals from its market outside of its borders and effectively influence global processes.**

Such translation is not always fundamentally valid. The continuing ban on oil exports distorts the market processes. The signal towards the reduction of the oil prices in the middle of 2014 was sent by a dramatic reduction of open financial positions which in its turn was provoked by the introduction of various limitations by the United State of paper transactions. Right now, when the production of shale

OIL PRODUCTION KEEPS GROWING FAST

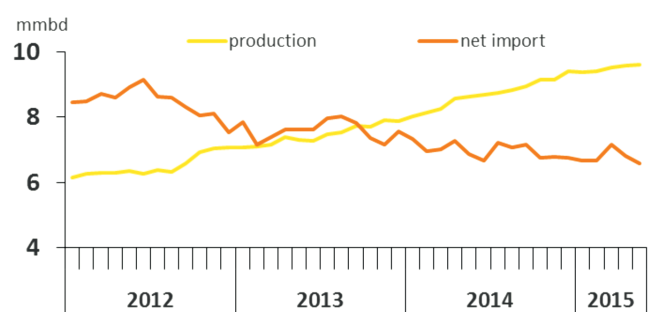
Breakdown of global liquid hydrocarbons supply growth, YoY



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



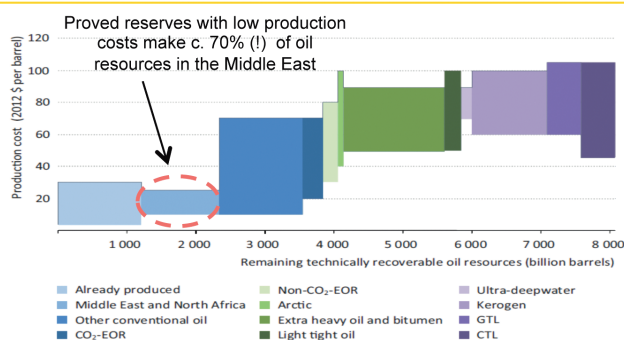
oil reached very significant levels, **the shale oil segment turns itself into an automatic market switch which regulates global supply in the oil market.** In the period of high prices the production of shale oil grows dramatically. And with low prices it can quickly stabilize itself and start going down. The supply of shale oil regulates prices and also produces the reverse effect over the global price dynamics.

Having reached a certain level of maturity under the most favorable conditions (I mean high prices and low taxes), the **shale industry demonstrates its flexibility and will to survive against the prices going down.** It became the result of selecting the most effective volumes of output and further technological improvements such as the density of hydrofracking, margins in the oil

service sector. These are the factors which are vital to all of us. And also among the suppliers of oil services there are reserves to improve their efficiencies which one should actualize. The current volatility may create temptation to go towards the monopolization of the oil services, and this is what we should be mindful of. In the course of the crisis one heard a bit of a concept “let’s survive those who are more efficient, let’s purge the industry from the ballast.” It’s a very interesting appeal; one can analyze it. Because effectiveness depends on many factors, let’s put aside the regulatory ones and talk about natural resources. From this point of view little has changed. Today, like it was 50 years ago, about 60-65% of the resources are easily recoverable oil, located in the Middle East and Central East. The price increase in the 1970’s was underpinned by

MIDDLE EAST COUNTRIES ENJOY LOW LIFTING COSTS WITH THE MAIN PRESSURE COMING FROM BUDGET CONSTRAINTS

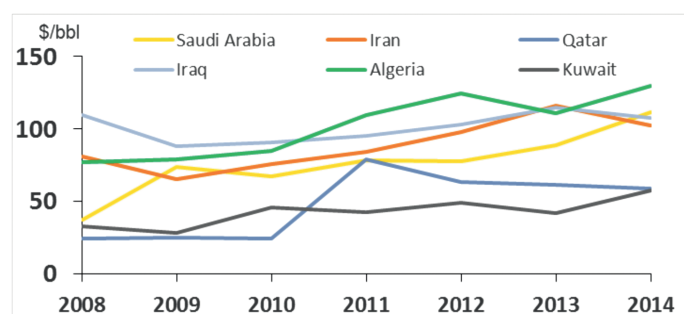
Production costs for different oil sources



Source: World Energy Outlook 2013

- 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



Source: IMF

- 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

political events and the provoked price shock led to the diversification of sources of the oil production globally. Then, up to the present, even against the dramatic decline of the oil prices in the second half of the 1980's and 90's, **diversification of supplies became the most important cornerstone of the energy security.**

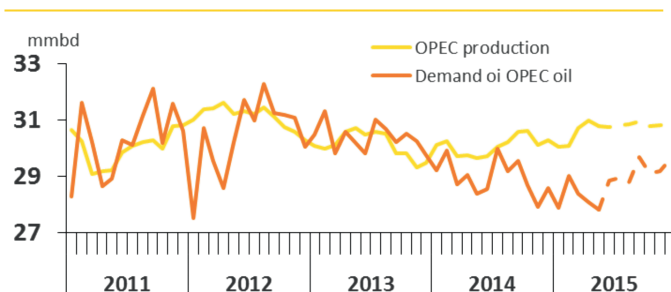
Let's look at the resource factor at a more elaborate point. Both the countries of the Middle East and Northern African countries, their resources usually were not independently audited. These countries essentially are not participating in the process of assets exchange; they are astringently insisting upon the purely oil service nature of their contracts with the foreign companies. In this sense, they are in the outskirts or even outside of

the perimeter of the global market. **The interaction, openness to investments and broad partnership are the factors which can mitigate many risks and create the foundation for stability in the industry.** Taking into account these circumstances, the possibility of individual producing countries to win the long-term competition or lead the world to a critical dependency upon the supplies of oil really creates a lot of doubts.

Let's look from the side of the resource potential at the fast growing sector of the shale production in the United States. Here, a lot is being based not upon proven reserves which are not really in abundance, but on various analogies and assessments and the kind of expertise which has been accumulated during the past few years,

OPEC STRATEGY LACKS EFFICIENCY: OPEC KEEPS RAMPING UP PRODUCTION

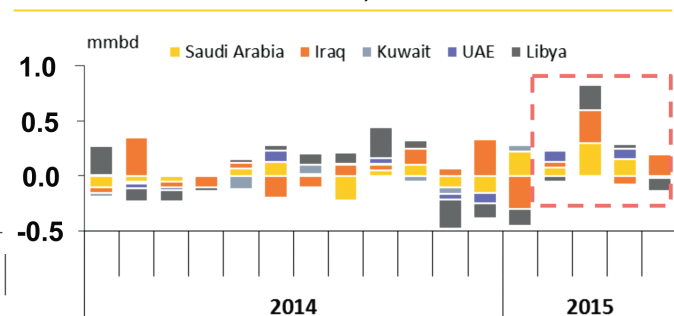
OPEC crude oil output, quota and global demand in OPEC oil



Source: IEF estimates based on EIA data

- 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.

Incremental crude oil production of certain OPEC countries, MoM



Source: IEF estimates based on Bloomberg data

- 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



particularly in the process of development of various reserves. And so, while the Energy Information Agency in the United States in its recent outlook for the period of up to 2040 confirms that within the basic option after about 5 years of growth the production of oil in the United States will stabilize and then start to go down. **In order to insure this kind of price dynamics for WTI, prices should demonstrate stable growth to 80 dollars per barrel by 2020 and after that accelerate the growth to approximately 120 dollars per barrel by 2035. And all of it, I should underscore, is in US dollars of 2013 value. Now, adding on to it the inflation which is at 2% per annum, you would arrive at an outlook for the level of oil price at 170 dollars and even more.** This is the data that comes from the Energy

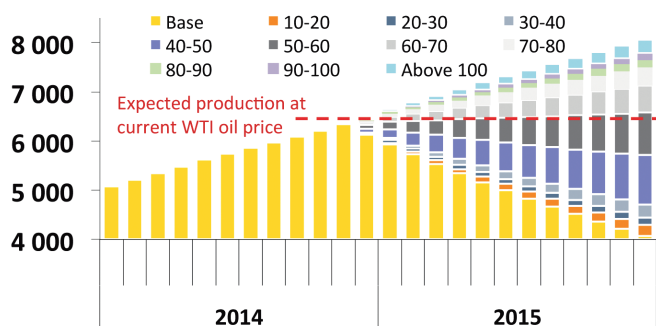
Information Agency in the United States. So, **while the phenomenon of shale oil and overall the potential of the oil industry in the United States is not capable of supporting the broadening global demand.**

Our short analysis shows that effective oil resources are not bottomless, particularly taking into account the multiple risks associated with their development. It means for these resources and the access to them, there will be a continuing struggle.

Let me start upon the role of offshore longer-term projects. Recently, there was a report published by a representative team of American experts headed by Rex Tillerson about the future of offshore. And they note that **shale production in the United States is an important factor of the mid-term**

NON-OPEC COUNTRIES MAINTAIN PRODUCTION

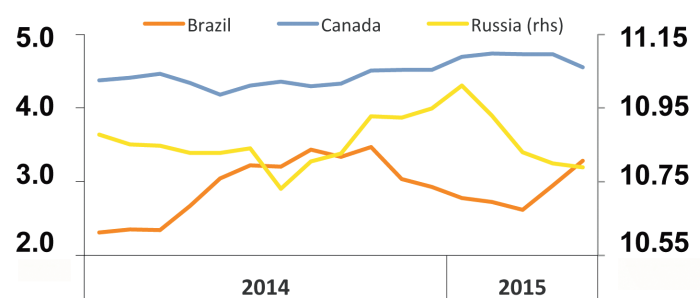
US shale oil production forecast under different Brent pricing scenarios, kbd



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

but not long-term nature. Specifically the arctic offshore is the basis for insuring the long-term stability of the global oil supply. In view of big lags in implementing such large-scale projects one has to be active in working in the arctic shelf now. Considering all of the challenges that are related to it, authors believe that the technological problems of development of the arctic offshore are resolvable on the basis of the already existing methodologies and performance results. We are aware that the most promising in terms of the arctic shelf are the Russian resources on which we work together with our partners including Exxon, ENI and Statoil. Of course, price conditions should comply with this long-term trend.

Let me look at the regulatory factors which are strongly diversified in between countries.

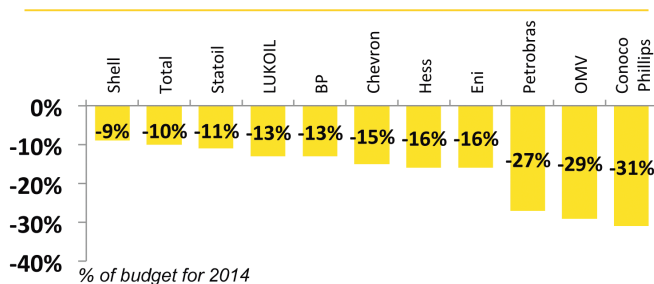
Today, as opposed to 1970's and 80's, many countries in the Middle and Central East in order to balance their budgets require very high oil prices. Their current decline led to considerable shortages and deficit of their budgets as well as the reduction of the levels of their wealth sovereign funds, even in Saudi Arabia which is the engine behind the current OPEC policy.

We need to say that these prices do not create conditions for the stability in the economy or for the majority of countries which are OPEC members. Certainly, in order to achieve global objectives one can temporarily tighten the belt, but what kind of a target should this be then?

Statements by the champions of the current line that we're talking about the fight to maintain the market share are not

LOW OIL PRICES REDUCE INVESTMENTS, NOT THE OUTPUT

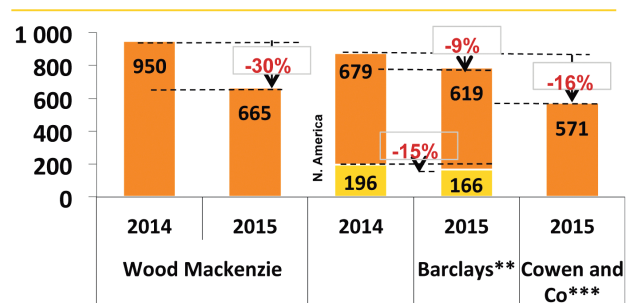
Investment budget cuts by major oil companies in 2015



Source: Wood Mackenzie

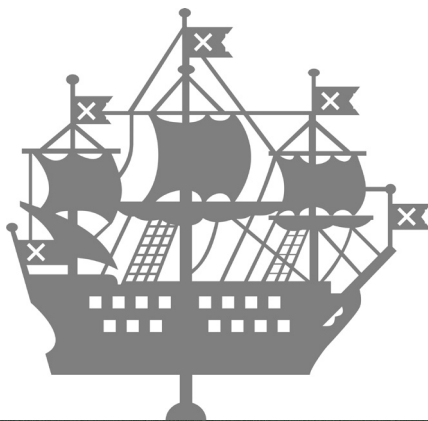
- Oil companies indicated Capex budget cuts by \$65 bn in 2015
- The oil industry investment could go down by \$100 bn this year, according to WoodMackenzie
- Goldman Sachs estimates that the greenfield projects with ~\$1 trillion of required investments (excl. US shale) could become loss-making under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

Forecasts of global oil capex cuts, \$ bn

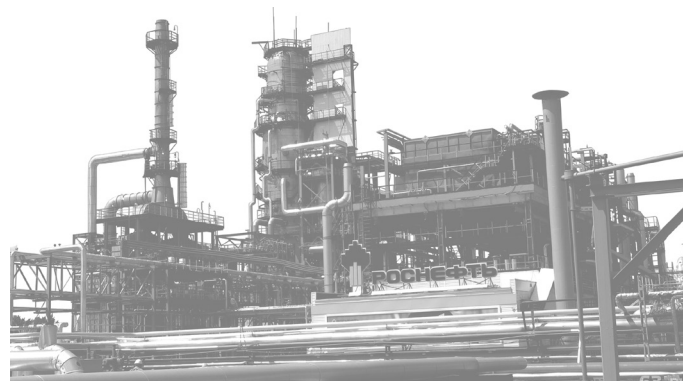


Note: *Data for the oil companies announcing their ESP plans as of early March 2015.
 ** Barclays ESP Spending Outlook (Brent \$70/bbl, WTI \$60/bbl)
 *** Cowen and Co.'s Annual study of E&P capex budgets (WTI 70 \$/bbl)
 Source: Wood Mackenzie, Barclays, Cowen and Co

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







being confirmed by factual information. In the context of excessive supply they increase their own production considerably exceeding the quotes that they announce themselves. And so, it seems to us that we are seeing an attempt to resolve other issues. First, they want to expand the market share by taking and snatching it from other suppliers, even despite some sensitive losses in sales revenues. By the end of last year, there evolved a kind of a policy which I would describe the 50–60 dollars per barrel range and it certainly is not a stable one because of the number of considerations.

The short-term effect from it manifested itself only in the shale production in the United States. But at the same time, an analysis of the previous year showed that this production was quite diversified in terms of

the minimum necessary price levels and **even against the price of the WTI at the level of 50 dollars per barrel it stabilizes by the middle of this year and that is exactly what happened. An excess of this price level led to a new growth in production.** At the same time, some dramatic events took place in the industry itself. In the United States a number of producing regions turned themselves into some sort of the emergency regions, became empty while in others the level of activity grew. And here, I would like to make one mention because the shale industry in the United States essentially is going through a development stage, so far there are no rigid requirements imposed on it environmentally in terms of the full utilization of the associated petroleum gas or taking into account the subsequent cost of decommissioning of

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

the well, rehabilitation of land, utilization of gutters. As experience in the nuclear energy shows, getting up on accounting cost for the full cycle at an early stage of development distorts the economy of the project and very dramatically reflects itself upon it.

Other major oil producers outside OPEC are much more investment-oriented, and their production not only sustained but grew somewhat. And that relates to those who were announced as the most inefficient: shale sands in Canada, deep water production in Brazil. Production in Russia also somewhat grew which was a considerable surprise to the authors of the 50–60 dollars per barrel range policy. But it was all to be expected and **was defined by the fundamental factors of the investment nature** that we've mentioned before.

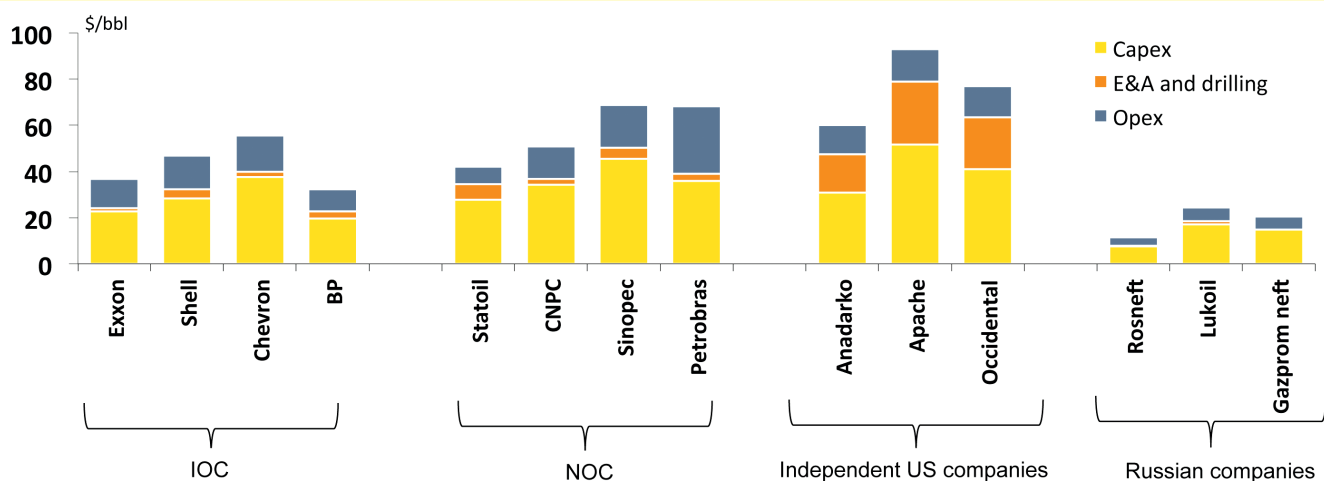
Certainly, if one is to continue this policy for years then other fundamental factors would come to play. Specifically, already we see a dramatic reduction of transnational companies' investing into major projects resulting in 2–3 years' time there might come a dramatic reduction of output in areas where these companies operate. And I believe that the participants of today's Energy Summit will reflect upon this in greater detail.

In order to understand the situation mid-term and long-term, it is extremely important to look at the resource base. On the basis of this analysis we will be able to see that:

- the potential of growing shale oil production or low-permeability collectors' oil is very limited. Its aggregate resources and recoverable resources do not exceed

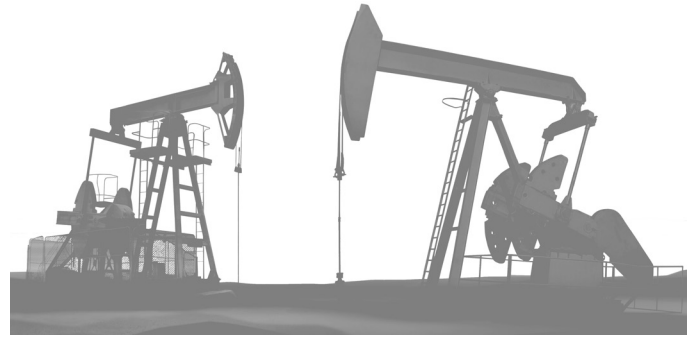
RUSSIAN BROWNFIELDS AND GREENFIELDS ARE HIGHLY COMPETITIVE

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



10% of all the planet's potential reserves. At the same time the share of this oil in proven reserves amounts to just 1%;

- a great share of the reserves which should be brought into production is related to the offshore areas and long-term prospects show a greater significance of the arctic offshore;

- now and for the next few years, the United States and Saudi Arabia have the biggest possibilities to build supply. In the long-term perspective, there can be a considerable role for such expanding countries like Iran, Russia, and Venezuela.

The analysis of the resource base makes it possible to say that:

- Russian production will remain flat because fundamentally our costs are low and we demonstrated that on multiple occasions through the example of our company as well

while the fiscal system makes it possible in a certain way to cushion the price shocks for the companies by reducing export duties against the low oil prices globally;

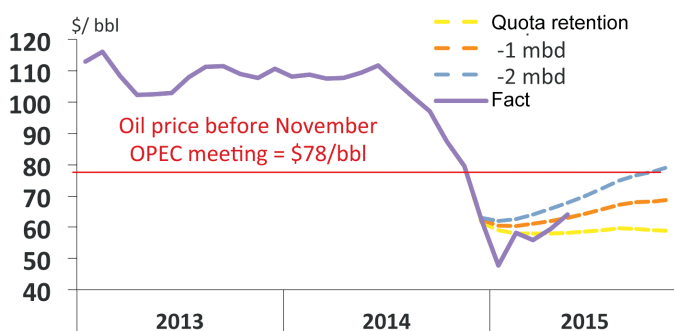
- production in the United States will flexibly respond to the changes in oil prices, and this flexibility will only become stronger through the innovation and great efficaciousness;

- the deficit of revenue for a number of OPEC countries will become intolerable because of the social concentrations and dramatic reduction of the financial reserves. Inside OPEC there is already a raise for exceeding quotes which itself may lead to some severe consequences.

So, the \$50–60 policy has its temporary limitations, and I believe that this is something that many should agree with.

POSSIBLE OIL PRICING PATH ALTERNATIVES

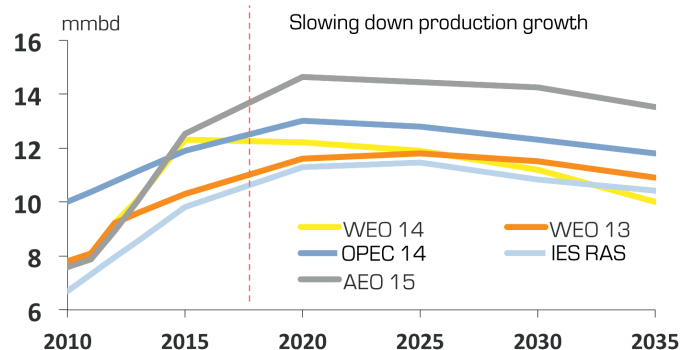
Oil price scenarios for different OPEC meeting outcomes in November 2014



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

I am not going to elaborate upon the acute problems caused by the implementation of this scenario in related industries such as, for example, big LNG projects.

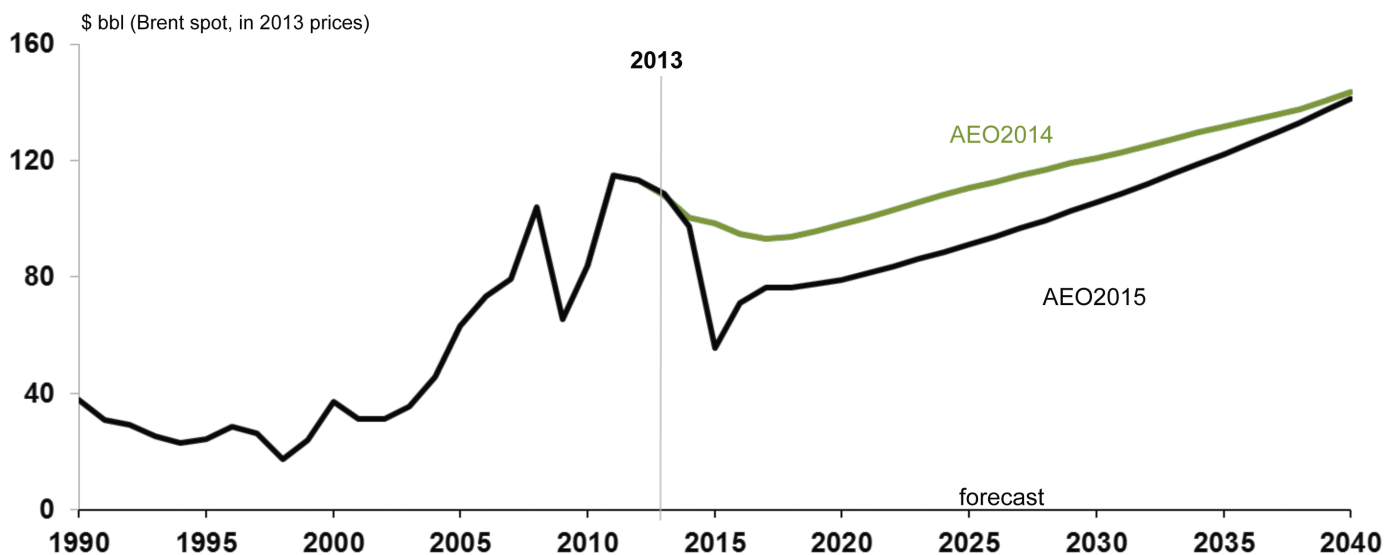
We've been very watchful of the second after-the-Qatar wave of these projects, including the big projects in Australia. It is known that they turned out to be much more difficult and more expensive than originally expected. But they're objectively necessary for the fast growing Asian market. Although **right now it is difficult to imagine what will happen to their ROI if the period of low oil prices stays for long.** Just for reference I can say that the LNG price in Asia went down to the level of 7-8 dollars per billion BTUs while as viewed by Fitch in order for the investment to pay back out of the Australian LNG project

you've got to have 11–13 dollars per million BTUs.

Was there an alternative to the \$50–60 policy? We believe there was. And we didn't conceal it and our respective arguments from all of the participants of the market. **We would describe this alternative as the policy of \$80+ per barrel range.** What does this policy mean?

The excessive supplies are compensated by the control demand in order to balance the market while the normal price response will be bringing the prices down to \$80 per barrel which in itself could also benefit the market within the range of 2–3 years. Our analysis on the basis of the history of the balance of supply and demand shows that the reduction of the aggregate supply by less than 2% (in the case of OPEC it should

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)



be 5%), would have led to this particular price result. We should note other possible consequences of such scenario.

- it would have been possible to avoid the price shock. The price correction would have been within the range that we've discussed because of the changing market circumstances, and the price for a certain period would have been going down below the level of 90 dollars per barrel;

- the concerns on the OPEC side that the supply shortages would acquire permanent nature are not really justified. The growth rates of shale production would have gone down to more moderate levels and the growth of this production based on the expectations which were put together against the higher prices would have continued for another 3–4 years with a subsequent stabilization;

- there wouldn't be any critical high financial investment losses for all of the market players.

And this kind of scenario seems to be much more attractive and much more stable. The stage that we lead through related to high turbulence and exposed other problems. The markets painfully respond to any sort of information or something which is being delivered as authentic market information. Here you find a high level of responsibility and accountability in terms of the sources, and there are quite a few of them. We note a lot of benefit that regularly we see because of the publications of the International Energy Agency, OPEC secretariat, the Energy Information Agency and a number of other analytical services. But at the same time the actual statistical information is

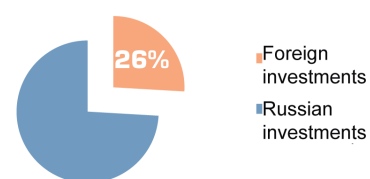
INTERNATIONAL INVESTORS HOLD ~26% STAKE IN RUSSIAN OIL MAJORS

International investors' interest in Russian oil majors

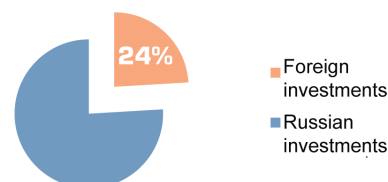
Company	International investors' interest (min estimate based on ADR/GDR holdings)	Market capitalization as of 01.05.2015, \$bn	International investors' stake value, \$bn
Rosneft	27.25%*	53.9	14.7
Lukoil	34.02%	43.6	14.8
Gazprom Neft	27.60%*	13.4	3.7
Surgutneftegaz	7.16%	26.5	1.9
Tatneft	29.90%	12.3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

Source: Institute of Energy and Finance based on company's data













very different. For example **by how much OPEC countries exceed quotes by 800 thousand or 1.5 million barrels per day? This is something that the market is very mindful of.** The market is very sensitive to the data of the way the refined products are being changed in the United States. But at this stage after the publication the data have been reconsidered many times. A more important integral feature would have been the balance of inputs and the utilization of oil and refined products by the authors of such estimations themselves point to their imperfections (\$300 per barrel a day). **And this kind of imprecision may distort the real market picture compared to the very sensational and original press releases.**

The turbulence has exposed the problems and the complexity of an adequate forecasting

in the behavior of the oil markets. It is much clearer that **we see the need to switch over to the systemic analysis based on broad factors and presenting the results of such analysis in an adequate proper form.** So, in this regard I read the recent publication by the Energy Information Agency concerning a long-term outlook for the energy sector in the United States. The authors decided not to take out anything at their discretion, trying to be rational. Partly, they were talking about the outlook for the shale production in the United States and the possibility of such factors to demonstrate themselves as pricing, technological, and other. It turned out that this kind of dependence is very strong which means we can't practice simplified outlooks. It simply disorients the market and all of us.

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 Neftgazodobycha (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%)
	Statoil	E&A in the North-Komsomolsk area and on the shelf of the Sea of Okhotsk under Agreements with Rosneft (2012)
	CNPC	JV Vostok -Energy with Rosneft to produce oil in the Irkutsk Region
		Veninsky Block in Sakhalin-3 (25.1%), E&A stage
	Sinopec	Udmurtneft (51%)
	ONGC	Sakhalin -1 (20%)
		14 subsoil acreages in the Tomsk Region - via Imperial Energy
	JAPEX, Marubeni и др.	Sakhalin-1 (30%) - via Sakhalin Oil Development Co. (SODECO)
	Mitsui	Sakhalin -2 (12.5%)
		Sakhalin -2 (10%)

Source: Institute of Energy and Finance based on company's data



Has our fundamental understanding of the future of the market been undermined? I believe not. Through the turbulence, through volatility or in a more stabilized way we will be able to achieve the main curves and levels which, as deemed by such agencies as International Energy Agency, will require in the future. Of course, it is prevalent to move with the least losses along that path.

I should note that that the cooperation between the Russian oil industry and its foreign partners hasn't weakened under current circumstances and their role in our sector is very strong. If we are to consider this particular involvement and this role only in terms of participation in the equity and specific projects of oil production, it amounts to more than one quarter. As you know, Rosneft is the biggest public company which fully reflects this trend. Today we have completed our work and signed an agreement with BP to enter into our new production projects. But certainly, I'm not talking only about purely financial and equity participation in such a partnership. Our company is actively developing all forms of such an interaction expanding its borders and the way it covers the ground.

Considering the recent trends and challenges we are moving towards the interaction in technology. Together with our partners we are developing these innovations, we adapt them technologically to the conditions that we have to work in and localize production and equipment.

By the way, the recent trend, including the famous deal between Shell and BG confirms our conclusions about a new phase of deals coming on: mergers and acquisitions. And our company together with BP was at the beginning of this trend having initiated the TNK-BP acquisition transaction.

Maybe a high evaluation of the BG in its transaction with Shell which exceeded manifold the BG's valuation, which was done several years ago, shows that strong positions in such market as the UK LNG market even against the backdrop of the current oil prices does create a lot of value. Simultaneously, we are more active in international projects which also comply with modern trends of interpenetration between the market players.

I believe, the currently existing categories of the purely national and transnational companies are becoming outdated. We are all international companies, according to our financial structure and areas of operation. Certainly, every company has its own basic assets, which are traditionally strong in certain preferential positions in terms of the global regions, but there are no insurmountable barriers between us. There is less and less of those.

The basic objective for producers and consumers is the stabilization of the market, as well as of pricing, on the basis of understanding of their resource base and the necessity to ensure the needs of the economy. At the same time it's difficult to combine the objective to balance the



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budget, dynamics of technological process and the availability of financial resources in the industry. So, to decide this set of issues it is required more active work at the corporate levels and a greater role of trading and exchange of assets between companies, participation in joint projects, coordination of trading activities in improving efficiency and transparency. At the same time, the role of the regulator should be in providing accessibility to infrastructure and justifying the price for the transportation of hydrocarbons.

We should give up on the one-sided subsidization at the expense of the oil and gas industry, be more scrupulous in controlling the banking sector in order not to allow

bubbles to develop and the manipulation in the pricing area. **The most important role to be played by the companies is to continue exploration for the purpose of diversifying its resources, to achieve technological progress for the purpose of reducing the cost of production, and to bring investment to develop new oil and gas provinces. Only this would ensure long-term stability in pricing.** At the same, in the short-term perspective as a result of the price shock that the industry went through, the decline in capital investment and stronger competition for the market resources, it is necessary to prepare for extended volatility. Thank you very much for your attention!





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