

Speech
of Rosneft Chief Executive Officer
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EURASIAN SYNERGY

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Dear colleagues, ladies and gentlemen, guests of the Forum,

Please note the limitation of liability due to the presence of estimates and forward-looking judgments in the report. Although today I will talk less about the hydrocarbon markets. Probably, we have recently become more involved in risk management. The markets respond to the situation that is created at the political level.

In recent years, the forum in Verona has become an important platform, primarily to discuss regional issues of economic and political cooperation between Europe and Asia, our continent as a whole. It distinguishes the Forum in Verona from all the other platforms; the main feature of this forum is the confirmation of the world's multipolar nature and the chance of comprehensive discussion of regional cooperation.

I would like to emphasize the role of Italy – for centuries making an outstanding contribution to the development of the European identity and at the same time one of the most active trading nations of Europe historically, deeply understanding the importance of the dialog, the role of business and mutually beneficial cooperation. In this regard, I would like to thank Flavio Tosi, the respected Mayor of Verona, for his hospitality, firmness and commitment to support the Forum.

Russia, thanks to its unique geographical location and resource potential, is naturally intended to be a link, a kind of a "bridge" between Europe and Asia. And

to a large extent, this transcontinental infrastructure including the system of oil and gas pipelines, railways and roads, airports and communications was primarily created in the western and central part of Eurasia. Now these questions acquire a "second breath" extending to the East and South, to include the rapidly growing economies of these regions. This infrastructure in energy area is in many ways based on the fact that Russia is a stable long-term source of energy supplies to the markets of both Europe and Asia.

The demand for such energy bridge by the European and Asian markets is obvious, we just need to look at the results of the market mechanisms in the past decades. Over 25 years since 1990, Russian oil deliveries to Europe increased 1.5 times and made 150 million tons in 2015. Deliveries of petroleum products increased during the same period by more than 60% – to 55 million tons. Russian oil today accounts for about 30% of European imports, oil products – 43%. At the same time, Russia remains the main supplier of gas to Europe providing over 30% of the demand for this energy source. These ties have generally been formed.

An important new factor is the boost in Asian energy markets. Given these processes, Russia gives priority to the development of the eastern energy bridge resources and infrastructure in the Asian direction. It suffices to recall that Russian oil deliveries to these countries increased 40 times since the year of 2000. Today Russian companies are active in the markets of China, India, Japan, Indonesia, Vietnam and many other countries, and Asian investors have already become the main investors in the Russian oil and gas industry. And not only Russian, but also European. Professor Fallico mentioned today Pirelli Group – the largest European petrochemical concern. It is known that ChemChina became the main shareholder of Pirelli, and this is a serious breakthrough of Pirelli in the Asian market and confirmation of its global leadership.

We witness a variety of opportunities for the European business to work with Russian partners throughout Eurasia. Moreover, the active development of our relations with our partners in the Asia-Pacific region does not create

competition, but rather opens up new opportunities for our valued European colleagues. These include new projects, opportunities of swap oil supplies and supplies of equipment, participation in joint production and logistics projects, portfolio investment and bank support. According to our estimates, Rosneft alone can offer projects worth over \$100 bln to the European partners in the course of relations development along the energy bridges Russia - Europe and Russia - Asia-Pacific countries.

Despite the continuing price volatility and still remaining imbalance in the oil market, from the fundamental point of view, the energy markets show stable development. Both demand and supply of primary energy resources continue to increase along with the growth of the world economy.

In the medium term, the established trends in the energy production structure, the dynamics of global GDP energy intensity and per capita energy consumption will remain. No doubt that in 25-30 years, the world will not reach the theoretically predicted energy consumption peak yet. Almost all forecasts, including the Rosneft calculations, demonstrate an additional increase in the volume of daily oil consumption of at least 15 million barrels in the outlook for 2040. Let's abstract from this amount additional shale oil production expected by the experts and optimistically estimated at 6-8 million barrels per day. And add the 5-7% natural production decline at the brownfields – this brings more than 30 million barrels per day. As a result, we can get a demand for additional production capacity of at least 40 million barrels per day. Considering such outlook, the world economy should find opportunities for new oil production, 4 times above the current production of Saudi Arabia to meet the energy needs.

As far as oil supply is concerned, I would like to point out several additional factors. In 2015, the state budget deficit in Saudi Arabia was 15% of GDP – the highest level since 1987. Despite the budget consolidation, in 2016 the budget deficit of the Kingdom of Saudi Arabia will amount to 10-12% of GDP. This level is not sustainable, even for a 5-year outlook. Saudi Arabia requires either to reduce

the cost burden, primarily due to lower employment, or increase the level of oil revenues. This has recently encouraged it to change the position of that country – a transition from the struggle for the market share expansion to the search for allies to stabilize the prices in the market.

Developments in the second largest scene – the United States – are very significant. This sector has undergone a major reorganization: refocus on the development of the most efficient oil and gas fields, further technological innovation, sharp decline in the margin of all industry players, introduction and widespread use of new financial instruments. After WTI prices became about \$45 USD/bbl, there was stabilization and even some growth in production. Still, it does not have a sustainable and ambitious nature. Further development will depend on price dynamics and price stability. Shale oil has a good chance to move into the moderate growth trajectory, but at the expected dynamics of the market it will not have an "explosive" nature, as it was in 2013-2014. To a large extent it will remain a regional phenomenon contributing to the balance of oil and petroleum products in the largest market in the US.

In the next year and a half we are going to see the end of excess supply period in the market and the start of the normalization process with commercial reserves of oil and petroleum products. During this period, despite a slight recovery of shale oil in the US, the total level of oil production in the United States will continue to remain below the 2015 highs. The price of oil will exceed 55 dollars per barrel. The low level of investment activity will remain in large and complex projects, first of all those being developed by the Majors, since the economies of these projects requires more stable and higher prices.

Europe in the next 15 years, as part of our forecast, will reduce energy consumption by about 5%. In Asia, the consumption of energy will increase over the above period by at least 40%.

In the presence of Middle East and Russia on the continent being the key oil-producing regions of the world, as well as the Caspian states and the resources of

the North Sea, the Eurasia oil is close to the balance of supply and demand. I think in the long term our joint efforts will be able to meet the growing demand for oil in Eurasia as a whole.

We have the taps in our hands. Both on the demand side - by increasing the energy efficiency of the economy; and on the supply side - through the development of joint projects in production, supply infrastructure and refining efficiency. New projects on the Arctic shelf, in the north of West Siberia, in the Caspian states, the development of pipelines and other energy supply infrastructure could offset the deficit and ensure the security of energy supplies on the continent for decades. If it is required by the market and appropriate technological and economic conditions develop, Russia will be able in the future to significantly increase oil production which is estimated to amount up to 200 million tons of incremental annual production until 2045.

There are objective conditions in Eurasia to reconstruct the continent's economic integrity. This can only be managed through the integration of traffic flows, flows of energy, energy resources, technologies and financial areas.

We believe that the promotion of cooperation and building such relationships will enhance the Eurasian integration and contribute to the further development of the economically viable interaction and association.

Projects for cooperation must be globally competitive, and this is our concern as being a company that develops them. The choice of the key partners and negotiation of the terms of their involvement are also competitive, but in terms of what the potential partners are ready to do and what they can offer as a contribution to the joint work.

In its business, Rosneft in Russia follows the principles of sustainable economic development which include mutual consideration of bilateral interests with Europe, connectivity of transport infrastructure, partnership relations, transparency of borders for capital, technology and business ideas. A few months ago, Russian President Vladimir Putin set a task to build Eurasian Partnership on

the basis of broad integration range, and the President specially noted that the "Big Eurasia" project is certainly open to the European partners. I would say that today, Rosneft is active in pursuing these tasks.

We appreciate that a similar position of our Italian partners is based not only on pragmatism, but also on a deep strategic understanding of the problems. I would like to recall the words of Italian Prime Minister Renzi that "an economy can work if the logic of openness, not secrecy is approved" as he said at the St. Petersburg forum. I am pleased that we can work together as like-minded people on the development of the economy in the space of the Eurasian continent.

I appreciate your attention. Thank you very much.