

THE IRAN FACTOR: WINNERS, LOSERS, & IMPLICATIONS

JANUARY 22nd 2016

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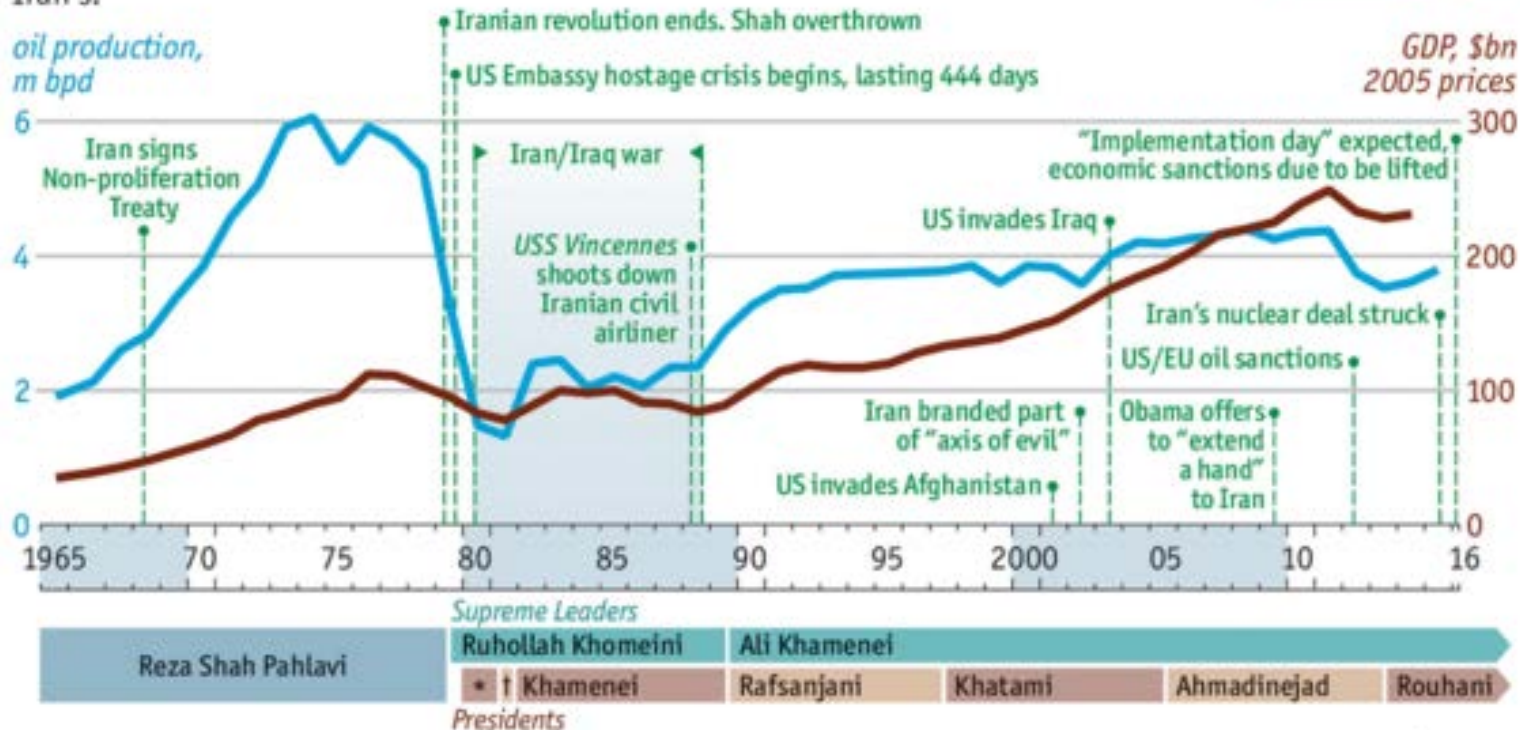
HISTORY OF SANCTIONS

US/Iran relations 1965-2015



Iran's:

oil production,
m bpd



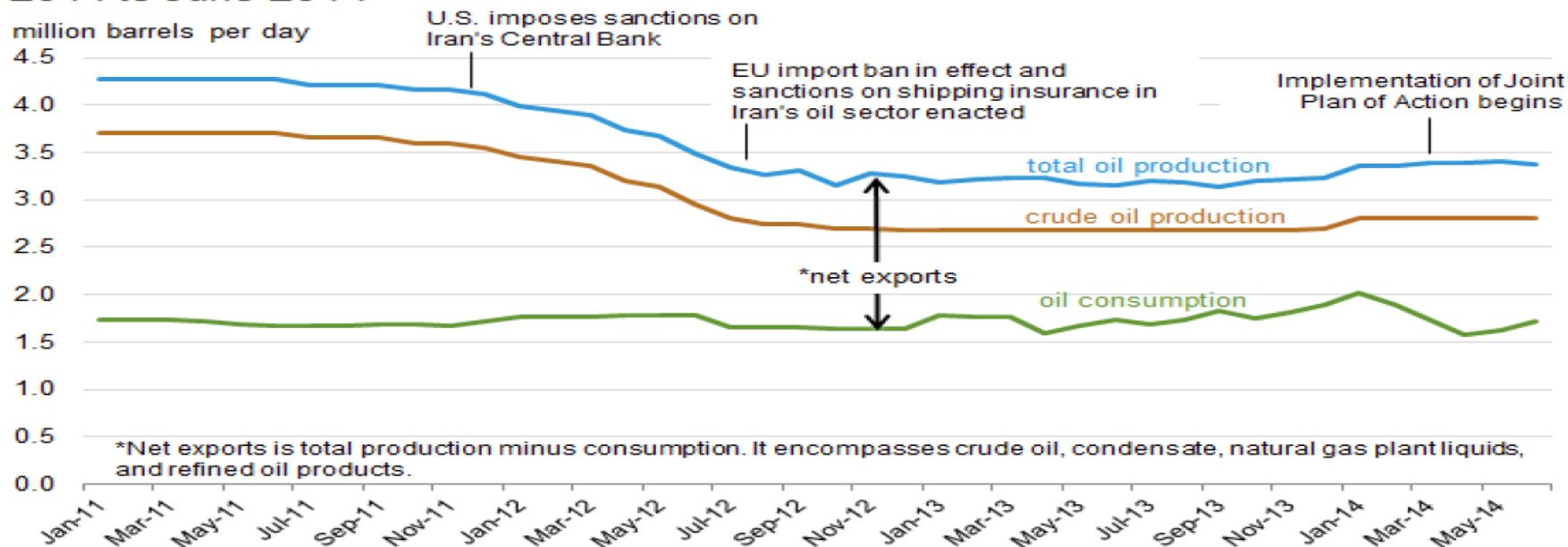
Sources: World Bank; Thomson Reuters

* Banisadr † Ali Rajai

SANCTIONS EFFECT ON PRODUCTION

PETROLEUM AND OTHER LIQUIDS PRODUCTION

Iranian petroleum and other liquids production and consumption, January 2011 to June 2014



Note: Iran's total oil production includes crude oil, condensate, and natural gas plant liquids (NGPL). The difference between total oil production (blue line) and crude oil production (brown line) is mostly condensate and a smaller volume is NGPL. Oil consumption includes petroleum products and a small volume of direct crude oil burn.

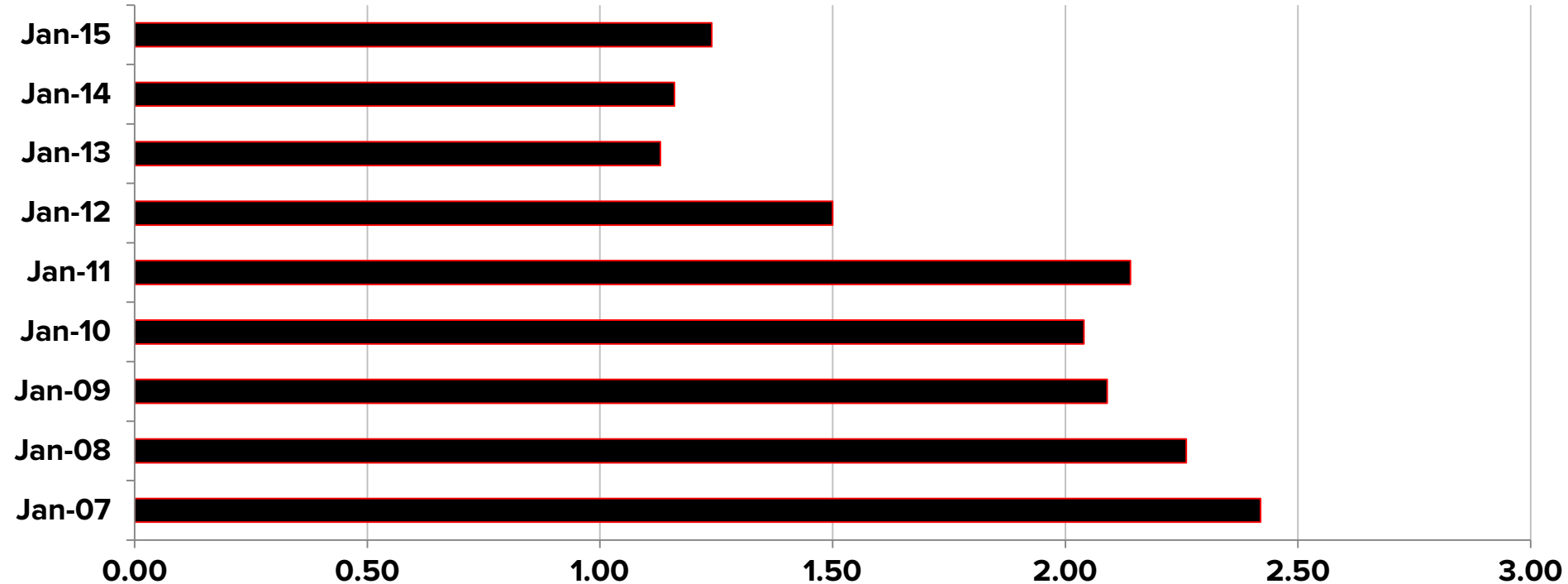
Source: U.S. Energy Information Administration.



SANCTIONS EFFECT ON EXPORTS

CRUDE PRODUCED IS CONSUMED DOMESTICALLY

Crude Exports (MM/BD)



THE TWO C'S

KEY FACTORS TO NEW IRAN CRUDE EXPORTS

- **Capabilities**

How quickly and how much can Iran do alone?

- **Customers**

Can Iran Find Buyers in an oversupplied market?

CAPABILITIES IN THE SHORT-TERM

- **Floating Storage: 40-50 MM Barrels**

An Immediate 150-200K B/D

- **700K B/D from existing producing fields in March**

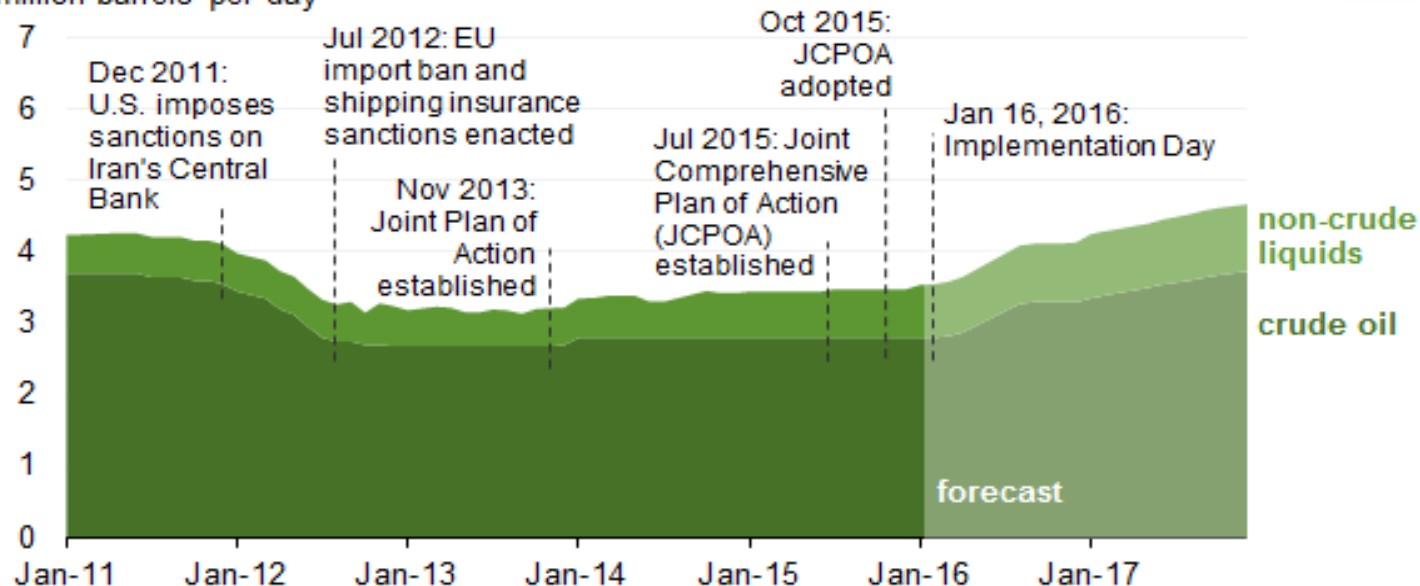
Equivalent to another Libya coming online in 2014

ESTIMATED IRANIAN PRODUCTION: EIA

Iran's petroleum production expected to increase as sanctions are lifted

Monthly Iranian petroleum and other liquids production (2011-17)

million barrels per day



Production has been ~flat for three years at an avg. 2.8MM B/D (9% of OPEC)

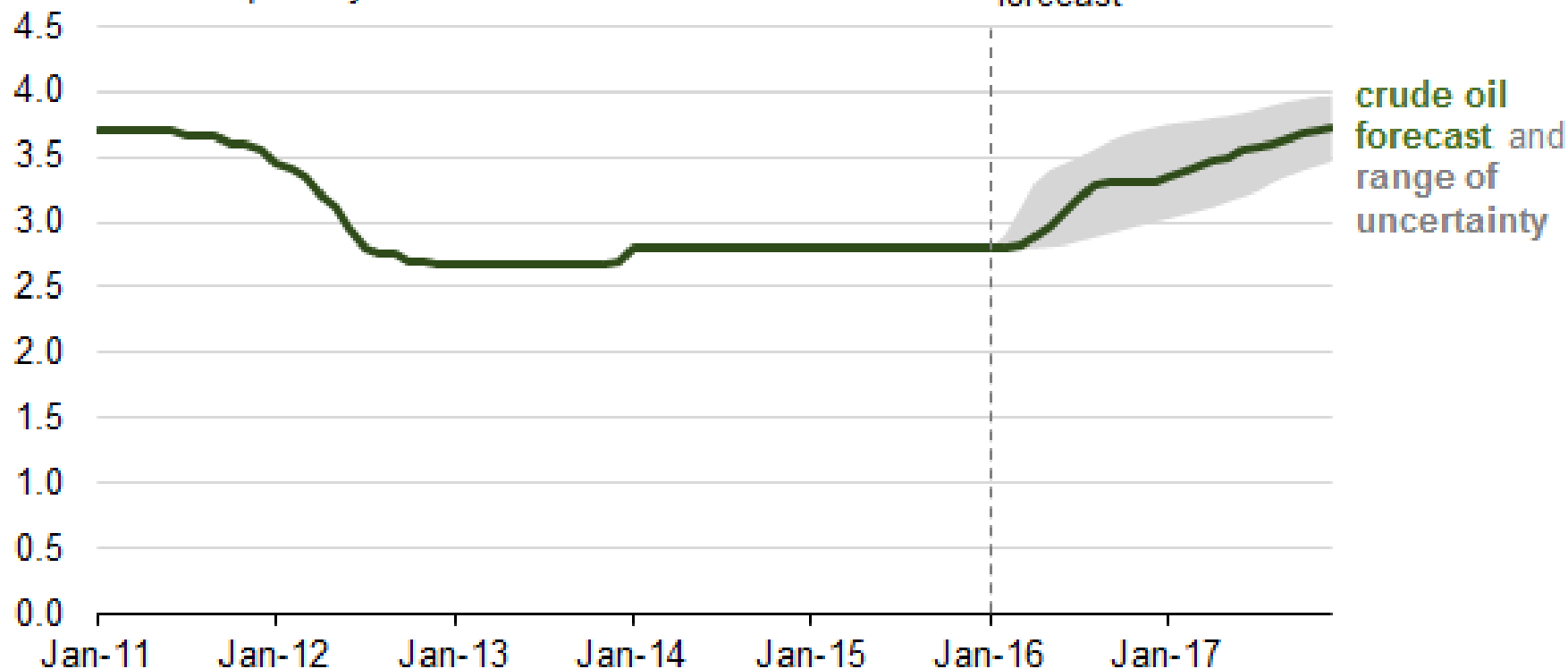
EIA projects avg. crude production of 3.1MM B/D with 3.3MM B/D by year-end 2016

2017 production will be an estimated 3.6MM B/D (3.7MM B/D by end of 2017)

ESTIMATED PRODUCTION RANGE: EIA

Monthly Iranian crude oil production (2011-17)

million barrels per day



THE PRIMARY GOAL





















“Our only responsibility here is attaining our lost share of the market, not protecting prices”

- Iran Oil Minister,
Bijan Namdar Zanganeh

THE SAUDI-IRAN MARKET SHARE PROXY WAR



PRODUCTION MONITOR – CUE THE PRICE WAR

Global Production Tracker		Producers >= 1% Global Production						
		Latest Monthly Production Data		MM% Change in Production	YY% Change in Production	YY% Change in Production (2Mth Avg. Stacked)	YY Incremental Barrels (MM/8D)	YY Incremental Barrels 2M Avg. Stacked (MM/8D)
		(MM/BD)*	% Global Share					
World Total		96.0						
OPEC		32.2	33.6%	0.9%	2.6%	2.8%	2.47	2.57
Non-OPEC		57.0	59.4%	0.3%	7.3%	6.5%	2.19	1.96
					0.3%	0.8%	0.17	0.44
	Saudi Arabia	10.2	10.6%	-0.9%	7.1%	7.3%	0.67	0.69
	U.S.A	9.5	9.9%	0.6%	3.2%	2.8%	0.29	0.26
	Russia	11.1	11.5%	-0.6%	3.3%	3.9%	0.35	0.42
	Canada	3.6	3.8%	4.6%	2.4%	1.4%	0.09	0.05
	China	4.0	4.2%	-1.5%	-6.4%	-5.0%	-0.27	-0.21
	Iraq	4.389	4.6%	3.3%	32.4%	29.5%	1.08	0.98
	Iran	2.929	3.1%	0.3%	13.3%	13.6%	0.34	0.35
	U.A.E	3.033	3.2%	2.1%	9.8%	10.1%	0.27	0.28
	Venezuela	2.388	2.5%	-1.4%	1.5%	2.0%	0.04	0.05
	Mexico	2.268	2.4%	-0.4%	-4.0%	-3.8%	-0.10	-0.09
	Kuwait	2.9	3.0%	3.6%	7.6%	5.3%	0.21	0.14
	Brazil	2.325	2.4%	-3.4%	-5.4%	-2.4%	-0.13	-0.06
	Nigeria	1.938	2.0%	-0.3%	10.9%	15.3%	0.19	0.25
	Norway	1.638	1.7%	4.5%	9.1%	5.5%	0.14	0.08
	Algeria	1.118	1.2%	-2.4%	-6.1%	-4.3%	-0.07	-0.05
	Angola	1.737	1.8%	11.4%	2.2%	-4.9%	0.04	-0.09
	Kazakhstan**	1.567	1.6%	-5.5%	3.3%	4.7%	0.05	0.07
	U.K.	0.964	1.0%	1.9%	18.7%	18.6%	0.15	0.15
	Colombia	1.066	1.1%	1.1%	1.9%	6.2%	0.02	0.06
	Oman	0.993	1.0%	-0.4%	2.4%	2.5%	0.02	0.02
Total***		69.6					3.37	3.37

*Latest EIG data through last completed month

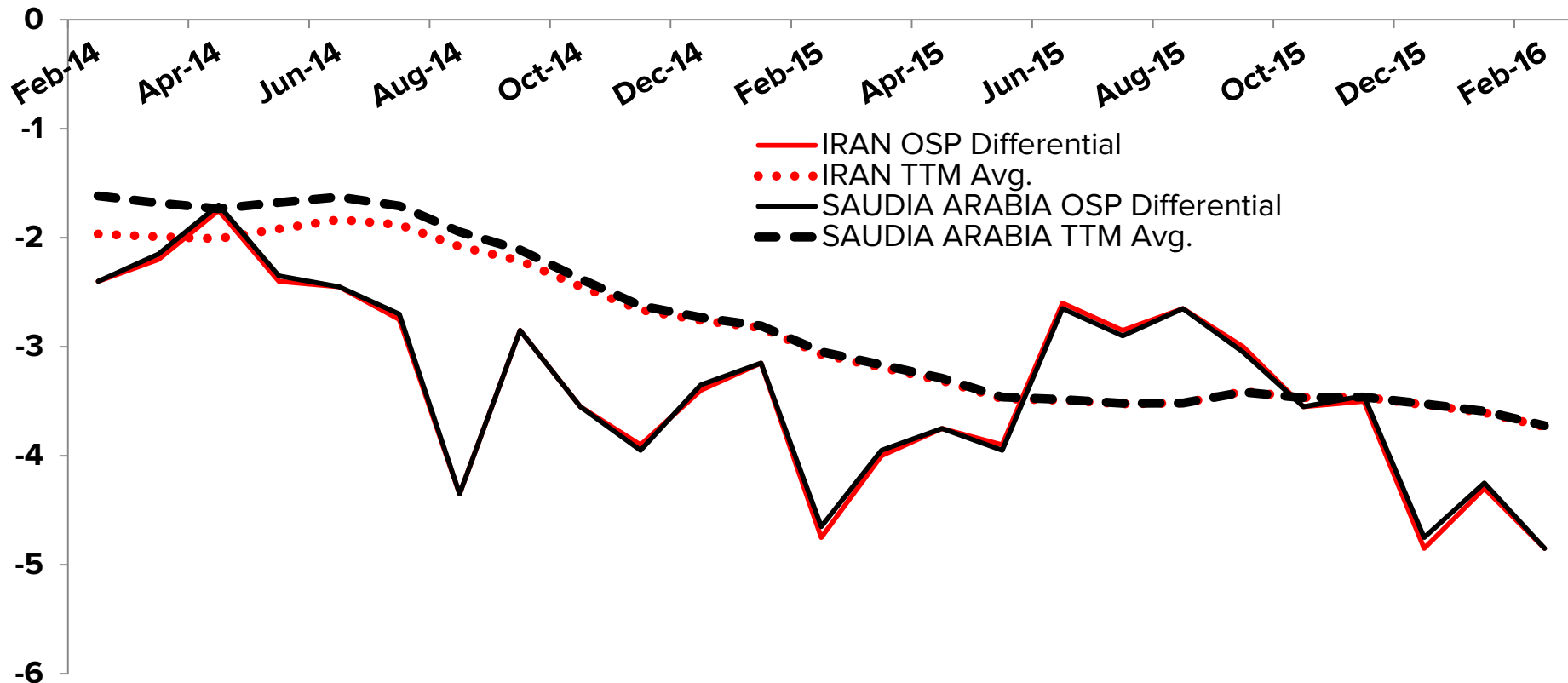
**DOE Data through JUNE

***List makes up ~72% global Production

OPEC Member

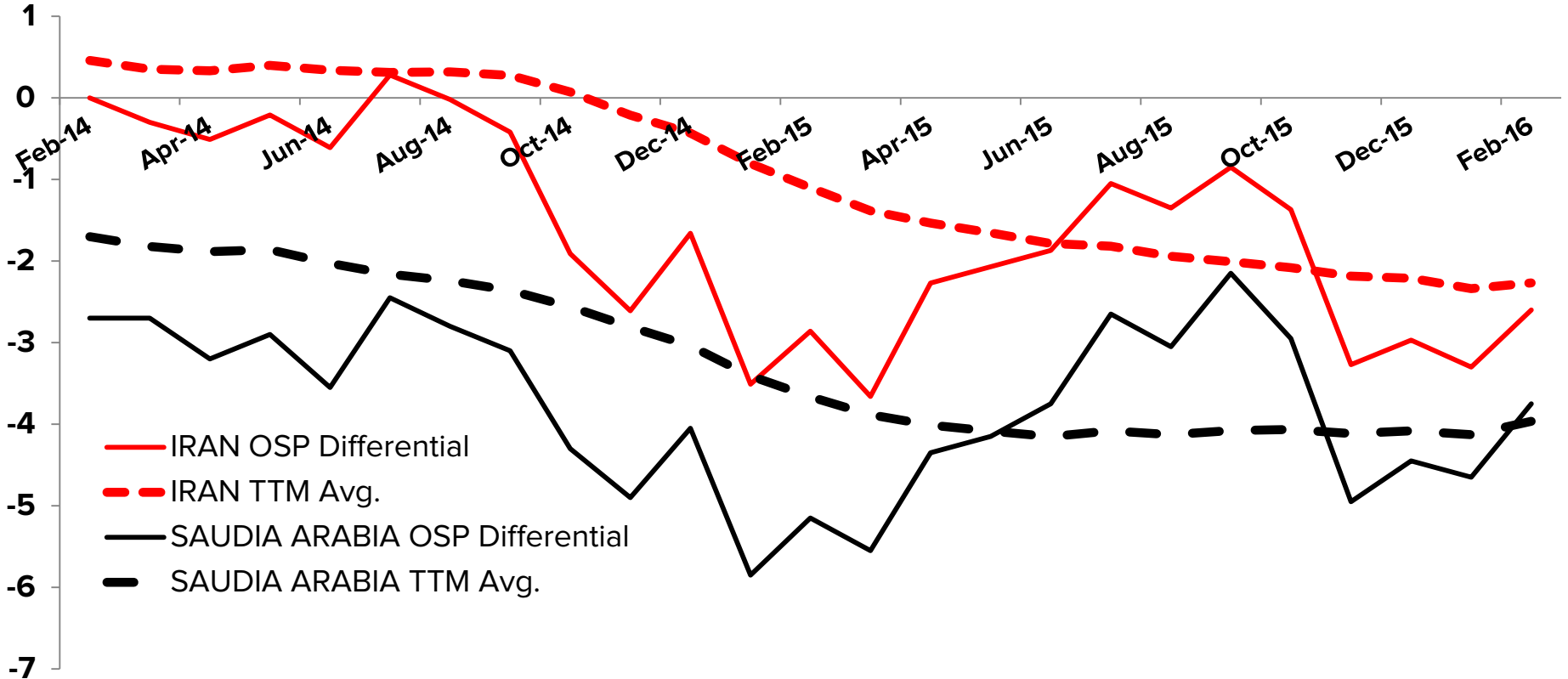
BOTH WILLING TO SELL AT ANY PRICE

NORTHWEST EUROPE LIGHT CRUDE PRICE DISCOUNT TO BRENT (\$/BARREL)



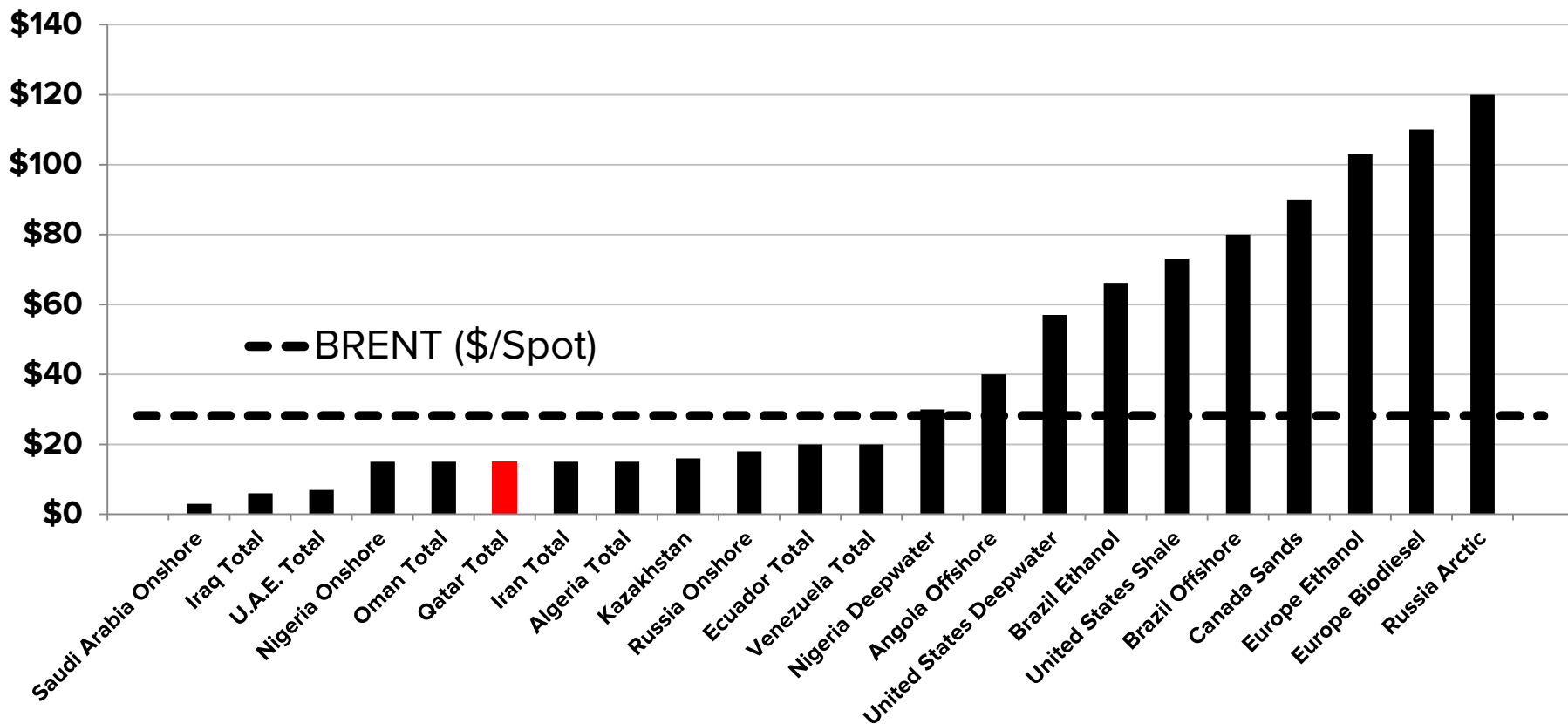
IMPORTANCE OF MARKET SHARE

ASIA HEAVY CRUDE PRICE DIFFERENTIAL TO OMAN/DUBAI BENCHMARK (\$/BARREL)



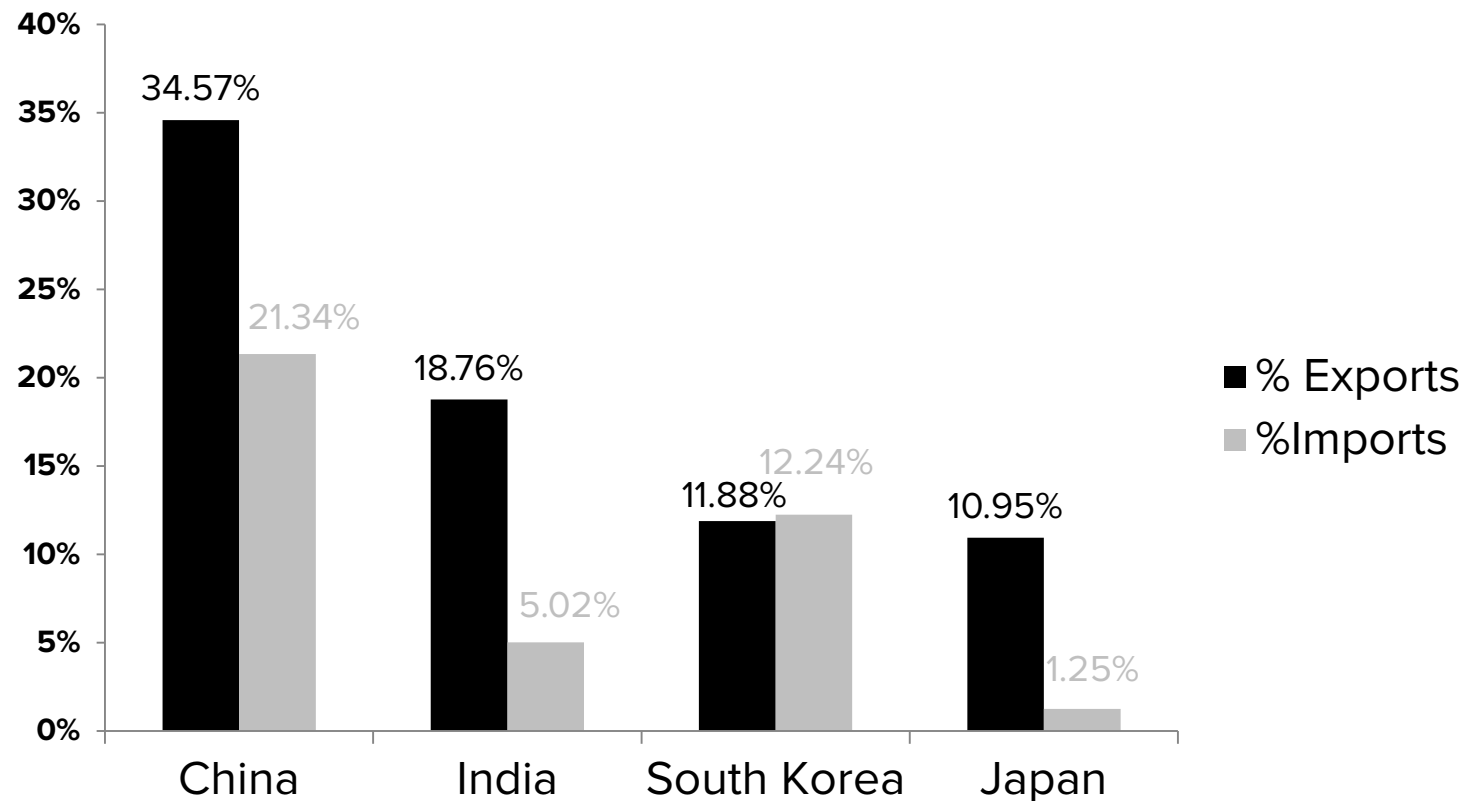
COMPETITIVE ADVANTAGE AND INVESTMENT ATTRACTION

ROBUST SAMPLE OF 2014 ESTIMATED MARGINAL PRODUCTION COSTS (\$/BARREL)



BIGGEST TRADING PARTNERS IN ASIA

IRAN

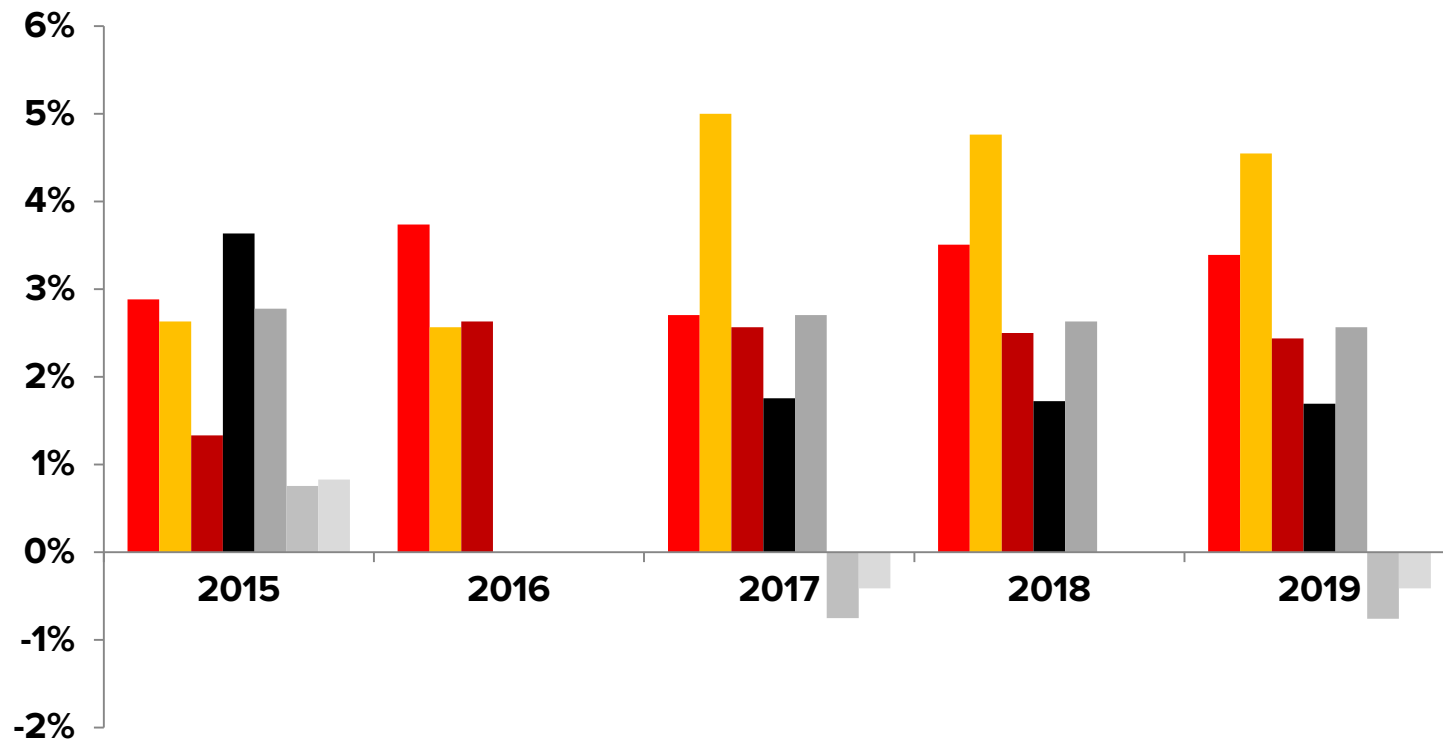


China remains Iran's biggest trading partner despite the contract dispute several years ago.

WHILE CHINA, INDIA ARE LARGEST “GROWTH DRIVERS” ACCORDING TO OPEC

OPEC FORECASTED DEMAND GROWTH (YY% CHANGE)

■ China ■ India ■ Other Asia ■ Latin America ■ Middle East and Africa ■ OECD Europe ■ OECD America

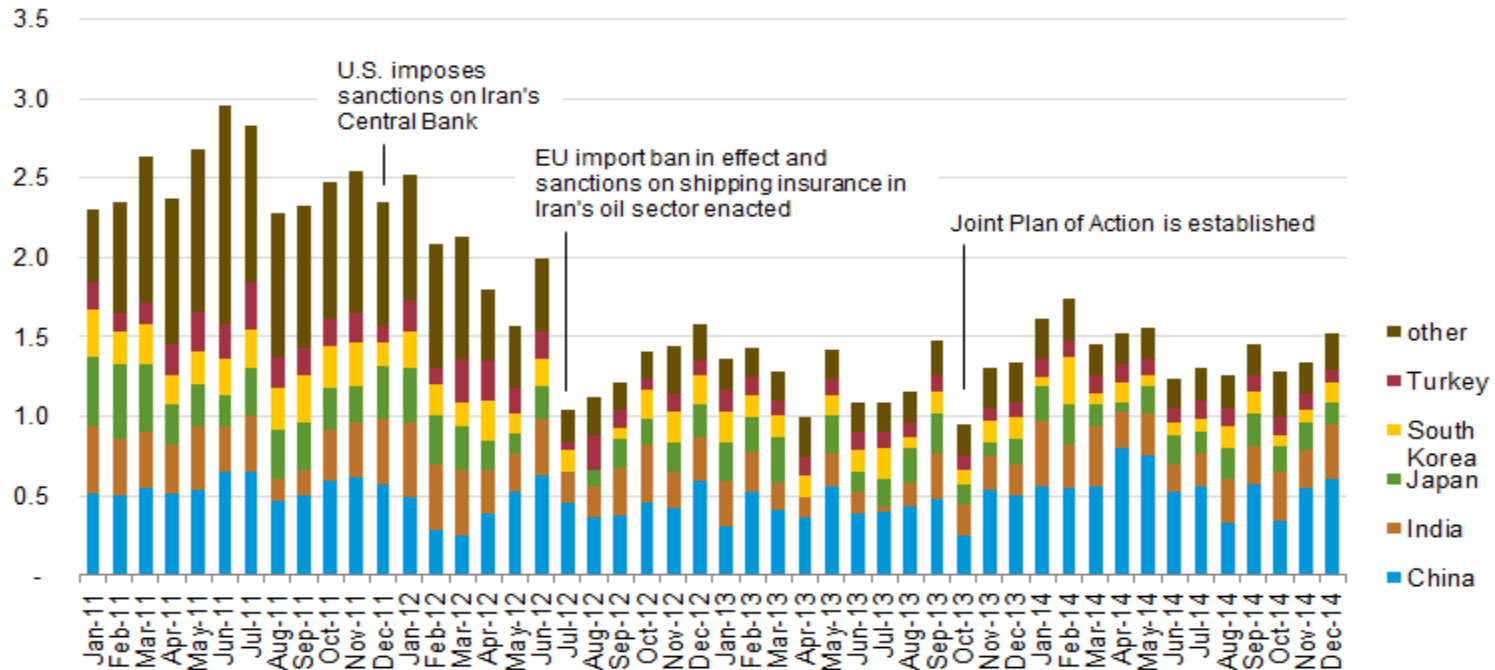


OPEC predictions are that the largest regions of demand will be in Asia, where Saudis have lost market share and **Iran has gained** during sanctions.

MONTHLY EXPORTS

CRUDE OIL AND CONDENSATE

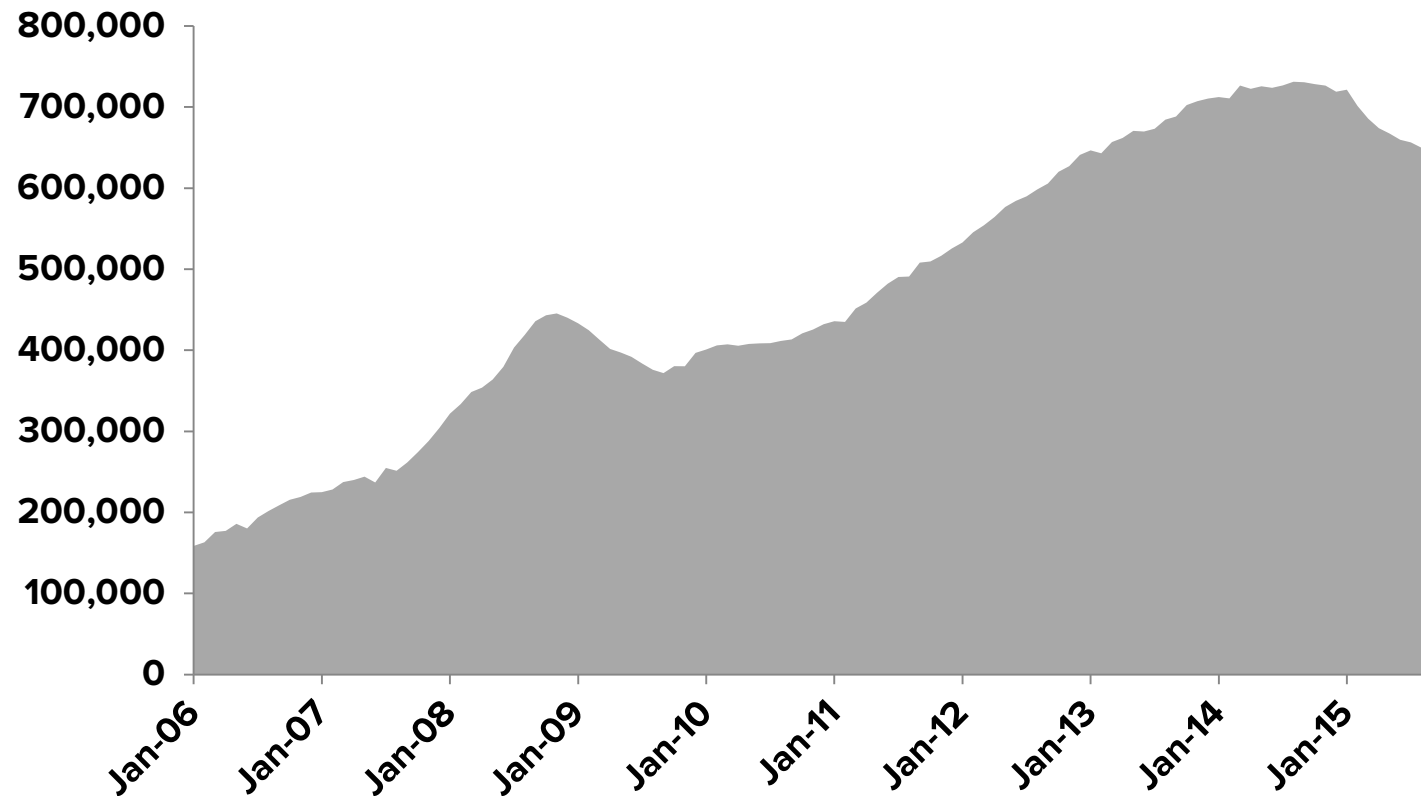
Iran's monthly exports of crude oil and condensate
million barrels per day



Source: U.S. Energy Information Administration based on Global Trade Information Services, Eurostat, Lloyd's List Intelligence (APEX), trade press.

SAUDI ARABIA IS COMFORTABLE

SAUDI ARABIA FX RESERVES IN USD EX. GOLD (\$MM)



- Dire Straights?
No

SIMPLIFYING IRAN PETROLEUM CONTRACT STRUCTURE

NEW IPC STRUCTURE TO BE UNVEILED AT CONFERENCE FEBRUARY 22-24

- National Iranian Oil Company (NIOC) responsible for all upstream oil and nat. gas projects. The Iranian constitution prohibits foreign or private ownership of natural resources. However, international oil companies can participate in the exploration and development phases through buyback contracts
- Here's how this works currently: The IOC puts up its own capital through an Iranian subsidiary (service-type contract). After the IOC develops the acreage as the operator, and the field is producing, the project's operatorship refers back to NIOC or relevant subsidiary:
 - IOC gets no equity rights, and NIOC uses oil and gas revs to pay back IOC for capital cost. The annual repayment rates are set at a pre-determined percentage of the field's production and rate of return (usually 12-17%). Also, The buy-back contracts cap the profit the investor can make per barrel of oil, irrespective of increases in the commodity price. In addition, the IOC must pay for any cost overruns beyond initial projections without reimbursement.
- **Iran is planning to change the current model** to allow IOCs to participate in all phases of an upstream project, including production. IOCs have been notified of some of the changes that will likely be unveiled at a conference in London in February. **The general reaction has been positive from IOCs, but most seem ready to wait until the proposal is officially on the table.**

POST-SANCTIONS ADVANTAGE FOR EUROPEAN COUNTRIES

WHAT YOU NEED TO KNOW ABOUT SANCTIONS RELIEF

The U.S. and EU have lifted all Nuclear related sanctions (unfreezing \$100BN in Iranian assets). However, while the U.S. lifted nuclear sanctions on Saturday, other US sanctions related to terrorism and human rights remain in effect and **prevent US companies from immediately doing business in Iran.**

LARGE INTEREST FROM FOREIGN CAPITAL

DIFFERENT COMPANIES FROM DIFFERENT GEOGRAPHIES

- **TOTAL:** France's Total said it's "eager" to return to work in Iran
- **ENI:** Italy's Eni has also expressed interest – CEO said that Iran would need \$150Bn to become one of world's major producers
- **STATOIL:** Statoil has reportedly been "open to new opportunities"
- **SHELL:** "We remain interested in exploring the role Shell can play in developing Iran's energy potential, within the boundaries of applicable laws" the company said in a statement
- **LINDE:** German gas giant Linde has already expressed an interest in getting back into Iran's LNG sector

AN ENERGY POWERHOUSE

OVERVIEW OF IRANIAN ENERGY INDUSTRY

- 4th largest proved crude oil reserves and 2nd-largest natural gas reserves in the world
- Reserves represent 10% of proved global crude reserves (13% of OPEC reserves) and 17% of world's proved nat. gas reserves (2nd only to Russia)
- Among world's top 10 oil producers and top 5 nat. gas producers
- Most importantly in a period of low energy prices, Iran is widely estimated as one of the lowest marginal cost producers in the world

FOR MORE INFORMATION CONTACT:

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