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## Russian Jet Fuel market update – October 2015

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# Highlights of recent history

- 2014 - Jet prices in NWE were significantly higher than spot prices in Russia, due to oversupply
- 1 January 2015 jet export duty decreased from 65% to 48%
- 1Q2015 - After the price in Europe dropped oil companies were trying to minimize sales under formula because it became unprofitable.
- 2Q2015 – Refiners reduced the production of jet and increased the export volume available
- 3Q2015 - Jet fuel suppliers introduced premium to formula prices of jet sold to foreign airlines on long-term contracts in Russia.
- Demand is expected to decline further

# Russian air transport market

- Domestic traffic shows growth
- International traffic is declining
- Total traffic remains stable

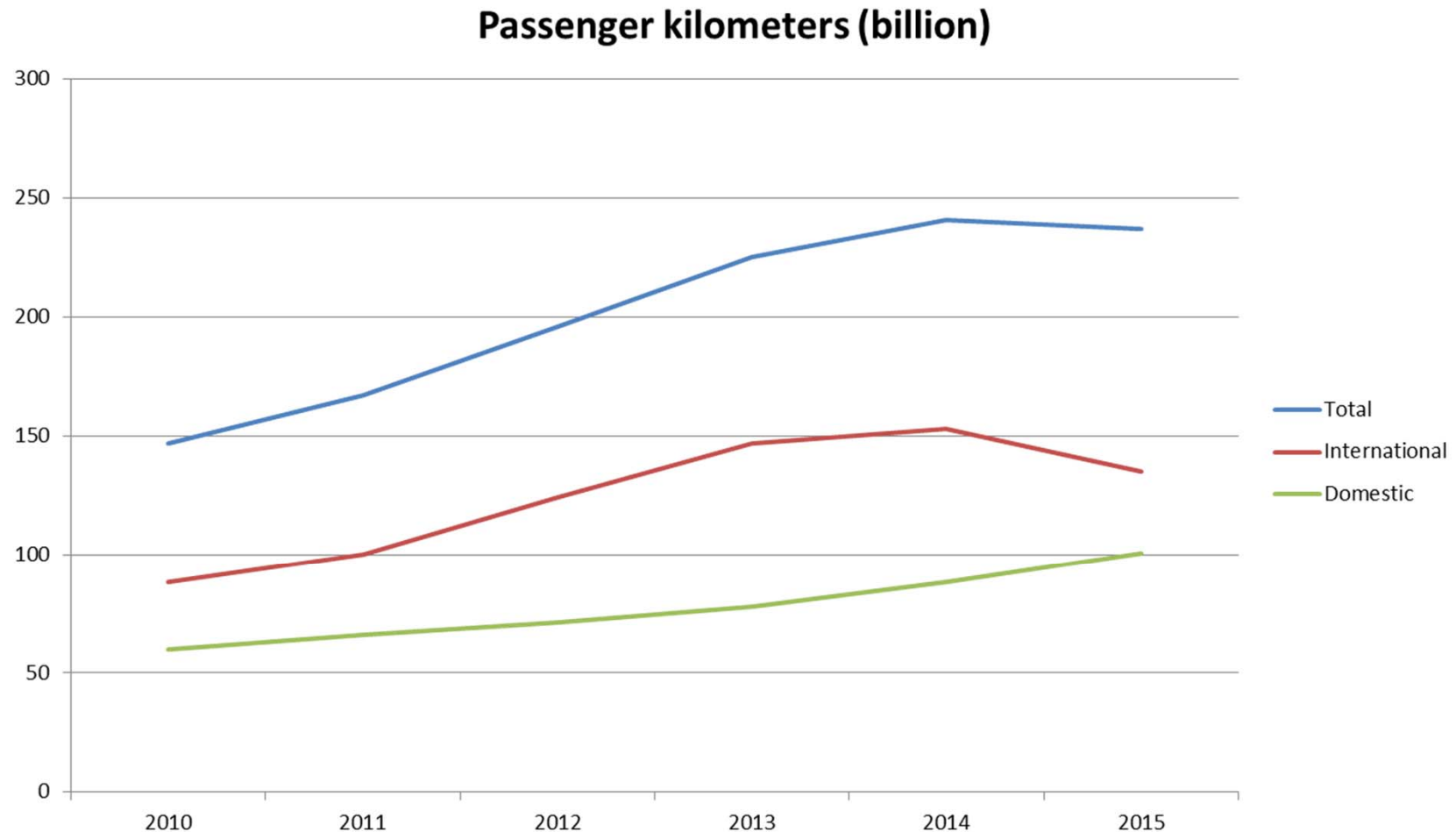
Indicators	Unit	2010	2011	2012	2013	2014	2015 (Jan-Aug)	Change 2014/2015 (Jan- Aug), %
Passenger kilometres	billion pkm	147	167	196	225	241	158	96
International	billion pkm	88	100	124	147	153	90	86
Domestic	billion pkm	60	66	71	78	88	67	113
Passengers carried	million people	57	64	74	85	93	64	100
International	million people	28	31	39	45	47	28	86
Domestic	million people	29	33	35	39	46	35	115
Cargo and mail carried	000 tonnes	926	981	988	1,001	1,036	685	105
International	000 tonnes	663	685	674	685	736	524	112
Domestic	000 tonnes	263	297	315	317	300	161	86

Source: Federal Air Transport Agency of the Russian Federation

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# Russian air transport market



Source: Federal Air Transport Agency of the Russian Federation

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# Ranking of Russian Airlines

Passenger traffic (billion pkm)

	Total passenger traffic		International traffic		Domestic traffic	
	2013	2014	2013	2014	2013	2014
Aeroflot – Russian Airlines	60.2	67,1	40,6	42,7	19,6	24,4
Transaero	47.0	47,1	36,6	35,1	10,5	12
Siberia (S7)	19,6	21,1	7,2	7,6	12,4	13,5
Utair	16,8	20,2	8,3	12,1	8,4	8,1
Rossiya	9,2	10,1	5,6	4,9	3,6	5,3
Others	72,4	75,8	49	50,1	23,4	25,6
<b>Total</b>	<b>225,2</b>	<b>241,4</b>	<b>147,3</b>	<b>152,6</b>	<b>77,9</b>	<b>88,9</b>

- Founded in 1990, Transaero had a fleet of 104 airplanes and an outstanding debt of 260 billion rubles (\$4.1 billion)
- In September, Aeroflot offered to purchase a 75 percent stake in Transaero for a symbolic 1 ruble, but the deal fell through
- Transaero is expected to go bankrupt

# Price dynamics

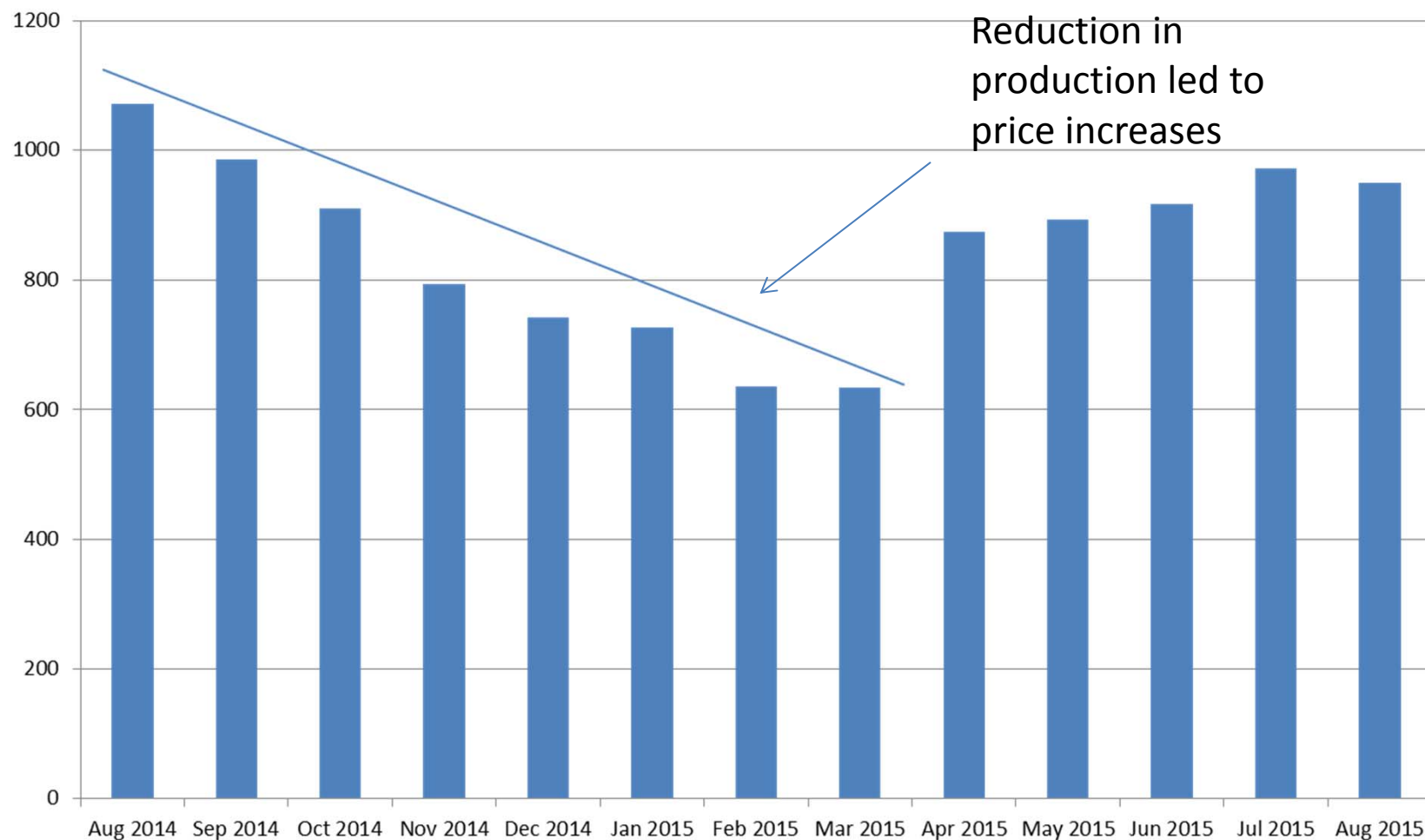
\$/t



Sellers have a good margin offering discounts to European prices

Sellers want premiums to European prices

# Jet output in Russia\*



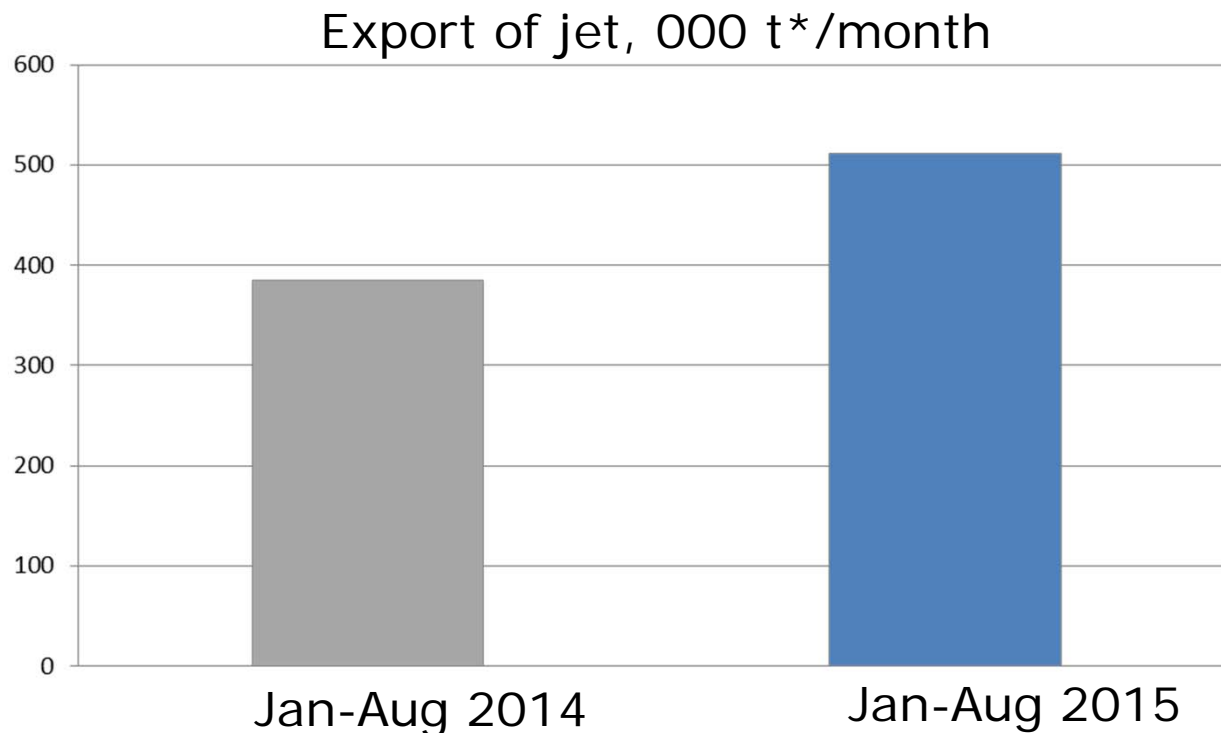
\* – without including Novatek production

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# Export growth

- Supply has decreased in Russia not only because of decline in production, but also as a result of export growth
- “Tax manoeuvre” implementation from 1 January 2015 - jet export duty decreased from 65% to 48%



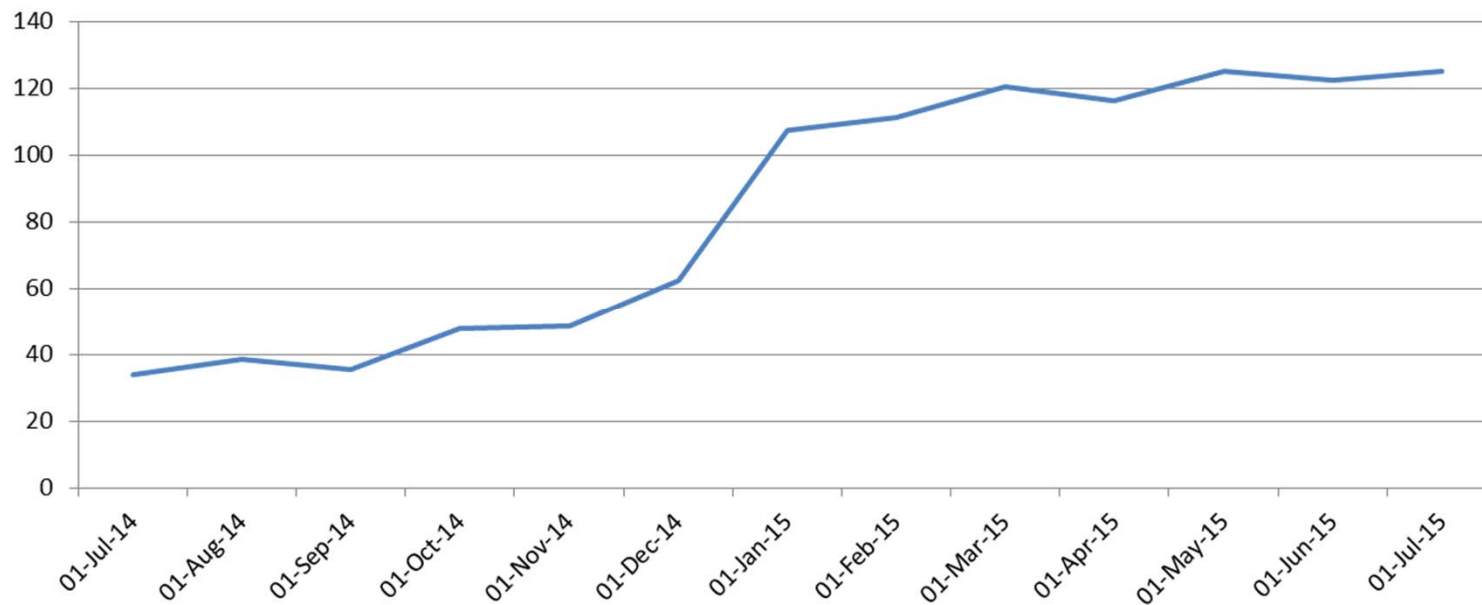
\* – without including Novatek export



# Novatek triples export volume

- The Ust-Luga Complex owned by Novatek processes stable gas condensate into petroleum products like light and heavy naphtha, jet, heating oil and gasoil for export
- It has tripled its jet export since 2014

**Jet export from Ust-Luga, 000t**



# Domestic market supply cut

	Jan–Aug 2014	Jan–Aug 2015
Production '000t	7430	6604
Export '000t	385	511
Domestic market '000t	<b>7045</b>	<b>6093</b>

Source: CDU TEK and industrial data

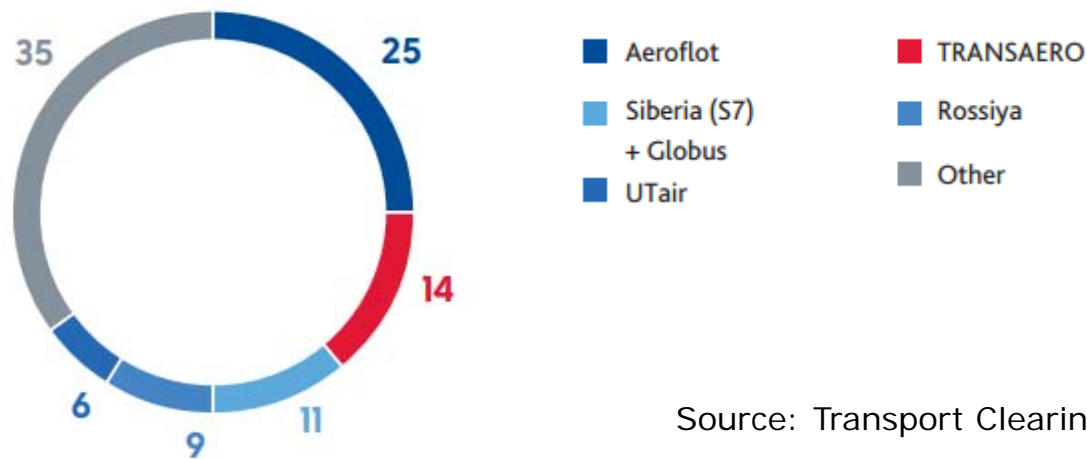
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# Factors affecting demand

- Transaero, the second-largest airline in Russia, may be facing bankruptcy over an estimated \$4.1-billion debt
- Ban on all flights between Russia and Ukraine. 3.5 million people traveled between Russia and Ukraine in 2014, according to International Air Transport Association
- A significant weakening of the ruble, which decreased demand for international travel and flights
- Russian aviation market continues to be hit by economic weakness

Passenger traffic by Airlines in 2014 , million people



Source: Transport Clearing House

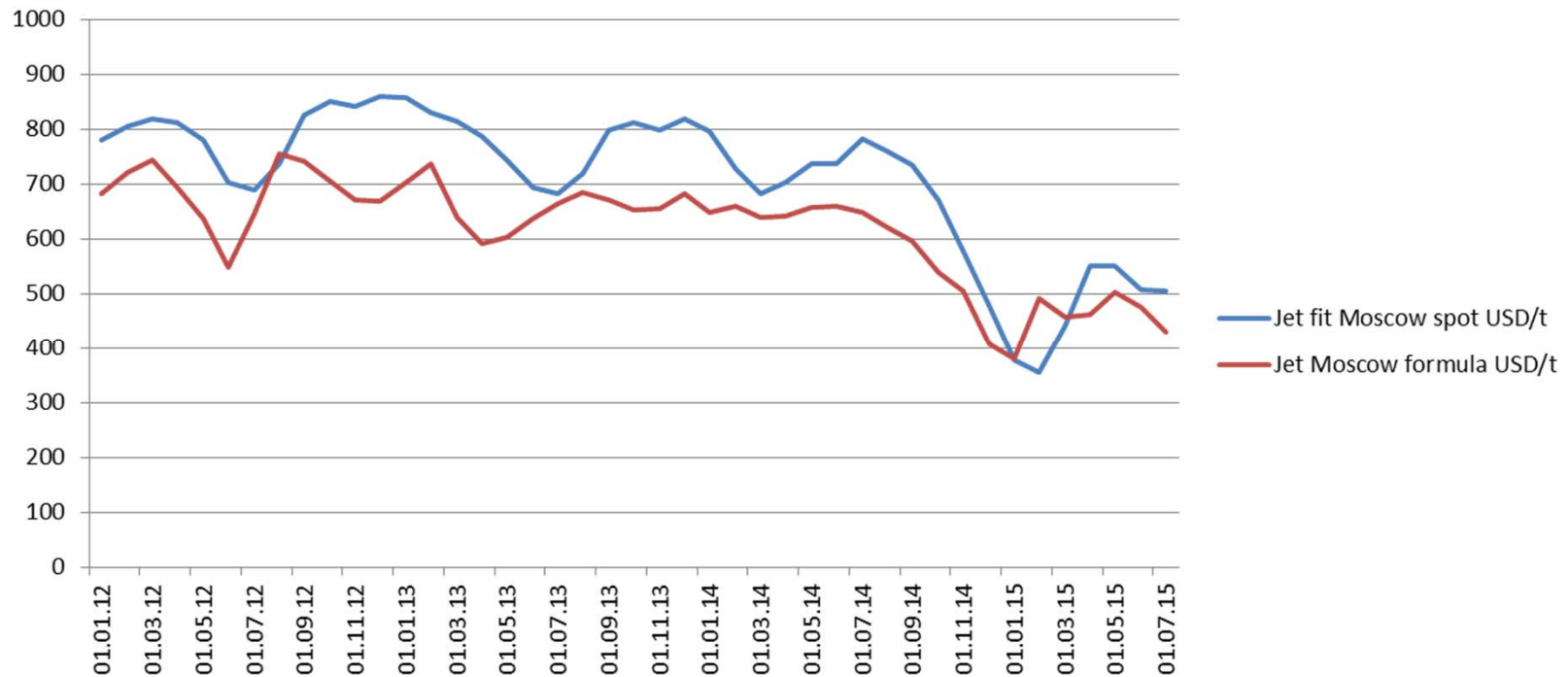
# Impact on the market

- In summer 2015 sellers offer premium at \$30-70/t to prices in NWE for long-term contracts which is about \$100/t higher than spot jet prices in the domestic market.
- Oil companies gained bargaining power with stable jet demand in line with decline in supply
- Airlines operating in the Russian market intend to stop buying fuel on formulas based on European prices and instead prefer to use spot market
- High exchange rate volatility combined with large premiums have significantly reduced the advantages of formula pricing usage.

# Argus Russian Jet Fuel Prices

- Russian jet market liquidity and price transparency are relatively low
- The government recognizes the lack of competition in the aviation fuel market and often advises suppliers on appropriate price levels.
- Airlines, government entities and suppliers are looking for a fair price index for Russia that they can use for local transactions
- Since 2011 Argus has published spot and formula assessments for Moscow airport junction, which represents over half of the jet fuel market in Russia
- Argus clients have understanding of international and Russian domestic jet markets and may take decisions using both instruments

# Argus jet fuel prices history



- The daily spot assessments are based on information on deals done, bids and offers collected from suppliers, traders and airlines
- The formula price index is based on Argus cif price quotation in northwest Europe netted back to Moscow refinery via the port of Ventspils. The index is published in Russian Roubles (including VAT) and US dollars (excluding VAT)



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