

Common Economic Space in Eurasia: Open Borders, Partnership, Flow of Resources, Capital and Technologies



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Chairman of Rosneft Management Board

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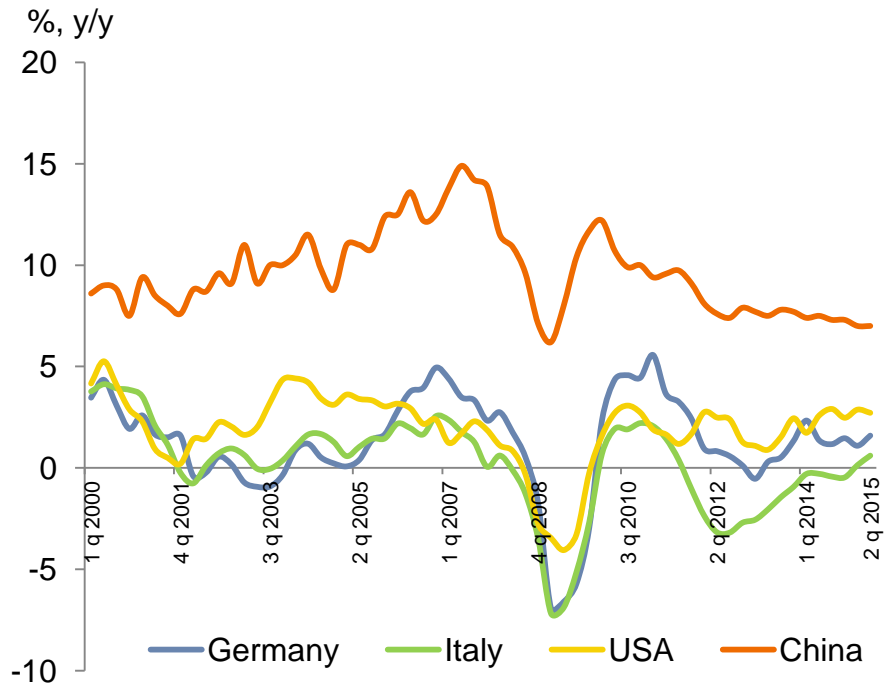
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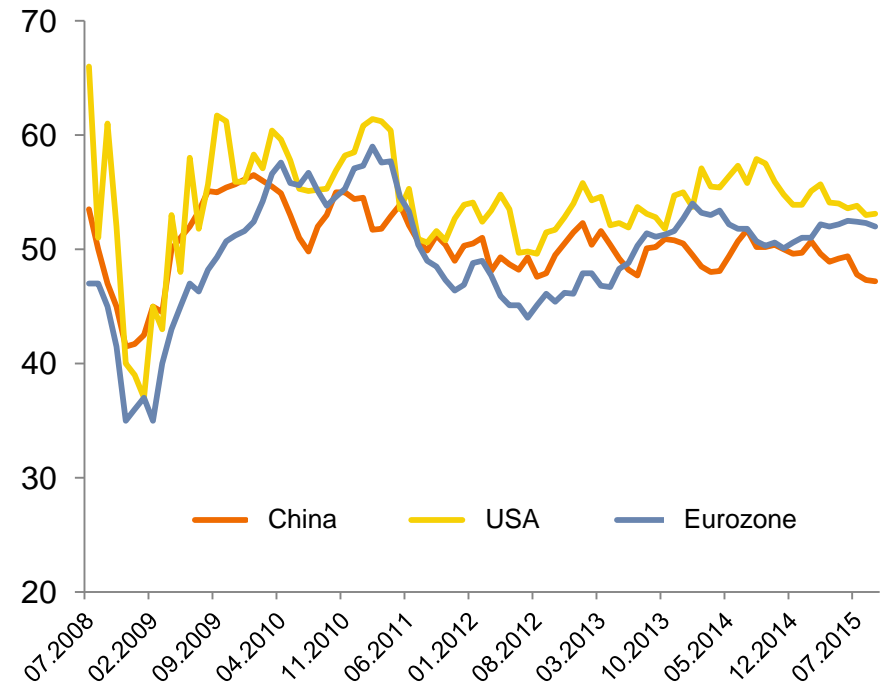
Global economy shows stable economic growth



GDP growth in developed economies and in China



PMI in Eurozone, US and China

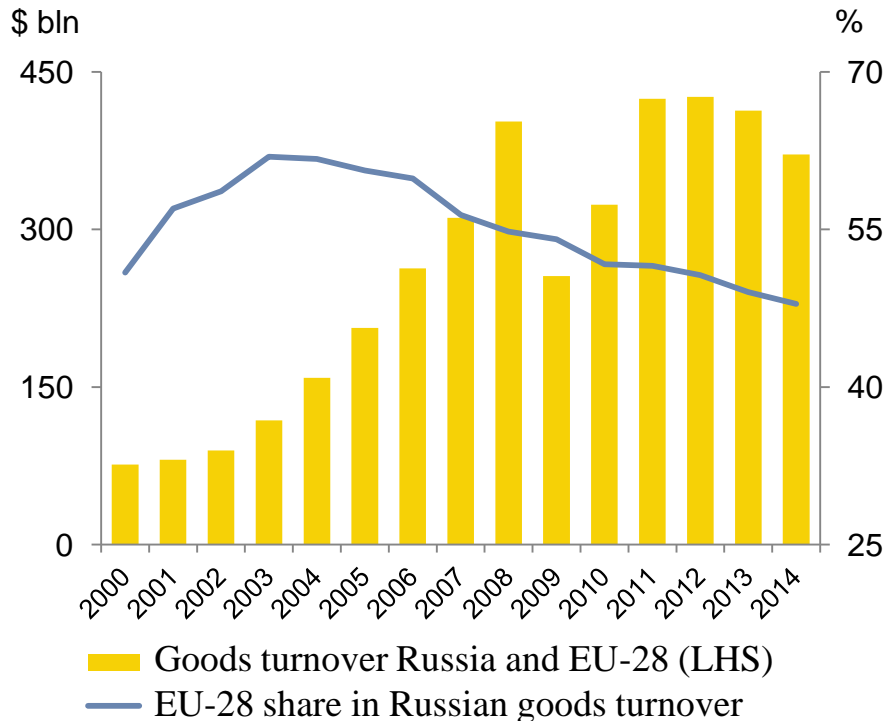


- ▶ Developed global economies show upward GDP trend over Q1-II 2015
- ▶ The Chinese economy despite a minor slowdown continues to show a high growth rate of 7 % (in QII 2015 YOY)
- ▶ The EU and US Purchasing Managers' Index (PMI) continues to exceed 50 points thus evidencing the confidence of developed economy company managers in economic growth

Despite current downturn EU remains Russia's main trading partner

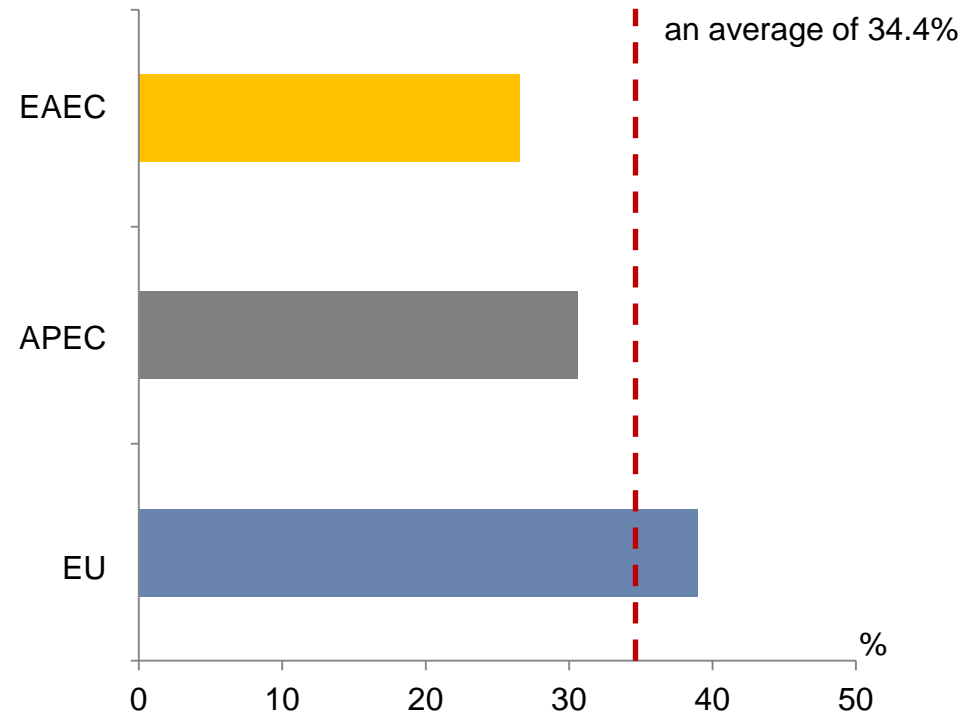


Russia and EU trade volumes



- ▶ In 2000-2013 the trade volume of Russia and EU countries grew more than 5-fold to \$413 bln and fell by 10% in 2014
- ▶ EU rate in the Russia's external trade in 2014 was 48%

Reduction of Russia trade volume over 8 months 2015 by country groups

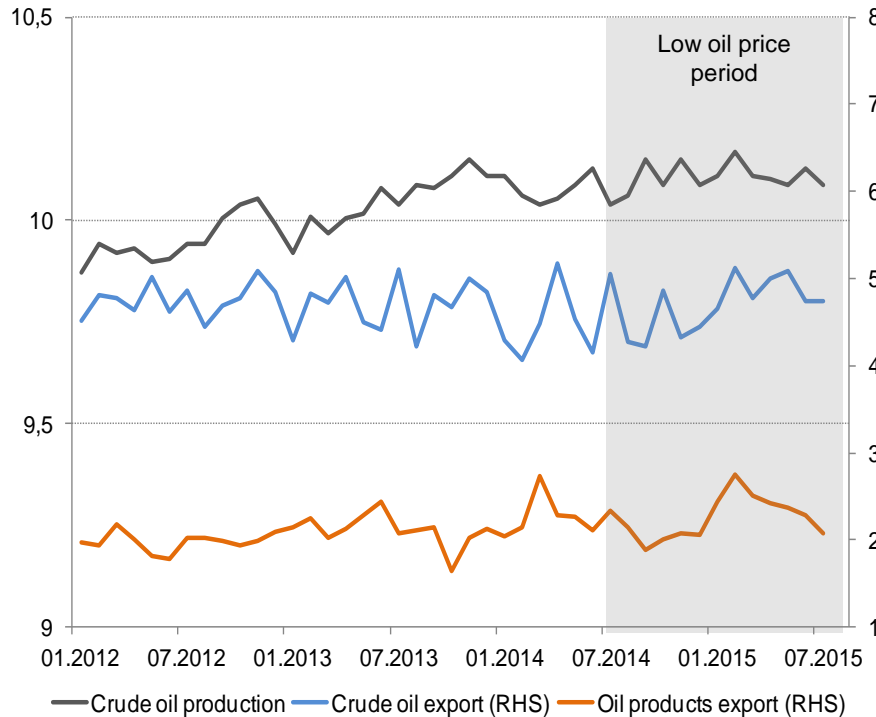


- ▶ Over 8 months 2015 the trade volume of Russia and EU countries fell by 39%
- ▶ The trade volume of Russia and Eurasian Economic Union and APEC countries showed a smaller reduction of 26 and 30% accordingly

Russia's oil sector demonstrates stability

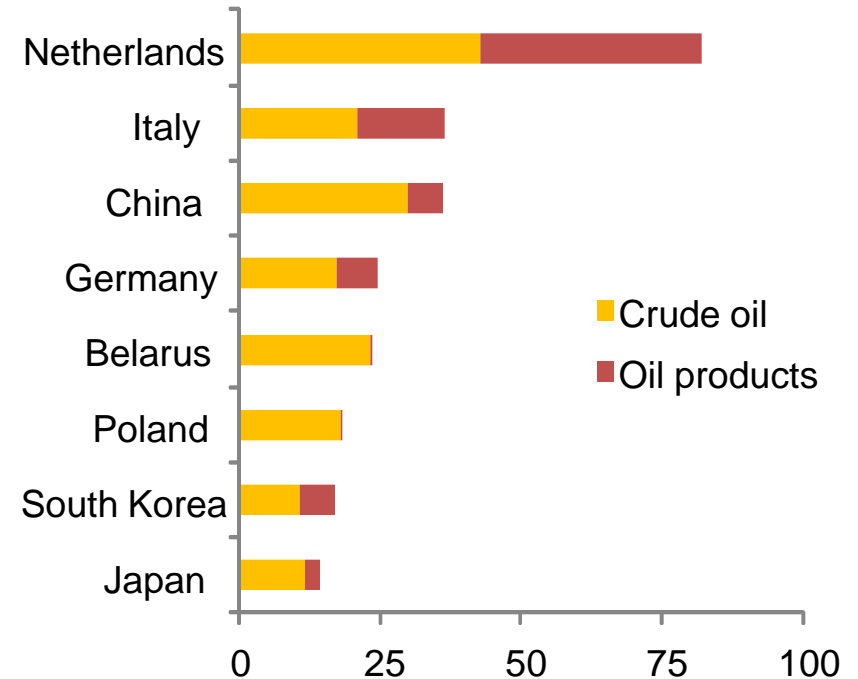


Russian production and exports of oil and petroleum products, mmbd



- ▶ Oil production in Russia keeps growing giving rise to larger exports
- ▶ In January-February 2015 Russian petroleum product export grew up significantly (by 5.7%)

Key routes of Russian oil and petroleum product exports, 2014, mmt



- ▶ Italy is the second largest route of Russian oil and petroleum product exports outpacing China and Germany

Rosneft performance over Q1 2015

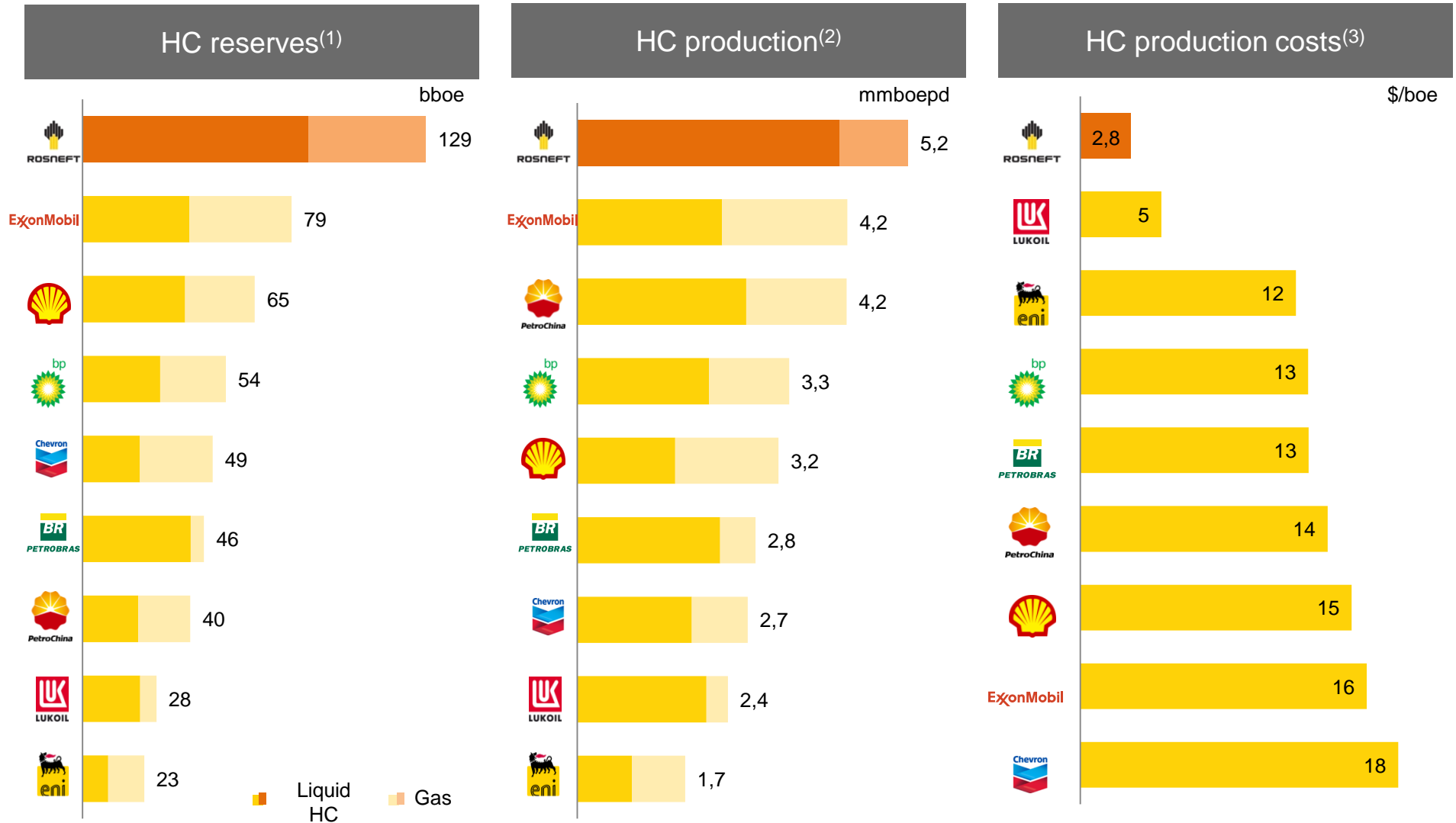


Indicator	H1 2015	H1 2014	change
Hydrocarbon production (mbpd)	5,175	5,075	2.0%
Sales of oil, petroleum products and petrochemicals (mmt)	106.2	104.6	1.5%
Gas sales (bcm)	29.2	25.76	13.4%
APG utilization (%)	87	77.2	12.7p.p.
3D seismic, km ²	4,483	4,497	-0.3%
2D seismic, line km	2,084	889	134.4%



- ▶ In H1 2015 hydrocarbon production amounted to 126.5 mmtoe which is 2.0% higher than 124.0 mmtoe produced in H1 2014. The production growth was ensured by successful exploration, drilling of new wells and the use of up-to-date technologies, along with cost optimization.
- ▶ In H1 2015 the Company increased the footage in development drilling by more than 30% YOY and commissioned more than 800 new wells
- ▶ The number of horizontal wells in H1 2015 exceeded 30% of the total development well drilling scope (more than 260 wells). The number of own drilling rigs reached 215 as of the middle of this year with the number of crews being 203.

Rosneft – world leader in reserves volume, production and efficiency



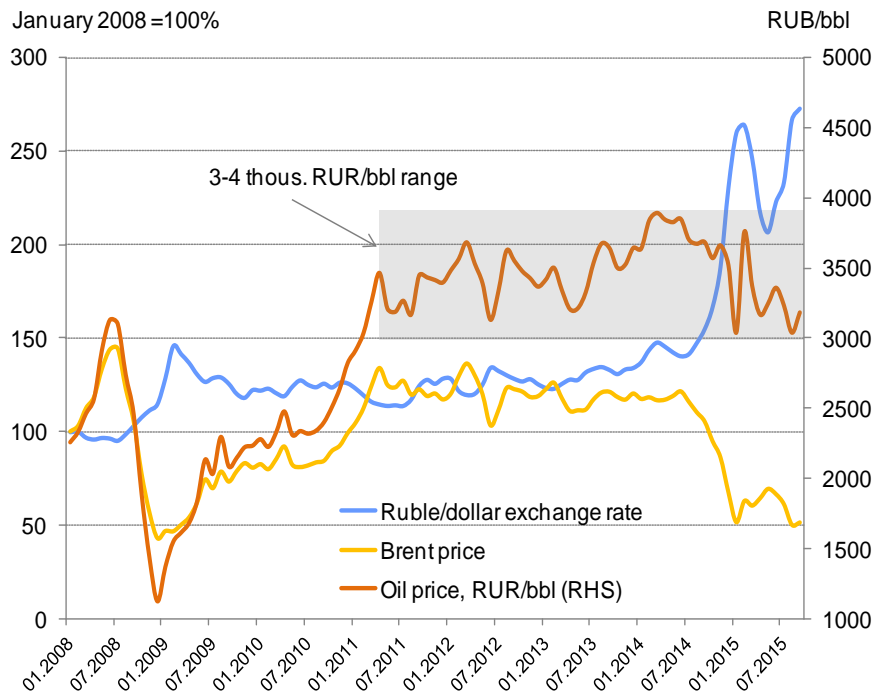
(1) Rosneft reserves are listed according to the Russian classification ABC1 + C2 as of 01.01.2015; Lukoil reserves are given as reported as of 01.01.2015 including proven, probable and possible reserves; for the rest of the companies reserves are given on the basis of Wood Mackenzie reserves estimates, including commercial and sub-commercial reserves

(2) Daily production in Q1 2015. (3) Production costs of the companies are shown for 2014; Rosneft, Lukoil and Petrobras - for H1 2015. Source: companies' data

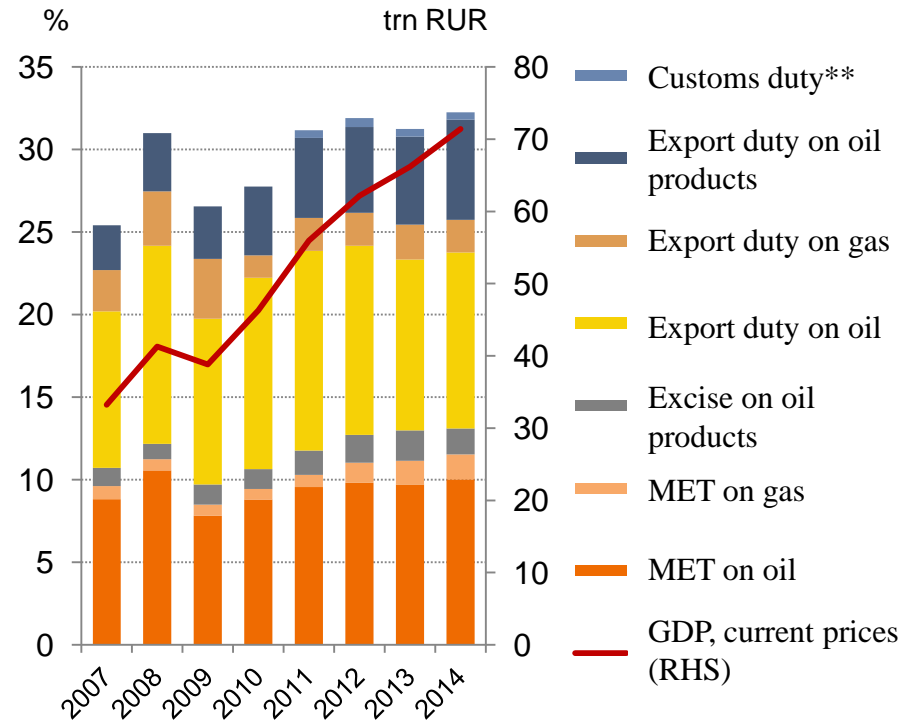


FX rate in Russia – key compensatory macroeconomic variable

Profile of oil price, dollar exchange rate, ruble denominated oil bbl price



Oil and gas revenues as % of the budget* income



- ▶ Since 2011 the ruble denominated price of an oil barrel has been remaining within the 3-4 thous. RUR/bbl range despite severe fluctuation of oil prices balanced by the changing rate of the national currency
- ▶ In Russia the priority is given to sustaining budget stability and nominal level of population income. This results in high stability of ruble revenues from the oil and gas industry, the main source of fiscal revenues.

*Consolidated budget and Governmental off-budget funds

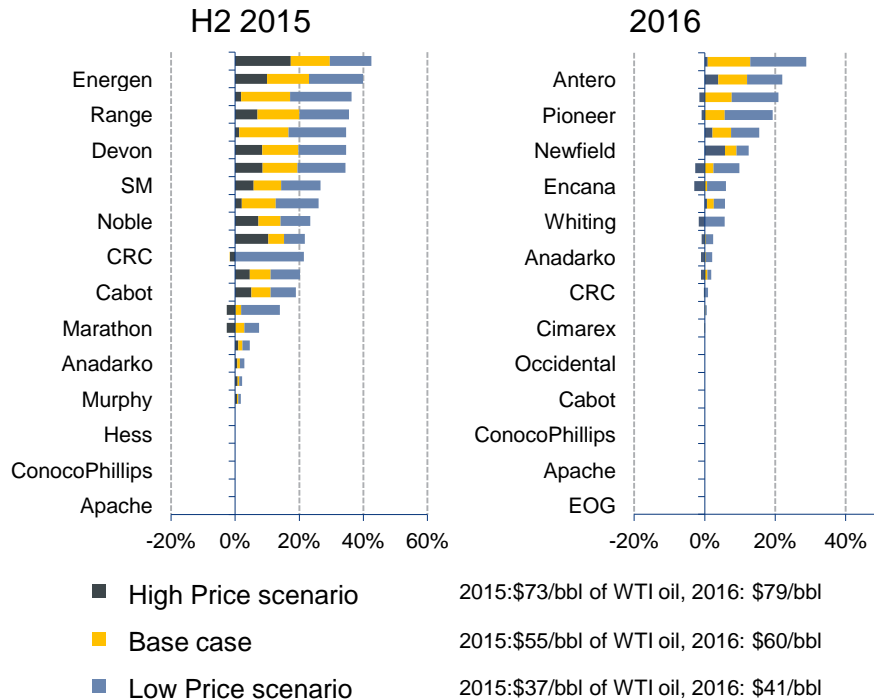
Sources: EIA, oanda.com; Federal Service for State Statistics (RosStat), Federal Treasury

**When exporting crude oil and specific petroleum products from the Republic of Belarus outside the Customs Union

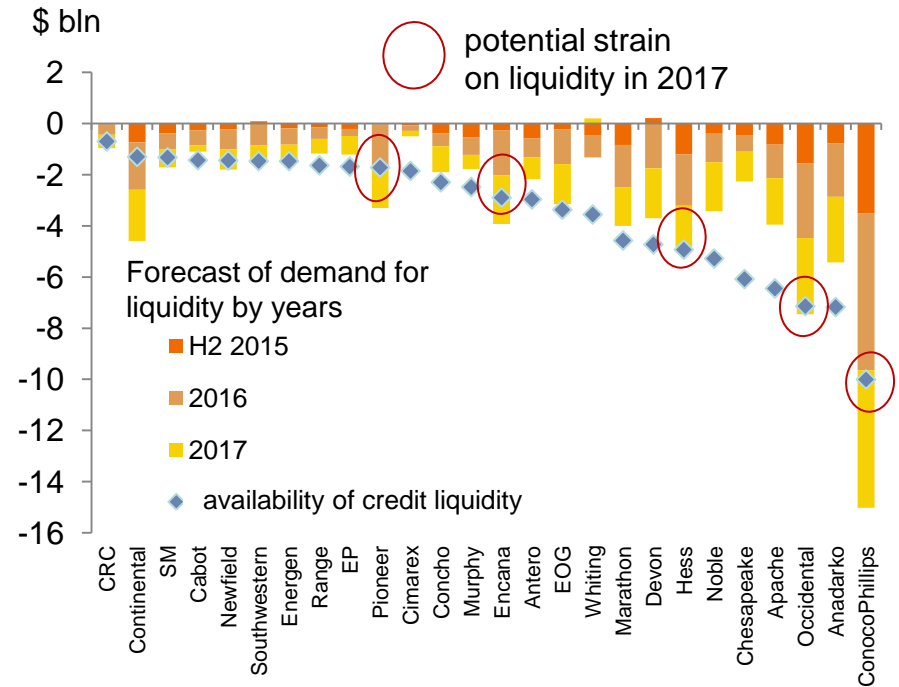
Risk hedging levers and loan liquidity to be raised by the American shale companies by 2017



Forecast hedging gain, % of revenues



Level of loan liquidity accessible for shale companies and predicted demand for it*



- Hedging ceases to be an important source of liquidity for the shale companies.
- One of the conditions underlying the "survivability" of shale companies is that they get loans from banks per a specific field (RBL – Reserve Based Lending). Such loans can be renewed and prolonged on the pledge of proved reserves
- RBL is the only chance for small and medium-size companies to raise necessary funds to maintain the business. This scheme will be effective in low oil price environment till at least 2017

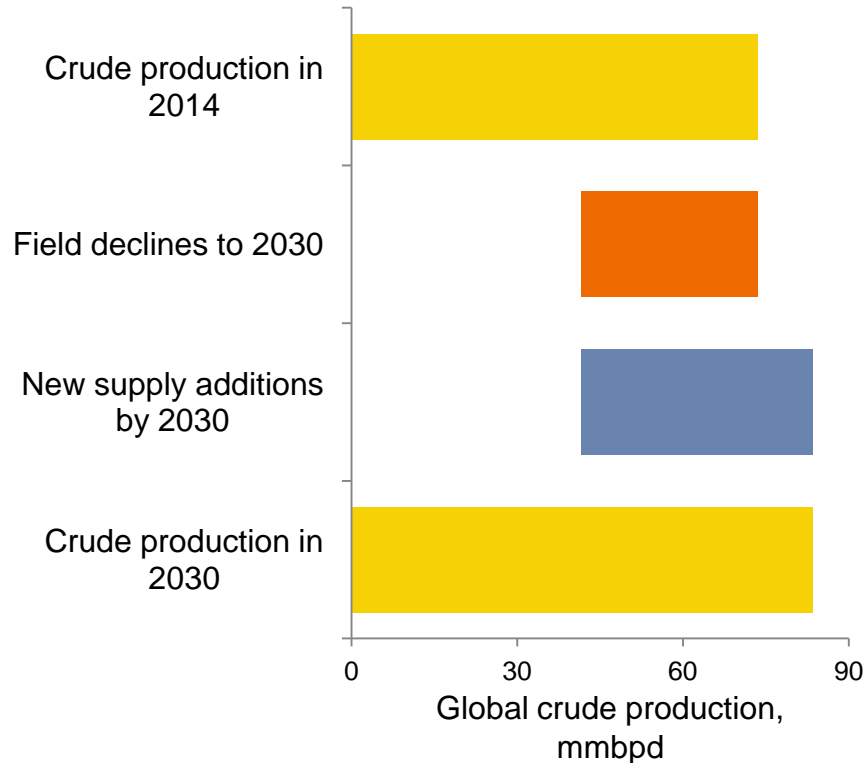
*scenario assumptions: \$37/bbl of WTI oil and \$2.4/cf (H2 2015), \$41/bbl of WTI oil and \$2.7/cf (2016)

Source: Wood Mackenzie

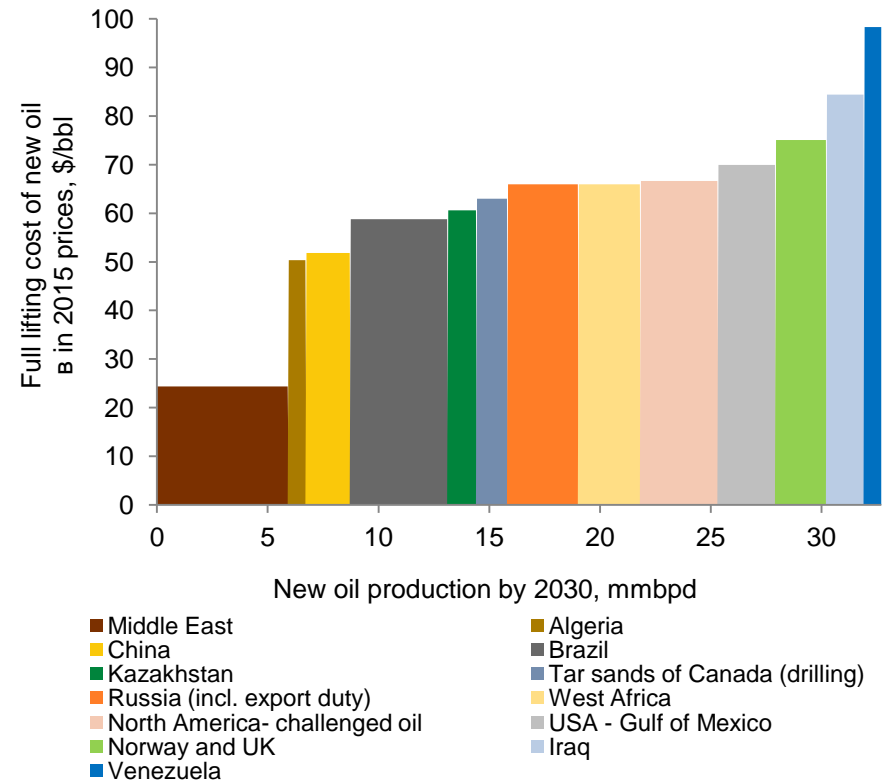


Changes in global production and anticipated lifting cost

Changes in crude oil global production by 2030



Full lifting cost of new oil produced by 2030*



▶ Analysis of ~75% new oil lifting costs till 2030 (around 33 mmbpd) demonstrates that the last 3 mmbpd of production will account for expensive oil with a lifting cost of \$85-98/bbl in 2015 prices. The lifting cost of ~28 mmbpd new production will not exceed \$75/bbl in 2015 prices

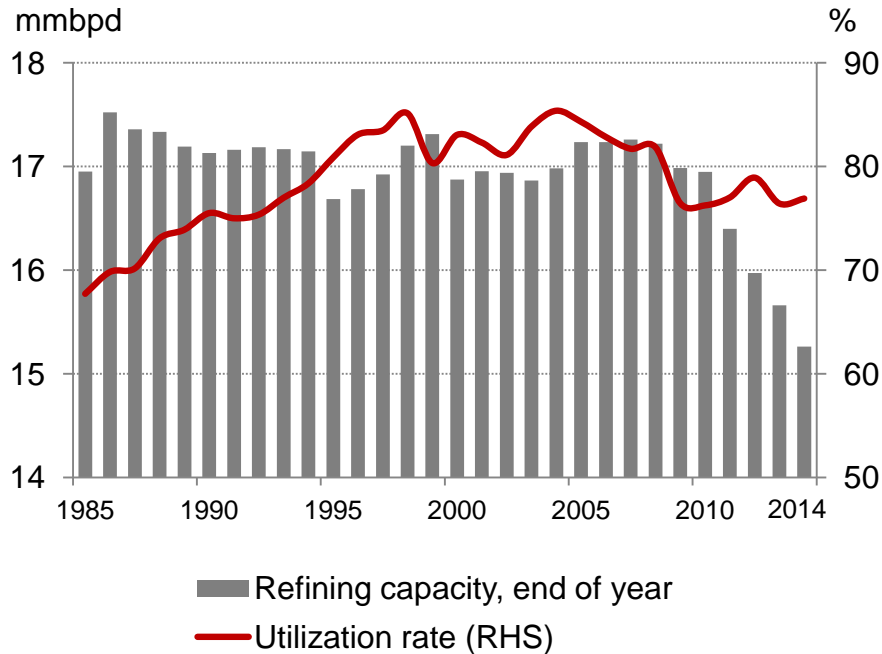
* ~ 75% of expected new oil production

Source: IHS

European refining business has long been facing hard times

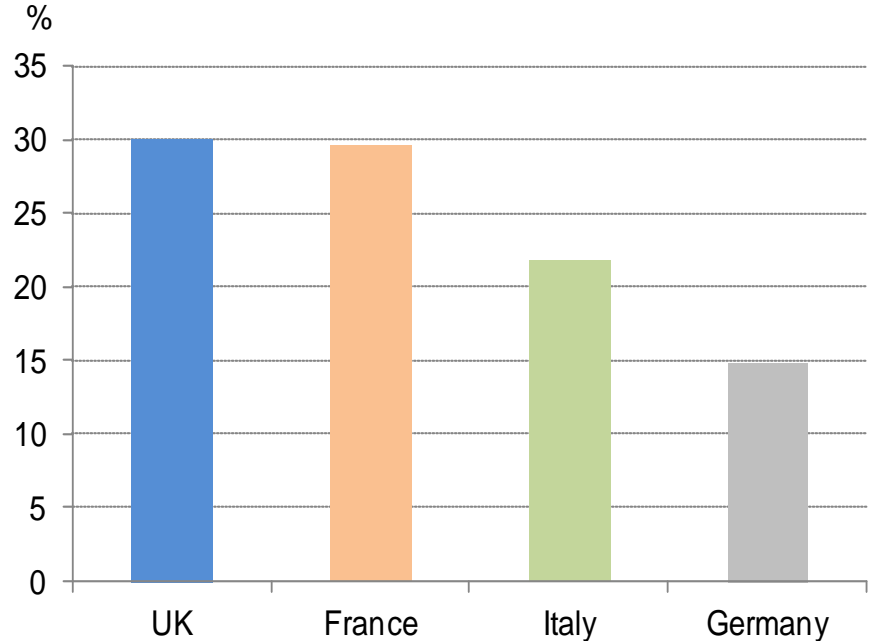


European refining facilities and their utilization rate



- ▶ After the 2008 downturn 15 European refineries were shut down to a total capacity of 2 mmbpd (12% of the total refining capacity in Europe)
- ▶ As a result, the Europe refining capacity utilization rate averages 75-80%

Share of shut down facilities as of end 2014 vs 2008

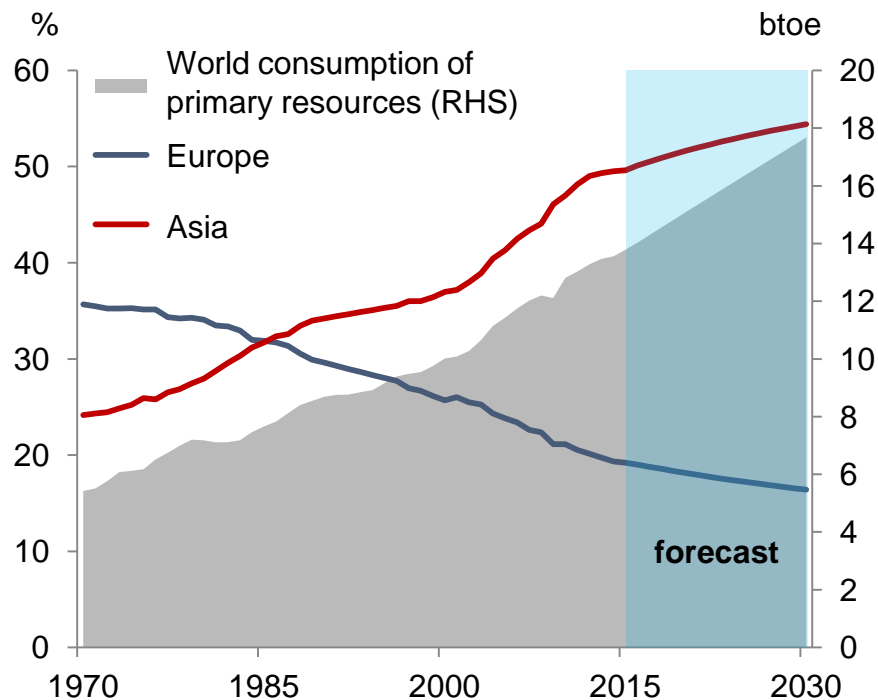


- ▶ The biggest losses have France and the Great Britain. These countries shut down 30% of their facilities each (0.6 and 0.57 mmbpd accordingly)
- ▶ Italy shut down 22% of the facilities (0.48 mmbpd) but still has the second largest refining capacity in Europe

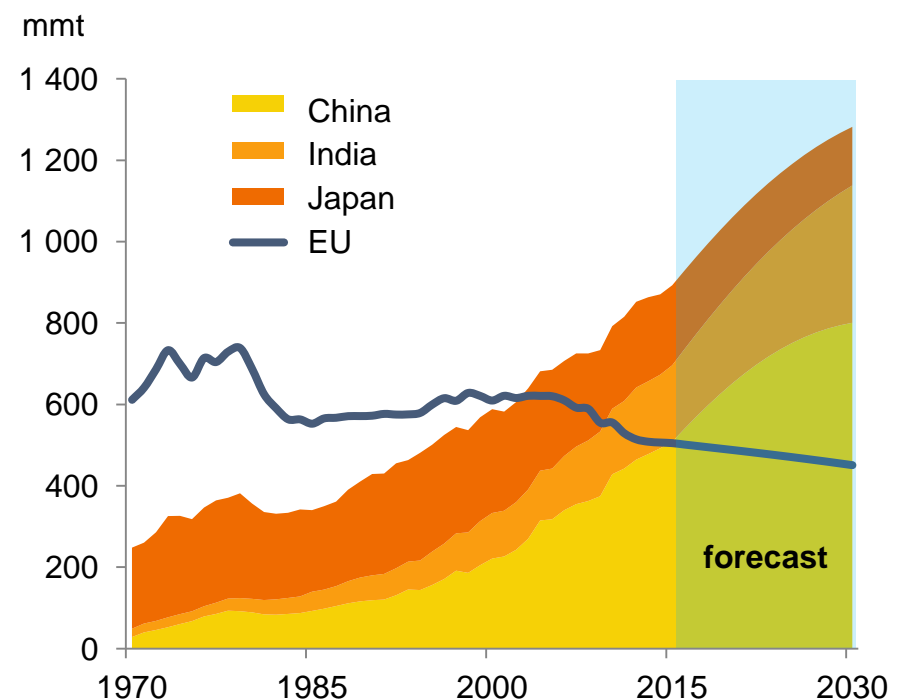
Share of Asia and Europe in global primary energy consumption



Share of Asia and Europe in global primary energy consumption



Liquid HC consumption in the EU, China, India, and Japan

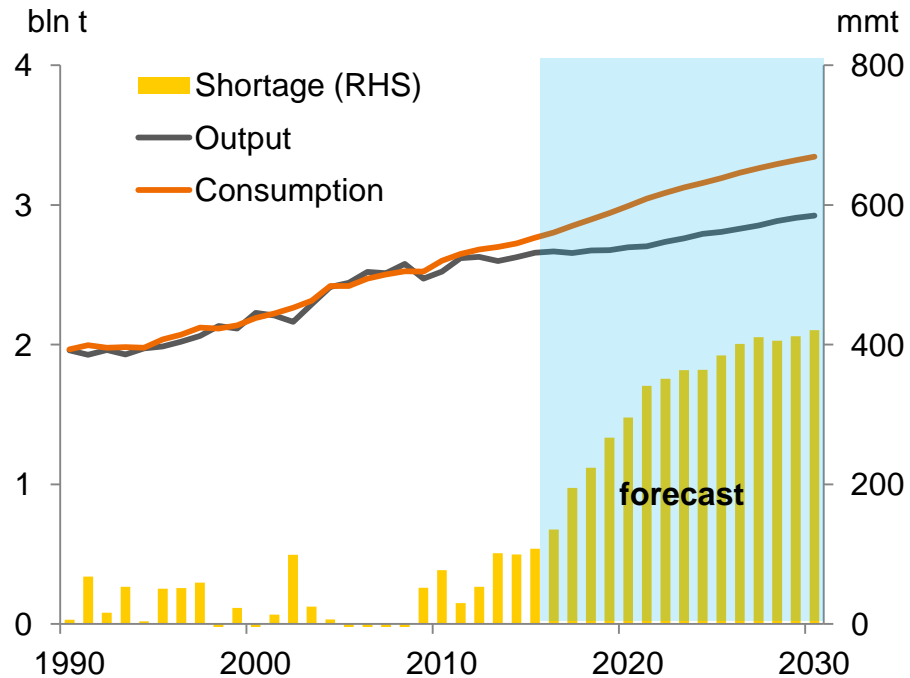


- ▶ The share of Europe (including Russia) in global primary energy consumption declines from 32% in 1985 to 19% in 2015 and 16% in 2030. At that the share of Asia increases from 32% to 50% and 54% accordingly
- ▶ In liquid HC consumption the three largest consumers in Asia, i.e. China, India, and Japan, outpaced the EU countries in early 2000s

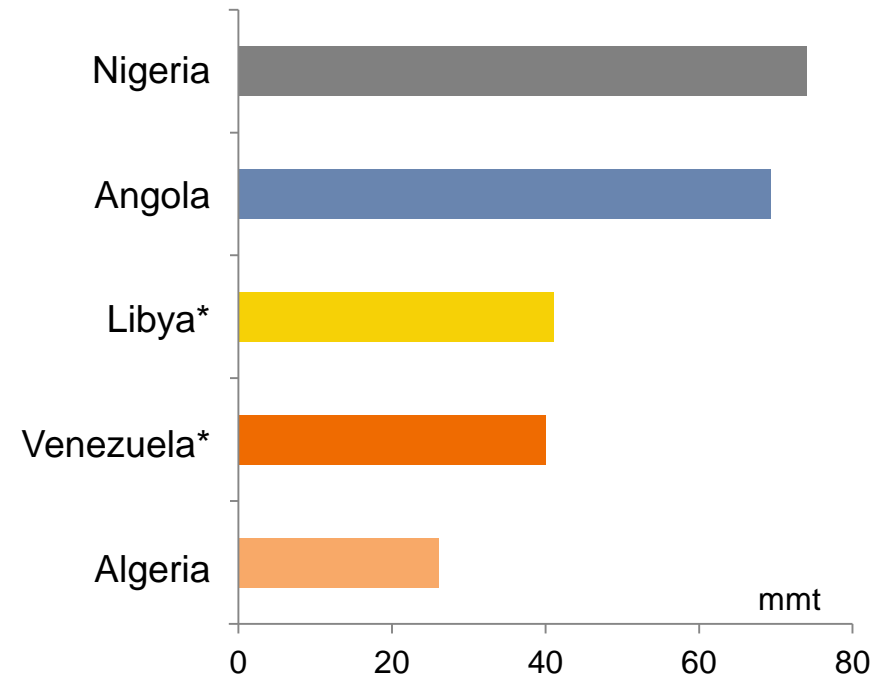
Oil shortage in Eurasia is mainly covered by supplies from African countries



Oil production, consumption, and shortage in Eurasia



Key crude oil suppliers to Eurasia in 2014



- ▶ Despite such major oil producers in Eurasia as Russia, Saudi Arabia, UAE, Iran, and Iraq, there has been physical shortage of oil in the mainland since late 2000s
- ▶ Oil shortage will increase in Eurasia and may reach 400 mmt by 2030
- ▶ A source to cover the shortage is supplies from North and West Africa and Latin America

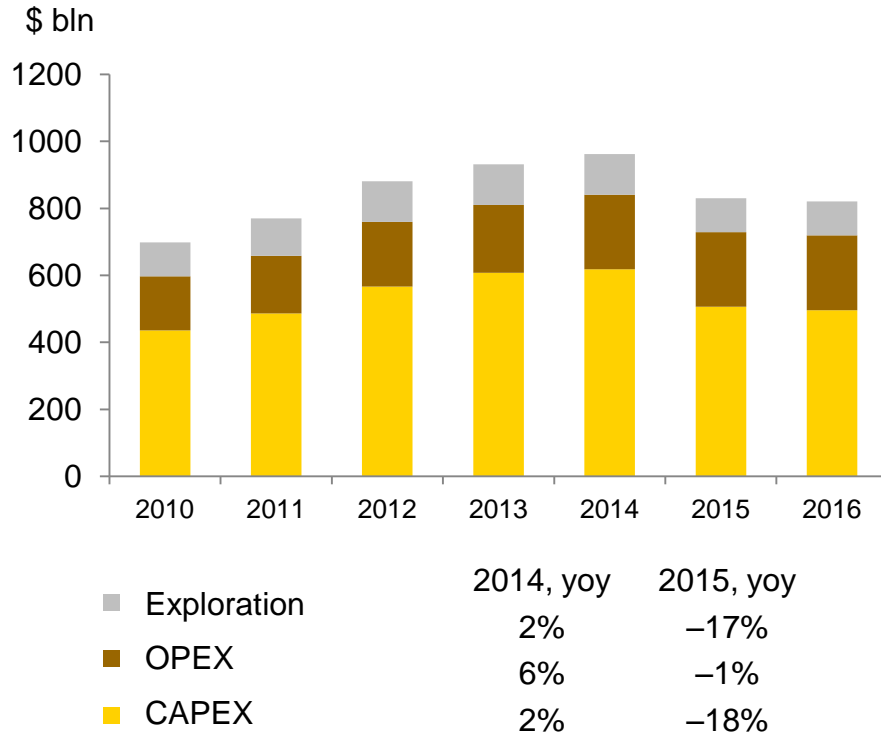
*under 2013 results

Sources: IEA, BP, Rosneft; EIA, trademap.org

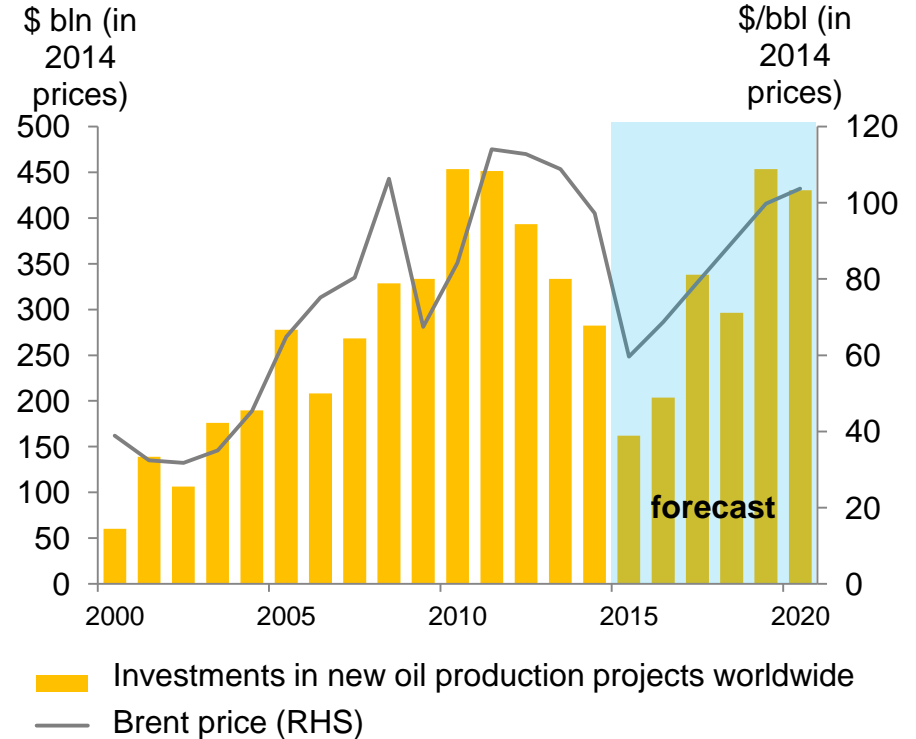
Drop in oil industry investments



Exploration and production costs in the world



Investments to new oil production projects

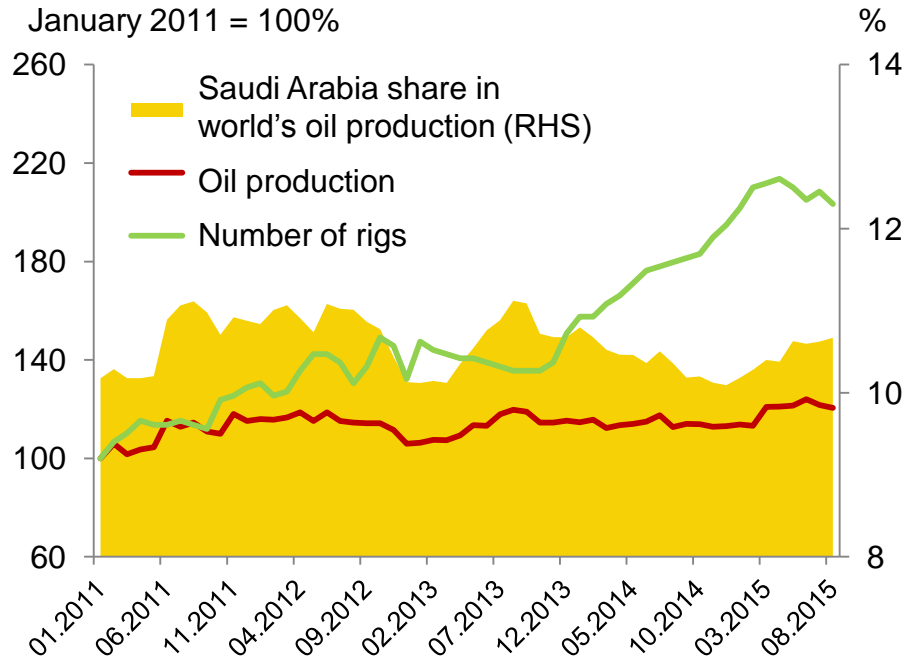


- ▶ According to Rystad Energy assessments, exploration and production costs in the world in 2015 will be reduced by \$180 bln vs last year
- ▶ Capex will be reduced by nearly 20% and new project investments will drop by 40%

Saudi Arabia ramps up oil production

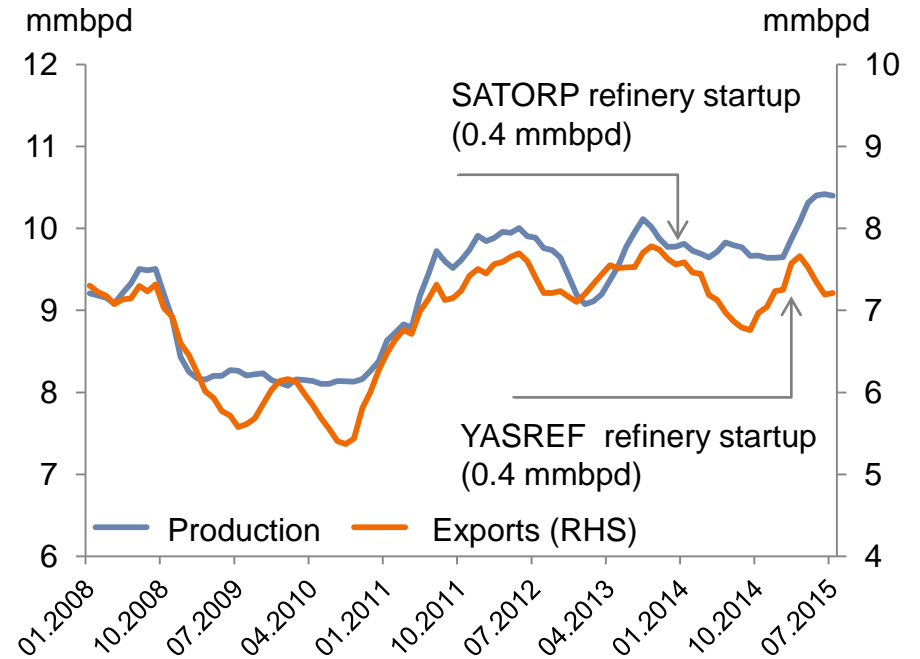


Number of rigs, oil production, and share of Saudi Arabia in global production



- ▶ Drilling activity of Saudi Arabia started to grow back in autumn 2013, more than 6 months before oil prices slumped
- ▶ In September 2015 Saudi Arabia crude oil production grew up to 10.2 mmbpd exceeding the previous year figures by 0.5 mmbpd

Saudi Arabia oil production and export*



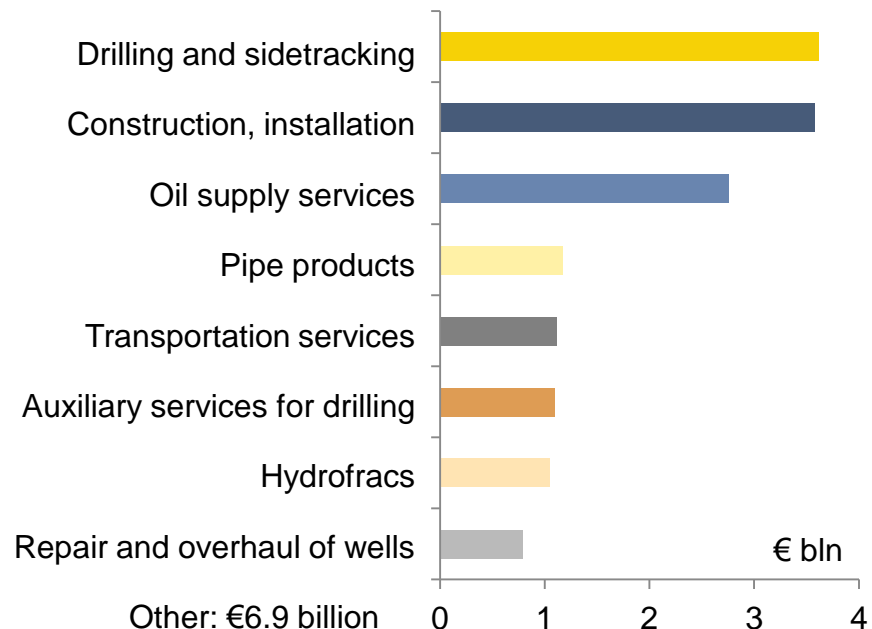
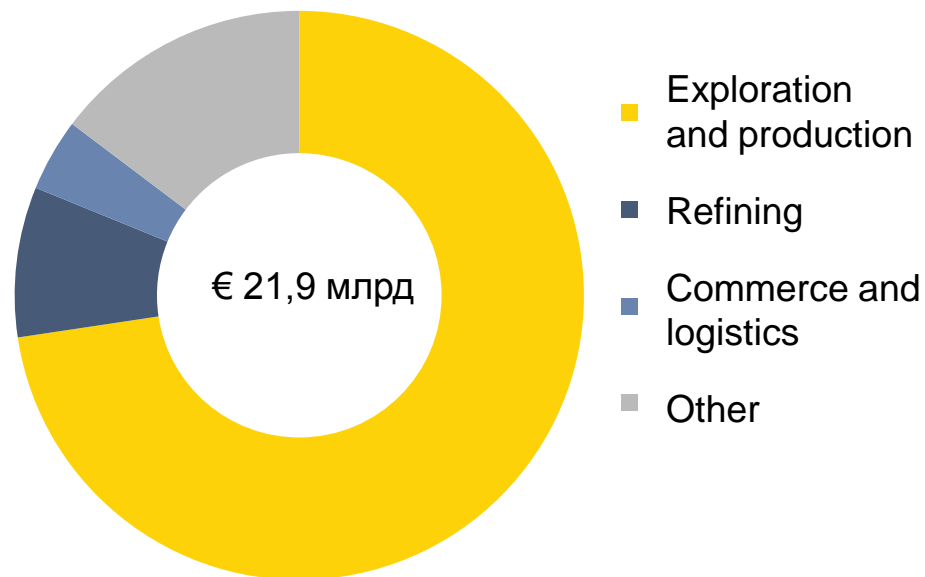
- ▶ The increased oil production in Saudi Arabia in 2015 does not only result in more exports but additional throughput at two major refineries at 0.8 mmbpd started up in 2014-2015

* the chart shows three-month moving averages of production and export volumes
 Sources: Baker Hughes, JODI

Rosneft investment program related to procured materials, works and services



Rosneft purchases in 2015 by areas of focus and product range



- Total scope of materials, works and services procured by Rosneft for the Subs in 2015 equals € 21.9 bln*
- Rosneft conducts its procurement activities in compliance with Federal Law dated 18.07.2011 №223-FZ "On Procurement". All information on procurement, including the procurement plans, the requirements for accreditation, procurement records, protocols of the decisions are placed on the official website zakupki.gov.ru and on the corporate website zakupki.rosneft.ru

* 1456 bln in rubles, based on the average Euro rate over 9 months 2015 at 66.5 RUB/Euro

Source: Rosneft

Annual anchor order of Rosneft



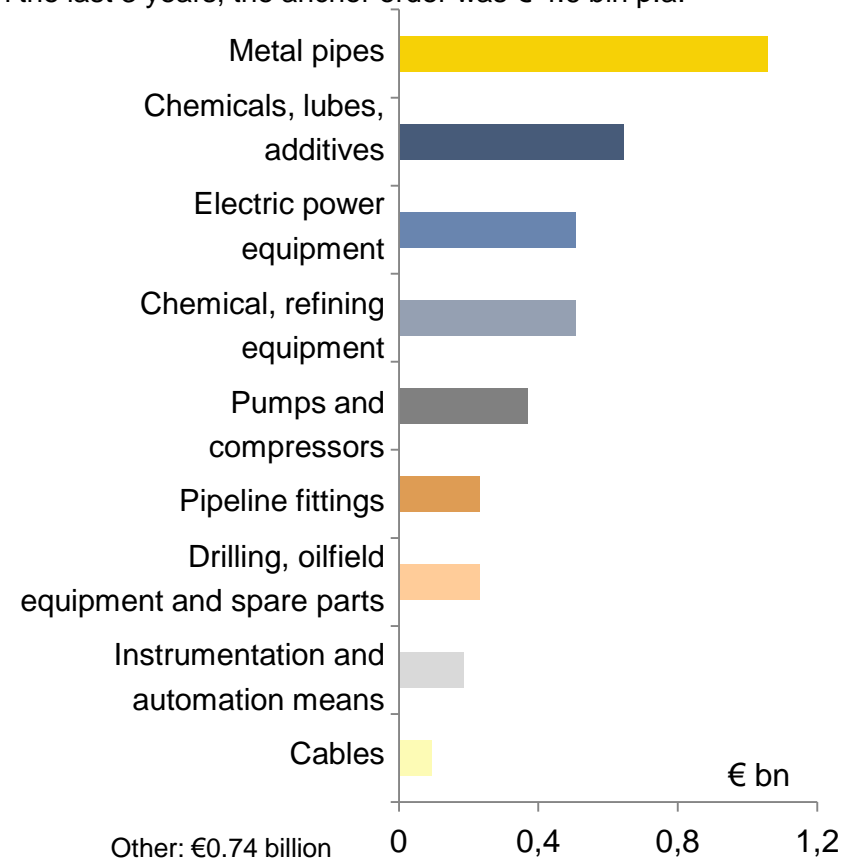
Annual anchor order

According to the Business Plan, total demand of Rosneft for materials in 2016-2018 will achieve € 15,9 bln* In particular, the following product ranges will be required:

- Over 2.5 mmt of casing and tubing
- Over 800,00 t of chemicals, additives and other chemical products
- Over 47,000 km of downhole cable
- Over 17,000 downhole pumps for production
- Over 2800 transformer substations

Structure of the anchor order for materials

Annual anchor order for materials - average scope of the Company's annual demand for the most sought-for materials. In the last 3 years, the anchor order was € 4.6 bln p.a.**

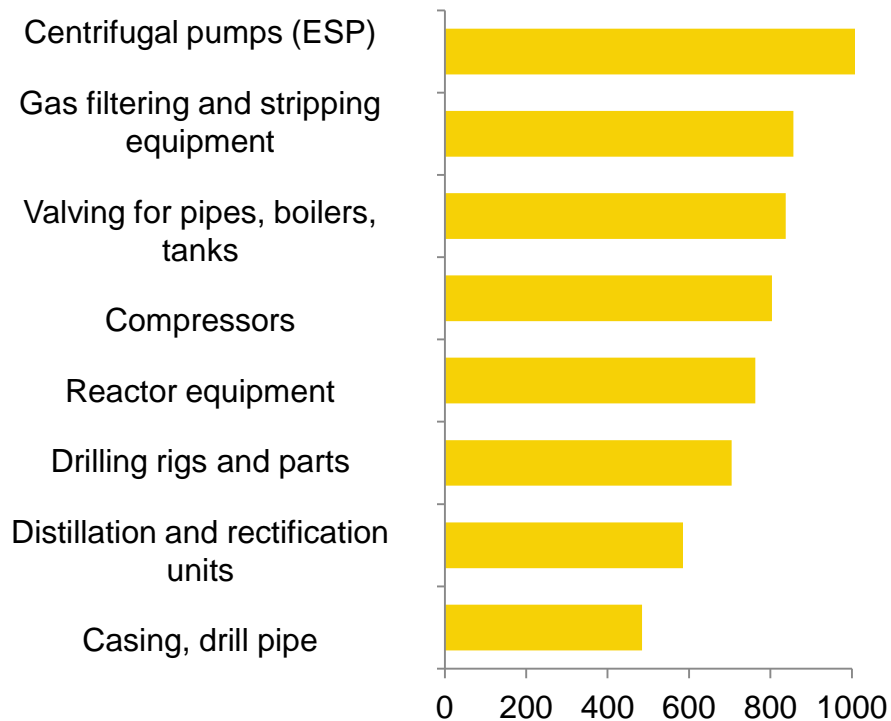


* 1056 bln in ruble equivalent, **306 bln in ruble equivalent, based on the average Euro rate over 9 months 2015 at 66.5 RUB/Euro
Source: Rosneft

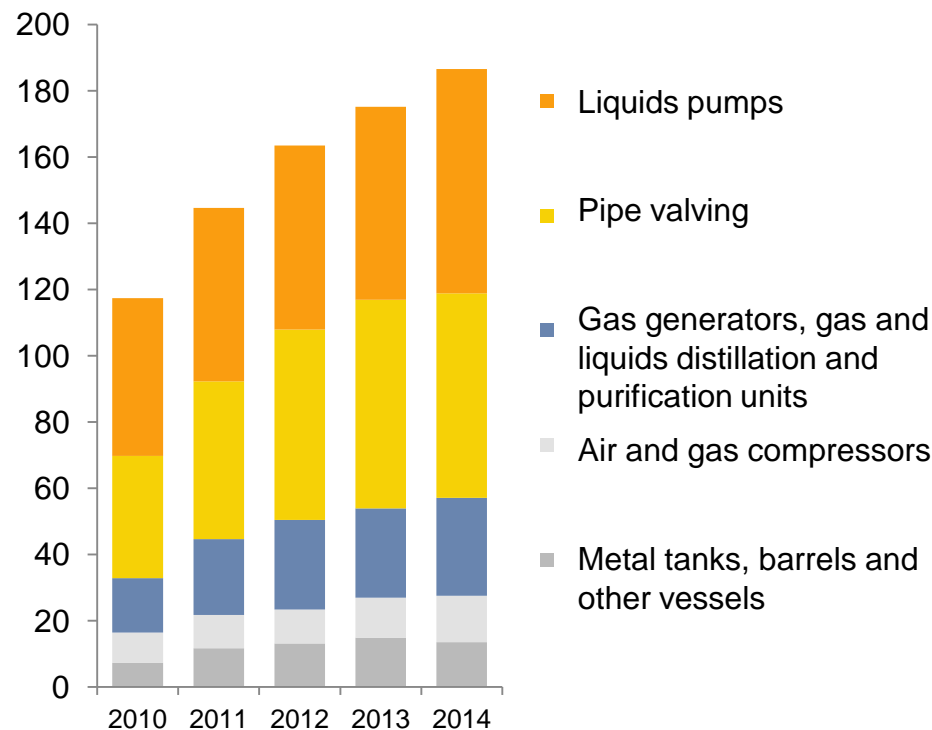
Imports of oil and gas equipment is much higher than the scope of its production in Russia



Imported equipment for oil and gas sector in 2014, \$ mln



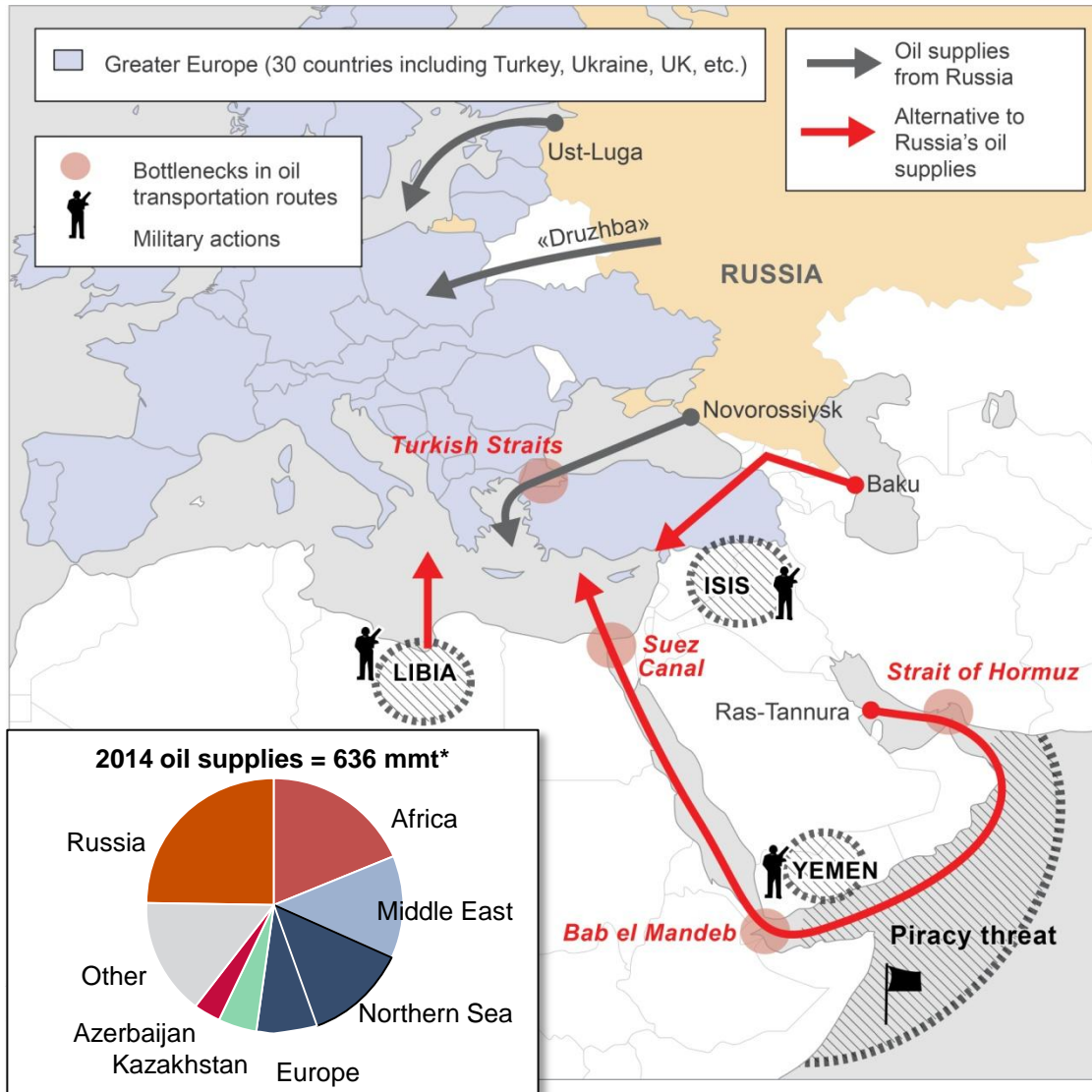
Products shipped by the industrial enterprises, RUR bln



- ▶ According to the Trade Ministry of the Russian Federation, the consumption of oil and gas engineering products* in 2014 amounted to 450 billion rubles, of which 60% was imported (i.e. 270 billion rubles.)
- ▶ The key import items are: pump and compressor equipment, column equipment and tanks and fittings for pipelines and tanks

* Catalysts and cable products that are also largely imported are not considered
Sources: Rosneft, Federal Customs Service, IEF, Federal Service for State Statistics

Russia means safe and reliable energy supplies



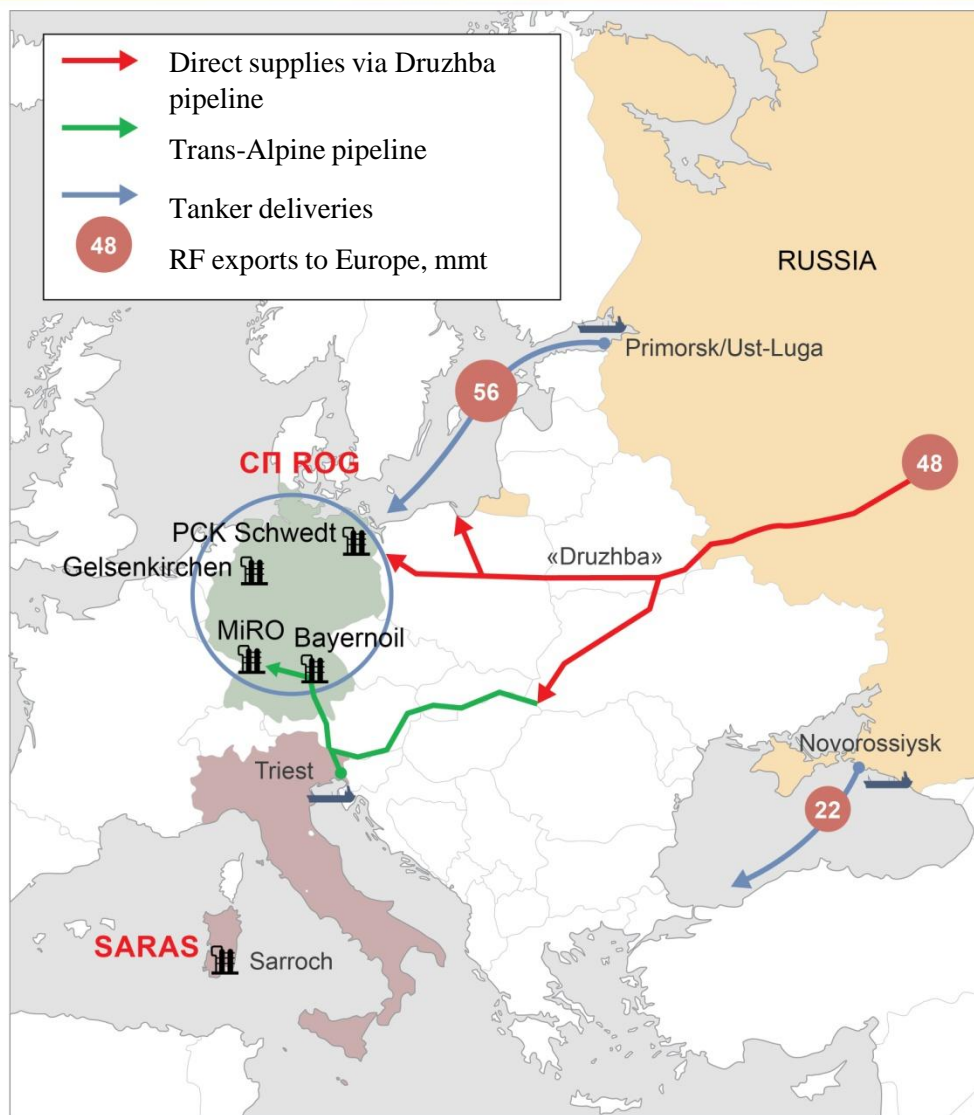
Europe needs oil deliveries with good prices from Russia:

- ▶ **Ready infrastructure in Russia** for oil delivery to Northern Europe, Central Europe and the Mediterranean (pipelines, sea terminals)
- ▶ **Absence of bottlenecks and "danger spots"** on the logistic way from Russia to Europe
- ▶ **Configuration** of European refineries optimized for the refining of Russian oil

Building the market share with non-market methods carries potential risks for the European refining:

- ▶ How long and how much can the Middle East provide **discounts**, in the presence of the growing Asia-Pacific market alternative?
- ▶ Who's gonna pay for the **investment** to change the oil refineries configuration?

Long-term contracts with Russian partners will help ensure the competitiveness of the European refining



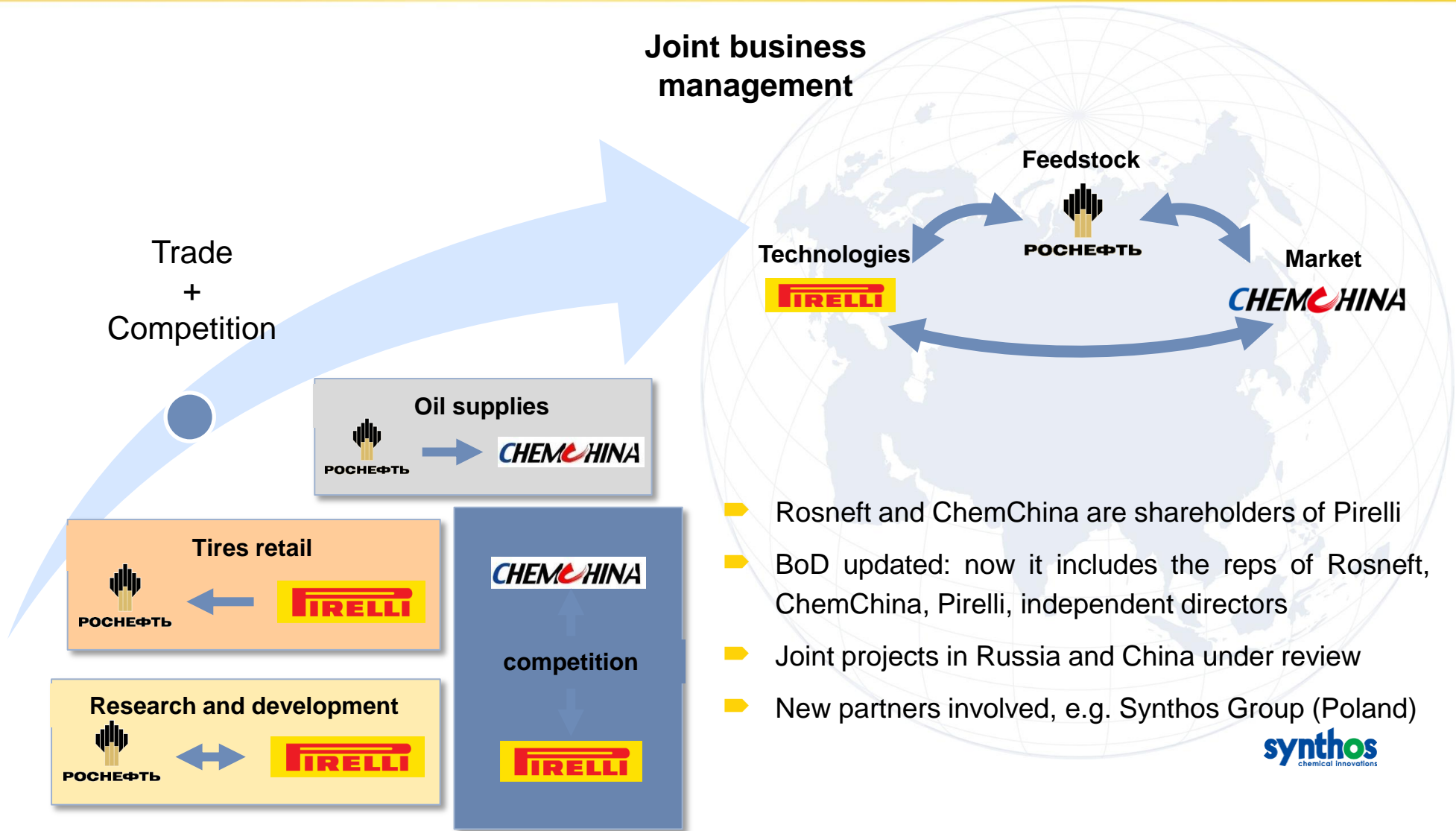
Long-term contracts for crude supply to Europe

Shipment destination	Counterparty	Average volume, mmtpa	Total supplies, mmt	Contract term, years
Novorossiysk, Primorsk/Ust-Luga	Glencore, Vitol, Trafigura	13,2	66	5
Germany	Total, RTSA	6,2	27	3-5
Poland	Orlen, Mercuria, Grupa LOTOS S.A	10,5	38	3-6
Belorussia	Mozyr refinery, Naftan	8	23	3-6
Czech	Orlen	3,2	9,6	3

Rosneft refining assets in Europe

Asset / Rosneft share	Country	Refinery in the country	Share in JV refinery	Capacity, mmt
ROG / 50%	Germany	Gelsenkirchen	100%	12,8
		PCK Schwedt	37,5%	11,5
		MiRO	24%	14,9
Saras / 12%	Italy	Bayernoil	25%	10,3
		Sarroch	100%	15,0

Shareholder cooperation with Pirelli – an example of the business bridge between Europe and Asia





Thank you for your attention!

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