

# Rosneft Oil Company IFRS Results Q1 2015



**РОСНЕФТЬ**



26 June 2015

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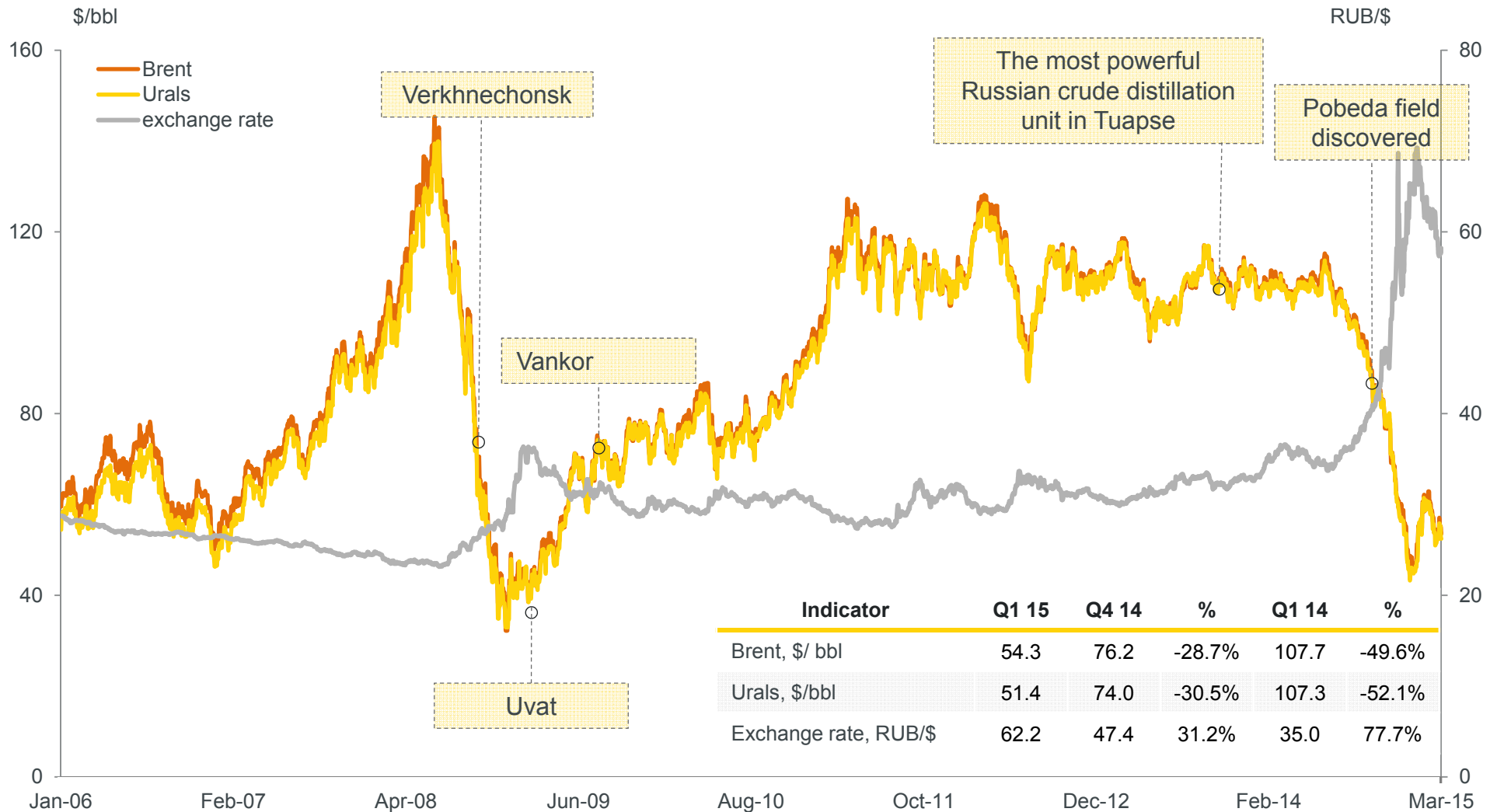
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# Market Environment:

Commissioning of major projects as scheduled despite the change in oil price



Oil prices and the exchange rate<sup>(1)</sup>



Source: Thomson Reuters

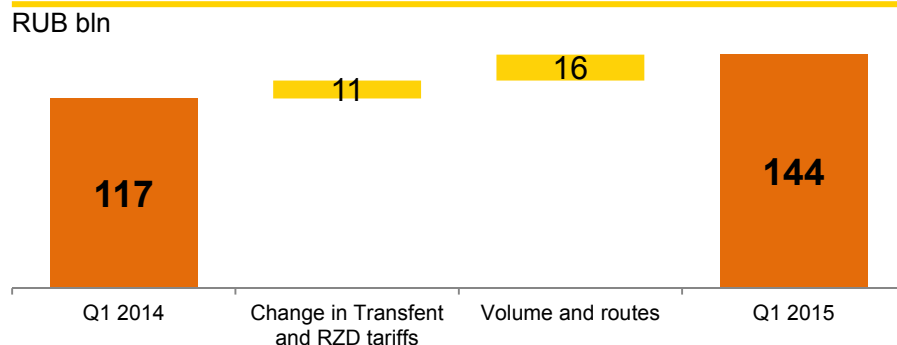
Note: (1) Quote Brent FOB North Sea, Urals – CIF Agusta.

# Macroeconomic Environment

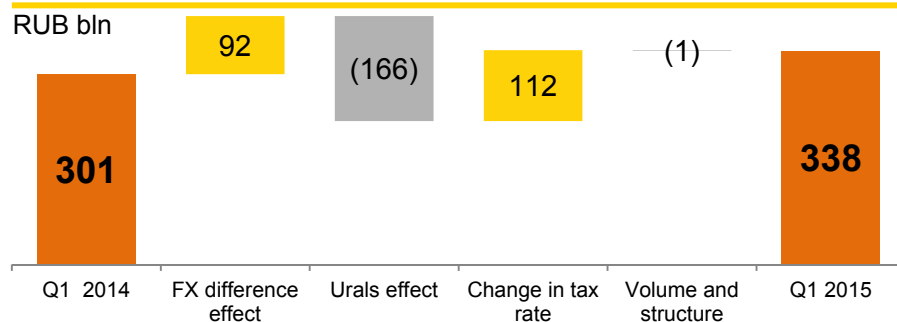
## Rise in transportation tariff and new rates of industry-specific taxes



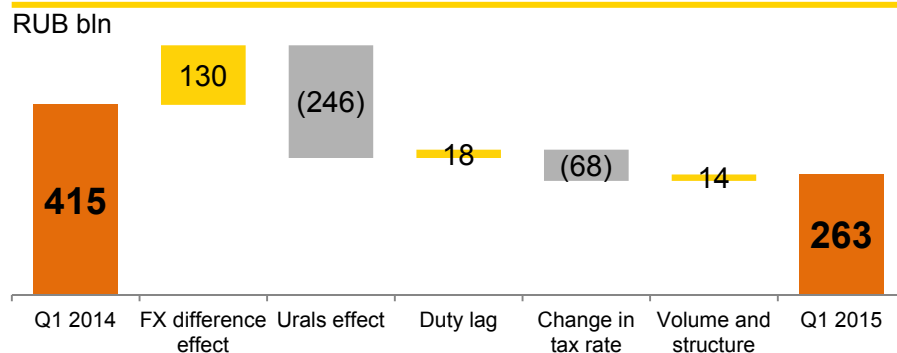
### Transportation costs



### Taxes, other than income tax



### Export duties



### Indexation of transportation tariffs:

- ▶ **Transneft** tariffs for oil transportation by 6,5-7,5% and oil products by 10%
- ▶ **Russian Railways** tariffs by 10%
- ▶ Increase in transportation costs by **23%** up to RUB 144 bln rubles by Q1 2014 due to indexation of tariffs for pipeline and railway transportation
- ▶ Increase in tax amount (except income tax) by more than **12%** up to RUB 338 bln by Q1 2014, primarily due to the change in MET rate and FX rate difference effect, partially offset by reduced oil price
- ▶ Reduction in the amount of paid export duty by ~ **37%** down to RUB 263 bln due to reduced oil price and changed export duty rate
- ▶ Negative effect from introduced tax maneuver is RUB **20 bln** incl. change in netbacks on domestic markets

# Production Performance in Q1 2015 :

## Increase of main indicators



Indicator	Q1 2015	Q1 2014	Δ	Comments
Hydrocarbon production, kboepd	<b>5,200</b>	5,092	2.1%	increase in production at new fields, sustaining production at brownfields due to implementation of key well works, gas production growth
Oil refining in Russia ktpd	<b>241</b>	240	0.4%	increase in utilization of Tuapse refinery's capacity due to lifted restrictions on access to the pipeline, which were partially in force in 2014
Crude and product sales, mmt	<b>52.8</b>	51.7	2.1%	management of accumulated oil product surplus
Gas sales, bcm	<b>15.93</b>	14.44	10.3%	expansion of contract portfolio
Associated petroleum gas utilization, %	<b>87.4%</b>	73.6%	13.8 pp	commissioning of gas export system from Vankor field

# Financial Performance in Q1 2015

## Increase in net income and free cash flow while ramping up operations



RUB bln	Indicator	Q1 2015	Q1 2014	Δ	Comments
	Revenue	<b>1,288</b>	1,375	(6.3)%	efficient distribution of commodity flows and utilization of premium channels with the Urals price reduction by 52%. Revenue in dollar terms amounted to <b>\$21 bln</b>
	Adjusted EBITDA <sup>(1)</sup>	<b>286</b>	289	(1.0)%	efficient correlation of oil and product sales on the domestic and external markets, control and monitoring of costs. EBITDA in dollar terms amounted to <b>\$4.5 bln</b>
	Adjusted EBITDA margin	<b>22.2%</b>	21.0%	-	EBITDA margin is at the level of the best indicators in the industry
	Net profit	<b>56</b>	43 <sup>(2)</sup>	30.2%	management of FX difference risks. Net profit in dollar terms amounted to <b>\$1 bln</b>
	Capex	<b>128</b>	104	23.1%	ramping up production drilling at brownfields. Capex in dollar terms amounted to <b>\$2 bln</b>
	Free cash flow <sup>(3)</sup>	<b>130</b>	121	7.4%	Working capital management control. Adjusted free cash flow in dollar terms amounted to <b>\$2.5 bln</b>

Note: (1) Adjusted for the amount of offset against pre-payments under long-term oil and products supply contracts (RUB 21 bln in Q1 2015); (2) Exclusive of the income received from sale of share in Yugragazpererobotka RUB 45 bln (net result); (3) Adjusted for trading securities transactions, and for prepayments for long-term crude supply contracts.



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## **Financial Results**



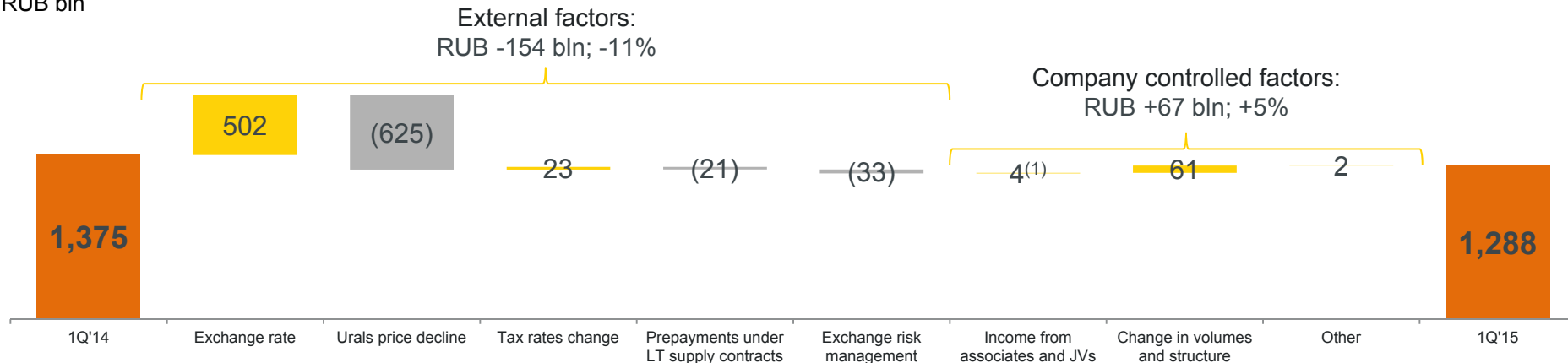
# Revenues Structure and Dynamics

Increased oil and products export volumes, increased gas sales efficiency



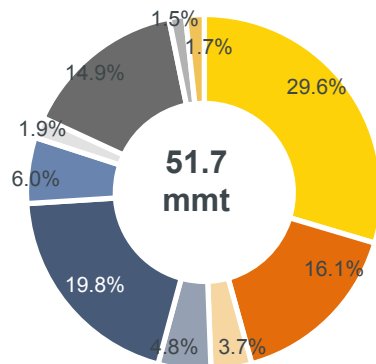
## Change in revenues

RUB bln

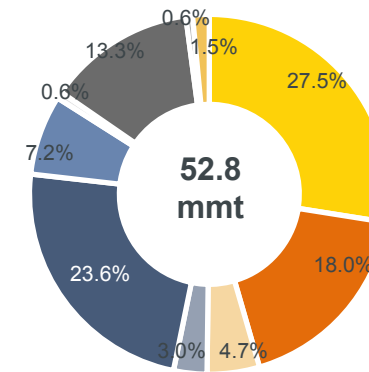


## Growth of crude oil and product sales via high margin channels

Q1 2014



Q1 2015



- ▶ Increase in sales volumes by 1.1 mmt, or 2.1%
- ▶ Increase in oil supplies to the markets in the Asia Pacific region by ~2 pp
- ▶ Increase in share of exported oil products to the European market ~4 pp

- Oil Europe
- Oil Asia
- Oil CIS
- Oil Russia
- Oil products Europe
- Oil products Asia
- Oil products CIS
- Oil products Russia
- Bunkering
- Petrochemicals

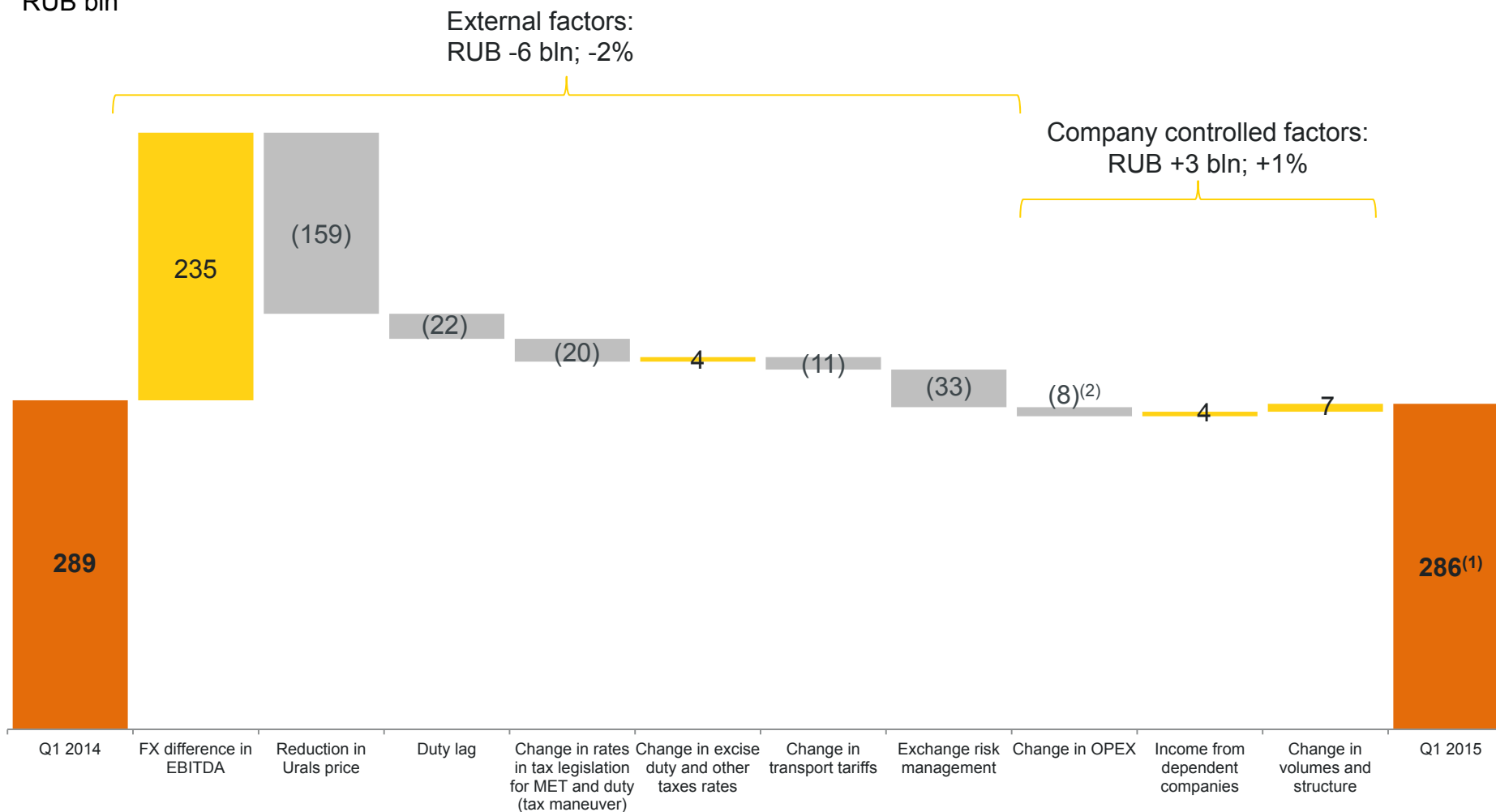


# EBITDA:

Stable indicator of operating profit with more than x2 oil price reduction



RUB bln

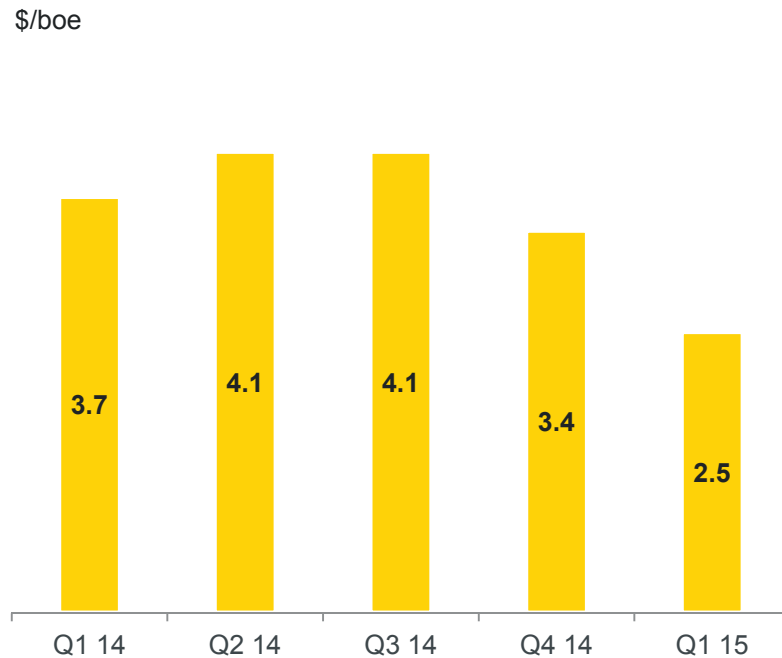


Note: (1) Q1 2015 EBITDA adjusted for the effect of prepayments under long-term oil supply contracts amounting to RUB 21 bln. (2) Change in operating expenses was due to increased well work volumes due to abnormal cold winter 2013-2014, increased volumes of additives and catalysts.

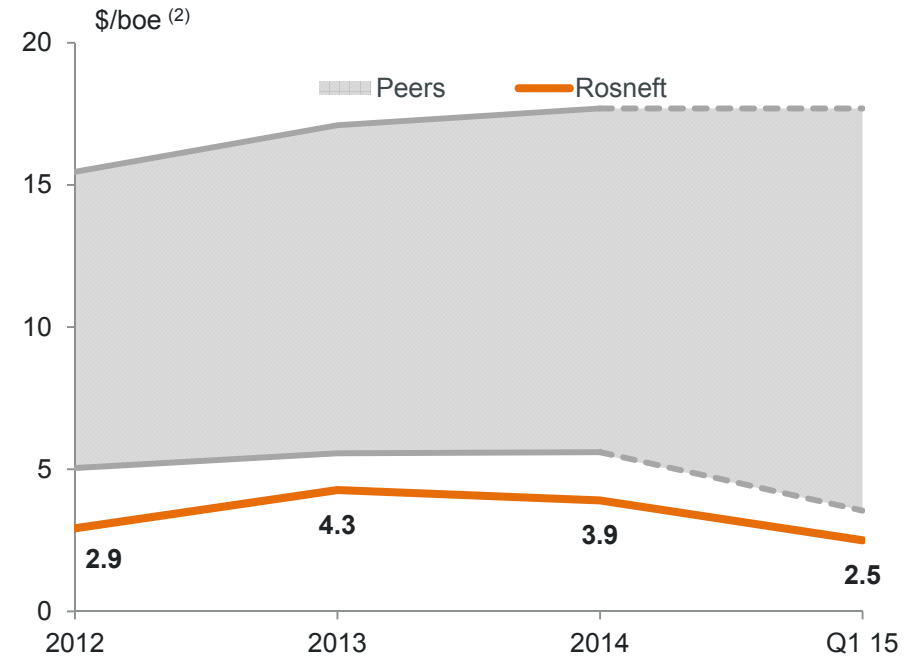
# Maintaining OPEX at Record Low Levels



Lifting costs



Lifting costs: benchmarking<sup>(1)</sup>



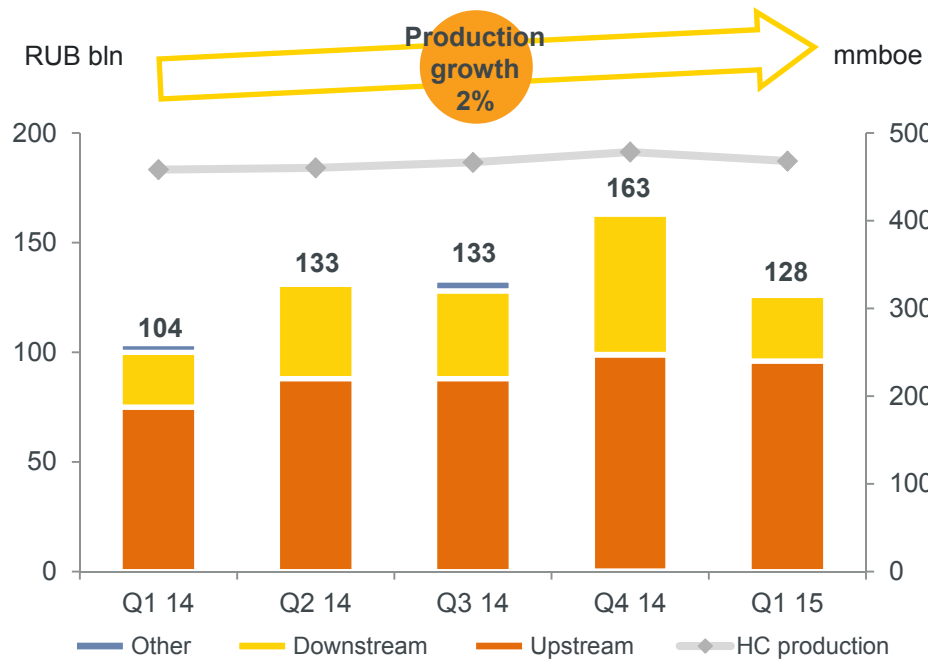
- In Q1 2015 lifting costs amounted to 2.5 \$/boe, reduction by more than 26% by Q4 2014
- Seasonal reduction of well work costs with a in-parallel expansion of the drilling program in Q1 2015 against the backdrop of Ruble weakening
- In the mid-term, Rosneft will maintain lifting costs at the level not exceeding \$5/boe

Note: (1) Peers include ExxonMobil, Chevron, BP, Shell, Statoil, Petrobras, PetroChina, Lukoil and Gazpromneft. Q1 2015 data for Exxon Mobil, Chevron, BP, Shell, Statoil, PetroChina equated to 2014. (2) Rosneft data is calculated using average monthly CB RF exchange rates for the reporting period. Indicators of other Russian companies are calculated using quarterly rates.

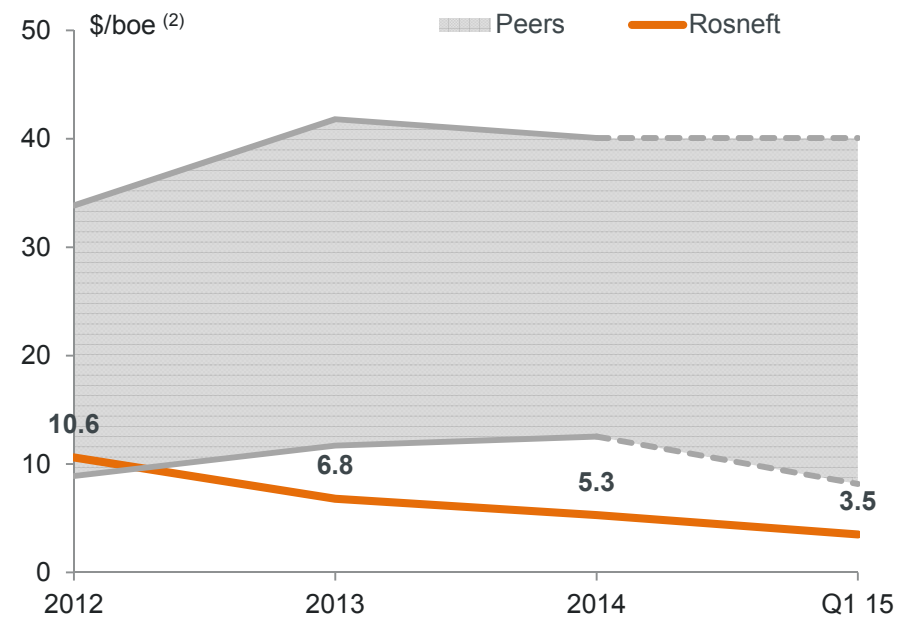
# Investment Program Flexibility



CAPEX and production



Upstream CAPEX: benchmarking<sup>(1)</sup>



## Investment program delivery in 2015:

- ▶ 23.04.2015 The Board of Directors of the Company approved a revised business plan for 2015-2016 developed in the conservative environment and ensuring delivery of the strategic objectives of the Company at a balanced financial structure with the existing restrictions on access to external financing
- ▶ The forecast is to retain the leading position in per-unit Capex efficiency in 2015: not higher than \$7/boe
- ▶ 2015 Investment Program optimization targets:
  - Sustain the level of hydrocarbons production not below the level of 2014
  - Ensure adequate free cash flow and maximum retention of EBITDA
  - Focus on projects with greatest cost efficiency

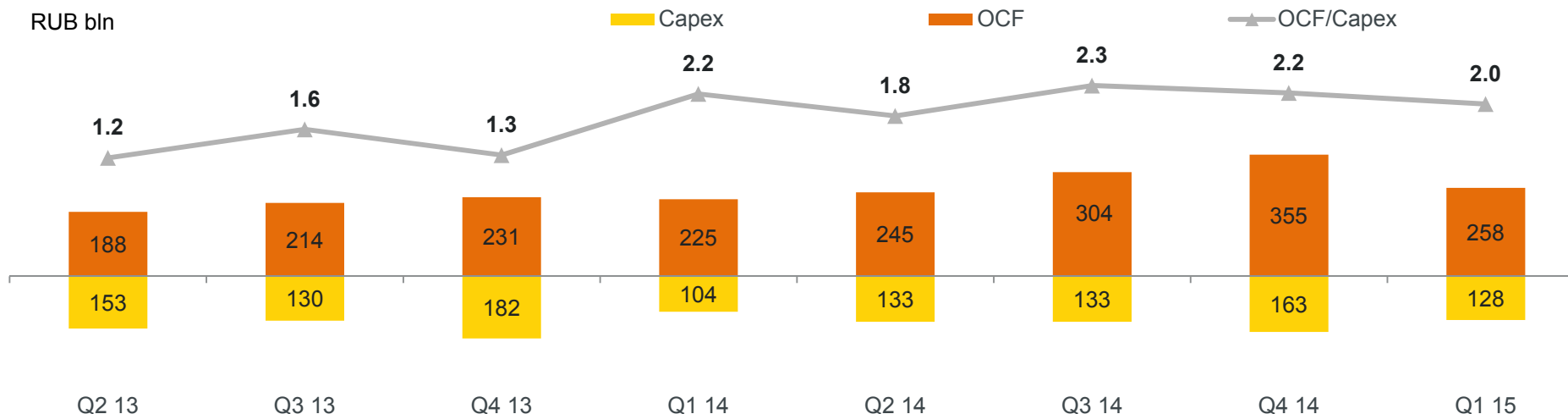
Note: (1) Peers include ExxonMobil, Chevron, BP, Shell, Statoil, Petrobras, PetroChina, Lukoil and Gazpromneft. Q1 2015 data for Exxon Mobil, Chevron, BP, Shell, Petrochina equated 2014. (2) Rosneft is calculated using average monthly CB RF exchange rates for the reporting period. Indicators of other Russian companies are calculated using quarterly rates.

# Operations Efficiency:

## Operations generate a sustainable cash flow



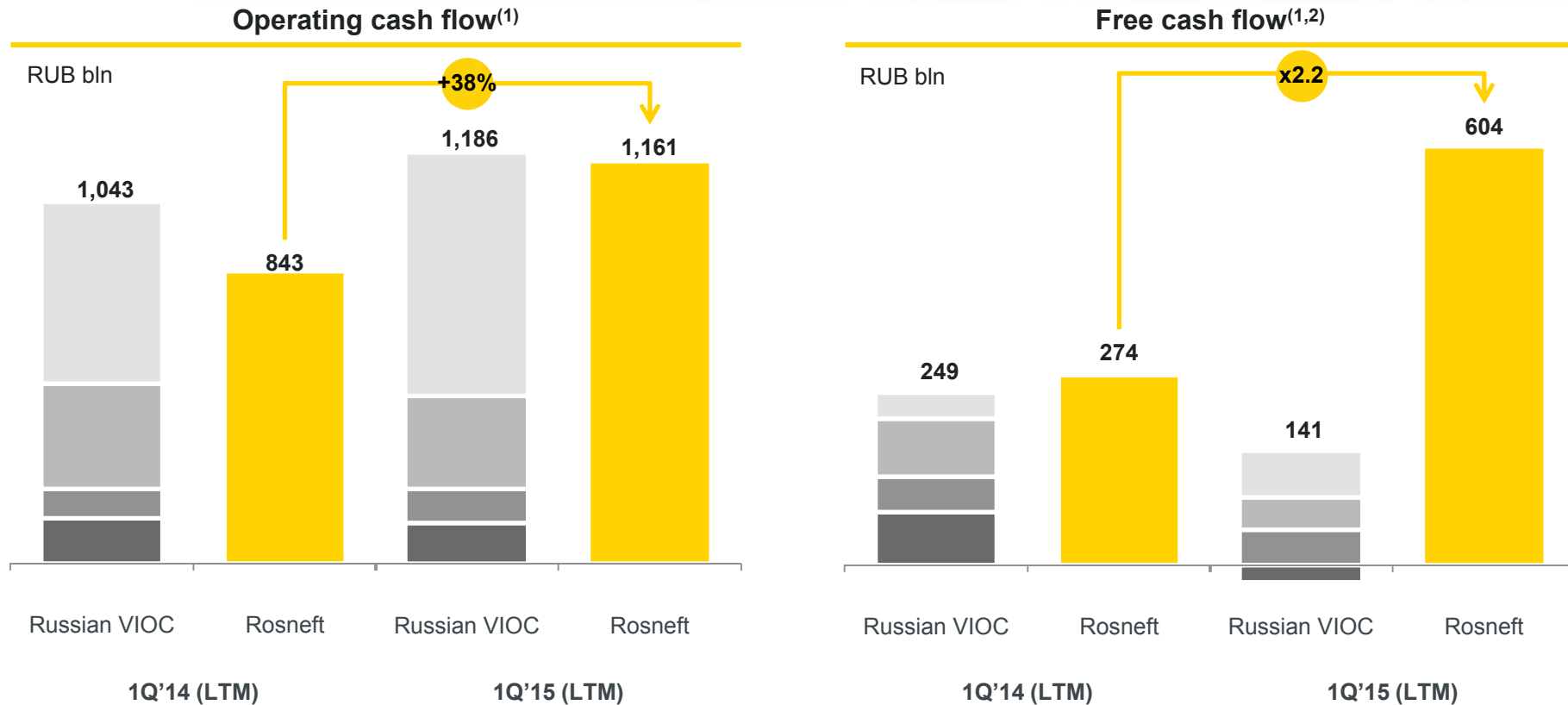
Operating cash flow<sup>(1)</sup> and Capex



- ▶ Operating cash flow has consistently exceeded the capital expenditures for 8 quarters
- ▶ Return on average capital employed consistently matches the average range of the comparable group of international and Russian domiciled companies

Note: (1) Adjusted for prepayment of long-term contracts of oil supply and the operations with trading securities, (2) Peers include ExxonMobil, Chevron, BP, Shell, Statoil, Petrobras, PetroChina, Lukoil and Gazprom Neft.

# On Top of Cash Flow Generation



- ▶ LTM free cash flow **more than doubled** despite negative macro environment
- ▶ With unit free cash flow at **\$7.3 per boe** Rosneft is one of the leaders among global majors (LTM)
- ▶ Rosneft generates more cash than all other Russian vertically integrated oil companies combined

\* Rosneft figures are adjusted for prepayments under LT crude oil supply contracts

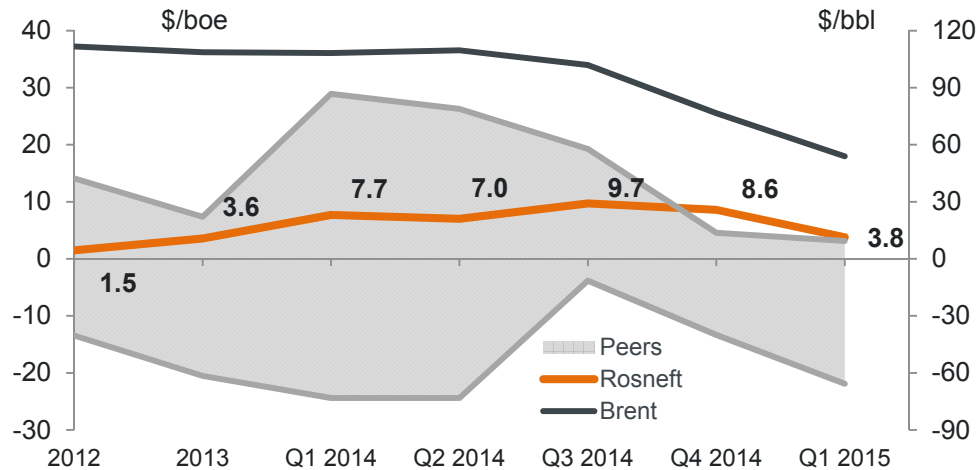
Note: (1) Russian vertically integrated oil companies include those who reported 1Q'15 results, figures are calculated for the period starting 2Q'14 till 1Q'15 (last twelve month basis), (2) Free cash flow is calculated as operating cash flow less CAPEX

# Free Cash Flow:

## Positive dynamics due to management efficiency



Stably high indicators of the free cash flow<sup>(1,2)</sup>

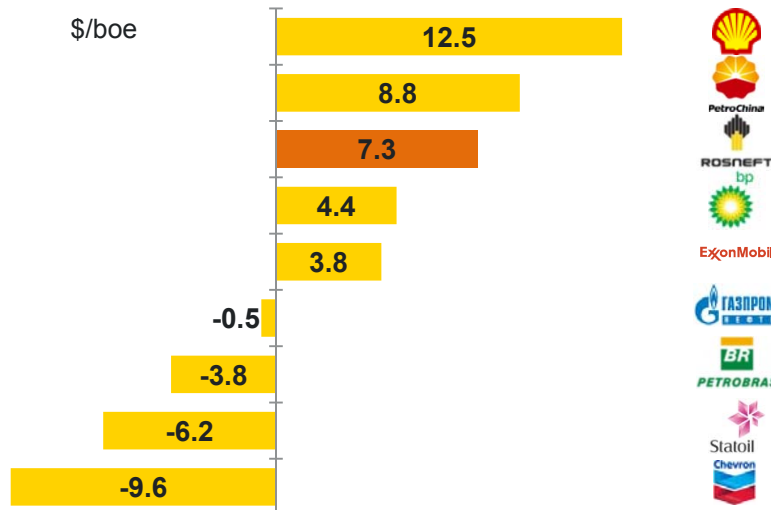


➤ **RUB 130 bln** – free cash flow in Q1 2015; keeping positive dynamics during the year, primarily due to effective working capital management

➤ **3.8 \$/bbl** – best unit free cash flow indicator in the competitive group in Q1 2015

➤ **7.3 \$/bbl** - high unit free cash flow over the past 12 months despite the sharp decline in oil prices by 48%<sup>(3)</sup>

Leading unit free cash flow over 12 months<sup>(3)</sup>



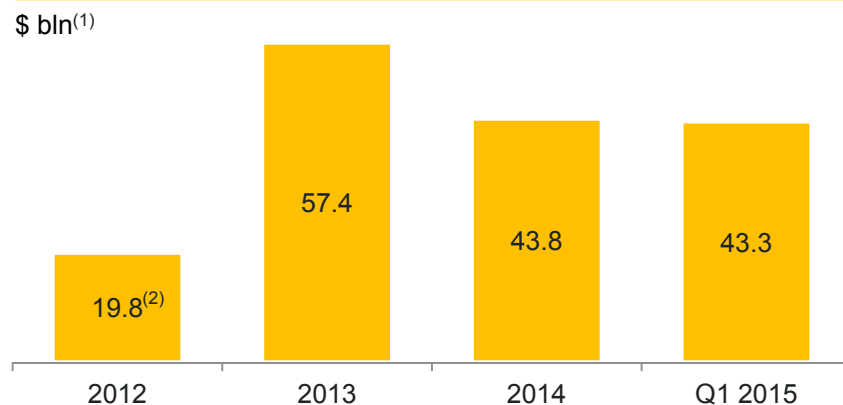
➤ Stability of free cash flow provides for dividends payment in the amount of **25% of net profit under IFRS**

Note: (1) Competitors include ExxonMobil, Chevron, BP, Shell, Statoil, Petrobras, PetroChina, Lukoil and Gazpromneft. (2) PetroChina data for Q2 2014 taken as those in Q1 2014 (3) Data for the period from Q2 2014 to Q1 2015 inclusive (in annual terms).

# Financial Stability: Efficient debt portfolio management

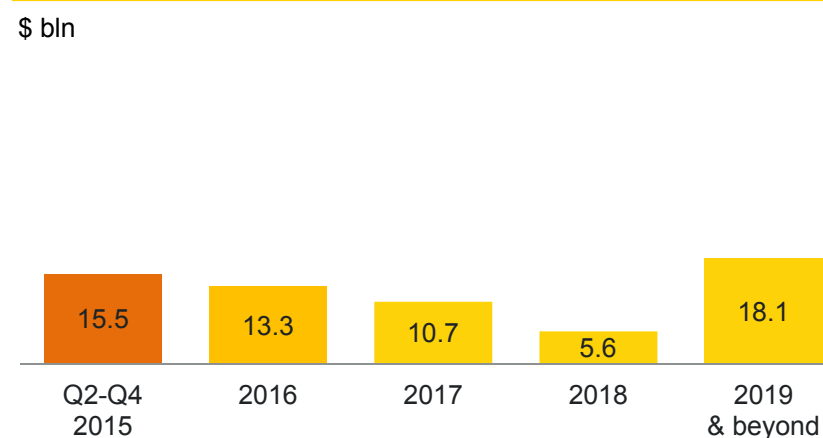


## Net debt dynamics



- ▶ As of the end of Q1 2015, net debt decreased by \$ 0.5 bln<sup>(1)</sup> to become **\$43.3 bln<sup>(1)</sup>** (RUB 2,529 bln); consolidated debt load decreased by **\$ 4.5 bln<sup>(1)</sup>** (RUB 134 bln)
- ▶ Significant free cash balances and other current financial assets, as well as stable operating cash flow are recipe for financial stability and ensure fulfillment of the financial obligations

## Repayment schedule<sup>(3)</sup>



- ▶ In Q1 2015, major financial liabilities were settled per plan to the total amount of about **\$15.9 bln<sup>(4)</sup>** (RUB 989 bln), including **\$ 7.2 bln** (RUB 473 bln<sup>(5)</sup>) - the final repayment of bridge loans raised to purchase TNK-BP
- ▶ In Q1 2015, efforts continued to raise debt financing in the framework of target deals on the best available terms.

Note: (1) At the CBR exchange rates effective at the end of the respective periods. (2) Revised data. (3) Including future interest to be accrued at exchange and interest rates as at 31.03.2015 (net of other Yukos Group companies' debt), (4) At the average exchange rate of the Central Bank of the Russian Federation for the period, including the repayment of loans, interest accrued, capital lease obligations and derivative financial instruments (5) At CB RF exchange rate at the date of actual repayment, with accrued interest.





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## **Operational Results**

# Stable Hydrocarbon Production Dynamics



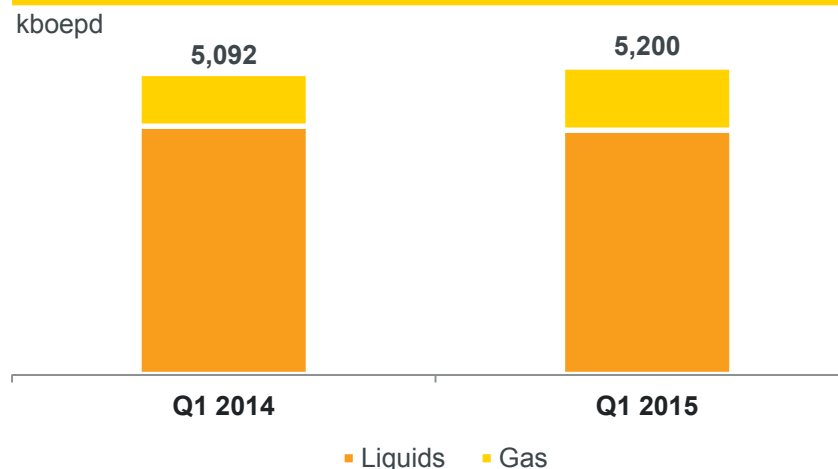
## Key achievements in Q1 2015

- Increase in liquids daily production in Samaraneftgaz (+ 2.9%), VCNG (+ 9.7%) and RN-Uvatneftgaz (+ 6.8%) vs. Q1 2014 as a result of EOR methods application and reduced well construction cycle
- Ramping up daily production at LA Northern Tip of Chayvo (+ 60.6%) vs. Q4 2014
- North-Danilovskoe field (VCNG) launched in trial production with natural flow rates above 200 tpd

## Plans for 2015

- Keep the total hydrocarbon production (toe)
- Keep production at greenfields at more than **40 mmt**
- Put on stream Labaganskoe field in the Nenets Autonomous District to reach **~1 mmtoe** in 2016
- Bring the Uvat Group to oil production plateau of **10 mmt**

## Hydrocarbon production



# Planned Increase of Drilling Volume



## Key achievements in Q1 2015

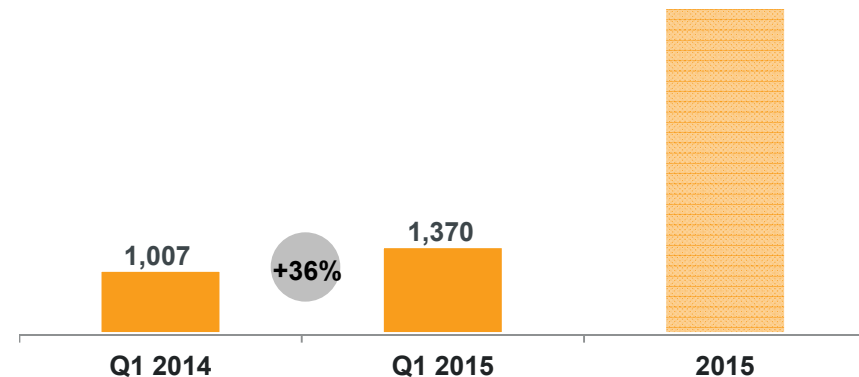
- ▶ Growth of production drilling footage by 36% due to increasing capacities of the in-house services
- ▶ Reducing the time of horizontal wells drilling by 30% at Prirazlomnoye field in KhMAO due to optimization of process operations
- ▶ Drilling of horizontal wells and HW with multfrac at the fields of RN-YNG would allow 58.5 tpd rates in the new wells in Q1 2015 (+24% vs. Q1 2014), >2 times above the average in the industry in West Siberia<sup>(1)</sup>
- ▶ Optimized penetration in the real time mode in the horizontal wells of RN-UvatNG ensured increase of the rates in the new wells in Q1 2015 to achieve 115.9 tpd (+11% vs. Q1 2014), ~4 times above the average in the industry in West Siberia<sup>(1)</sup>

## Plans for 2015

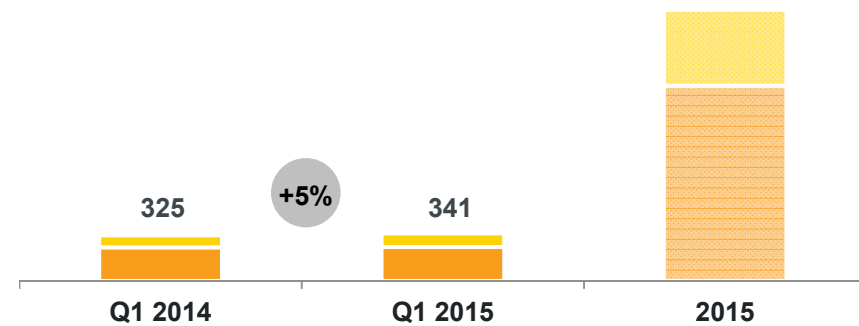
- ▶ Start drilling the previously undeveloped deposits of Achimov Formation in Prirazlomnoye field of RN-YuganskNG in the Khanty
- ▶ Further increase in the number of horizontal wells with multfrac in RN-YuganskNG (on average, every 10th well)
- ▶ In Nefteyugansk district: pilot project to construct light-design horizontal wells - drilling time reduced by 20%

## Development drilling footage

th. m



## New wells commissioning



■ Directional wells ■ Wells w/ horizontal completion

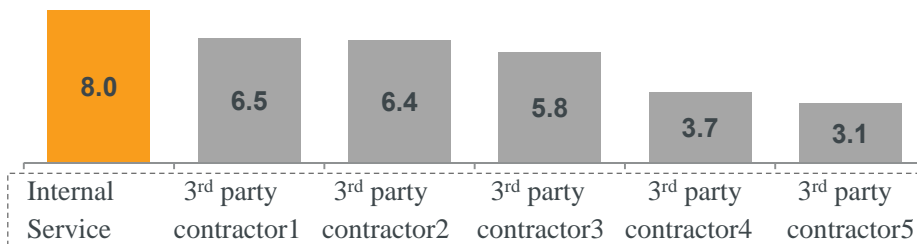
Note: (1) Net of RN-YNG and RN-UvatNG

# Advanced oil field services

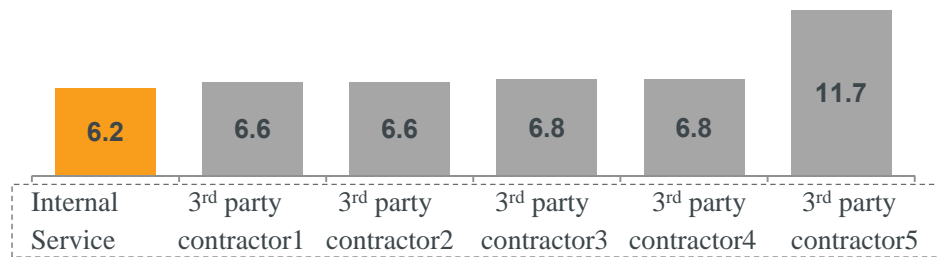


## Leading positions in production drilling in-house services

Penetration rate, th. m/rig per month

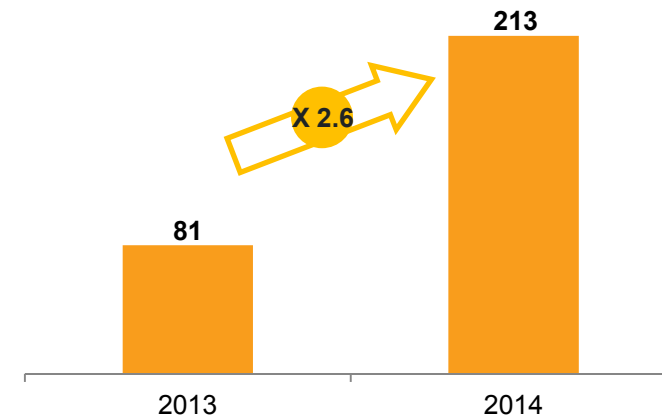


Cost of meter drilled, th. rub/m



- ▶ **Expanding in-house services based on RN-Burenie**
  - Financial transparency and efficiency (third-party contractor costs 5-9% higher)
  - Contract for 13 new drilling rigs supply with OOO Uralmash NGO Holding
- ▶ **Integration of new rigs and oilfield service assets completed (Weatherford, ODC)**
  - Operating rig fleet grew ~2.6 times, to 213
  - 201 own drilling crews as per plan
  - The plan for 2015 is 230 drilling crews
- ▶ **Improvement of the drilling technology**
  - Optimization of well design to speed up the drilling rate
  - Reduction of construction cycle and mitigating the risk of accidents in the permafrost at complex gas wells
- ▶ **Drilling footage to grow by 7-10% per year within 5 years**
- ▶ **Target percentage of in-house drilling services is over 75-80%**

Expansion of in-house rig fleet



Note: (1) Data for directional wells, OOO RN-YNG, m/rig per month

# Gas Business:

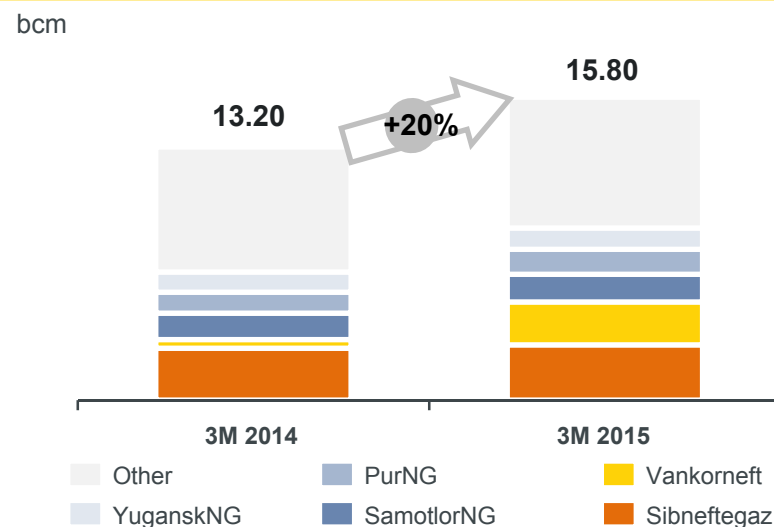
## Effective production buildup



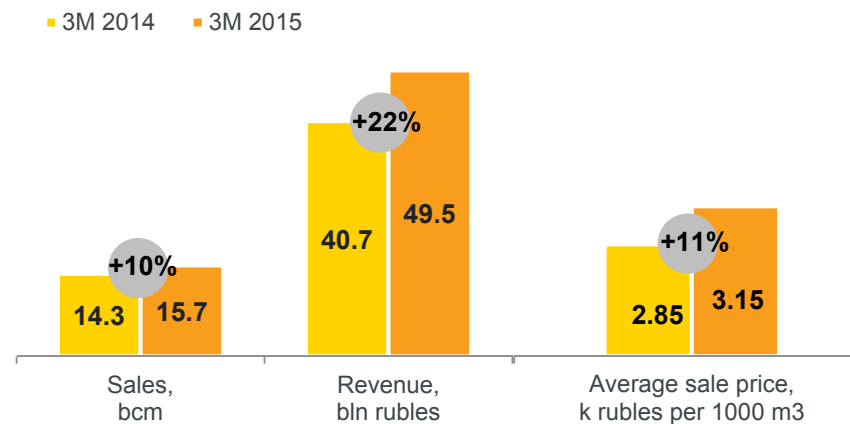
### Key achievements in Q1 2015

- ▶ APG utilization rate rose to 87% (81% in 2014), mainly as a result of increasing gas supplies from Vankor field to Gazprom network
- ▶ Contracts for gas sales up to 0.4 bcm per year from North Chayvo field (Sakhalin Island) ensuring its efficient monetization
- ▶ In Q1 2015, Rosneft was actively engaged in gas exchange trading. The volume of supply contracts to the end consumers amounted to more than 370 mcm or 89% of total gas sales on the commodity exchange
- ▶ The company continues to build up the effective gas production

### Gas production



### Gas sales in Russia



# Improved Refining Efficiency



## ▶ 1Q'14 operating highlights

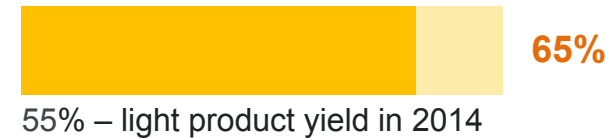
- Refining throughput in Russia flat at **21.7 mmt** (+0.4% compared to 1Q'14)
- Optimization of product slate provided **light product yield increase to 55.9%**
- Gain in performance through optimization of unit modes - effect of **RUB ~5 bln**
- **Euro-4/5** motor fuels production **up 44% to 7.4 mmt** compared to 1Q'14. By the end of march Samara group of refineries fully switched to Euro-5 gasolines

## ▶ Effective implementation of refinery modernization program

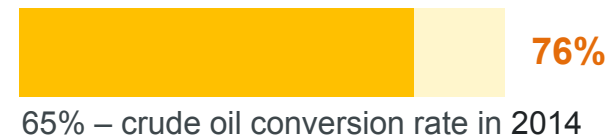
- Brought to technical mode isomerization units at Kuybyshevsky and Novokuyshevsky refineries, reforming CCR at Novokuyshevsky refinery
- pre-commissioning activities of isomerization unit at Ryazan refinery completed
- 2015 modernization CAPEX will stay at the 2014 level (**RUB ~150 bln**)

- ▶ **Sanors asset acquisition:** petrochemical complex will enable annual incremental monetization of **1.7 mmt** gas feedstock

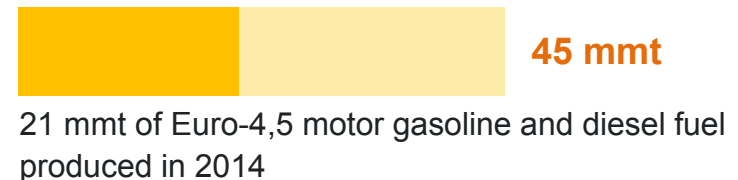
## ▶ Light product yield



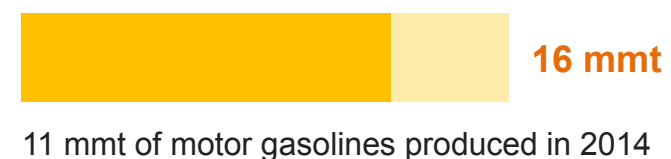
## ▶ Crude oil conversion rate



## ▶ Euro-4,5 production



## ▶ Motor gasoline production

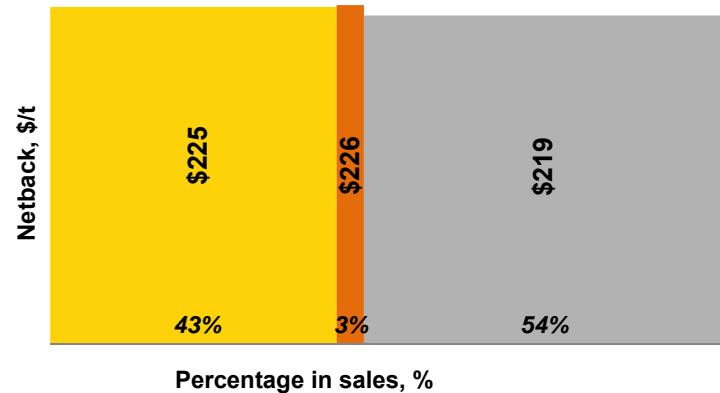


■ 2014    **XX** 2019 target    ■ increment to 2014

# Crude and Product Sales

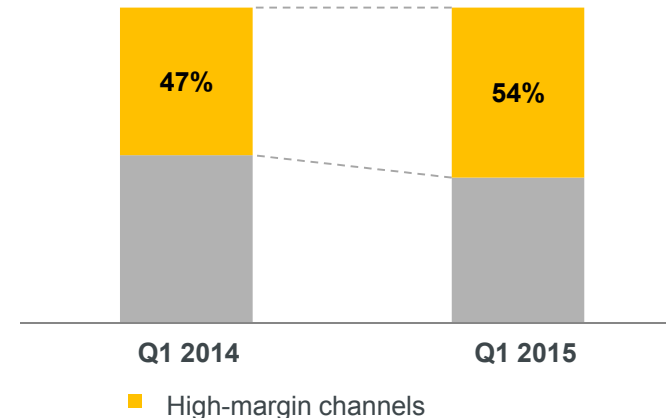


Oil monetization channels in Q1 2015



■ Refining ■ Domestic market ■ Export

Sales of crude oil



■ High-margin channels

- **Geographic diversification of crude export channels between the Eastern and Western directions:** Premium eastbound crude supplies increased +10% year-on-year in Q1 2015.
- **Expansion of international presence:** new delivery direction open (Egypt)
- **Increase of supply to high-marginal regions:** direct sales to Czech Republic increased in 2015 compared to 2014 by 165 th.t/month with +11\$/t incremental efficiency compared to alternative channel.
- **Large-scale efforts to enter and expand the presence at the markets in the Transcaucasus and Central Asia regions:** acquisition of OOO Petrol Market (Armenia), the owner of the network of 22 retail sites and 3 oil depots; completed the 1st stage of integration of ZAO Bishkek Oil Company; successful negotiations with key Mongol customers completed on 2015-2016 contracts with price formula and volumes unchanged to 2014; concluded a framework agreement with TOO KazMunaiGaz-Aero for supply of aviation kerosene to the Republic of Kazakhstan
- **Import substitution:** reached the agreement with a number of large production companies (Metalloinvest, Severstal') about substitution of imported brands of oils with RN produced oils
- **RN is gaining ground on the aviation kerosene market** despite the drop in the volumes of air passenger travel, RN presence at RF market increased by +3% to reach 33% in Q1 2015





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## Appendix

# Production Performance in Q1 2015 and Q4 2014:

## Stable performance despite the volatility of external environment



Indicator	Q1 2015	Q4 2014	Δ	Comments
Hydrocarbon production, kboepd	<b>5,200</b>	5,200	-	Sustain production level
Oil refining in Russia ktpd	<b>241</b>	248	(2.8)%	refining margin deterioration due to introduced "tax maneuver" and, as a consequence, re-distribution of a part of commodity flows to the higher margin export channel
Crude and product sales, mmt	<b>52.8</b>	51.0	3.5%	efficient distribution of commodity flows including the sale of accumulated stock from past periods
Gas sales, bcm	<b>15.93</b>	16.07	(0.9)%	increase in sales to ultimate consumers (incl. through the exchange) along with insignificant reduction in the total sales volume due to the selling in Q4 2014 of the accumulated stock from past periods
Associated petroleum gas utilization %	<b>87.4</b>	86.9	0.5 pp	Commissioning of gas export system from Vankor field



# Financial Performance in Q1 2015 and Q4 2014

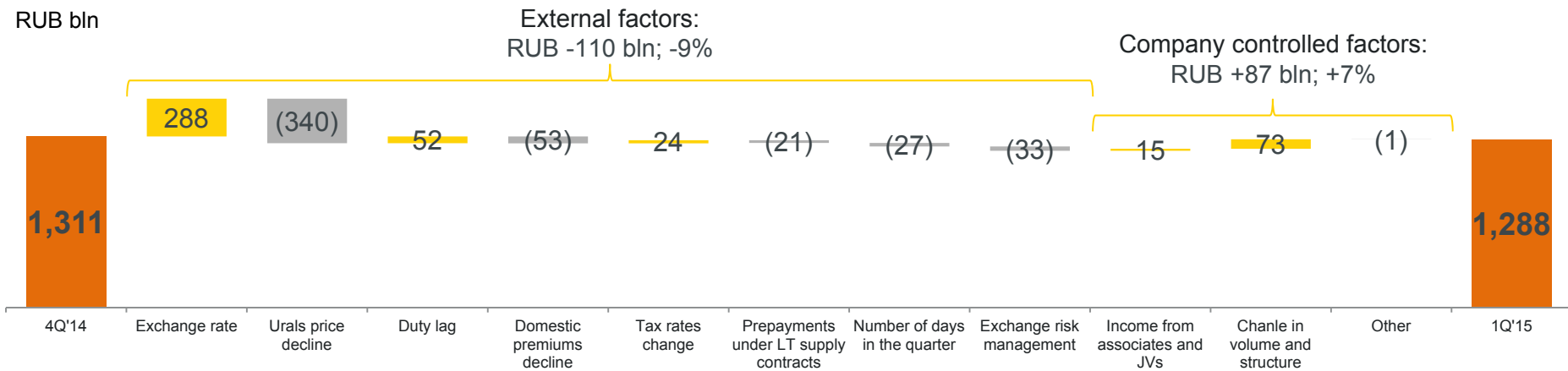
RUB bln	Indicator	Q1 2015	Q4 2014	Δ	Comments
	Revenue	<b>1,288</b>	1,311	(1.8)%	drop in the world prices was in part offset by the ruble exchange rate reduction and increase in the volume of sale via the higher margin export channel. Revenue in dollar terms amounted to <b>\$21 bln</b>
	Adjusted EBITDA <sup>(1)</sup>	<b>286</b>	188	52.1%	efficient distribution of commodity flows, positive impact of lag in export duty offset by the negative impact of the "tax maneuver". Revenue in dollar terms amounted to <b>\$4.5 bln</b>
	Adjusted EBITDA margin	<b>22.2%</b>	14.3%	-	
	Net profit	<b>56</b>	89	(37.1)%	the impact of foreign exchange differences partially offset through FX risk management. Net profit in dollar terms amounted to <b>\$1 bln</b>
	Capex	<b>128</b>	163	(21.5)%	seasonal nature of Capex distribution. Capex in dollar terms amounted to <b>\$2 bln</b>
	Free cash flow <sup>(2)</sup>	<b>130</b>	192	(32.3)%	increase in working capital. Adjusted free cash flow in dollar terms amounted to <b>\$2.5 bln</b>

Note: (1) Adjusted for the amount of offset against pre-payments under long-term crude and products supply contracts (RUB 21 bln in Q1 2015). (2) Adjusted for trading securities transactions, and for prepayments for long-term crude supply contracts

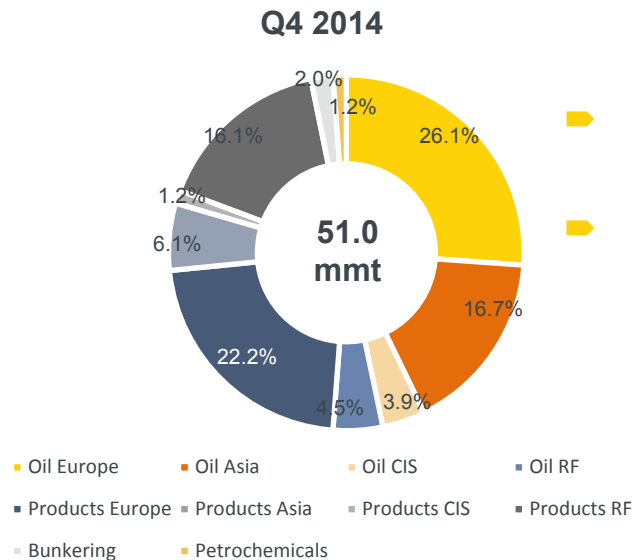
# Structure and Dynamics of Revenues in Q1 2015 and Q4 2014



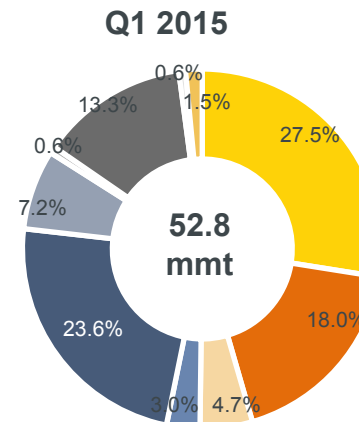
## Change in revenues



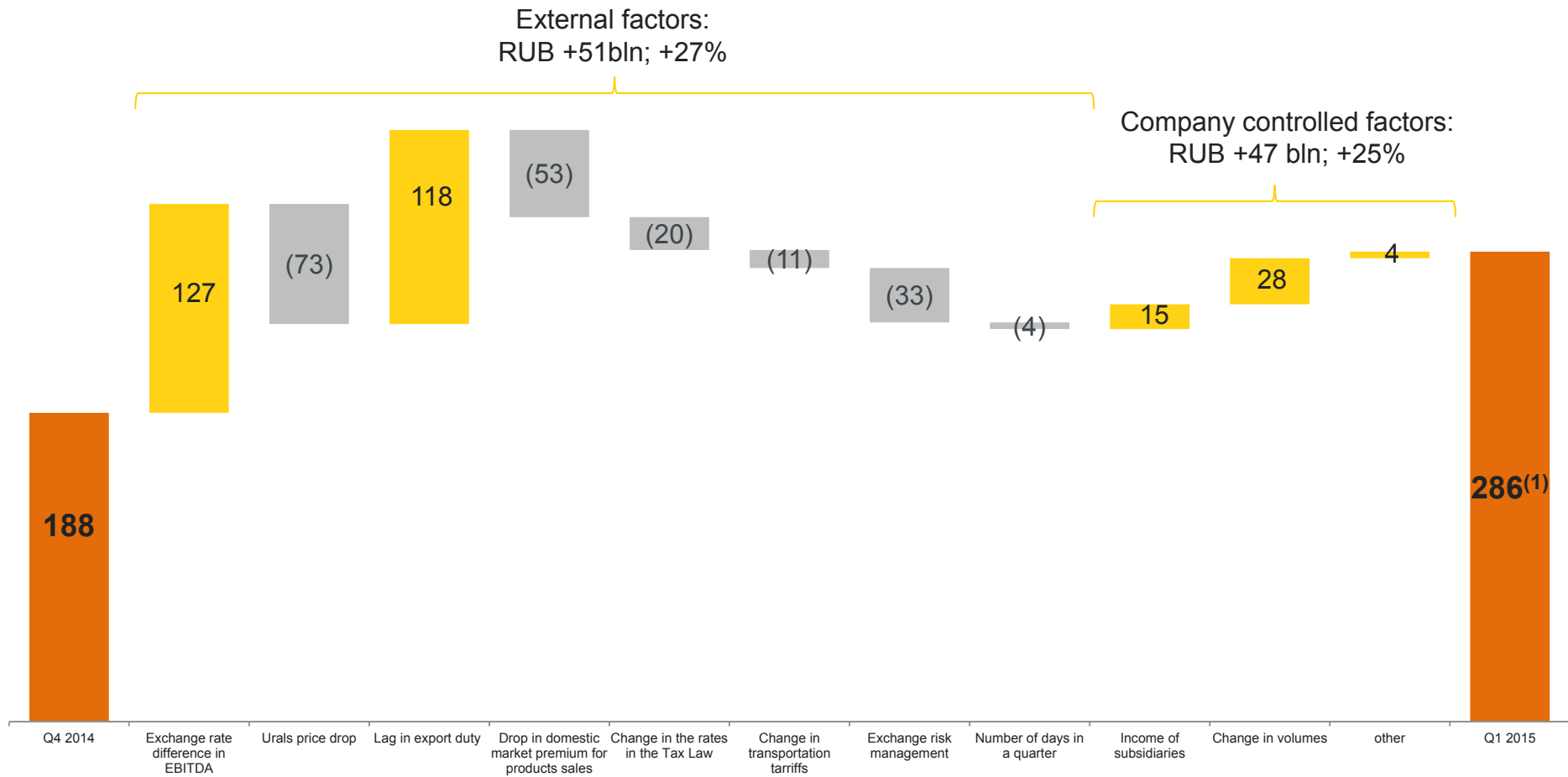
## Growth of crude and product sales via high margin channels



- Increase in sales volumes by 1.8 mmt, or 3.5%
- Increased share of crude sales by 2 pp



# Q1 2015 and Q4 2014 EBITDA



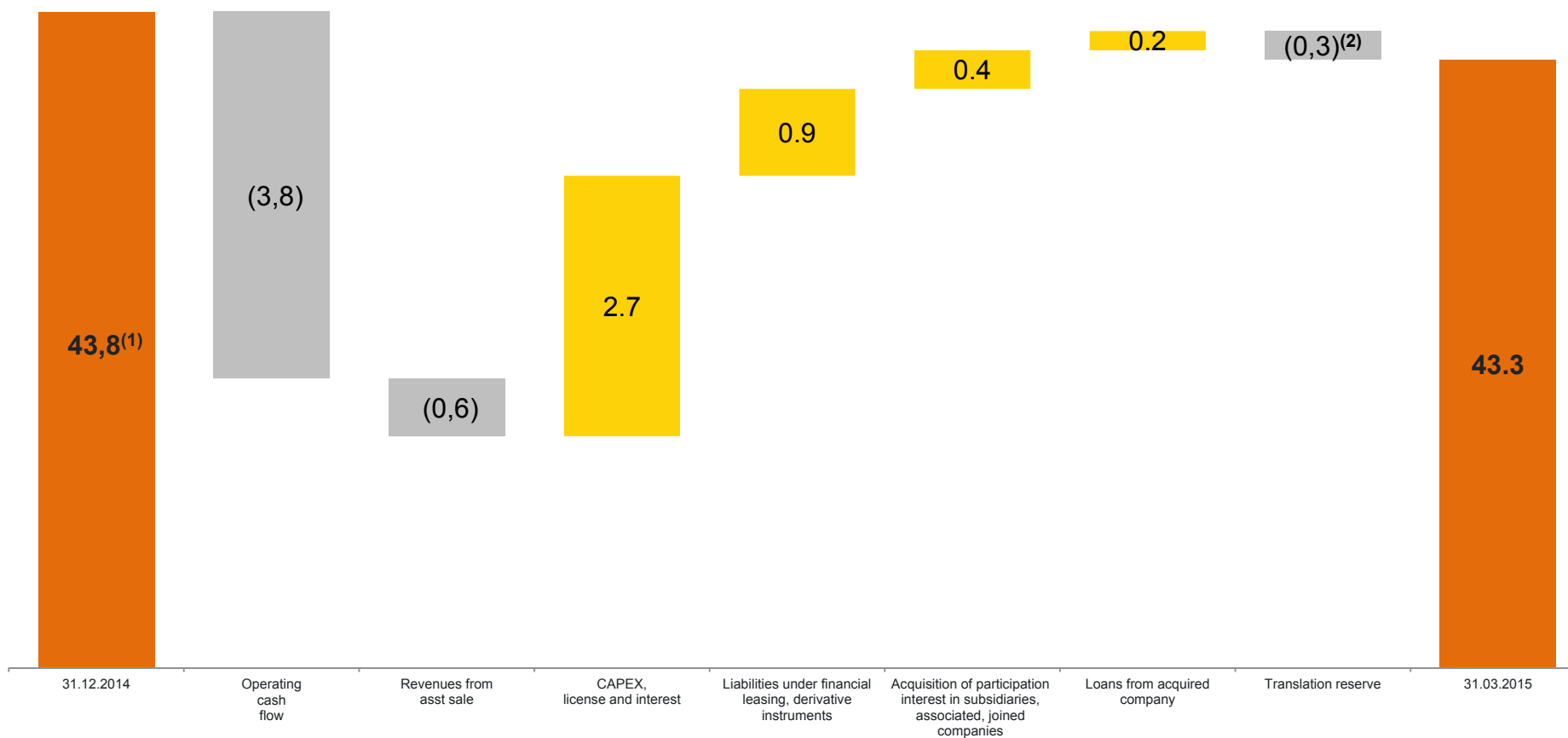
Note: (1) Q1 2015 EBITDA adjusted for the effect of prepayments under long-term oil supply contracts amounting to RUB 21 bln

# Net Debt

Generation of high operating cash flow reduces net debt



\$ bln

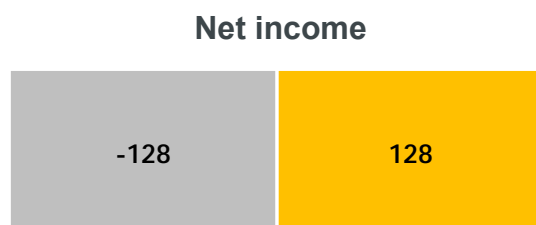


Notes: (1) Including liabilities under financial leasing and derivative instruments, (2) A translation reserve is due to an evaluation of movements over the period at average monthly US dollar exchange rates and re-calculation of the net debt index at the exchange rate as of at the end of the relevant period.

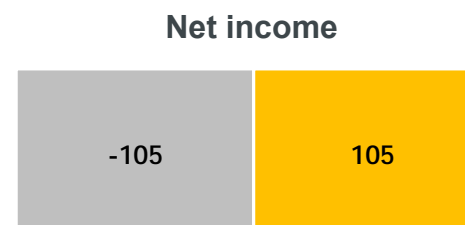
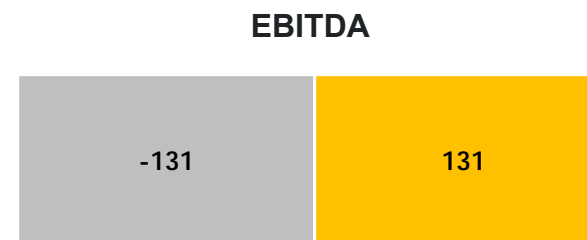
# EBITDA and Net Income Sensitivity



**Change in the Urals price**  
bln RUB    -10 USD/bbl                      +10 USD/bbl



**Change in the exchange rate**  
bln RUB    -5 RUB/USD                      +5 RUB/USD



- ▶ With the Urals price increase by USD 10 in 2Q-4Q 2015, the annual EBITDA will grow by RUB 160 bln (forecast).
- ▶ With the ruble depreciation by 5 RUB/USD in 2Q-4Q 2015, the annual EBITDA will grow by RUB 131 bln (forecast).

*Note: the EBITDA and Net Income effect in 2Q-4Q 2015 is estimated on the business plan parameters of Brent at USD 50 /bbl (Urals USD 49/bbl), the ruble exchange rate of RUB 65 / USD.*





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## **Questions and Answers**