

Natural Synergy of Eurasian Cooperation



РОСНЕФТЬ



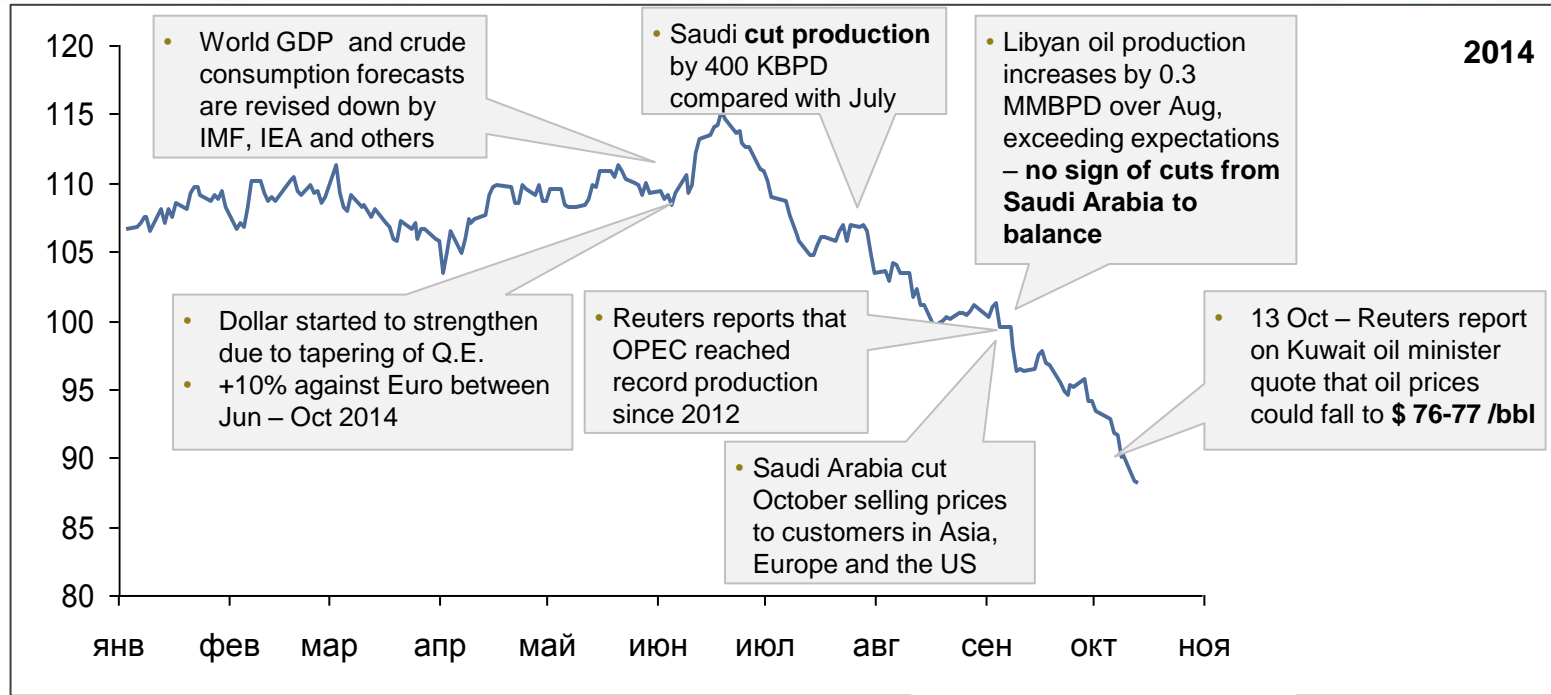
I.I.Sechin
Chairman of the Board
Rosneft

October 2014

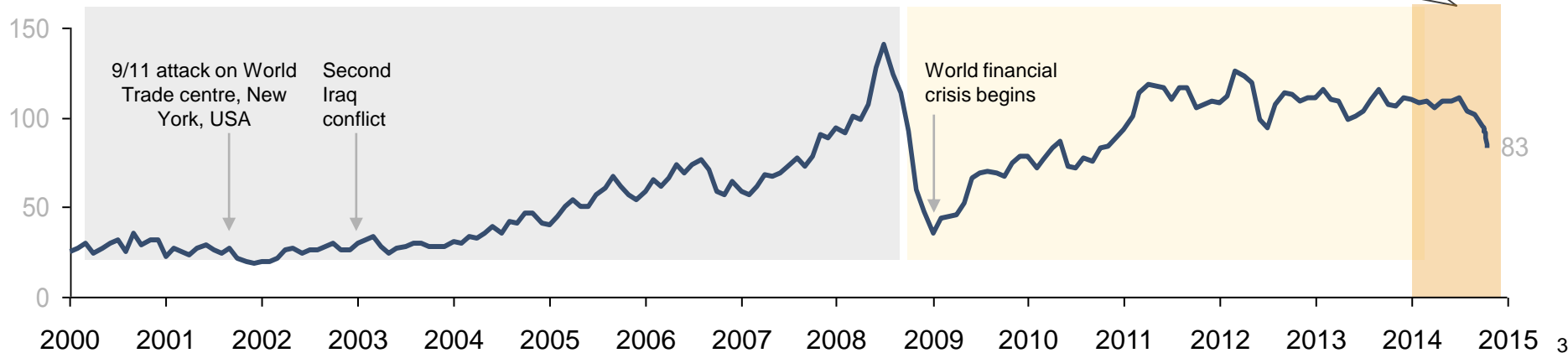
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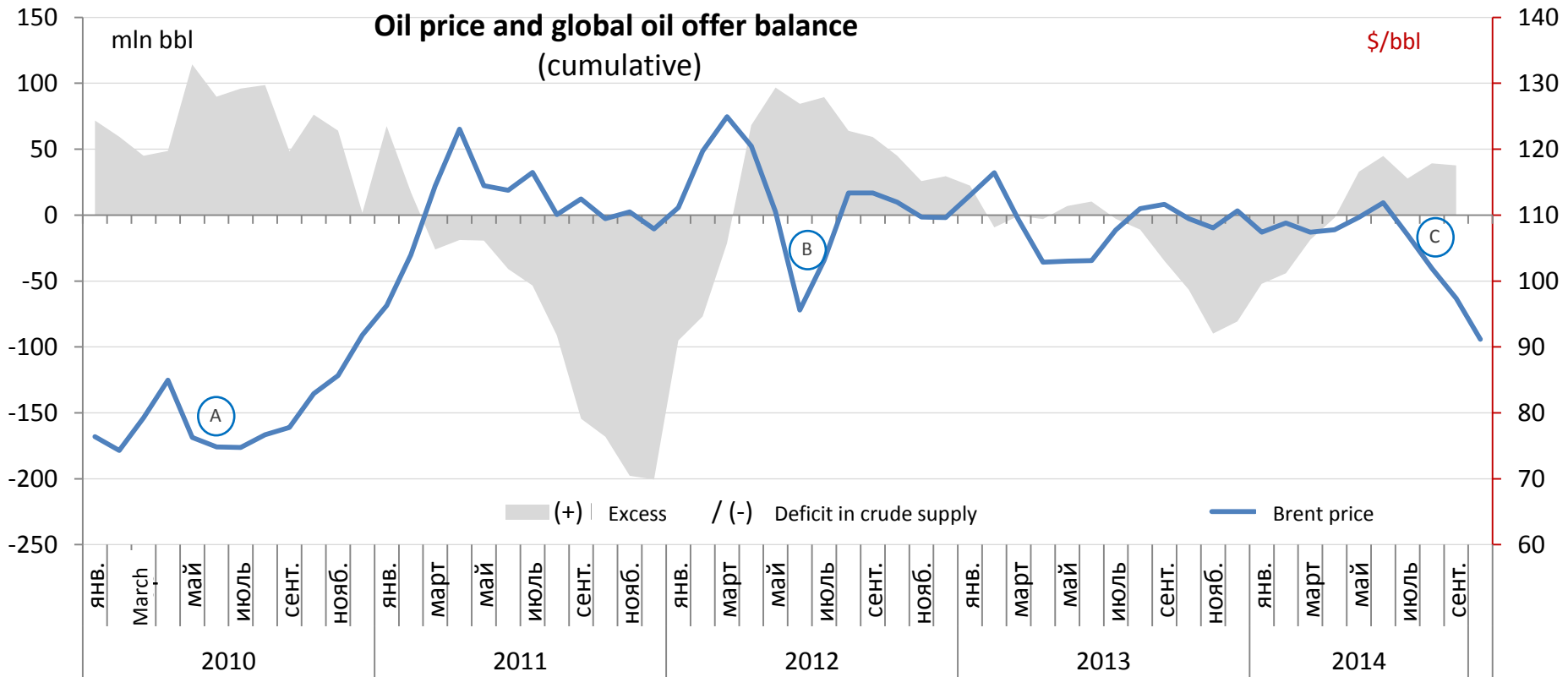
Decrease in the oil prices in 2014 followed a series of signals from Saudi Arabia and OPEC about their unwillingness to maintain market balance



\$/bbl



Oil price behavior is not always directly determined by the physical balance of global supply and demand



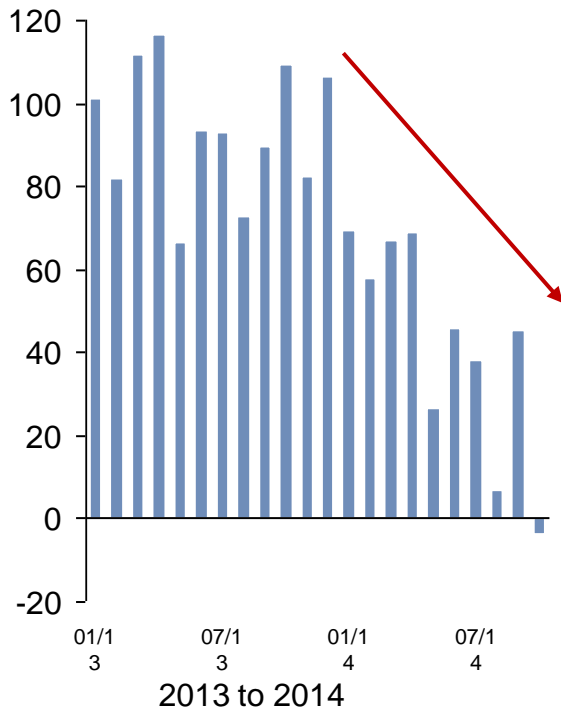
- In mid 2010, 2012 and 2014, we observed a sharp decrease in prices on the back of certain accumulated surplus of global crude supply
- The nature and extent of oil price decrease are primarily associated with the volumes of surplus offer and the volumes of commercial stock (critical mass)
- Year 2014 is essentially distinguished by disproportion of the oil price decrease against the excess supply and commercial stock level



Strengthening of the US Dollar explains ~40% in crude price decrease

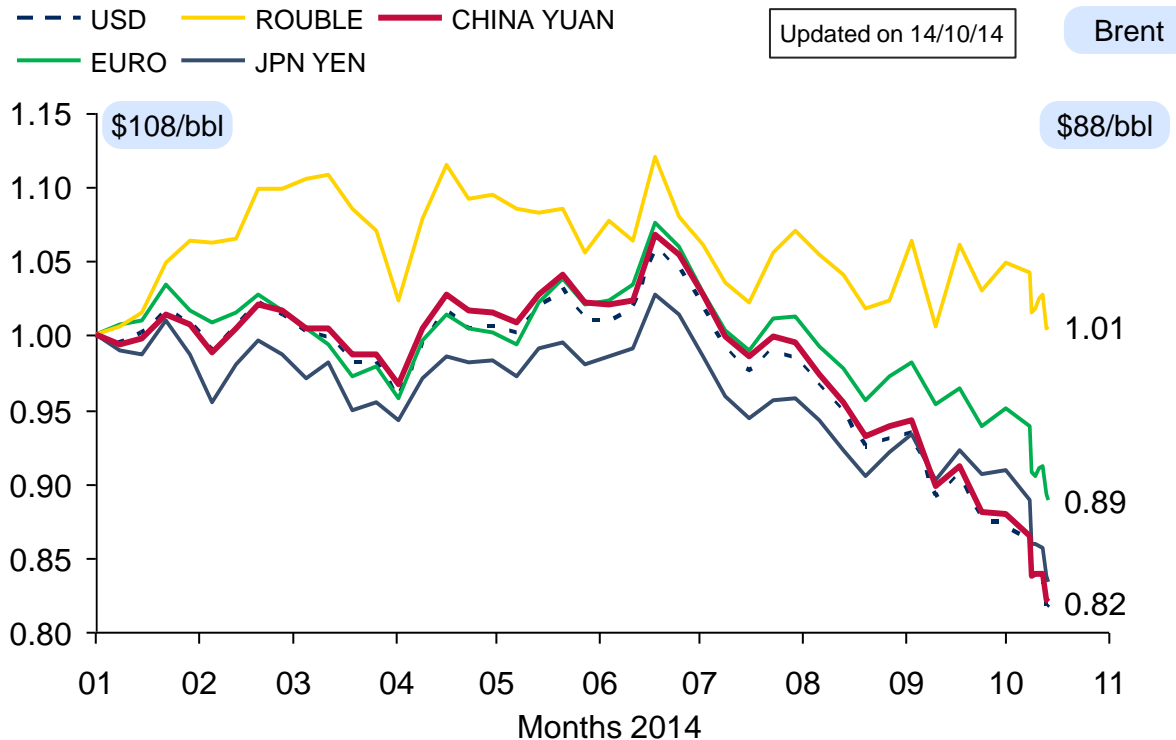
QE has been tapering through 2014

\$ bln per month



Brent Crude index

1st Jan 2014 = 1.00, in various currencies

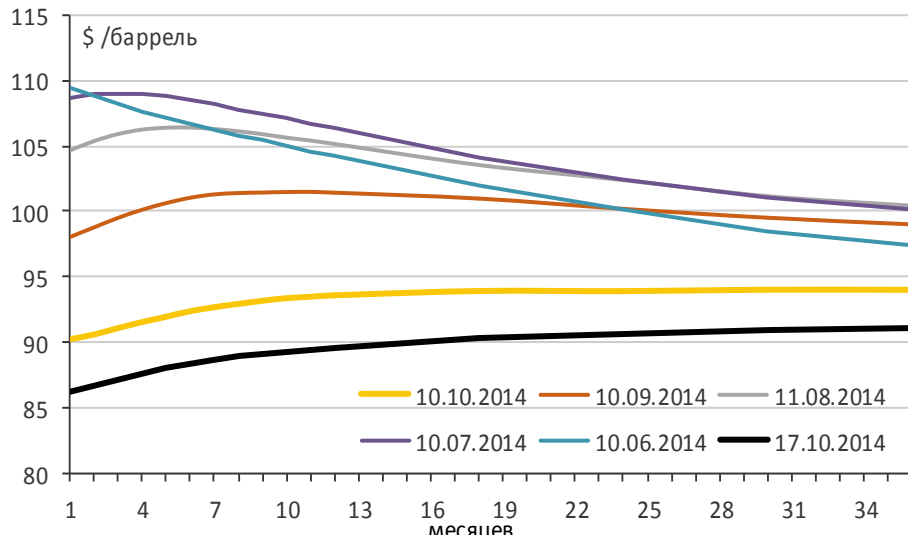


Comments

- The USD Brent Index has decreased by 18% since the start of the year, while the Euro nominated index is only 11% lower.
- USD is strengthening over other currencies, aided by decreasing Quantitative Easing (QE-3) which was announced in Dec. 2013 and is expected to end by November 2014.
- 40% of the decrease in the Brent price appears to be due to the strengthening USD.

Oil futures in contango; speculative positions at the minimums

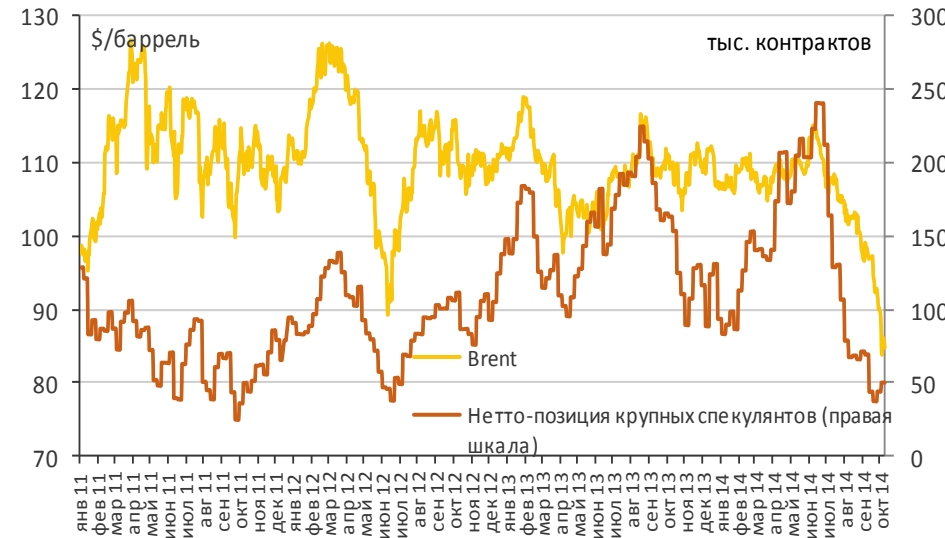
Brent Futures Curve



Source: IEF based on Bloomberg data

- Following the spot market prices and near-term futures, the prices along the entire futures curve have gone down
- The futures curve partially reflects expectations regarding the future prices and to some extent – the interest rates expectations (via spot prices arbitrage)
- The futures market long-term level is currently - \$90 / bbl
- The futures market is in contango (spot market prices are below future prices). Until recently, the market had been in backwardation for three years

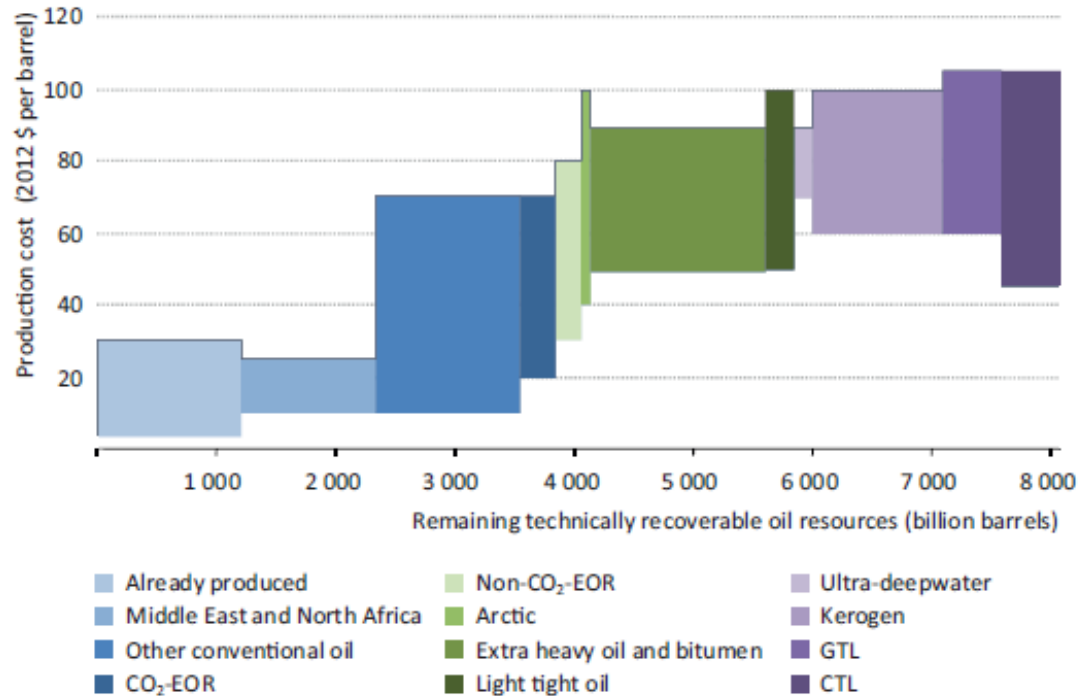
Brent Prices and Net Position of ICE Speculators



Source: IEF based on Bloomberg data

- Positions of major speculators in oil futures decreased fivefold in September vs August and are at their two-years minimum
- CFTC data indicates that hedge funds and investment companies lowered positions in the futures market so far as prices were going down in the last three months
- In the last three weeks, major speculators started gradually raising their net position, which may be indicative of arrival or proximity to the local minimum

Supply Cost: Size of various types of resources



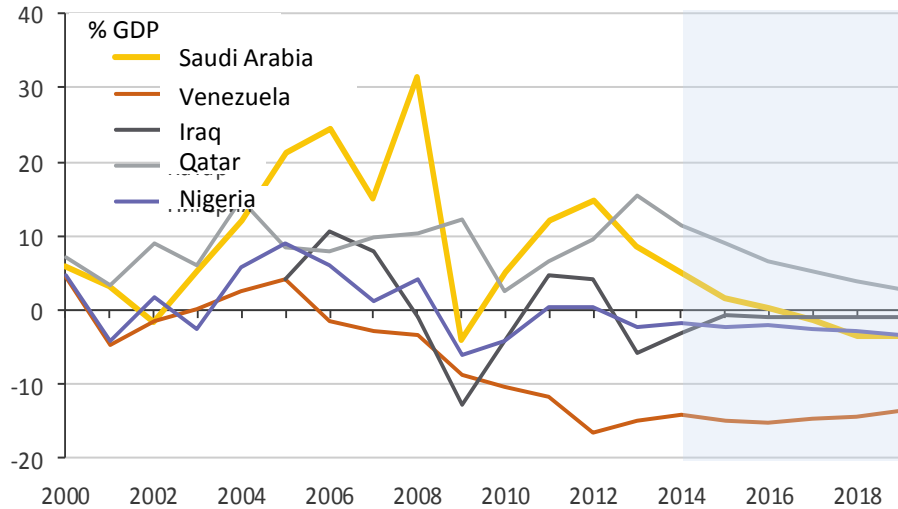
Source: World Energy Outlook 2013

1. Depletion of the resources in each country (and type of resources): as a larger fraction of the resources is produced, capital and operating costs increase.
2. The evolution of existing technologies and the introduction of new ones tend to reduce the capital and operating costs with time
3. Industry-specific inflation. The higher oil prices lead to higher costs.

Up to what extent social needs and environmental adjustments are reflected?

Oil price that makes the budgets of OPEC countries deficit-free

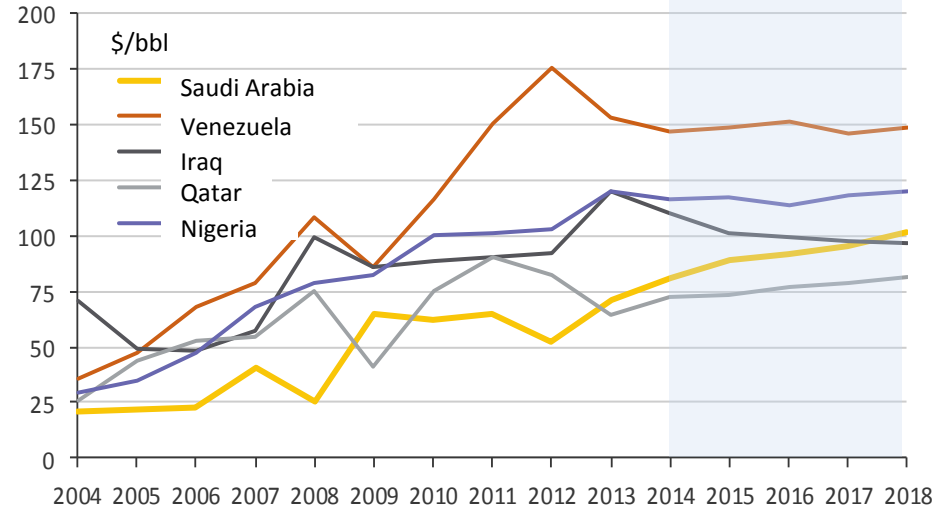
Budget deficit of OPEC countries – IMF actuals and forecast



Source: IEF based on IMF data

- The price that brings the government budget deficit to zero reflects the interests of major oil exporters
- The projections of oil price dynamic that would make state budgets deficit-free bear up against the total costs, total and oil and gas revenues of consolidated budgets as well as oil export values and volumes

Deficit-free oil price – IMF actuals and forecast

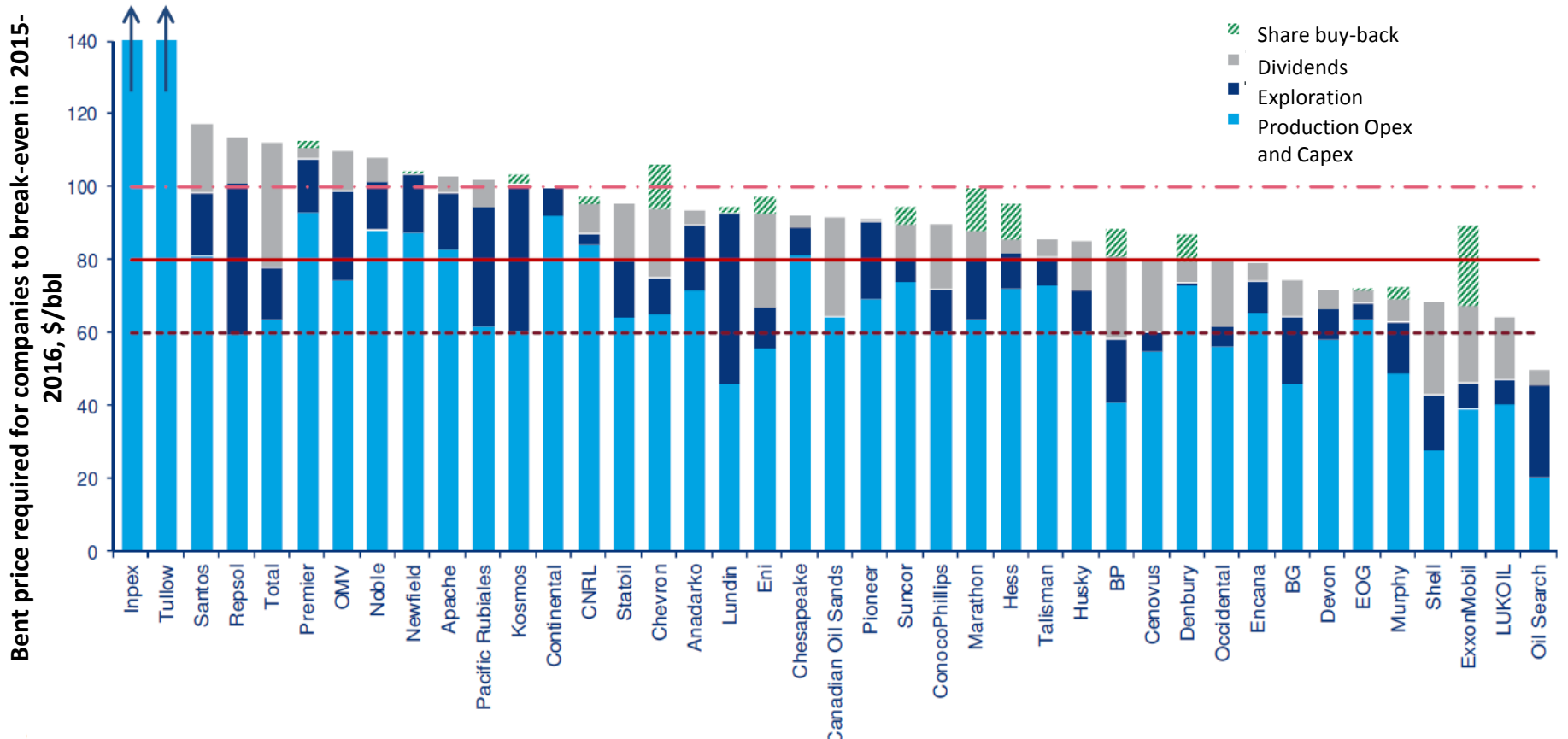


Source: IEF based on IMF data

- Deficit-free oil price in Saudi Arabia was \$80/bbl in 2014
- Saudi Arabia maintains stability of its state budget amidst the current oil prices (\$80-85); it does not threaten stability of state finances
- However, the plans for increasing government expenditures call for a different price level. According to our estimates based on IMF forecast, if the current budgeting trends persist, the break-even oil price level of Saudi Arabia shall grow to \$100 per bbl by 2018 considering the expenditures buildup plans

Two thirds of IOC are able to cover all their expenses and liabilities only if the oil price is above \$90/bbl

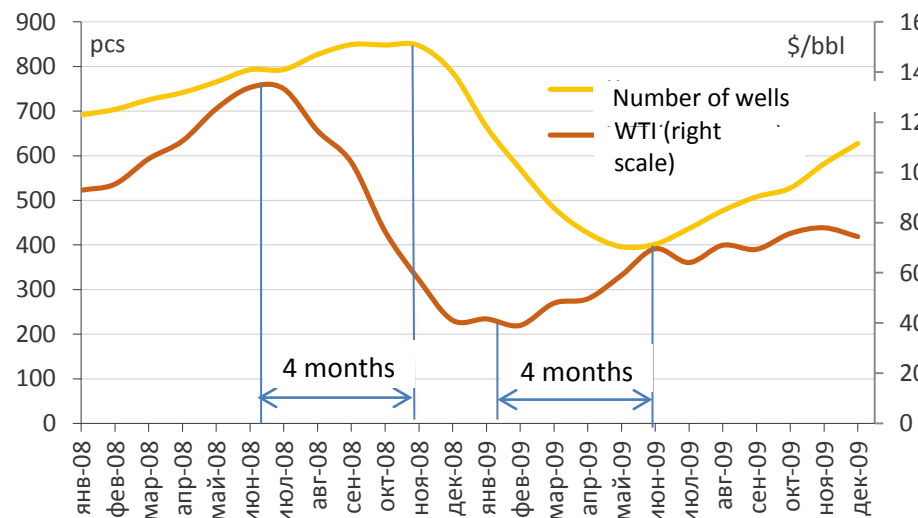
Brent price required for maintaining breakeven operations of companies in 2015-2016



Only the oil production costs, including Capex, Opex, financial and other expenditures are considered. Dividend expenditures and stock repurchase are estimated based on the oil production share in the overall company operations. Projects funding at the expense of equity capital is assumed.

Drilling under US shale projects may slow down if prices get at a low plateau

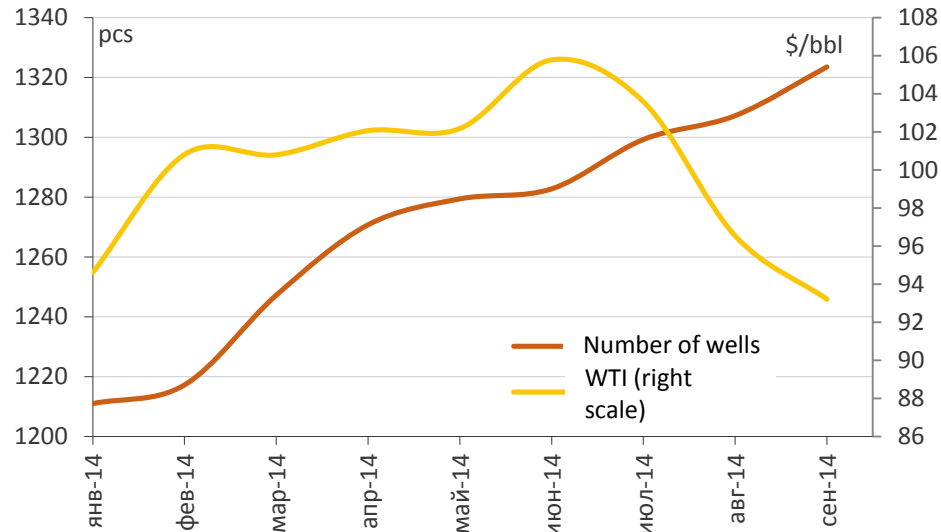
Number of active US shale wells and WTI price, 2008 – 2009



Source: IEF estimates based on EIA data

- When the oil price dropped in 2008, shale drilling reduction followed with a 4-months delay, while oil production didn't go down but only stopped growing
- The need for incessant drilling makes shale oil production very sensitive to the price environment

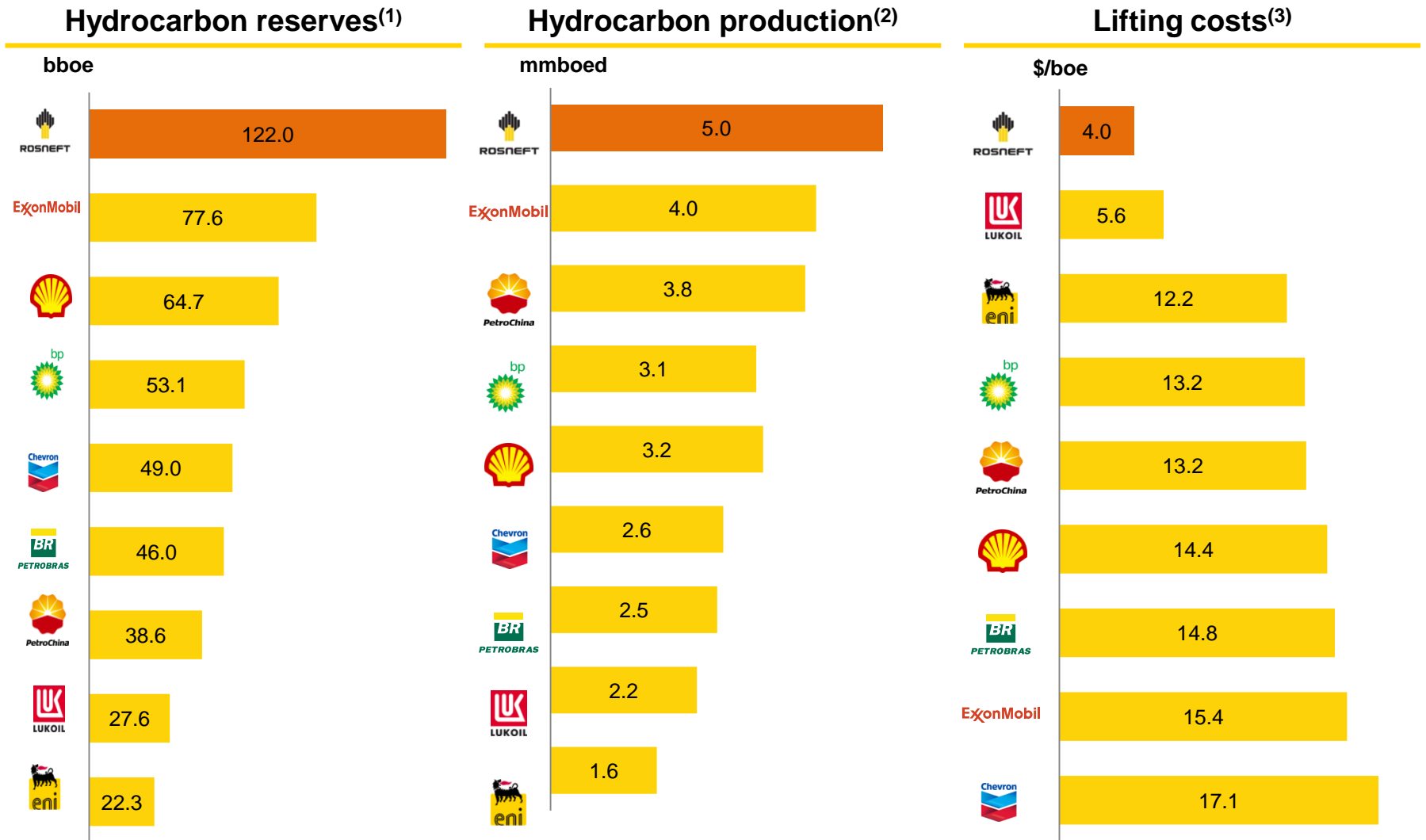
Number of active US shale wells and WTI price, 2014



Source: IEF estimates based on EIA data

- The current price fall has not affected the new shale oil drilling rates so far
- According to the estimates of the US Department of Energy, new wells drilling shall grow in November 2014 and equity production growth shall persist
- Shale oil production cost varies significantly
- Swift technological development and competition in the sector enable unit costs reduction

Global Leader in Reserves, Production and Efficiency



Note: (1) Wood Mackenzie data, company's data as of December 31, 2013. Rosneft ABC1+C2 reserves as of Dec. 31, 2013 (2) Daily hydrocarbon production of Rosneft, ExxonMobil, Shell, BP, Eni for H1'14, production of PetroChina, Chevron, Petrobras, Lukoil for 12M2013 (3) Rosneft lifting costs for 1H 2014, other companies 2013 unit costs calculated as production OPEX divided by production volumes

Rosneft Investment Program

- 1,780 kt of various tubulars worth EUR1, 775 million
- 420,000 tn of chemicals worth almost EUR600 million
- 25,000 km of downhole cable and other power equipment totaling almost EUR400 million
- 13,000 of ESP for oil production and other oilfield equipment worth over EUR700 million in total
- 7 gas turbine power plants; 36 diesel power plants; 3,400 transformer substations and sections