

Rosneft Oil Company IFRS Results Q3 and 9M 2017



November 14, 2017

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Overview of Key Developments



Macroeconomic environment¹

Indicator	Q3 2017	Q2 2017	%	9M 2017	9M 2016	%
Urals, \$/bbl	50.8	48.8	4.1%	50.6	40.0	26.5%
Urals, '000 RUB/bbl	3.00	2.79	7.5%	2.95	2.74	8.0%
Naphtha, '000 RUB/ton	26.6	24.1	10.4%	26.2	24.2	8.1%
Gasoil 0.1%, '000 RUB/ton	27.9	25.4	9.8%	27.1	25.4	6.5%
Fuel oil 3.5%, '000 RUB/ton	17.5	16.1	8.7%	16.9	13.1	29.6%
Average exchange rate, RUB/\$	59.0	57.2	3.1%	58.3	68.4	(14.8)%
Inflation for the period (CPI), %	(0.5)%	1.3%		1.7%	4.1%	

Key events

- ▶ Approved first ever interim dividends with a payout ratio of 50% of IFRS net income
- ▶ Closing the deal on acquisition of 49% of Essar Oil Limited
- ▶ Closing the deal to acquire a 30% stake in Zohr project
- ▶ Agreeing on tax incentives for the Samotlor field
- ▶ Signing a strategic cooperation agreement and a long term crude oil supply contract with CEFC China

Key Operating Highlights



Indicator	Q3 2017	Q2 2017	%	9M 2017	9M 2016	%
Hydrocarbon production, incl. kboed	5,674	5,703	(0.5)%	5,720	5,213	9.7%
Crude oil and NGL, kboed	4,571	4,566	0.1%	4,585	4,117	11.4%
Gas, kboed	1,103	1,137	(3.0)%	1,135	1,096	3.6%
Hydrocarbon production ¹ , kboed	5,674	5,703	(0.5)%	5,720	5,655	1.1%
Refining throughput ¹ , mmt	28.31	27.72	2.1%	84.33	83.49	1.0%
Refining depth ¹ , %	77.1%	74.3%	+2.8 p.p.	75.2%	74.0%	+1.2 p.p.

Note: (1) Proforma data (Bashneft consolidated starting January 1, 2016)

Key Financial Highlights



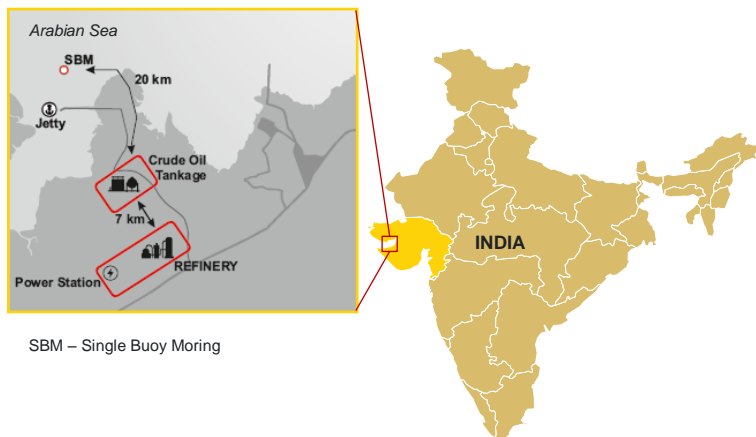
Indicator	Q3 2017	Q2 2017	%	9M 2017	9M 2016	%
EBITDA, RUB bn	371	306	21.2%	1,010	913	10.6%
Net income, RUB bn <i>Attributable to Rosneft shareholders</i>	47	64	(26.6)%	122	127	(3.9)%
Adjusted net income ¹ , RUB bn <i>Attributable to Rosneft shareholders</i>	132	92	43.5%	334	336	(0.6)%
Adjusted operating cash flow ² , RUB bn	231	274	(15.7)%	815	819	(0.5)%
CAPEX, RUB bn	223	215	3.7%	630	475	32.6%
Free cash flow, RUB bn	8	59	(86.4)%	185	344	(46.2)%
EBITDA, \$ bn	6.3	5.3	18.9%	17.3	13.5	28.1%
Net income, \$ bn <i>Attributable to Rosneft shareholders</i>	0.7	1.1	(36.4)%	2.0	2.0	-
Adjusted net income ¹ , \$ bn <i>Attributable to Rosneft shareholders</i>	2.2	1.6	37.5%	5.7	4.9	16.3%
Adjusted operating cash flow ² , \$ bn	3.9	4.7	(17.0)%	13.9	12.1	14.9%
CAPEX, \$ bn	3.8	3.7	2.7%	10.8	7.0	54.3%
Free cash flow, \$ bn	0.1	1.0	(90.0)%	3.1	5.1	(39.2)%
Urals price, th. RUB/bbl	3.00	2.79	7.5%	2.95	2.74	8.0%

Note: (1) Adjusted for FX gains/losses and other one-off effects, (2) Adjusted for prepayments under long term crude oil supply contracts and operations with trading securities (RUB equivalent). Adjusted operating cash flows for the respective periods also include interest on prepayments under long term crude oil supply contracts. The amount includes both interest accrued and offset against crude oil deliveries as well as interest paid – RUB 53 bn and RUB 8 bn for the 9M 2017 respectively (RUB 55 bn and RUB 12 bn for the 9M 2016)

Completion of a 49% Stake in Essar Acquisition



Asset location



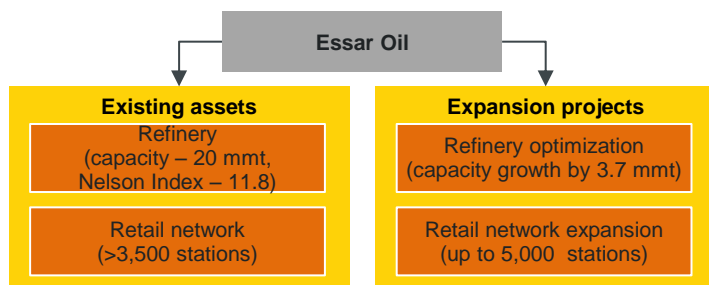
SBM – Single Buoy Moring

- Rosneft successfully completed acquisition of a 49% stake in Essar Oil Limited (EOL).
- 100% of EOL's business was valued at \$12.9 bn

Deal rationale:

- Rosneft gets a significant share in the second largest Indian refinery with Nelson complexity index at 11.8 (Top 10 complex refineries globally) and refining depth of 95.5%
 - Highly profitable product slate – gross refining margin at c. \$9
 - Higher flexibility in feedstock – possibility to process heavy crude oil from Venezuela
 - All necessary infrastructure in place: port, storage terminals and own power station
 - Access to one of the fastest growing markets in Asia – cumulative GDP growth of 29.8% in 2013-16
 - Potential hub for international trading expansion in the Asia-Pacific

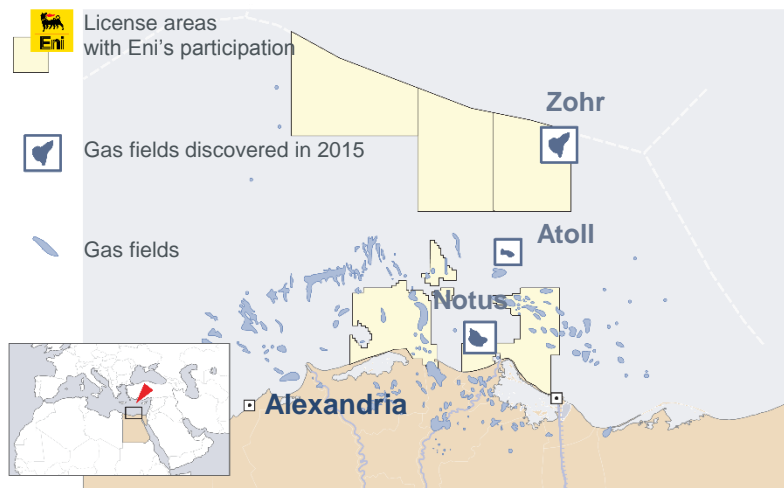
Current assets structure



Completion of a 30% Stake in Zohr Project Acquisition



Asset location



- Rosneft closed the deal to acquire a 30% stake in the concession for the development of the Zohr gas field from Italian company Eni. An option to increase the share up to 35% was granted
- Acquisition price amounted to \$1.1 bn. Rosneft also reimbursed its share in ENI's historical project costs
- The shareholder structure upon the deal completion: **Eni** – 50%¹, **Rosneft** – up to 35%¹, **BP** – up to 15%¹

Deal rationale:

- Participation in one of the largest recent discoveries (more than 30% of estimated gas reserves in Egypt)
- Entering into a unique scale project at low cost of the proved reserves
- Developed infrastructure
- Access to the strategically important gas consumption market with opportunities for further expansion in the region
- Diversifying international projects portfolio

Key features²

Year of discovery by ENI	2015
Rosneft share of future investments (next 4 years) ³	>\$2 bn
Project stage	Development
Geological reserves ⁴	c. 850 bcm
Production plateau/marketable gas	29/28 bcm

Note: (1) Rosneft and BP have options for additional 5% each, BP joined the project on November 25, 2016 (acquisition of 10% share for ~\$530 mln, including historical costs compensation), (2) 100% stake if not specified, (3) Starting 2018, (4) ENI's estimates

Strategic Cooperation with CEFC China



- ▶ In September, 2017 Rosneft and CEFC China signed a Strategic cooperation agreement and a long term crude oil supply contract at the 9th BRICS summit
- ▶ The Strategic cooperation agreement provides for:
 - a joint development of upstream projects in West and East Siberia
 - a cooperation in refining, petrochemicals and trading
- ▶ In September, 2017 the Glencore-QIA announced an agreement with CEFC China on a partial sale of 14,16% in Rosneft
- ▶ Upon the deal completion the new strategic shareholder will enter the Company charter capital. The diversified shareholder structure will match Rosneft business profile
- ▶ In November, 2017 Rosneft and CEFC China signed an agreement to perform a joint preliminary study of possible construction of petrochemical facility in Hainan Province

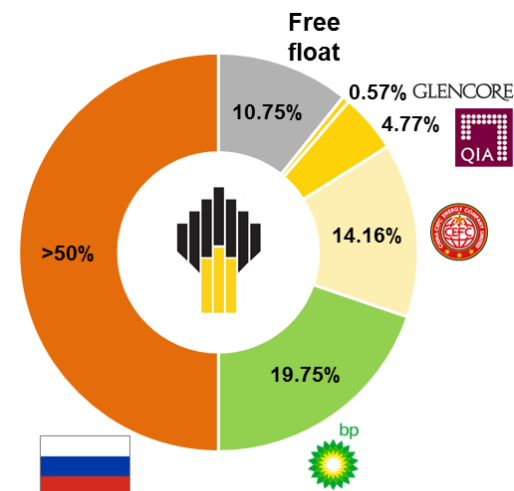


The largest private Chinese company in the energy sector

Founded in 2002. The Company workforce accounts for 30,000 people, annual revenues exceeds \$40 bn

The strategy of the Company seeks to expand international economic cooperation in the energy sector and establish a well-organized international investment bank and an investment group

Expected shareholder structure¹



Tax Incentives for the Samotlor Field Development



In October investment incentives for the Samotlor field and their estimated effect were successfully confirmed

The approval of formal procedures for **annual tax breaks in the amount at RUB 35 bn for 10 years** is expected by the year end

The measures to be enacted starting January 1, 2018 after the amendments to the Tax Code will be approved



- ▶ The supportive tax measures will ensure:
 - an impetus for one of the country largest fields with a significant multiplicative effect
 - drilling of over 2,100 new oil wells
 - incremental production of c. 50 mmt
- ▶ Key features of the Samotlor field:
 - Proved reserves (PRMS)¹ – 3,853 mmbbl
 - Watercut – 96%
 - Current production² – 382 kbpd





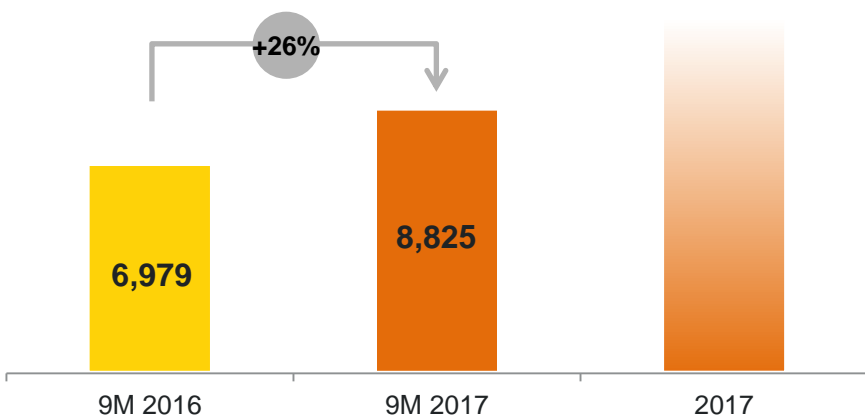
Operating Results

Development Drilling



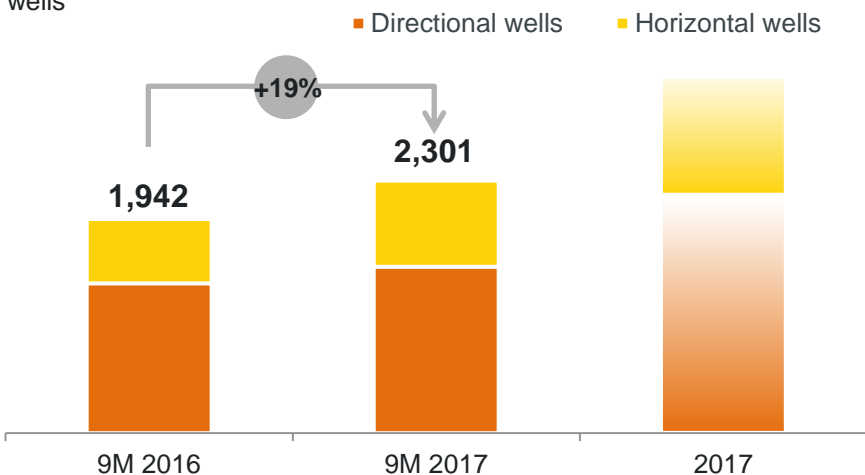
Development drilling footage

th. m



Commissioning of new oil wells

wells



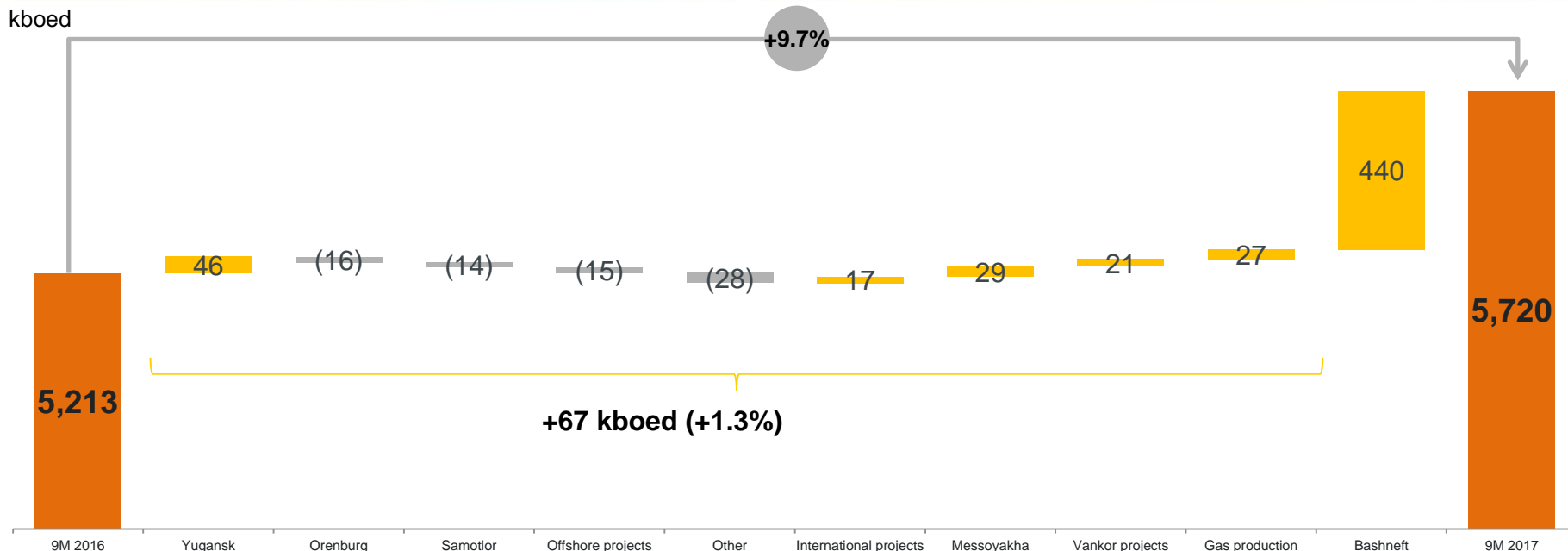
Key achievements for 9M 2017

- ▶ 26% growth in development drilling footage y-o-y with in-house service share at c. 60%
- ▶ Commissioning of new wells rose by 19%, including a 34% y-o-y increase in horizontal wells completion
- ▶ Commissioning of horizontal wells with multi stage hydrofracs rose by 45%
- ▶ Yuganskneftegaz – all-time high production drilling footage in August (over 600 th. m), incremental production growth from commissioning of new wells of 20% for 9M 2017
- ▶ Russkoe field – super complex oil well with a horizontal reach of 2,048 m was successfully completed in 26 days

Plans for 2017

- ▶ Maintaining the required development drilling growth pace: annual target >10 mln m
- ▶ New wells completion plan – c. 3,000 wells with c. 30% horizontal share
- ▶ Roll-out the technologies to enhance well drilling and completion efficiency, after the stage of the field trials:
 - using two-string design for horizontal well construction
 - pressure-controlled drilling

Hydrocarbon Production



- Growth in average daily hydrocarbon production through development of new projects, integration of Bashneft and production growth at a number of brownfields
- **Yuganskneftegaz:** record high production since 1986 through development drilling and commissioning of new wells increase by 16% and 11% respectively, improvement in quality of wellworks, including horizontal drilling and multi-stage hydrofracs
- **International projects:** the Company increased its stake in Petromonagas JV (Venezuela) in May 2016
- **Suzun / East Messoyakha:** the Company keeps production ramp up at the Suzun and East Messoyakhskha fields, launched in Q3 2016
- **Gas production:** commissioning of new wells at Varyoganneftegaz in 2017 and increase of gas deliveries through Tyumen compressor station after reconstruction, commissioning of new wells and optimization of operating modes of the existing wells at Sibneftegaz

Progress in Key Projects: Yurubcheno-Tokhomskoe field



Indicator	Value
3P reserves (PRMS) ¹	272 mmtoe / 2,078 mmboe
Commissioning year	2017
Production plateau	c. 5 mmtpa
Target plateau year	2019

- ▶ Comprehensive testing of oil treatment and transportation units started in September 2017
- ▶ In Q4 2016 early supplies started from the field to the Kuyumba-Taishet trunk pipeline system
- ▶ Development drilling is being carried out at 10 well pads
- ▶ Construction operations at the key infrastructure facilities are near completion: oil treatment facility with project capacity of 2.5 mmtpa, acceptance transfer unit and field pipelines and other facilities
- ▶ 2017 production target – c. 0.8 mmt

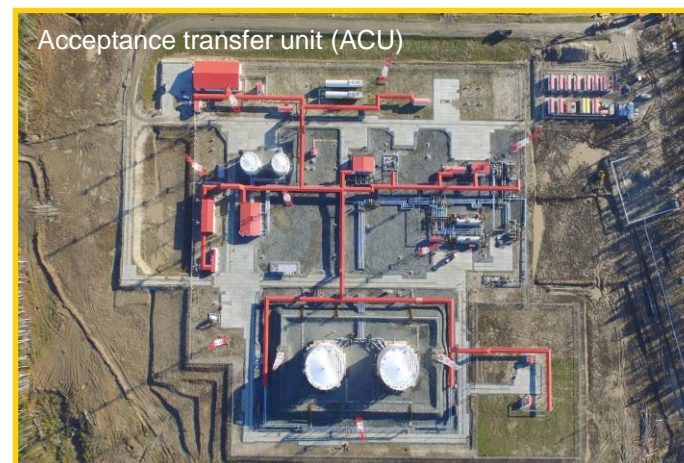


Progress in Key Projects: Kondinskoe field



Indicator	Value
3P reserves (PRMS)	135 mmtoe / 977 mmboe
Commissioning year	2017
Production plateau	under review
Target plateau year	2019

- ▶ As a part of the 1st development phase drilling at 7 well pads was completed. 27 pads were successfully filled
- ▶ Construction of a transfer and acceptance unit completed
- ▶ Construction, installation and pre-commissioning works of the key facilities at the 1st startup complex were successfully completed, construction of a 68 km «CPF-ACU» pipeline completed as well as «Tsingaly jetty – Kondinskoe field support base» road



Progress in Key Projects: Tagul



Indicator	Value
3P reserves (PRMS)	435 mmtoe / 3,102 mmboe
Commissioning year	2018
Production plateau	>4.5 mmtpa
Target plateau year	2022+

- ▶ As a part of a pilot the first startup complex of the oil treatment facility (OTF) with capacity of 2.3 mmtpa was initiated
- ▶ OTF will be used to process crude oil to commercial quality and its further transportation by 4.5 km length pipeline to the connection point at the Vankor-Purpe trunk pipeline
- ▶ Development drilling is carried out at 4 well pads
- ▶ Infrastructure facilities site preparation is in progress



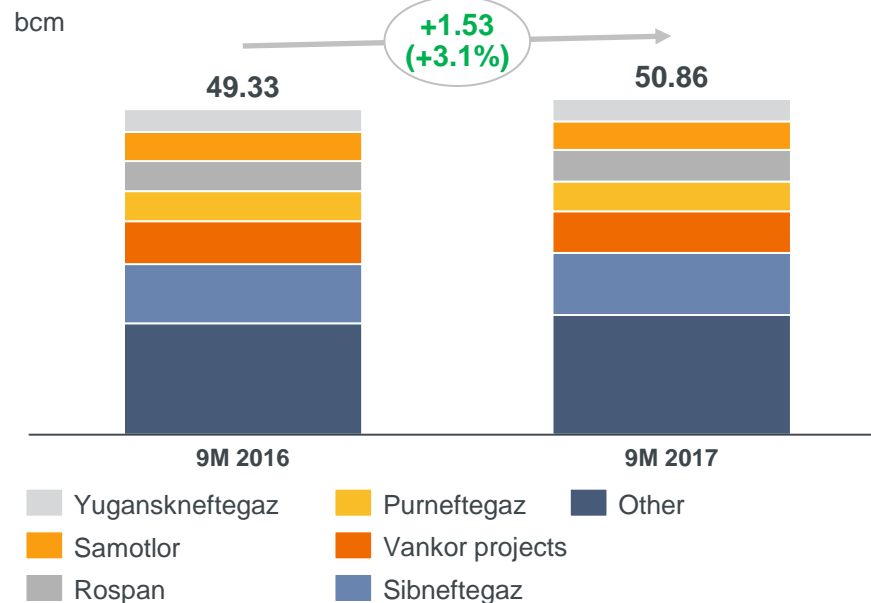
Gas Business: Organic Production Growth and Efficient Monetization



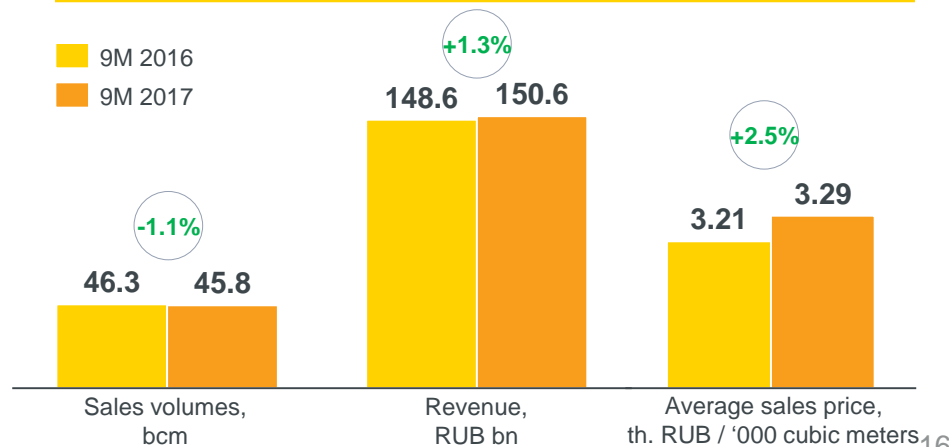
Key achievements for 9M 2017

- ▶ 3.1% production growth on the back of:
 - Bashneft acquisition in Q4 2016
 - commissioning of new wells at Varyoganneftegaz in 2017 and increase of gas deliveries through Tyumen compressor station after reconstruction
 - commissioning of new well and optimization of operating modes of existing wells at Sibneftegaz in 2017
- ▶ average Company's sales price in Russia increased by 2.5% y-o-y of faster than the average price for industrial consumers (+1.3% y-o-y)

Gas production



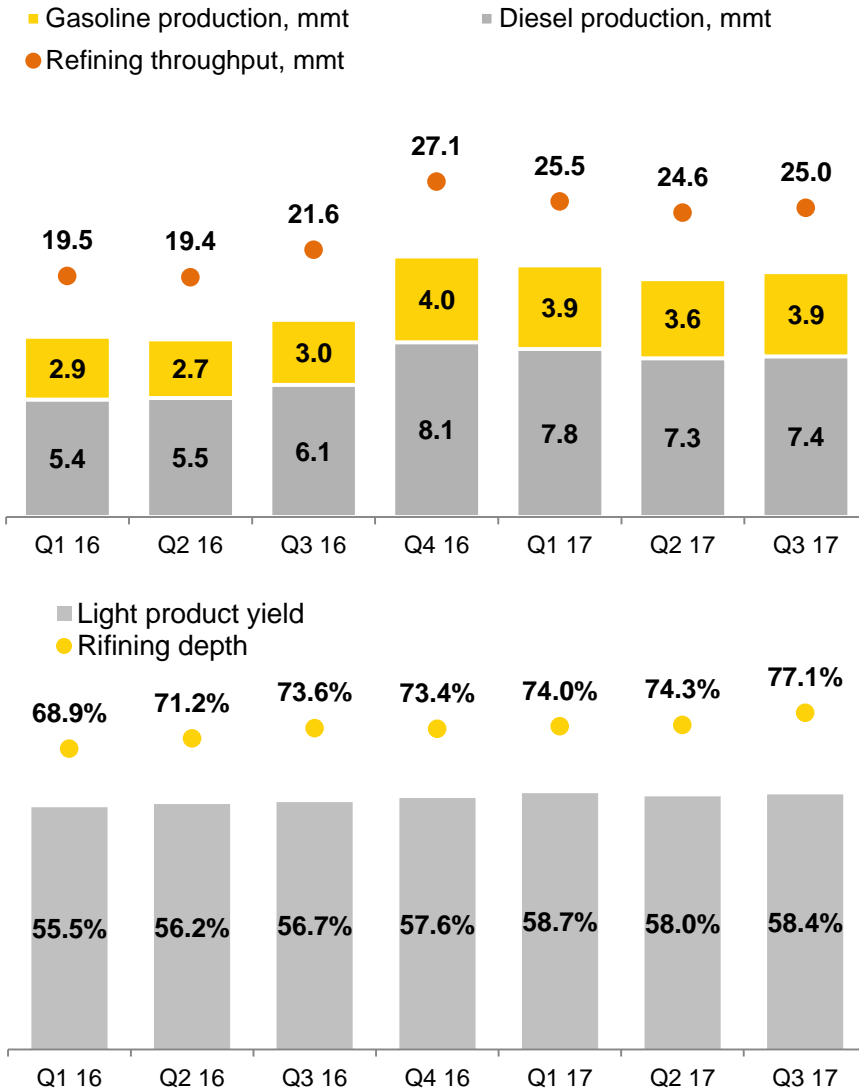
Gas sales in Russia



Refining: Efficiency Improvement via Further Operating Optimization and Modernization



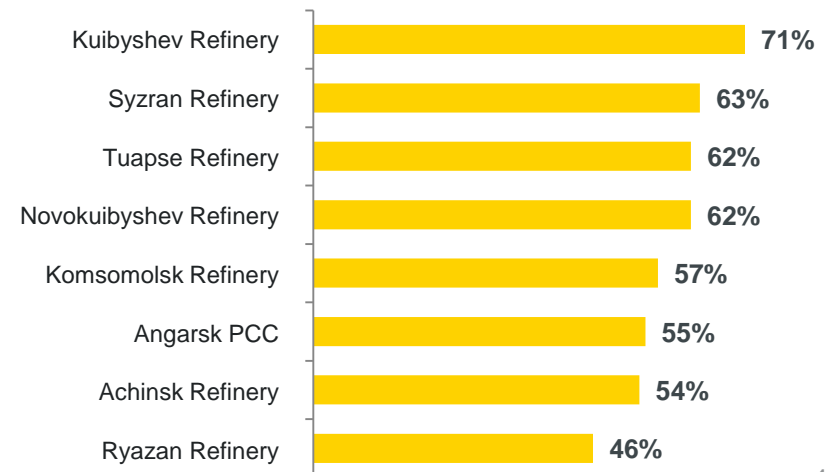
Key refining highlights (Russia)



Key achievements in Q3 2017

- Q3 2017 light product yield reached 58.4%, refining depth – 77.1%
- Large-tonnage equipment for the hydrocracker at the Novokuibyshev refinery was delivered (9 columns)
- At the Ryazan refinery the LPG storage park was upgraded enhancing operating efficiency, environmental protection and industrial safety
- As part of the import substitution program catalysts procured for the gasoline reforming units of the Kuibyshev and the Saratov refineries were switched to the catalysts produced by AZKIOS

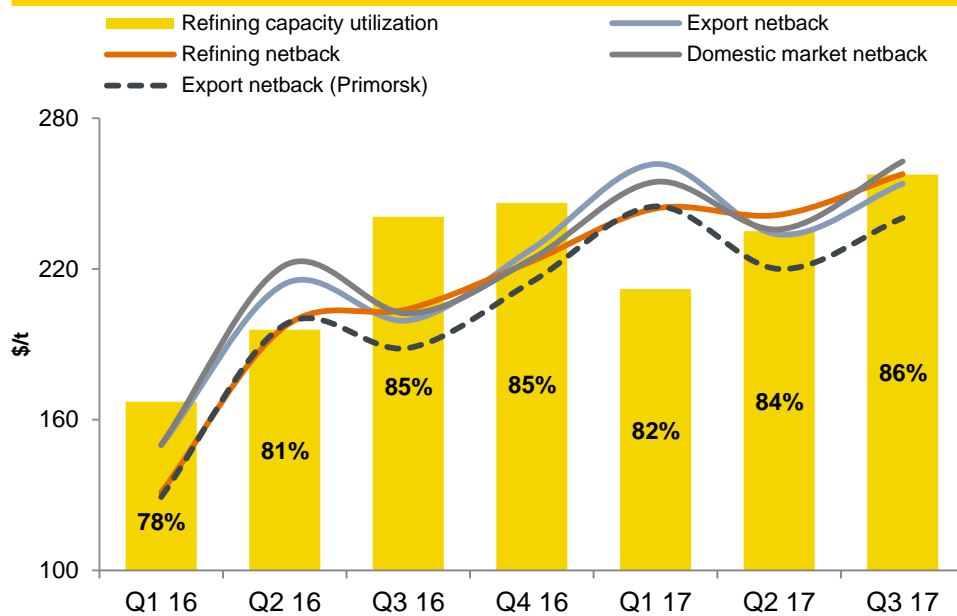
Progress in Refinery modernization program



Profit Maximization from Crude Oil Marketing

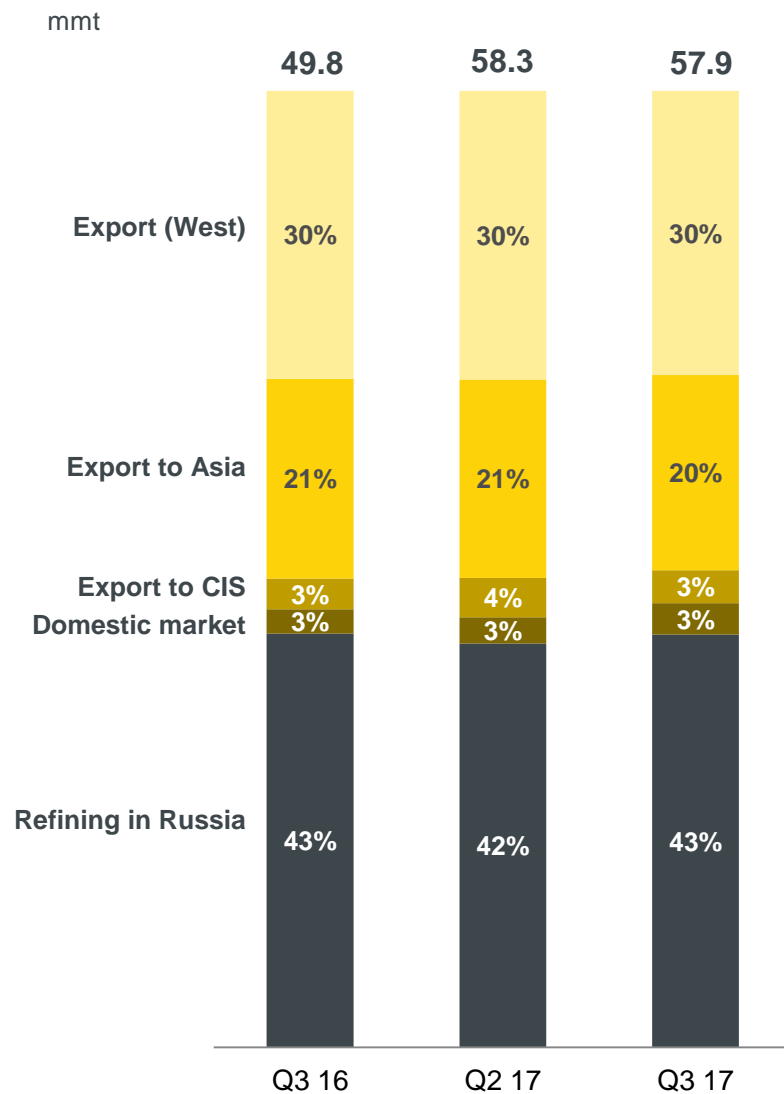


Netbacks of the main crude oil marketing channels



- ▶ High-margin crude oil supplies eastwards increased by 10% for 9M 2017 y-o-y to 35.2 mmt
- ▶ At the 9th BRICS summit a long term crude oil supply contract with CEFC China was signed

Oil marketing structure



Note: Bashneft consolidation starting October 1, 2016

Premium Marketing Channels



Lubes



Growth of lubes sales for 9M 2017 y-o-y

+38%

Bitumen



Company market share reached 38%

9M 2017 bitumen sales growth y-o-y

+26%

Avia



9M jet fuel sales growth y-o-y

+4%

Bunker fuel



9M bunker fuel sales growth y-o-y

+50%

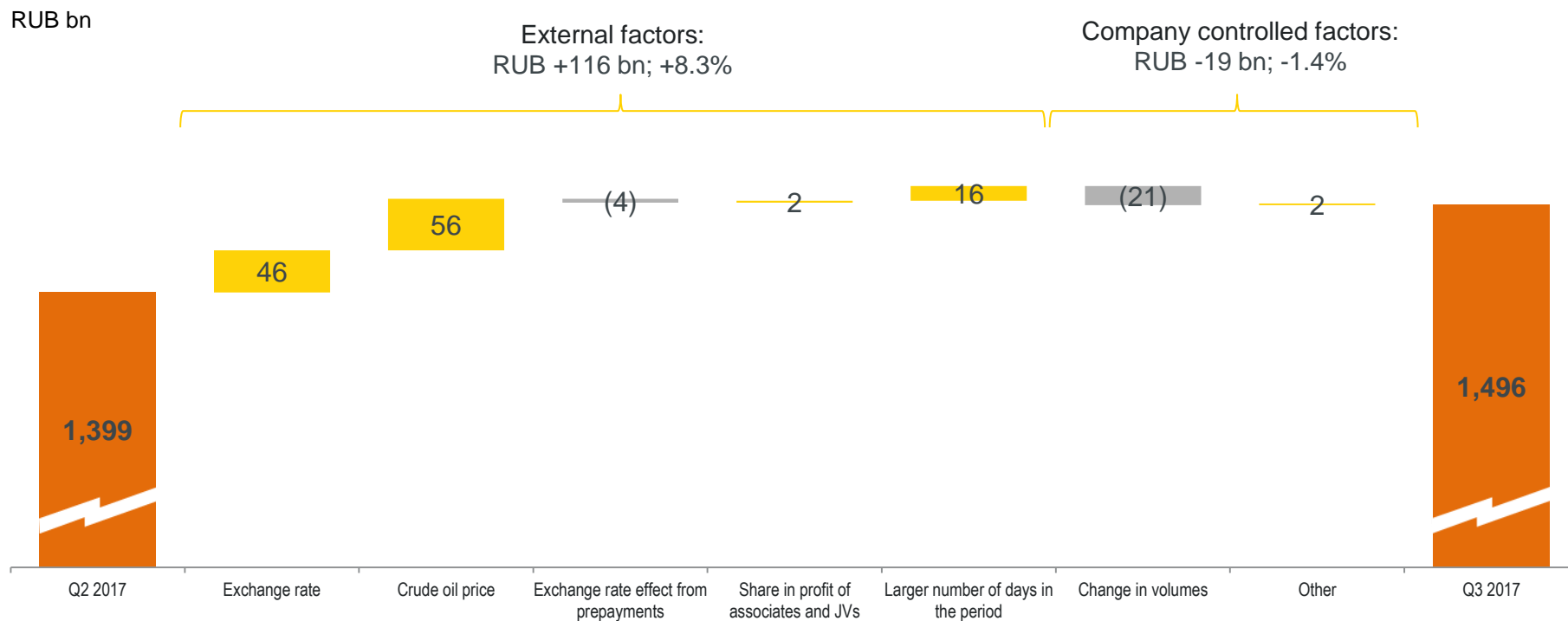


Financial Results

Revenue



Q3 2017 vs. Q2 2017

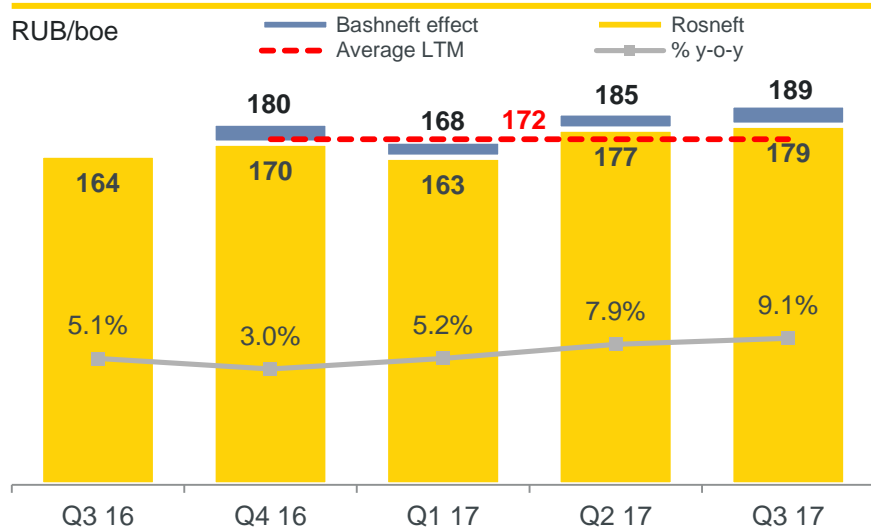


- ▶ Crude oil price increase in RUB terms by 7.5%: positive effect of both RUB depreciation and global price recovery
- ▶ Slight decline in sales volumes on the back of crude oil and petroleum product inventories buildup
- ▶ Continued optimization of the sales mix

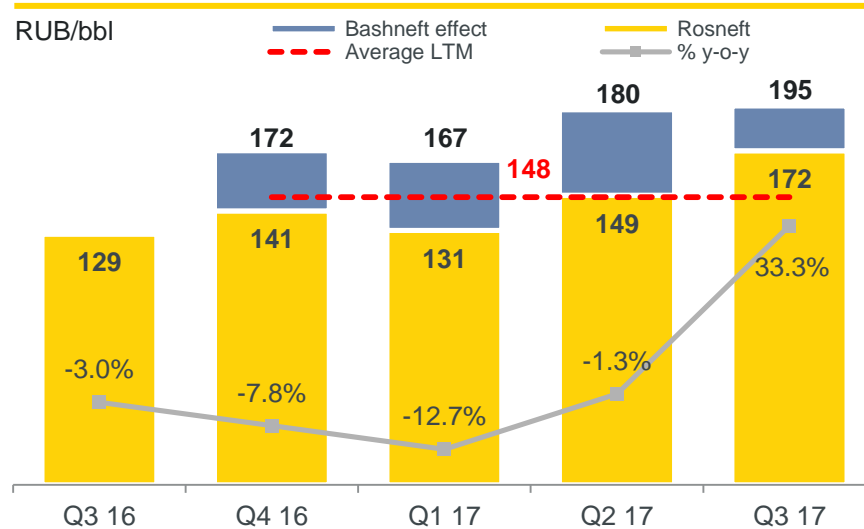
Operating Costs Dynamics



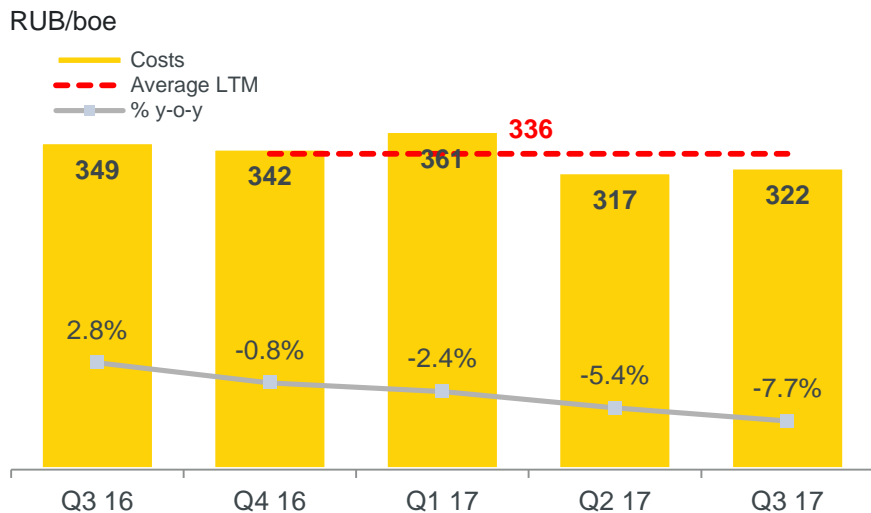
Lifting costs



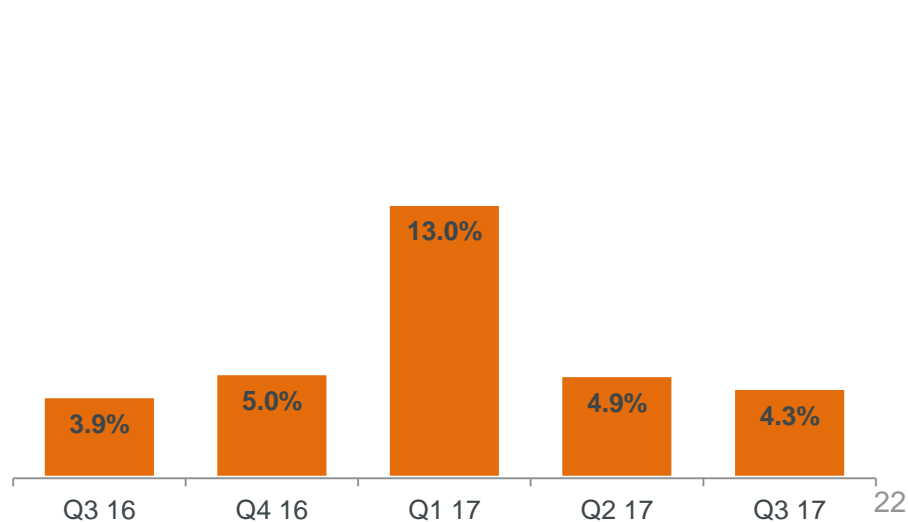
Refining costs in Russia



Transportation costs



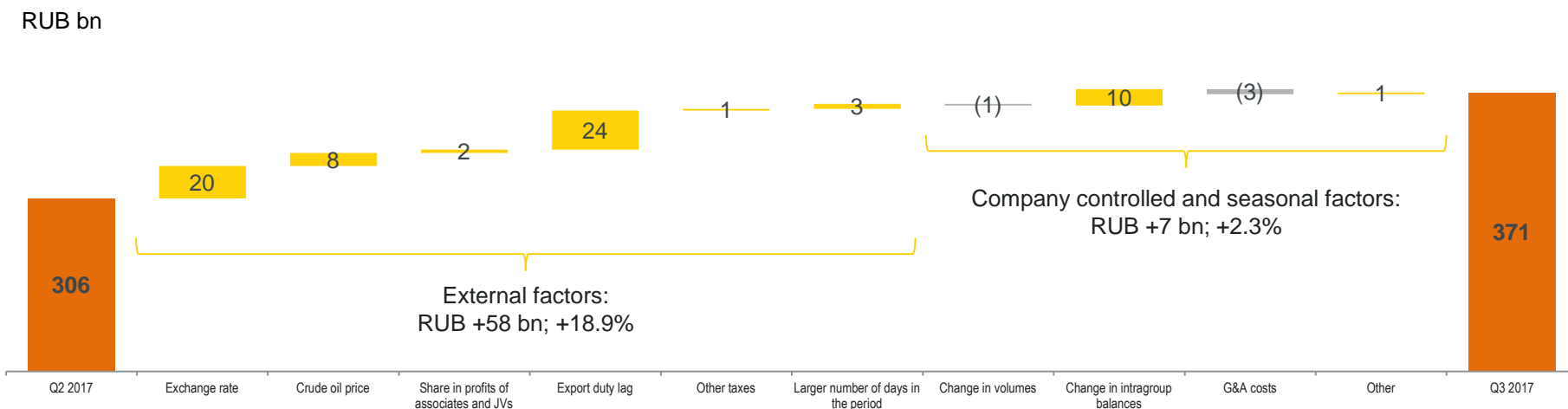
Producer price index (annual basis)



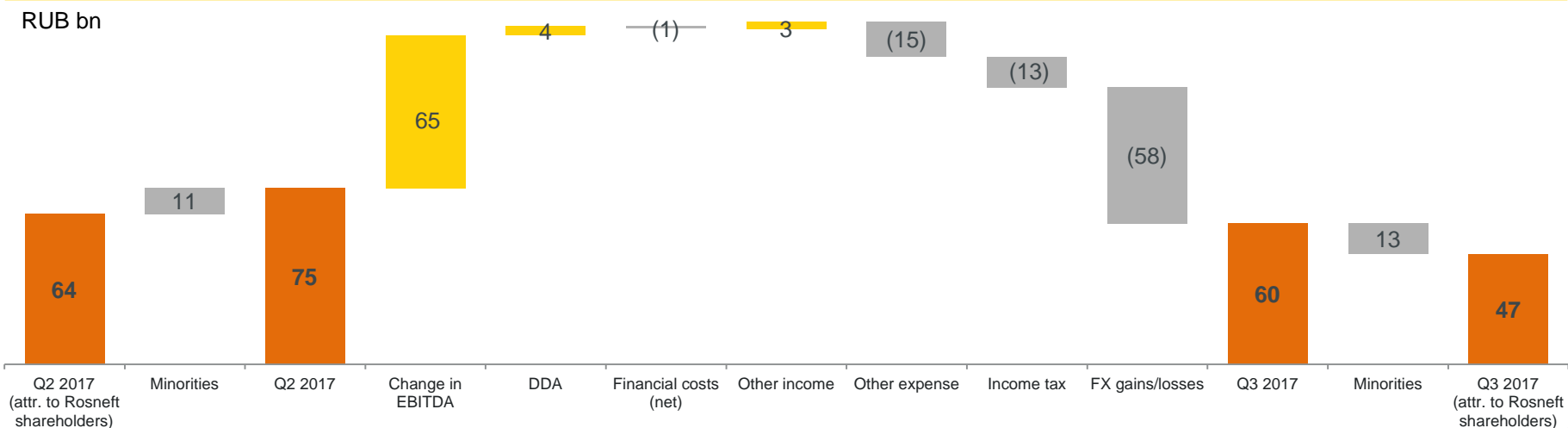
EBITDA and Net Income



EBITDA Q3 2017 vs. Q2 2017

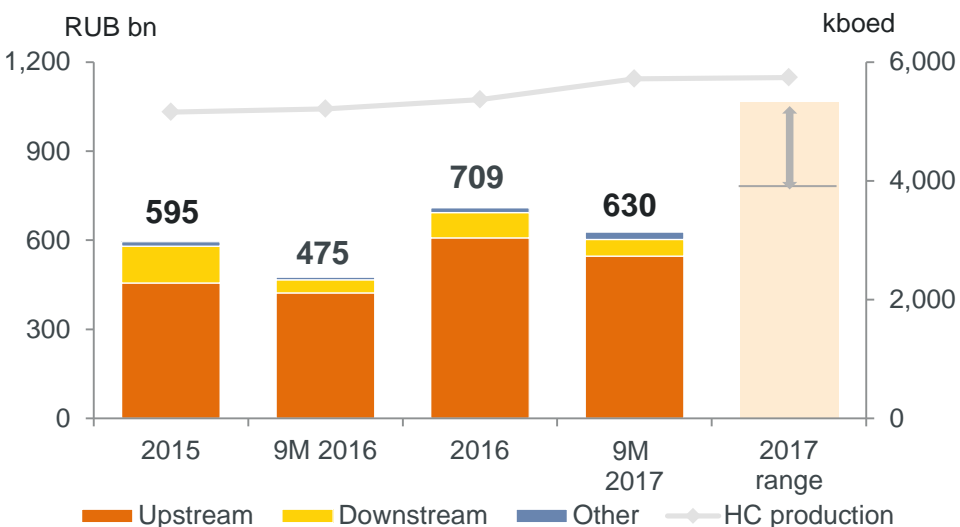


Net income Q3 2017 vs. Q2 2017

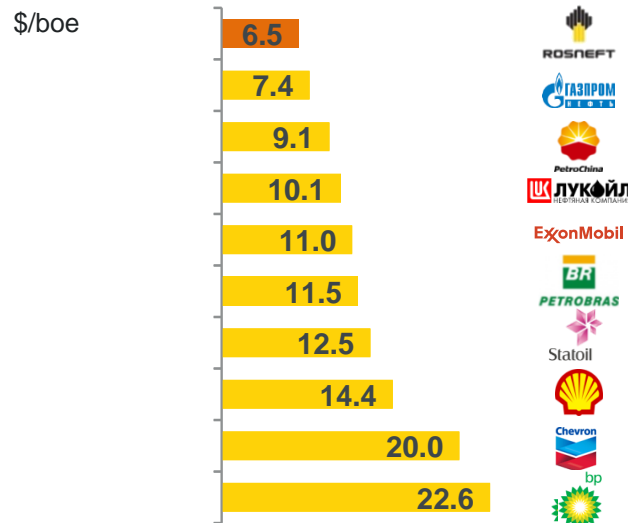




CAPEX and production



Upstream CAPEX 9M 2017¹: benchmarking



- ▶ 9M 2017 CAPEX increase at 33% y-o-y consistent with the strategic goals:
 - development of the major long-term oil and gas production projects
 - extension of the development drilling program to maintain hydrocarbon production
 - accelerating in highly efficient refining development projects execution
 - Bashneft and other new assets consolidation
- ▶ In 2017 the Company implemented investment projects in the key business segments, taking into account the oil output constraints, weather conditions, seasonality and work schedule
- ▶ Maintaining leadership in unit upstream CAPEX efficiency in 2017 compared to the key Russian and global peers while increasing the investment program:
 - 9M 2017 – 6.5 \$/boe.
 - 2017 forecast – not higher than \$7 per boe

Note: (1) Data for Rosneft and Statoil for 9M 2017, Gazpromneft, Lukoil, Petrochina and Petrobras – for H1 2017, other companies – for 2016.



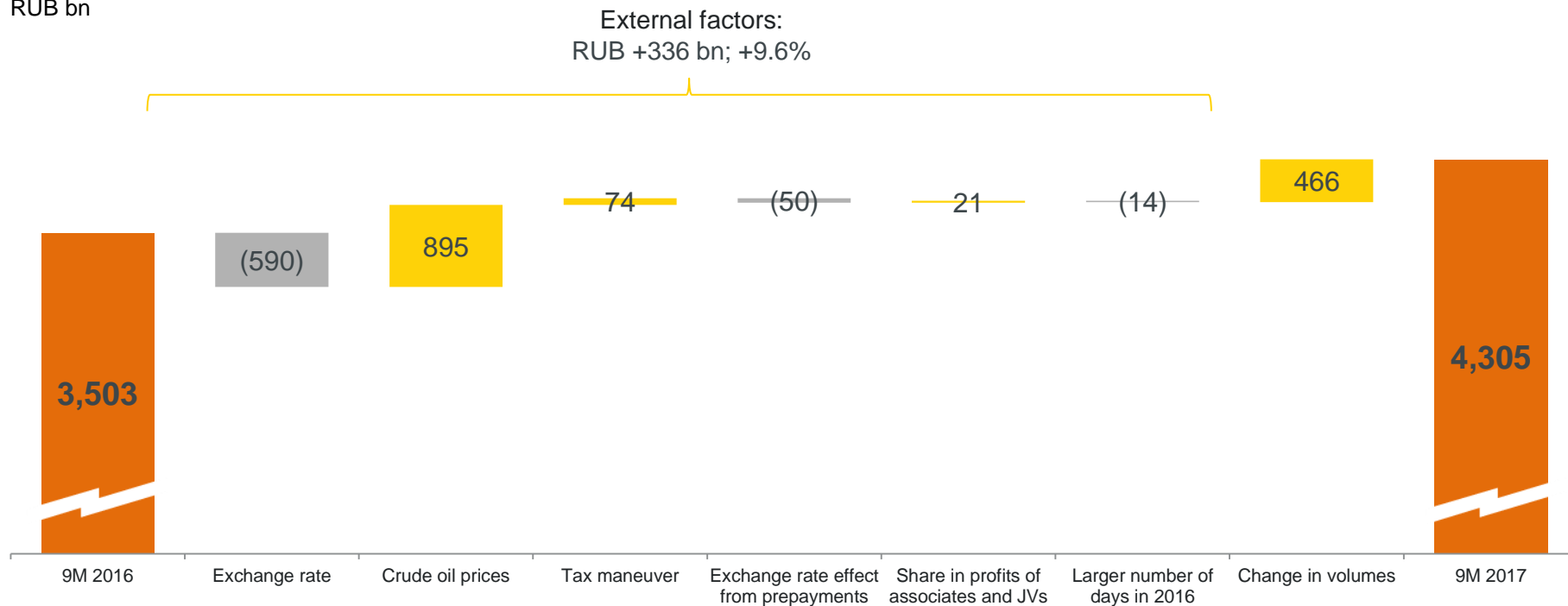
Appendix

Revenues



9M 2017 vs. 9M 2016

RUB bn

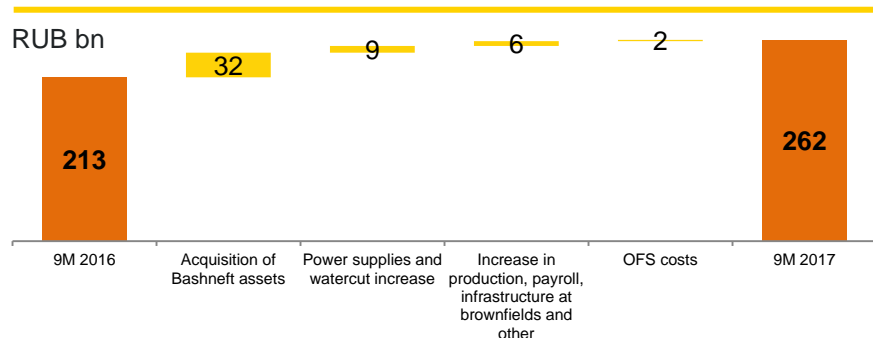


- ▶ Crude oil price growth by 8.0% in RUB terms
- ▶ Crude oil and petroleum product sales growth through integration of new assets and business scale-up
- ▶ Increase in export volumes, further improvement of petroleum product slate

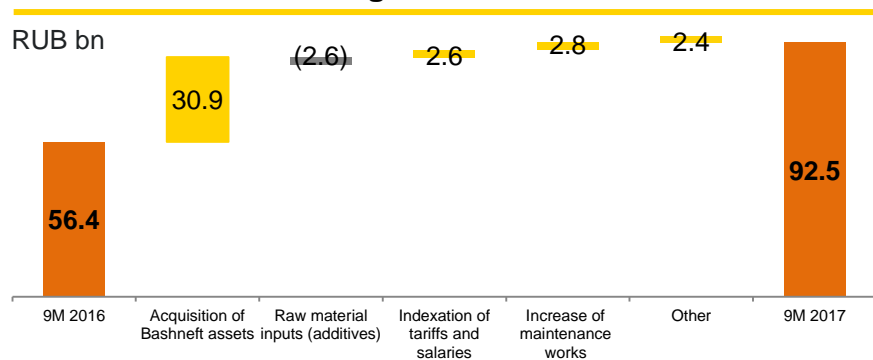
Operating costs 2017 vs. 2016



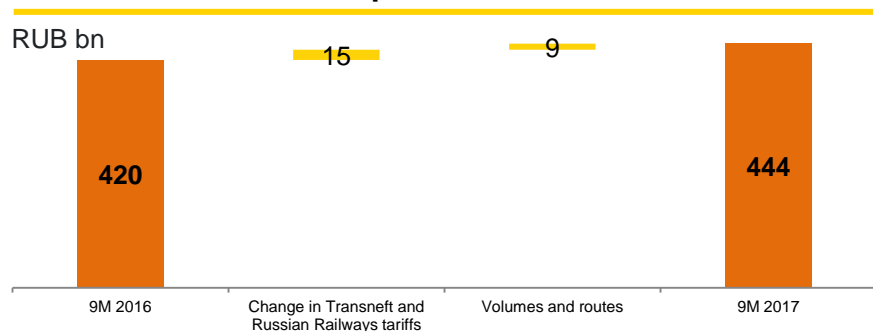
Lifting costs



Refining costs in Russia



Transportation costs

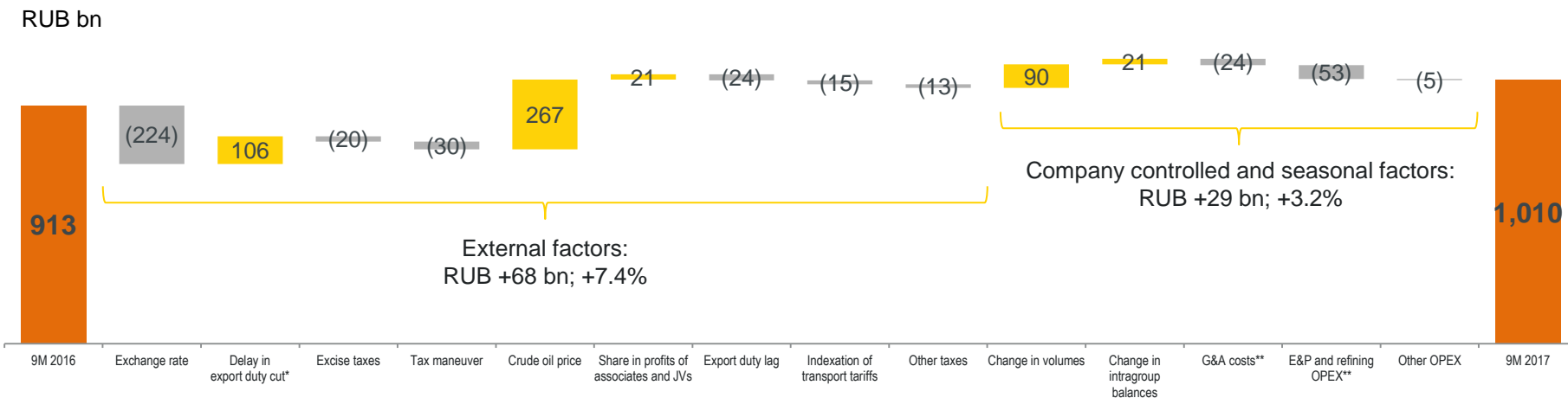


- ▶ Lifting costs increase for 9M 2017 was mainly driven by the acquisition of Bashneft assets in October 2016, growth in electricity costs (increase in tariffs and watercut), wells overhauls, equipment and infrastructure facilities maintenance
- ▶ Refining costs increase was mainly due to acquisition of Bashneft assets in October 2016 as well as indexation of natural monopolies' tariffs and salaries
- ▶ Transneft trunk pipelines oil transportation tariffs indexation by 3.5%-4% starting from January 2017 as well as transit transportation tariffs through Belarus by 7.7% starting February 1, 2017
- ▶ 4.1% CPI growth y-o-y

EBITDA and Net Income



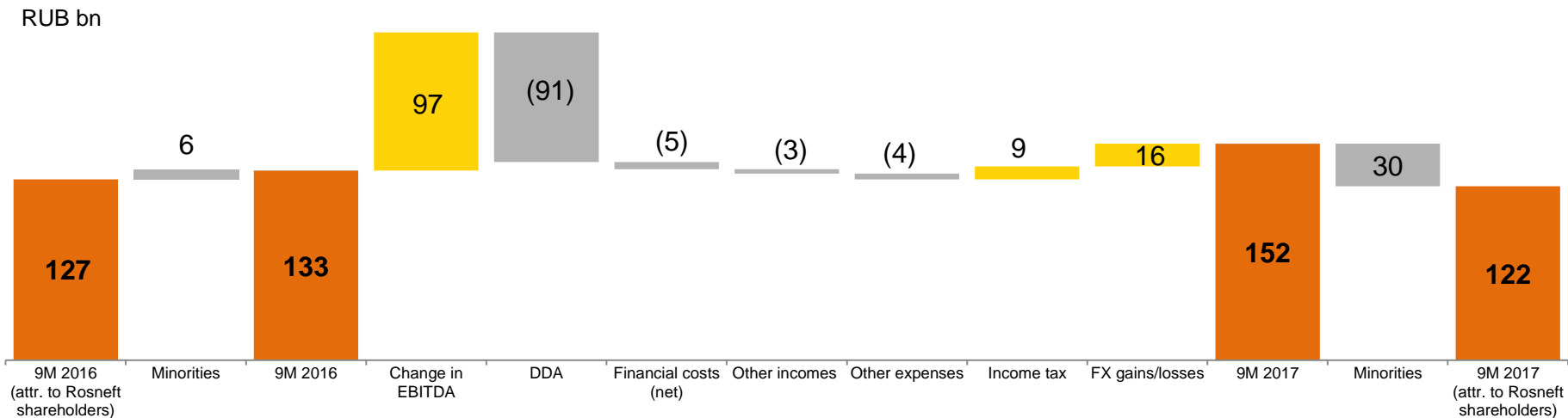
EBITDA 9M 2017 vs. 9M 2016



* The decrease in export duty coefficient from 42% to 36% in 2016 (according to the original tax maneuver) was cancelled

** Including increase of fixed and variable costs after consolidation of Bashneft assets

Net income 9M 2017 vs. 9M 2016



FX Risk Hedge



	Q3 2017, RUB bn			9M 2017, RUB bn		
	Before tax	Income tax	Net of income tax	Before tax	Income tax	Net of income tax
Recognized within other funds and reserves as of the start of the period	(364)	73	(291)	(435)	87	(348)
Foreign exchange effects recognized during the period	2	-	2	-	-	-
Foreign exchange effects reclassified to profit or loss	36	(8)	28	109	(22)	87
Total recognized in other comprehensive income/(loss) for the period	38	(8)	30	109	(22)	87
Recognized within other funds and reserves as of the period end	(326)	65	(261)	(326)	65	(261)

For reference:

Nominal hedging amounts	\$ MM	CBR exchange rate, RUB/\$
December 31, 2016	1,763	60.6569
March 31, 2017.	0	56.3779
June 30, 2017	982	59.0855
September 30, 2017	927	58.0169

Calculation of Adjusted Operating Cash Flow



Profit and loss statement

#	Indicator	9M 2017, \$ bn
1	Revenue, incl.	76.3
	Prepayments reimbursed	6.9
2	Costs and expenses	(66.5)
3	Operating profit (1+2)	9.8
4	Expenses before income tax	(6.5)
5	Income before income taxes (3+4)	3.3
6	Profit tax	(0.8)
7	Net income (5+6)	2.5

Cash flow statement

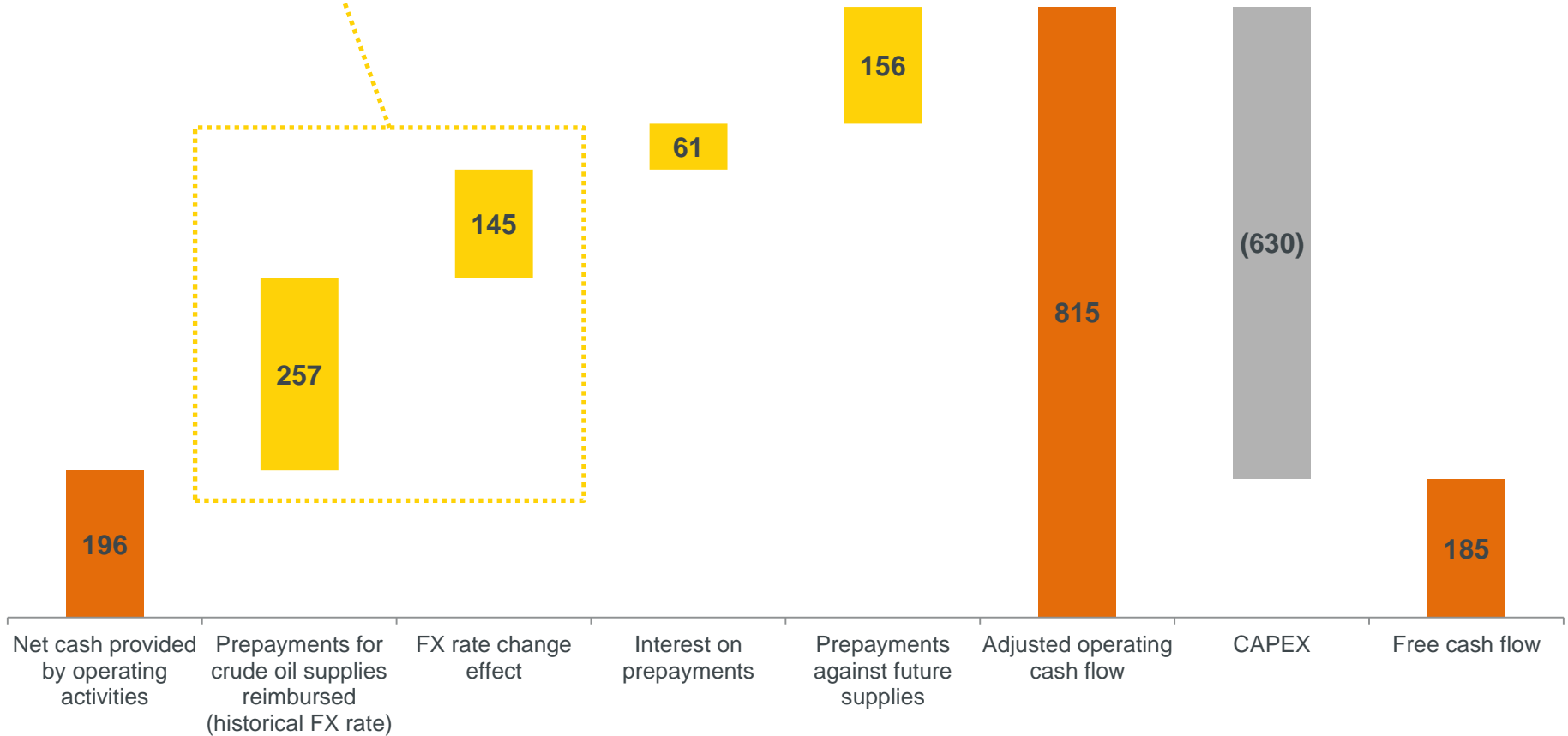
9M 2017, \$ bn	Indicator	#
2.5	Net income	1
11.4	Adjustments to reconcile net income to cash flow from operations	2
(10.0)	Changes in operating assets and liabilities, including	3
(6.9)	Prepayments reimbursed	
(0.7)	Income tax payments, interest and dividends received	4
3.2	Net cash from operating activities (1+2+3+4)	5
2.7	Prepayments against future supplies	
6.9	Effect from prepayments	6
1.1	Interest on prepayments under long term crude oil supply contracts	7
13.9	Adjusted operational cash flow (5+6+7)	9

Operating Cash Flow Adjustment



Reimbursement of crude oil supplies prepayments
(average FX rate)
RUB 402 bn

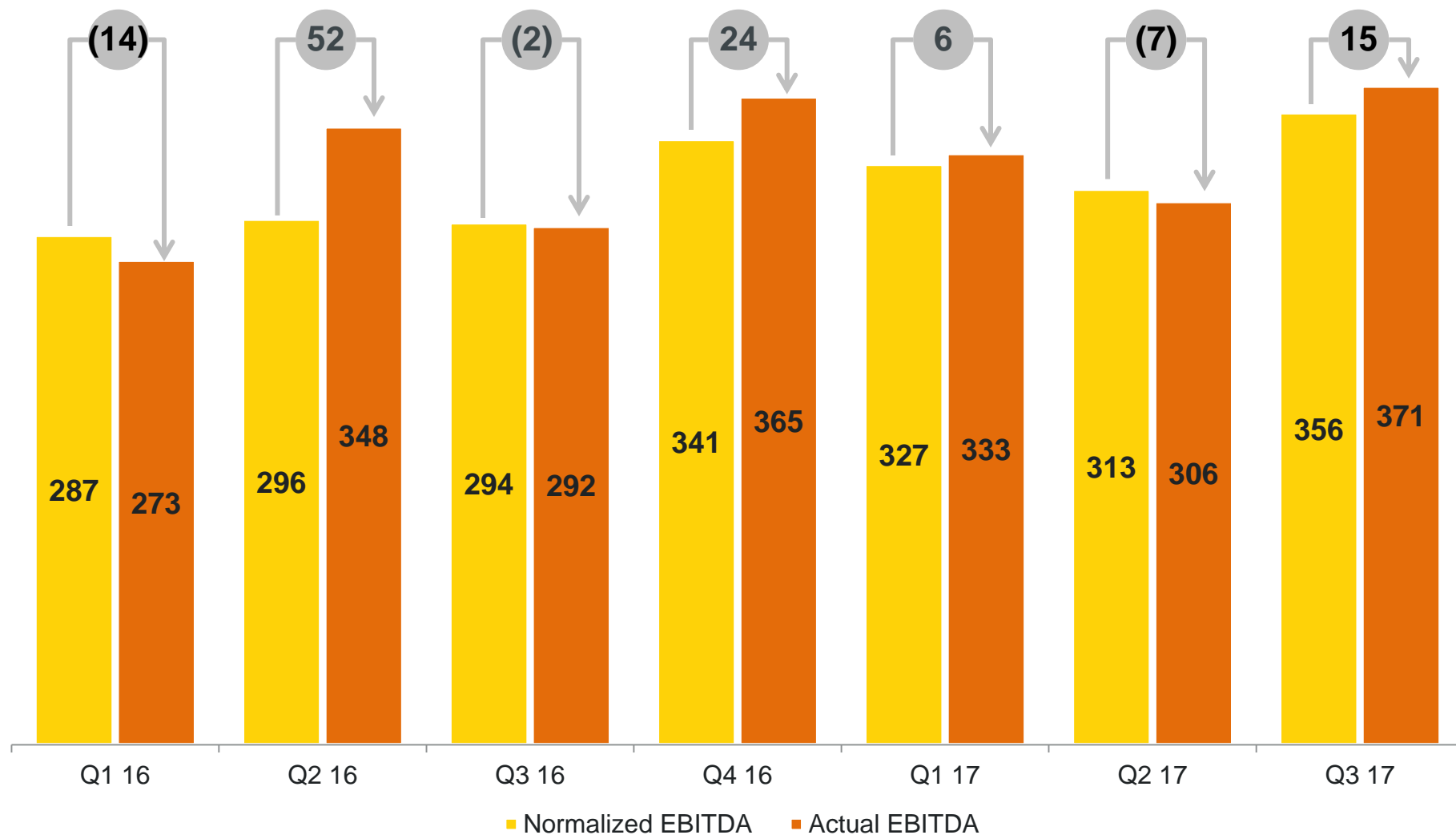
RUB bn



Export Duty Lag



RUB bn



Note: The effect of the time lag in export duties on the Company's EBITDA is separated on this slide, i.e. it is calculated for certain quarters and based on the volumes and the USD average exchange rate of respective quarter (unlike the factor analysis)

Financial Expenses, RUB bn



Indicator	Q3 17	Q2 17	%	9M 17	9M 16	%
1. Interest accrued ¹	56	54	3.7%	162	104	55.8%
2. Interest paid ²	57	53	7.5%	154	108	42.6%
3. Change in interest payable (1-2)	(1)	1	–	8	(4)	–
4. Interest capitalized ³	28	27	3.7%	78	44	77.3%
5. Increase in provision due to the unwinding of a discount	5	4	25.0%	13	11	18.2%
6. Interest on prepayments under long term crude oil supply contracts	20	20	–	61	67	(9.0)%
7. Other finance expenses	3	2	50.0%	10	3	>100%
8. Total finance expenses (1-4+5+6+7)	56	53	5.7%	168	141	19.1%

Note: (1) Including interest charged on credits and loans, promissory notes, ruble bonds and eurobonds, (2) Interest is paid according to the schedule, (3) Interests paid shall be capitalized in accordance with IAS 23 standard Borrowing Costs. Capitalization rate is calculated by dividing the interest costs for borrowings related to capital expenditures by the average balance of loans. Capitalized interest shall be calculated by multiplying average balance of construction in progress by capitalization rate

EBITDA and Net Income Sensitivity



Urals price change

RUB bn -6 \$/bbl +6 \$/bbl

EBITDA



Net income



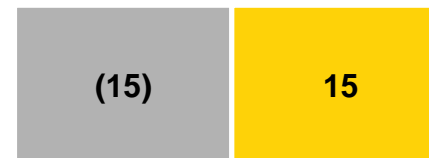
RUB/\$ exchange rate change

RUB bn -2 RUB/\$ +2 RUB/\$

EBITDA



Net income



- ▶ Average Urals price in Q3 2017 was \$50.9 per bbl. In case the average price for the period was \$6 per bbl higher, EBITDA would have increased by RUB 41 bn, including the positive export duty lag effect of RUB 12 bn
- ▶ Average USD exchange rate in Q3 2017 was 59 RUB/\$. In case the average USD exchange rate was 2 RUB/\$ lower, EBITDA would have decreased by RUB 19 bn



Questions and Answers