

# Rosneft Oil Company

## IFRS Results

### Q1 2020



May 15, 2020

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# Inclusive Approach\* to Combat COVID-19



**Concern for people's well-being is the Company's top priority**

## Health and safety

- ✓ Regular testing
- ✓ **5.6 mln** personal protective equipment, **2.9 mln liters** of disinfectant, over **455,000 liters** of hand sanitizer, constantly replenished
- ✓ 89% of the central office employees, more than 50 th. Group's subsidiaries' employees work remotely
- ✓ Rotation period is increased to **90 days**
- ✓ **94** observation, **260** isolation rooms, with qualified health treatment
- ✓ Constantly informing employees about safety measures
- ✓ Psychological support hotline
- ✓ Antiseptic components production (15 th. tons per month)

## Stability

- ✓ Preservation of jobs and payment of salaries in due course
- ✓ Distance learning and professional development resumed

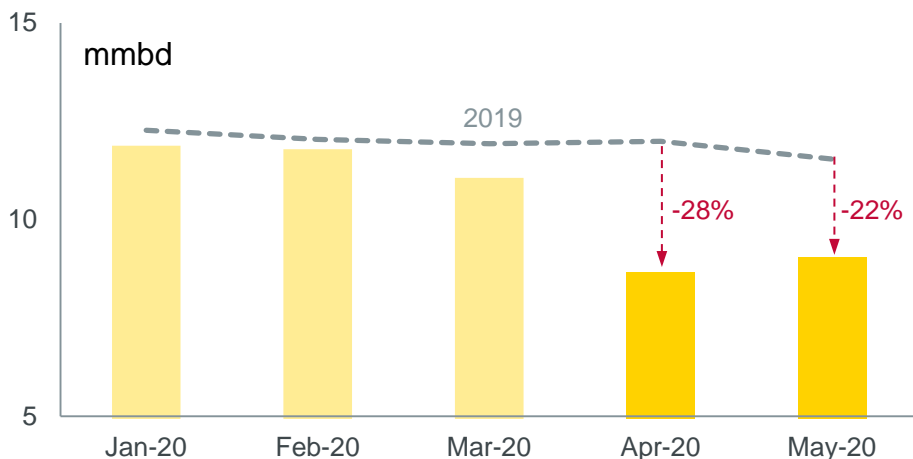


\* The approach embraces the best Russian and international practices of combating COVID-19, including those recommended by Rospotrebnadzor

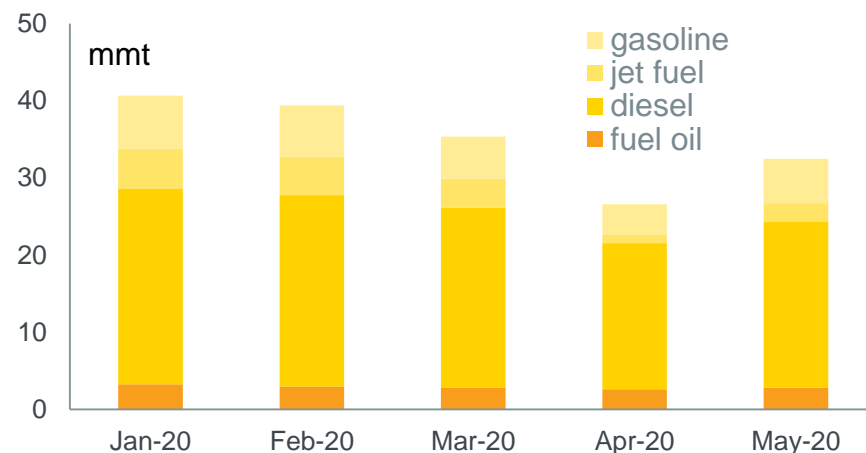
# COVID-19 Impact on Crude Oil and Petroleum Products Demand



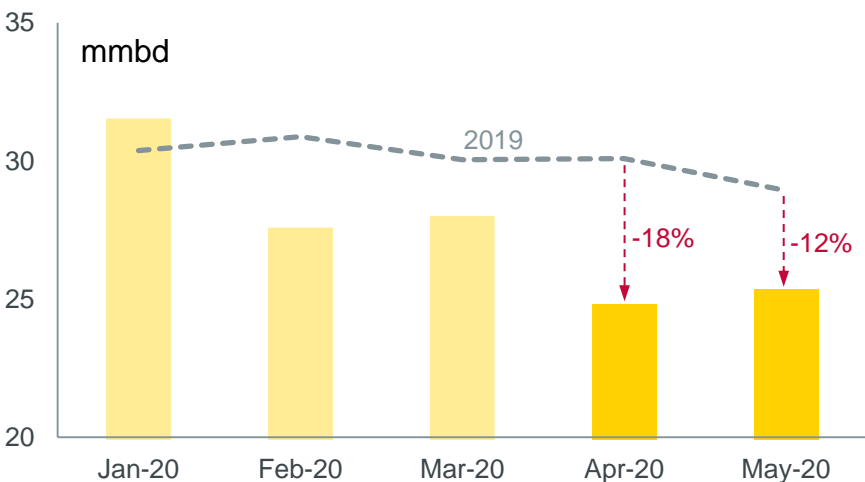
## Oil demand in Europe



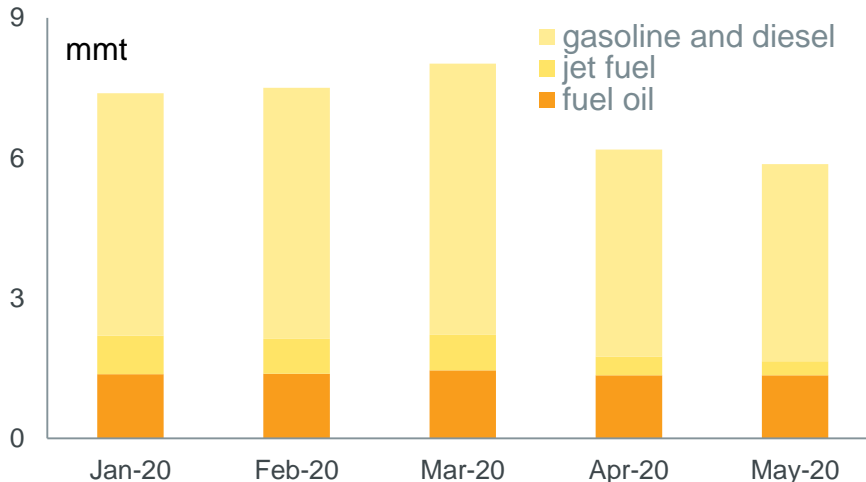
## Main petroleum products demand in Europe



## Oil demand in Asia-Pacific region



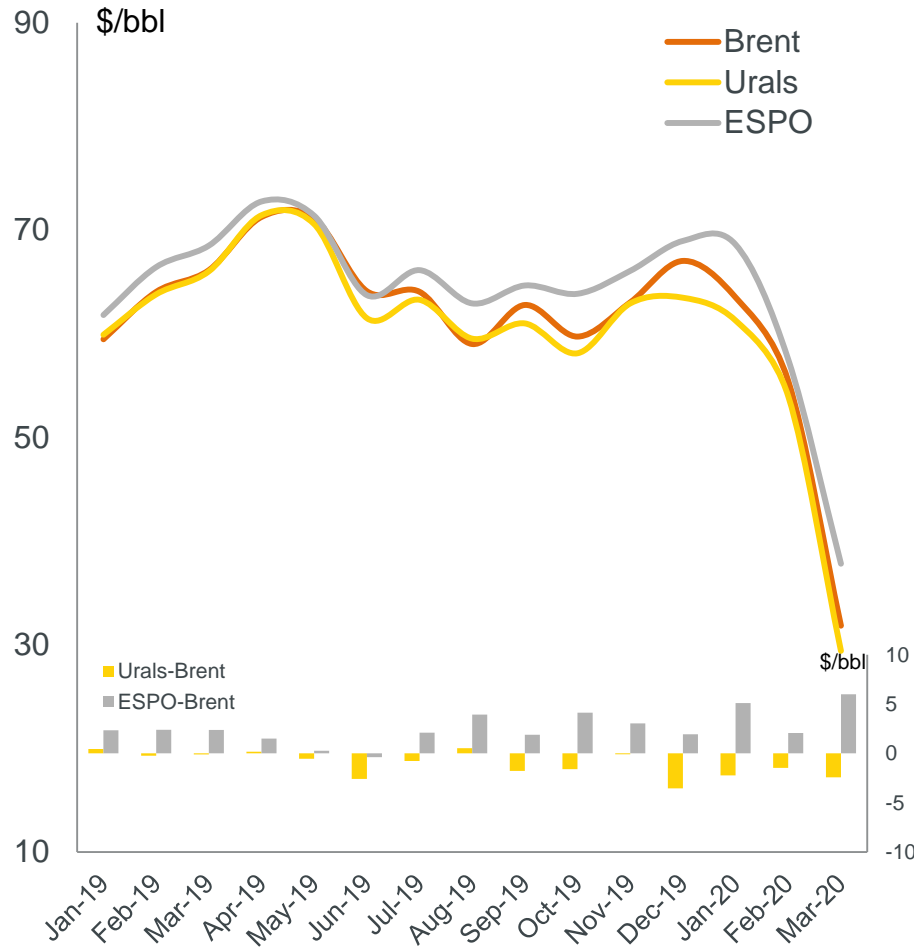
## Domestic demand for main petroleum products



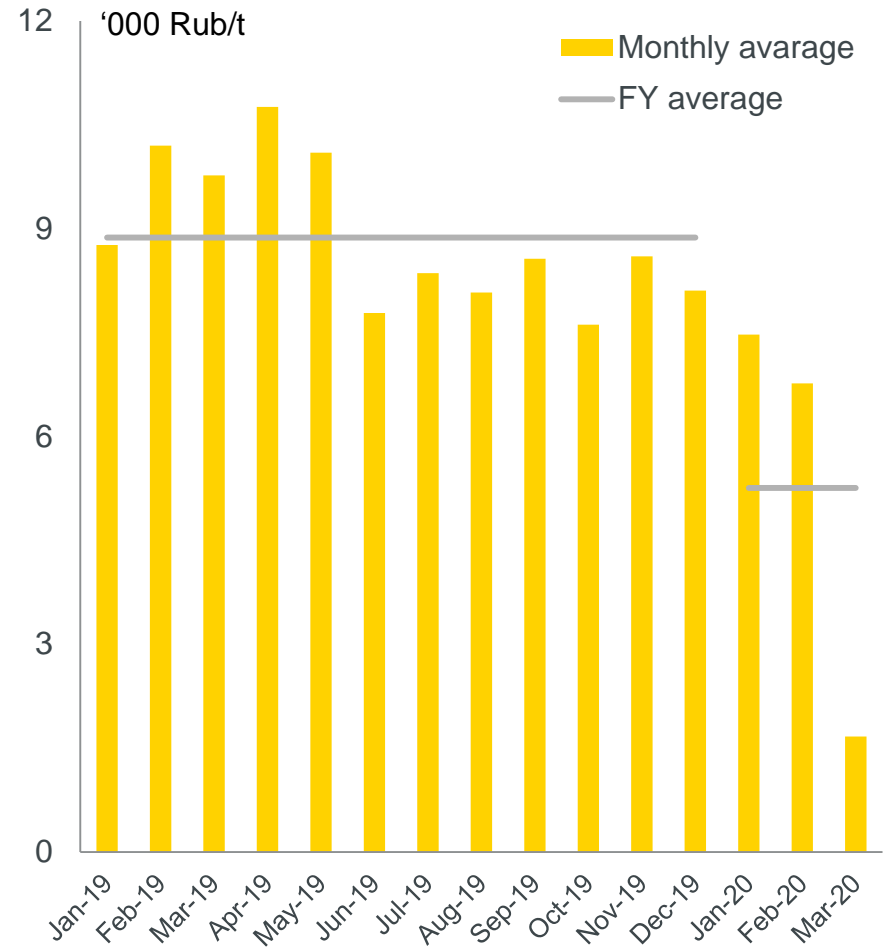
# Record Low Oil Prices



## Oil prices and differentials<sup>1</sup>



## Gross Upstream margin<sup>2</sup>



Note: (1) Monthly averages, (2) Calculated as Urals price less MET, export customs duty and transportation costs at the Yugansk-Primorsk route

# Key Events



1 Rosneft BOD recommended record high dividends for 2019

2 Positive free cash flow generation amid sharp oil price drop

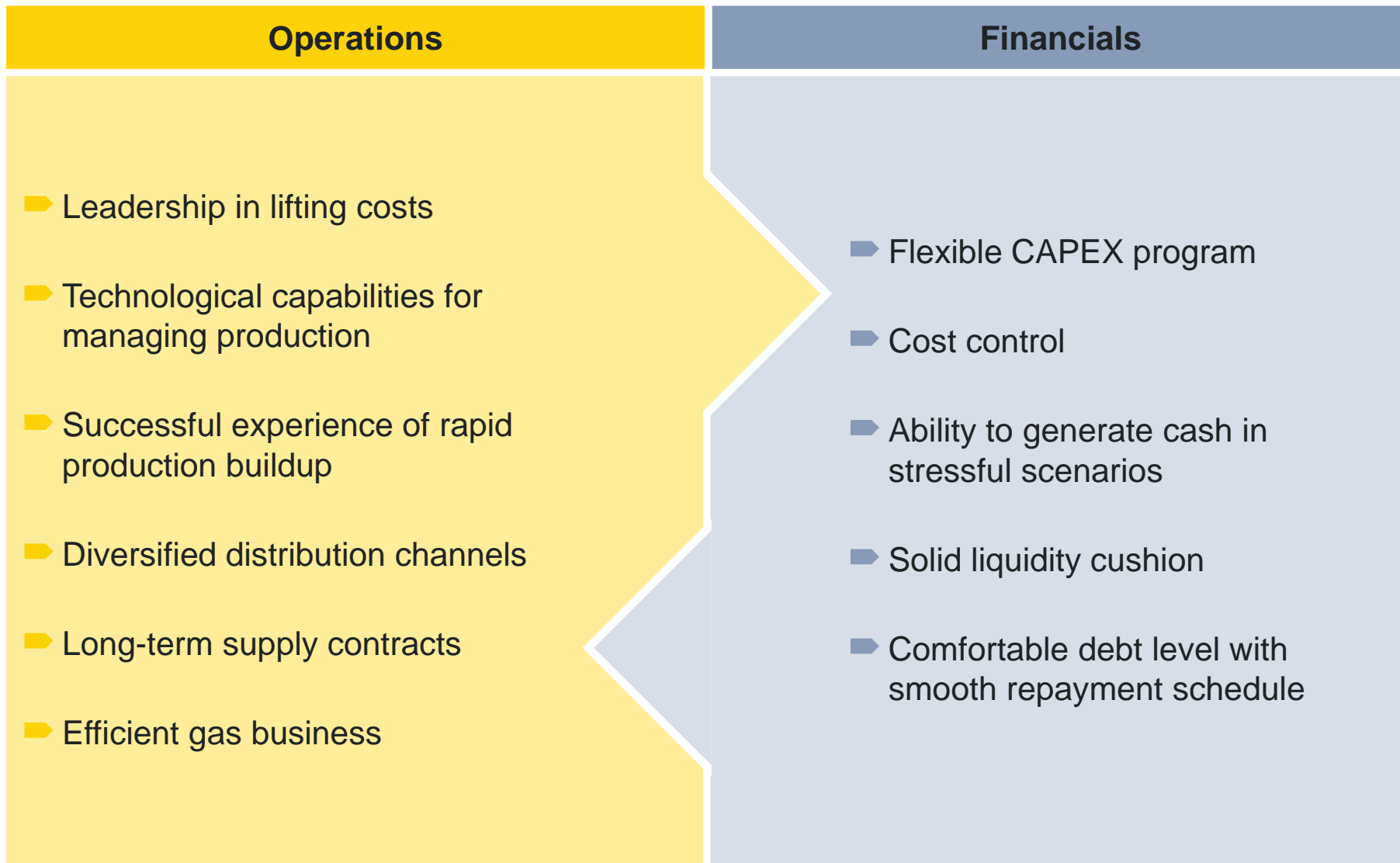
3 Successful launch of the open market share buyback program

4 OPEC+ agreement on record high crude oil production cuts

5 Company's operations in Venezuela have been completely discontinued, including production JVs, oil-field service companies and trading operations



# Best-positioned to New Realities



# Operating Results

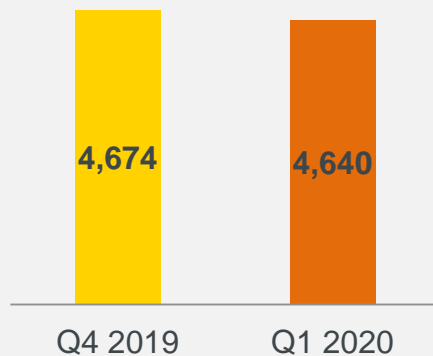




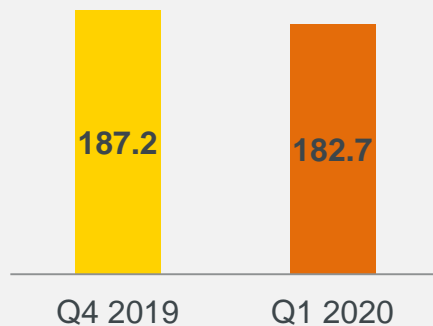
# Key Operating Indicators



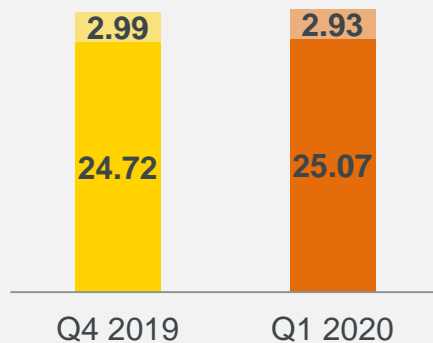
**Oil production,**  
*kbd*



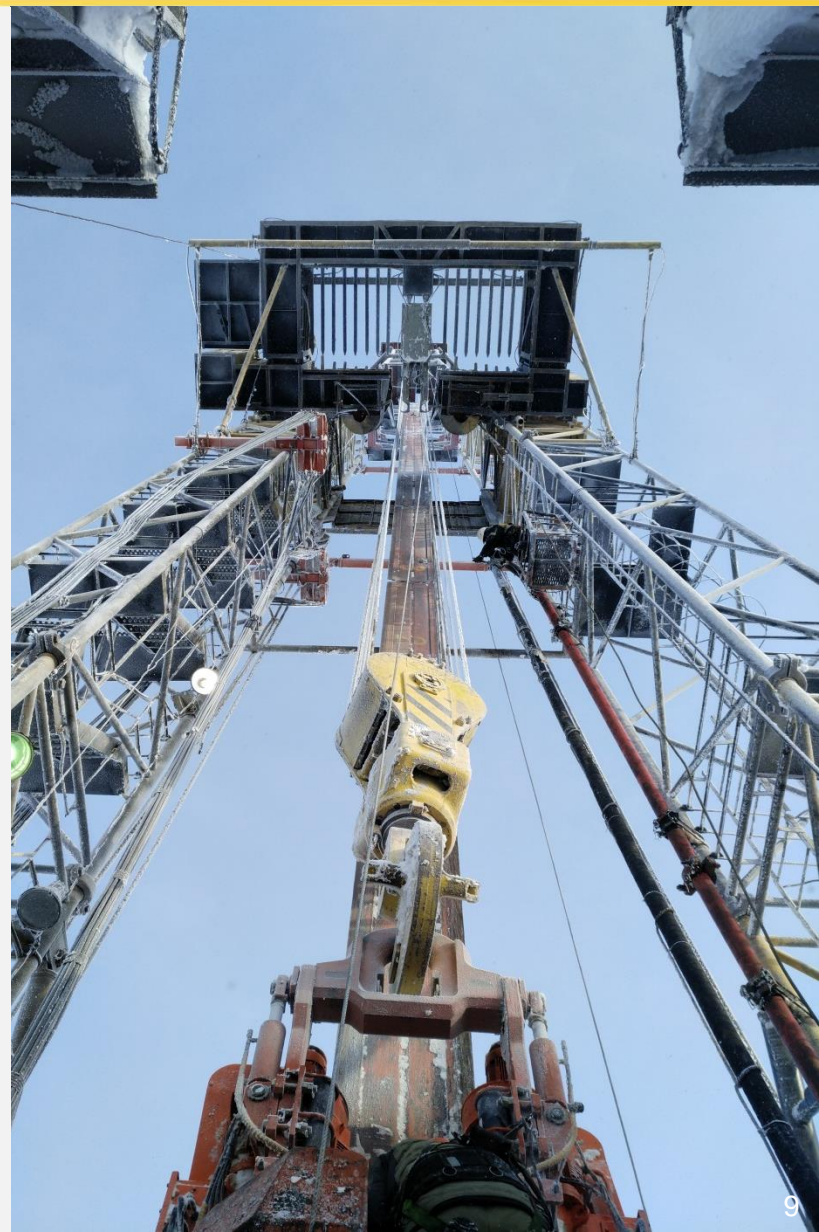
**Gas production,**  
*mmcmd*



**Petroleum product and  
petrochemical output,**  
*mmt*



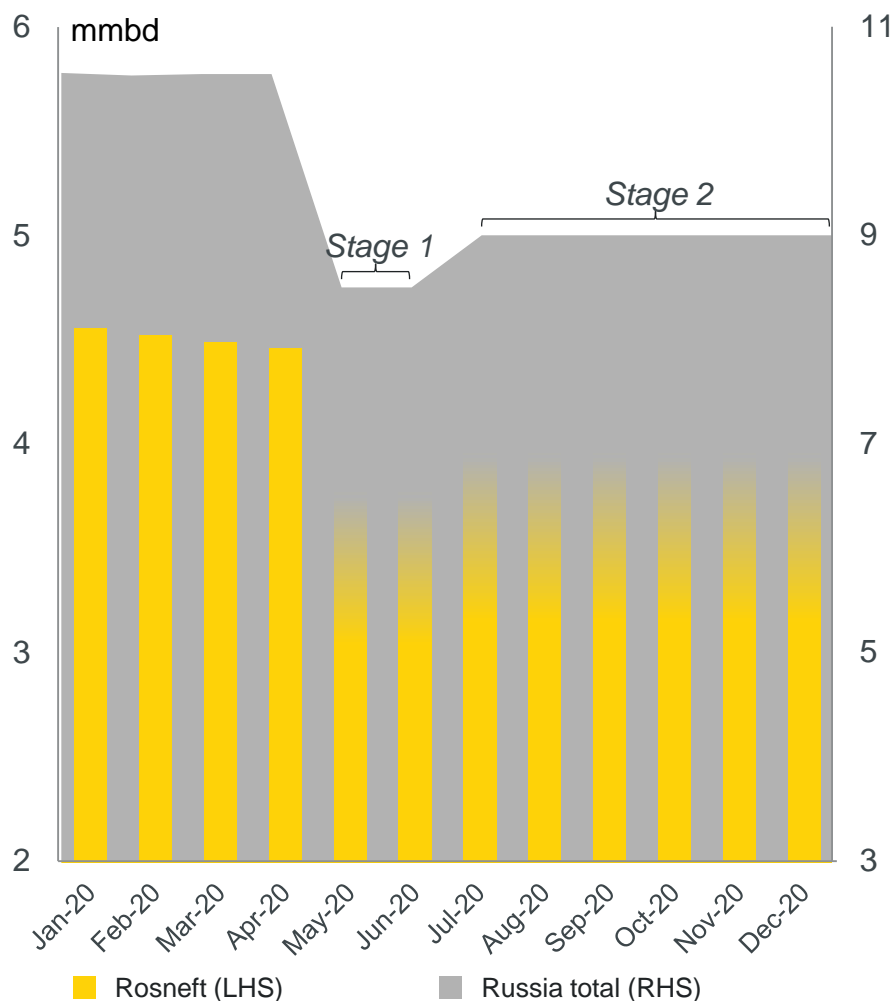
in Russia abroad



# Navigating OPEC+ Environment



## Crude oil production in Russia (2020)



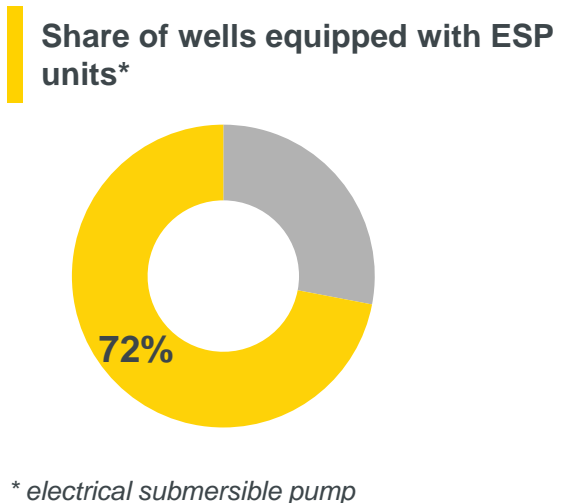
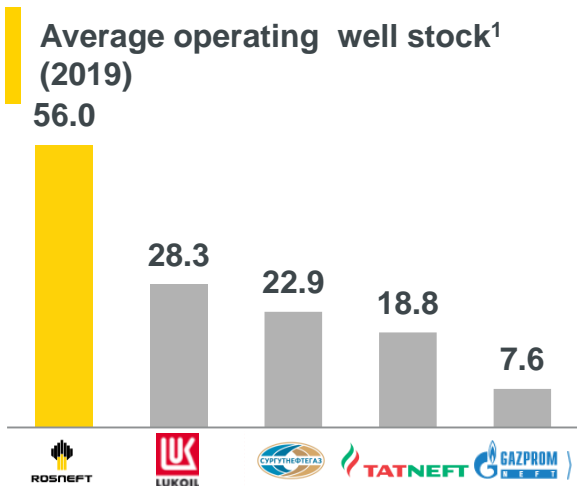
## Main terms of the OPEC+ Agreement:

- ▶ Oil production in Russia with limitations (mmbd):
  - stage 1 (May-Jun. 2020) – 8.5
  - stage 2 (Jul.-Dec. 2020) – 9.0
  - stage 3 (Jan. 2021 – Apr. 2022) – 9.5
- ▶ Production cuts on a pro rata basis
- ▶ Gas condensate production excluded from quotas

## Rosneft's approach to production cuts:

- ▶ Asset selection (to cut production) based on economic efficiency
- ▶ Continued development of new fields
- ▶ Efficient long-cycle wellworks to be continued according to schedule
- ▶ Efficient well stock management:
  - Limitation of flow rates without shut-ins
  - Recurring well operation
  - Optimization of wellworks program on the existing well stock

# Rosneft's Advantages in Managing Production



Company's own capacities

- 56 th. wells – average operating well stock
- 267 drilling rigs
- 20 frac fleet
- 704 well servicing and workover crews



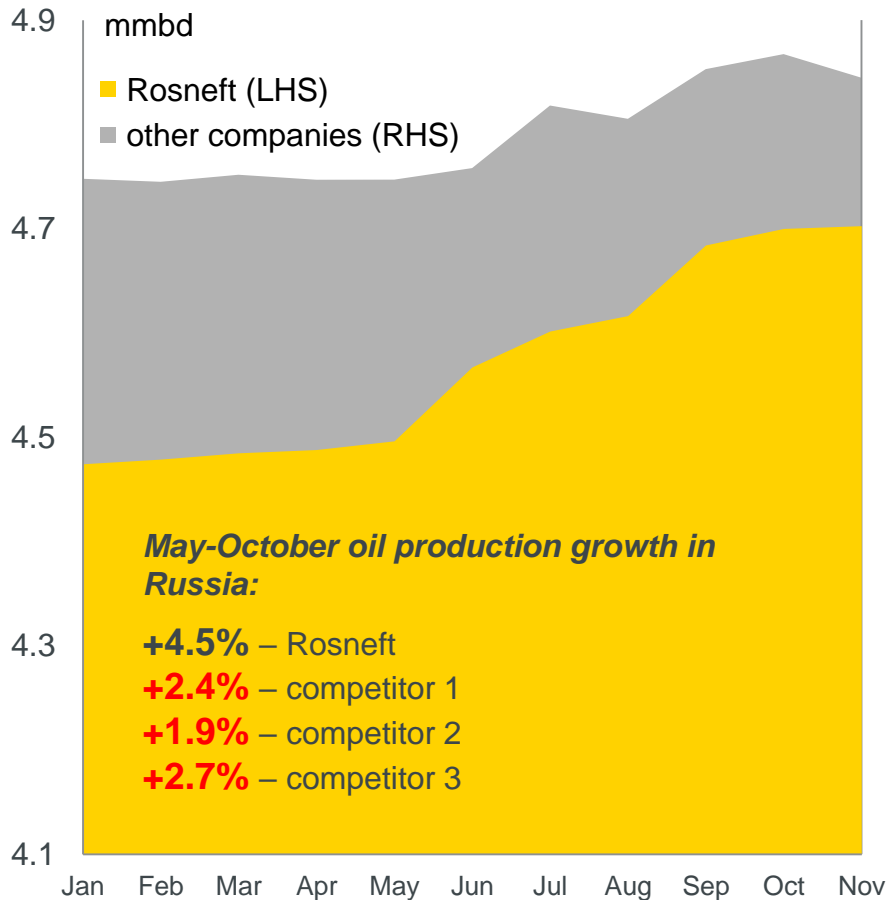
**Ability to flexibly manage production at minimal costs**

Note: (1) on 100% and proportionally consolidated assets

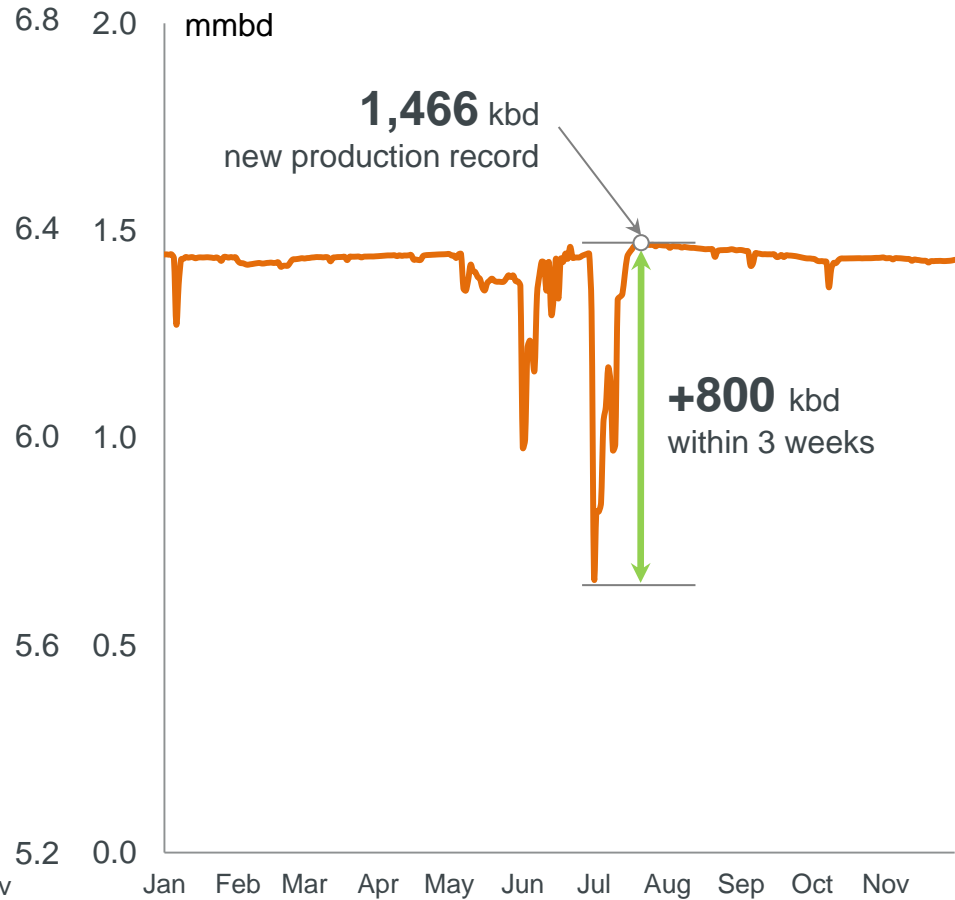
# Successful Experience of Rapid Production Buildup



Production recovery after easing OPEC+ restrictions in 2018



Yugansk reaching record high daily production after lifting restrictions on oil intake in 2019



# Ensuring Timely Launch of New Large Projects

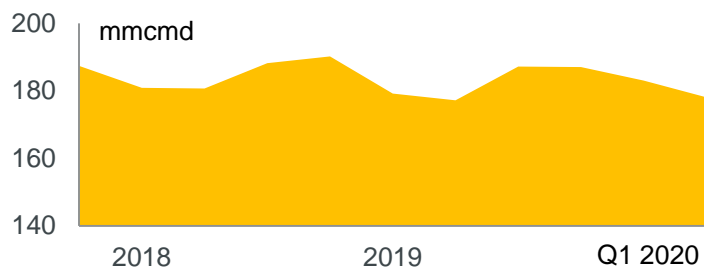


Note: (1) Circle area corresponds to field's plateau production

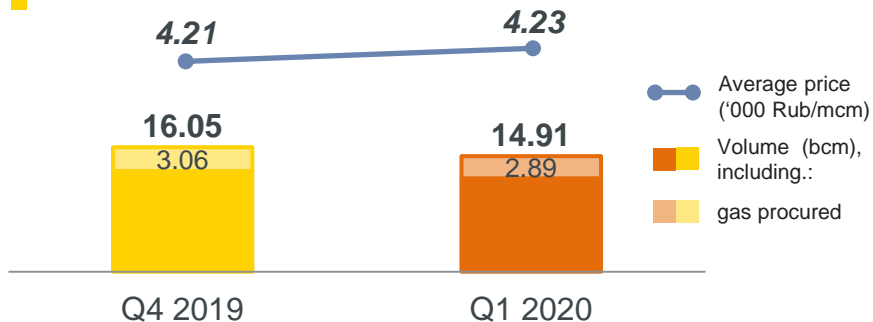


## Gas production

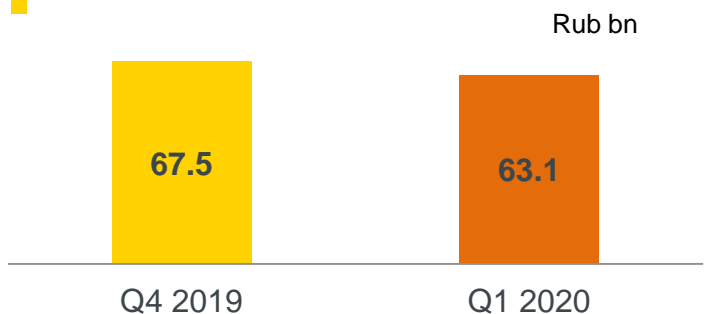
(OPEC+ impact is limited by the amount of associated gas)



## Average price and sales volumes



## Gas sales revenues



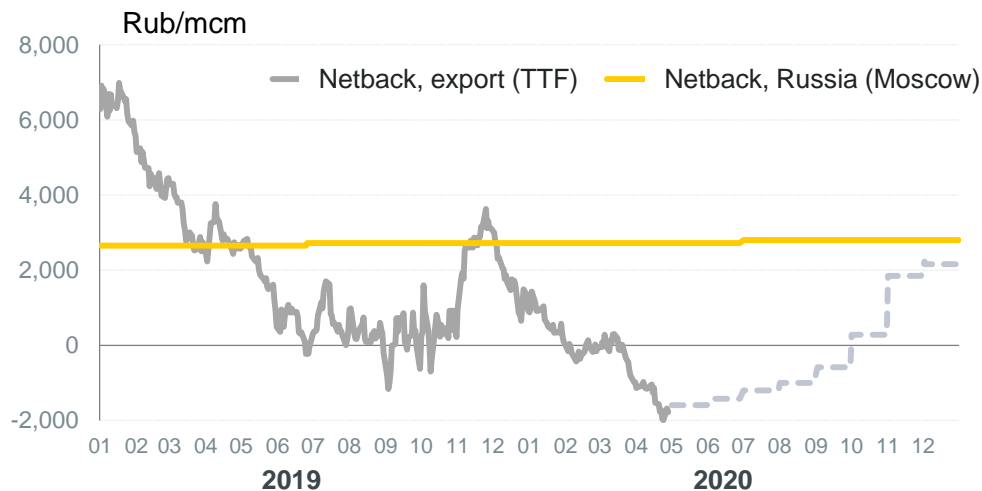
- ▶ The share of gas – the most environmental friendly fuel – in total hydrocarbon production of the Company is c.19% (flat YoY). Its further growth up to >20% is planned
- ▶ The main driver of growth is the Rospan project, which provides the largest incremental production increase for both gas and liquids. The project is planned to be launched in 2020
- ▶ Projects development at Sibneftegaz and Kharampurneftegaz fields is in active phase
- ▶ Amid a 6% decrease in gas production<sup>1</sup> in Russia YoY, the Company's gas production in Q1 2020 declined slightly – c. 2%
- ▶ Revenues decrease caused by end consumers' demand reduction following warm weather conditions

Note: (1) Gas extracted less gas flared

# Gas Business is Resistant to Volatile Prices at Global Markets



## Domestic and export netback from Novy Urengoy



- ▶ Starting 2020 domestic gas netbacks have been more efficient compared to export deliveries at spot prices. Forward prices imply domestic market premiums throughout the year
- ▶ The Company's long-term domestic gas supply portfolio is up to 70 bcm per annum
- ▶ Power producers subject to the smallest demand reduction under restrictive measures comprise 60% of the supply portfolio

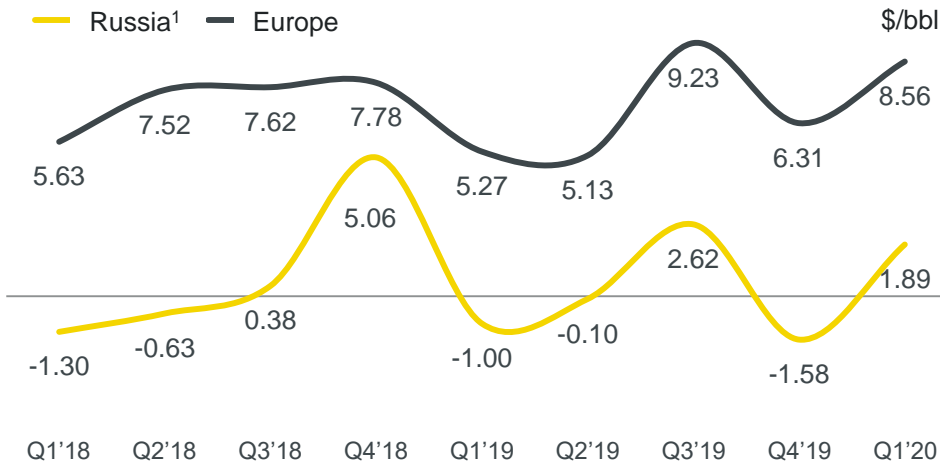
## Competitive advantages of Rosneft's gas business:

- ▶ Low risk profile of gas projects focused on the domestic market
- ▶ Stable and predicted cash flow, unaffected by the external environment
- ▶ No need to subsidize gas exports at the expense of the domestic market
- ▶ Gas condensate production is excluded from OPEC+ restrictions

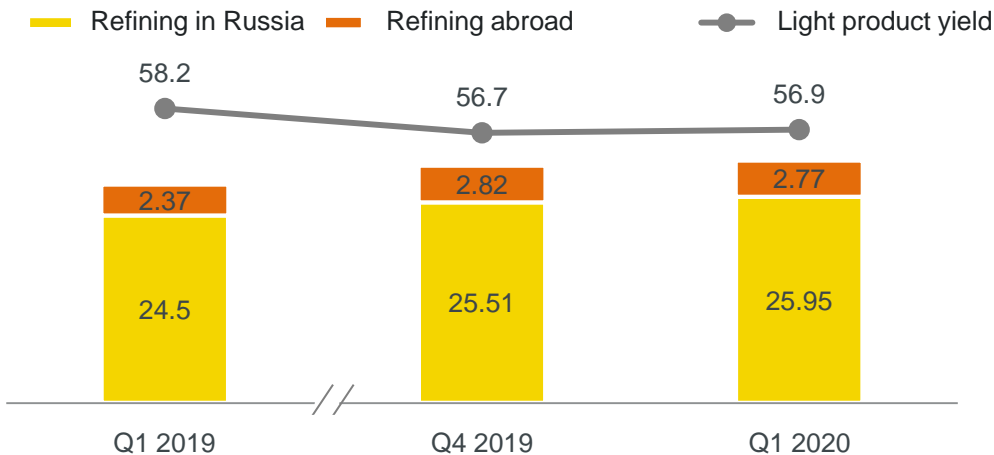
# Refining



## Refining margins



## Key refining indicators



## Refining economics in Q1 2020

- Significant refining margin increase in Russia during Q1 2020 was mainly caused by positive impact of macro environment: sharp crude oil price reduction compared to a slower decline in petroleum product prices
- Refining margin growth in Germany QoQ was driven by crude oil price drop in the second half of the reporting period

## Q1 2020 results and achievements

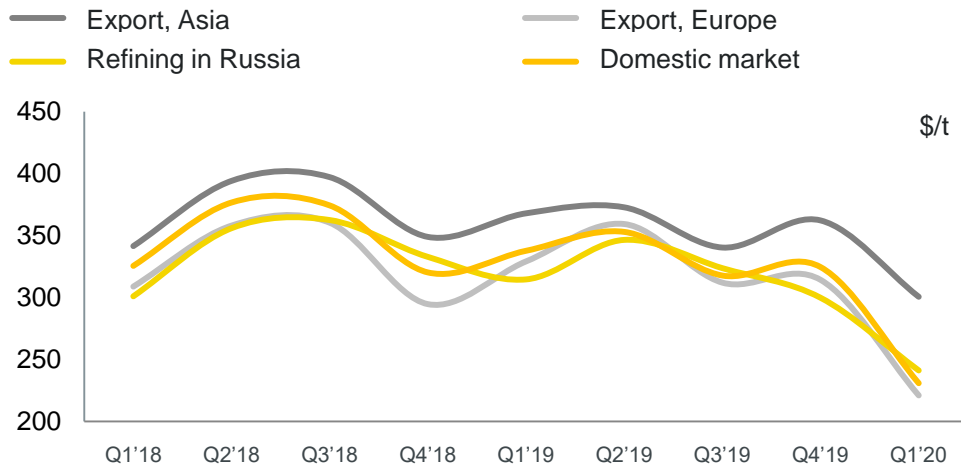
- Achinsk refinery** initiated production of RMLS low sulphur marine fuel that complies with IMO 2020 requirements
- Ryazan refinery** put into commercial use an automated petrol quantity and quality measurement system
- Angarsk refinery** started to produce high-tech mineral hydrocarbon base for drilling liquids production which will improve drilling efficiency and reduce environmental impact



# Focus on Distribution Channels Development

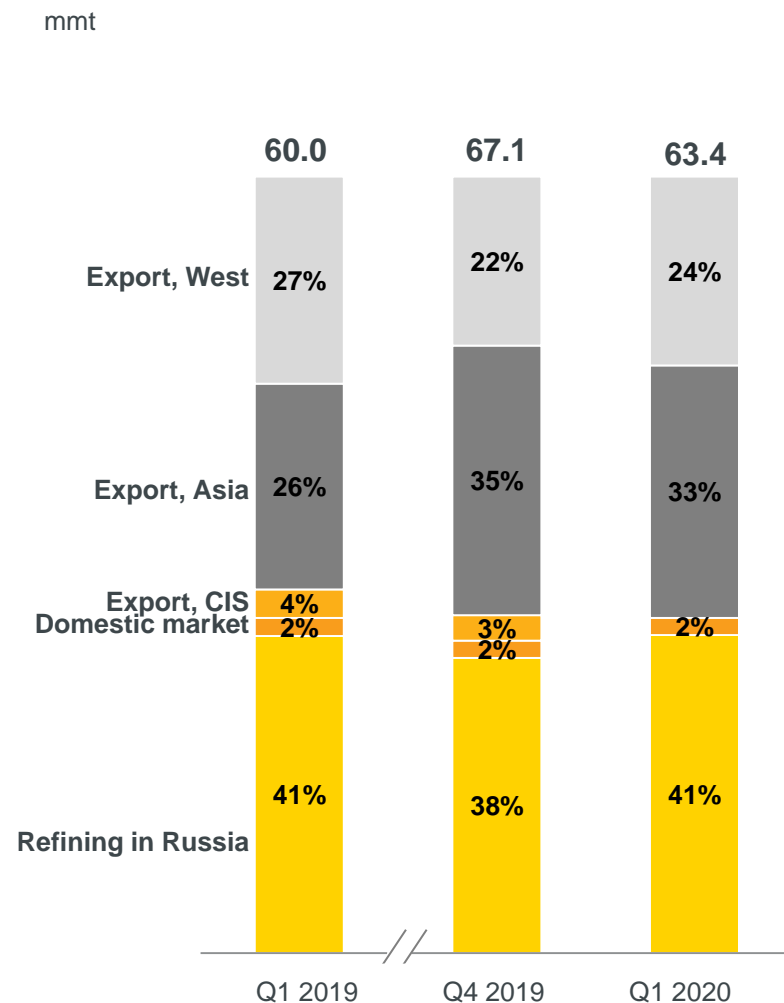


## Netbacks of the main crude oil marketing channels



- ▶ In Q1 2020 36.0 mmt were sold to non-CIS countries (+12.8% YoY). The share of supplies eastwards amounted to 57.2% (+7.4 p.p. YoY)
- ▶ Motor fuel sales via the exchange exceeded the required levels by over 2x times
- ▶ As part of cooperation development with the Republic of Belarus, the Company signed agreements with Naftan OJSC, BNK CJSC and Mozyr Oil Refinery OJSC to supply 9 mmt of oil from April to December 2020

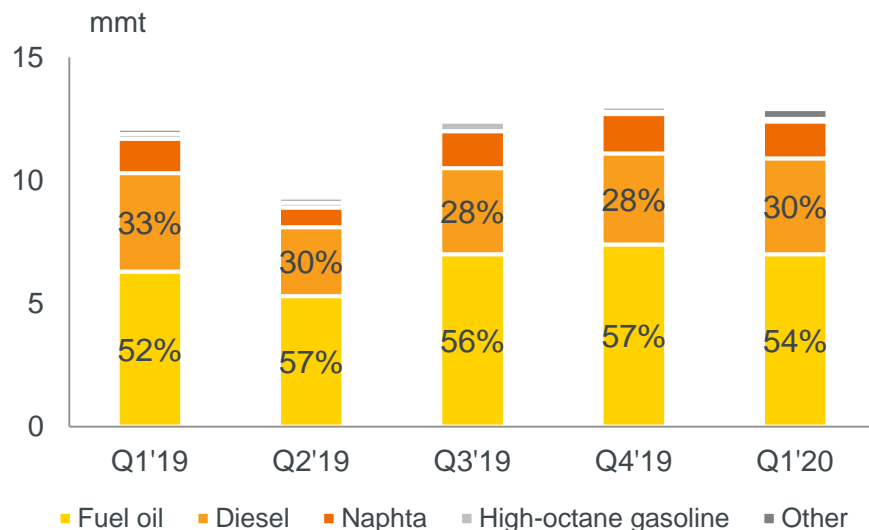
## Crude oil marketing breakdown



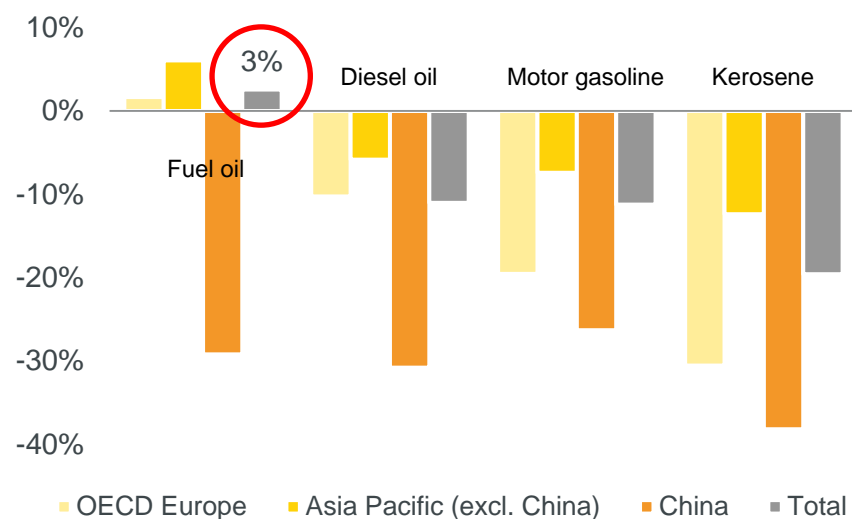
# Beneficial Petroleum Products Export Structure



## Petroleum products export to non-CIS countries



## Q1 2020 demand for main petroleum products<sup>1</sup>



- ▶ Petroleum products export to non-CIS countries from Russia amounted to 12.9 mmt in Q1 2020 (+6.6% YoY). While the share of 1+ years term contracts exceeded 90% creating additional support for deliveries during the demand stagnation period
- ▶ Demand for fuel oil (the Company's main export product) remains relatively resilient because of its industrial consumption (rather than households). The average export price of fuel oil sold in non-CIS countries in Q1 2020 amounted to 18,000 Rub/t, which is only 3% below the average price in Q4 2019

# Financial Results



# Key Financial Indicators



**219** Rub bn

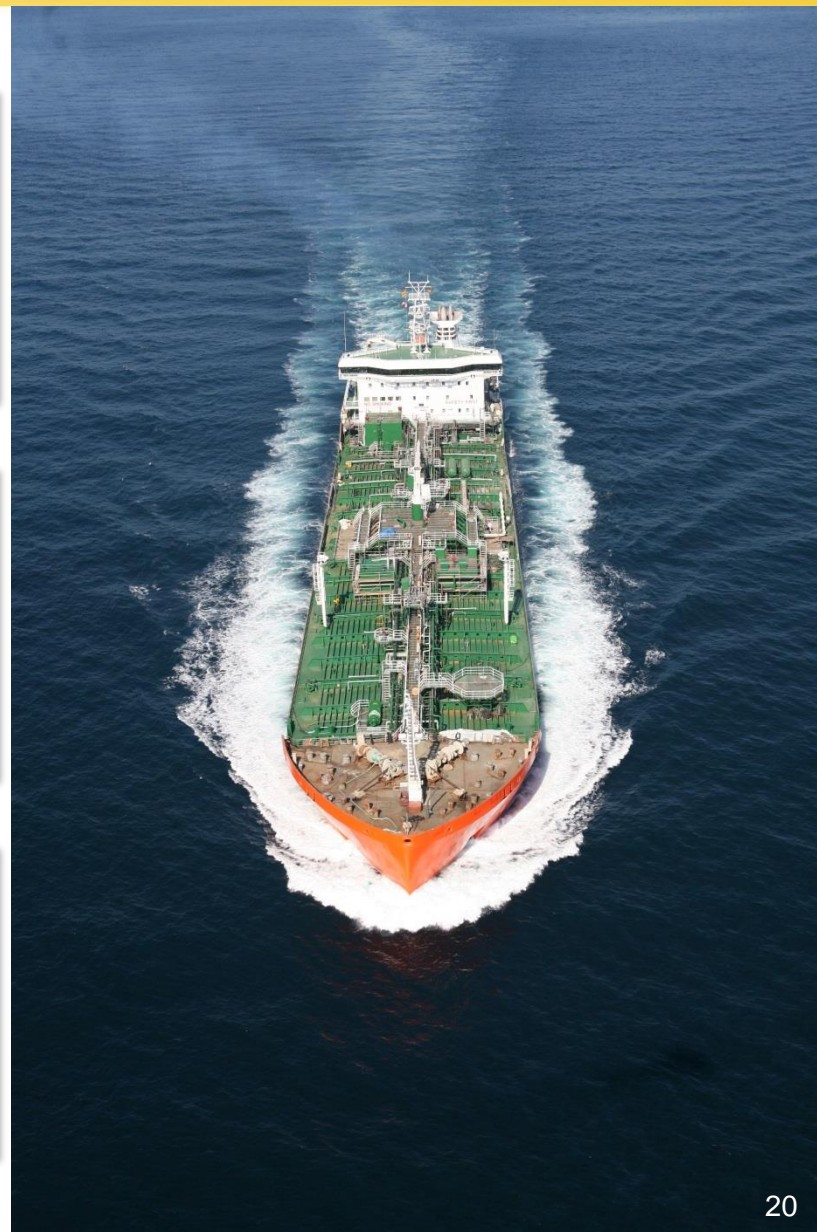
Free cash flow

**-9.1** \$ bn

Reduction of debt and trading liabilities

**354** Rub bn

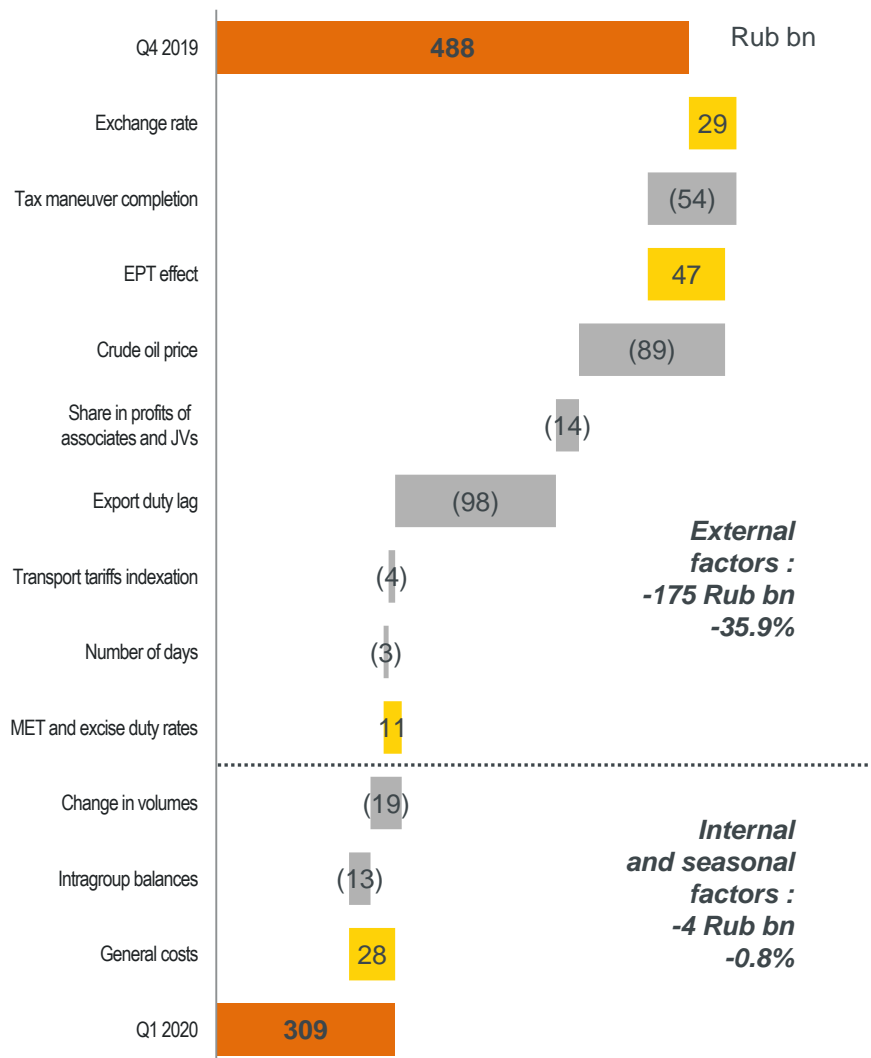
Record high dividends for 2019



# EBITDA and Net Income Dynamics



## EBITDA Q4 2019 vs. Q1 2020



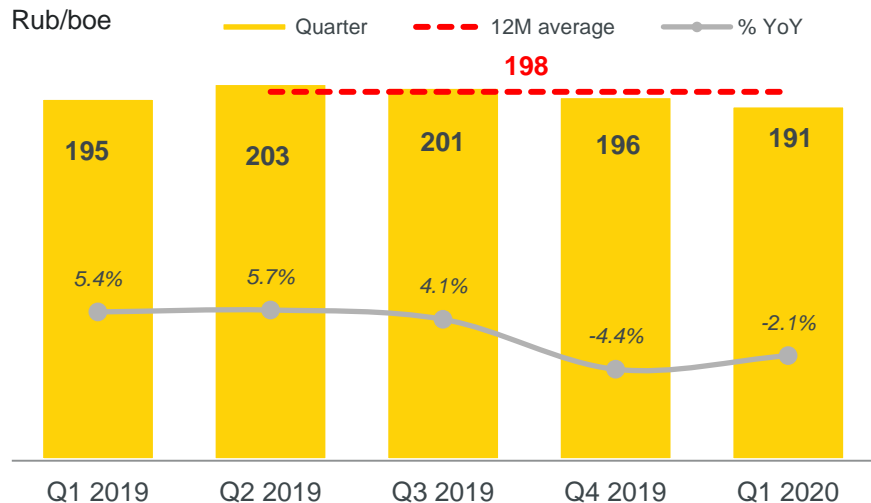
## Net income Q4 2019 vs. Q1 2020



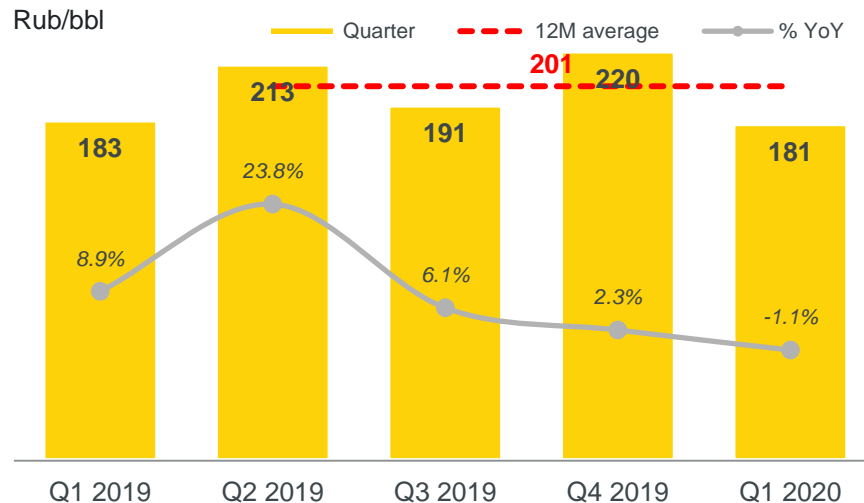
# Efficient Cost Control



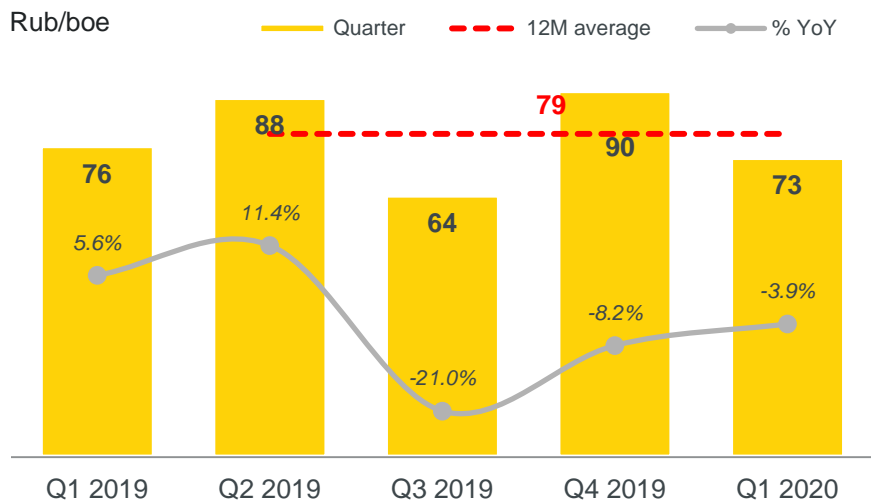
## Lifting costs



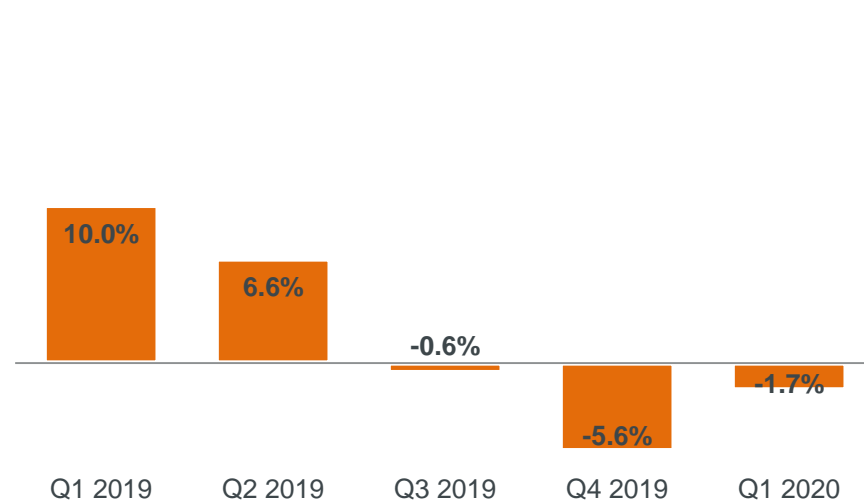
## Refining costs in Russia



## General and administrative costs<sup>1</sup>



## Producer Price Index (annual basis)

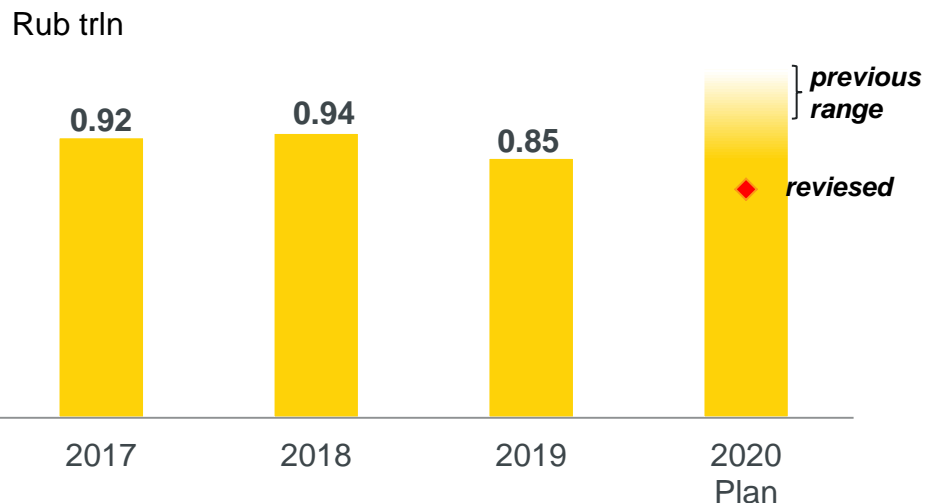


Note: (1) excl. provisions

# CAPEX



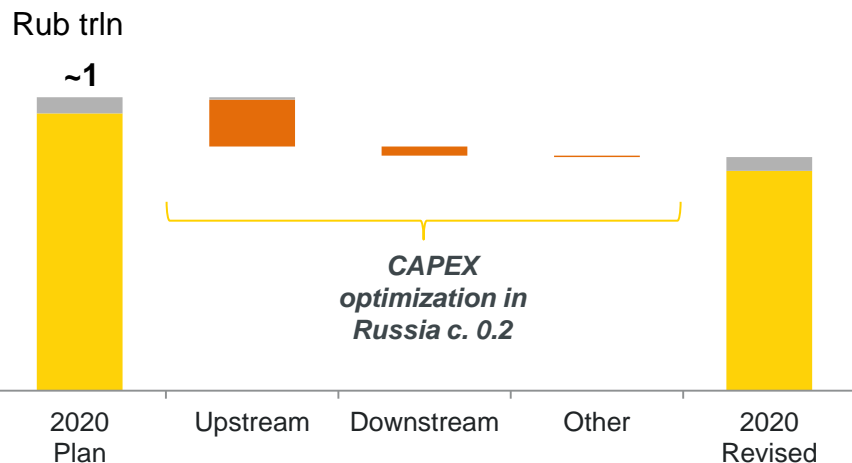
## CAPEX evolution



Following negative macro environment and production cuts the **CAPEX program was optimized by 20%**

The program still allows for **fast project development recovery and production buildup** whenever the market conditions change

## Revision of CAPEX



■ Projects in Russia ■ International projects

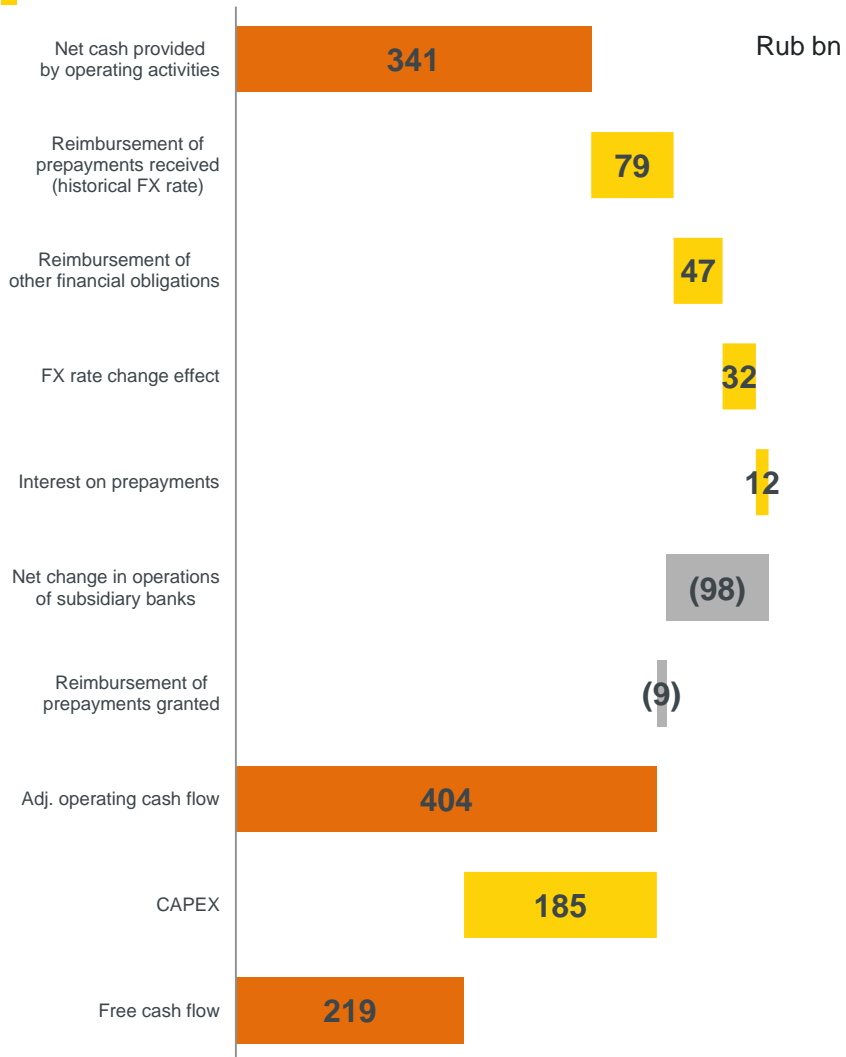
## Key areas for optimization

- Reduction of maintenance costs while ensuring industrial safety and eliminating environmental risks
- Postponing short-term less economically viable projects
- Rising hurdle rates for certain groups of projects
- Slowing down new development and high-risk long-term projects, including joint ventures
- Maintaining active pre-investment work on high-margin perspective projects

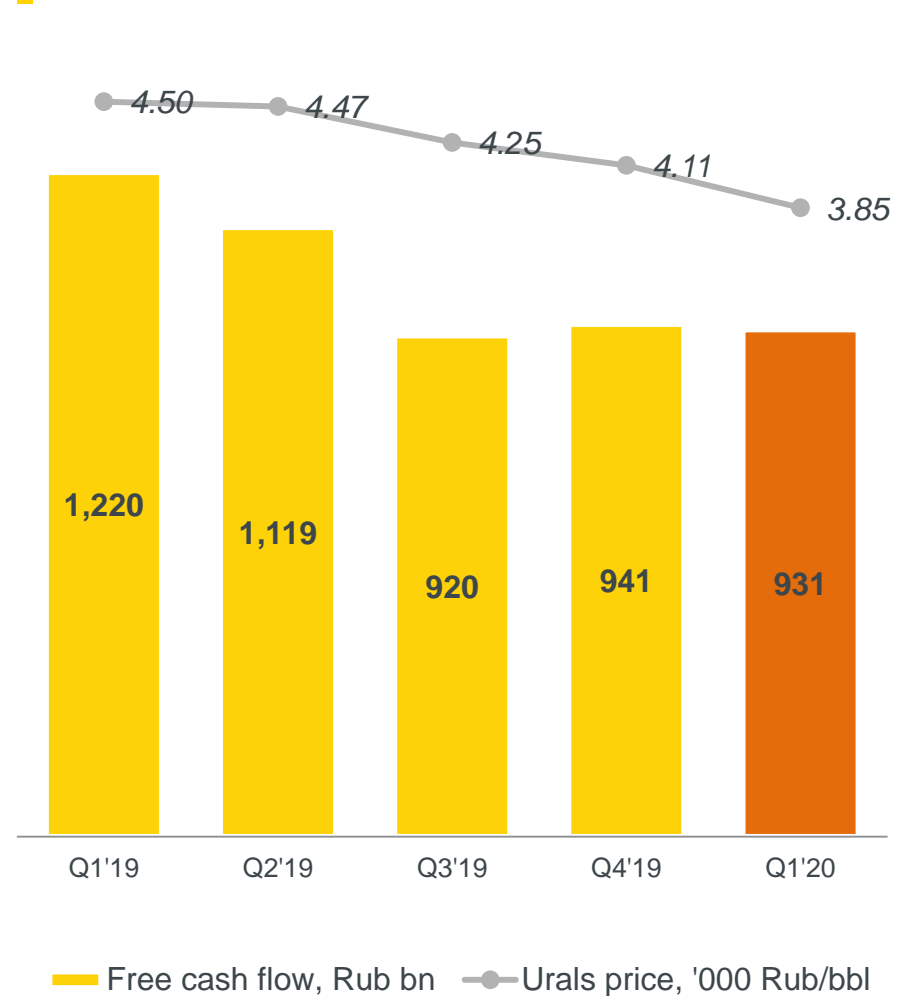
# Strong Free Cash Flow



## Free cash flow calculation



## Crude oil price and free cash flow dynamics, LTM





# Appendix



# Key Operational Highlights



Indicator	Q1 2020	Q4 2019	%	Q1 2020	Q1 2019	%
Hydrocarbon production, incl. kboed	<b>5,753</b>	5,814	(1.0)%	<b>5,753</b>	5,902	(2.5)%
Liquids kbpd	<b>4,640</b>	4,674	(0.7)%	<b>4,640</b>	4,744	(2.2)%
Gas kboed	<b>1,113</b>	1,140	(2.4)%	<b>1,113</b>	1,158	(3.9)%
Oil refining mmt	<b>28.72</b>	28.33	1.4%	<b>28.72</b>	26.87	6.9%
Product output in Russia mmt	<b>25.07</b>	24.72	1.4%	<b>25.07</b>	23.67	5.9%

# Key Financial Highlights



Indicator	Q1 2020	Q4 2019	%	Q1 2020	Q1 2019	%
EBITDA, Rub bn	<b>309</b>	<b>488</b>	(36.7)%	<b>309</b>	548	(43.6)%
Net Income, Rub bn <i>attributable to Rosneft shareholders</i>	<b>(156)</b>	<b>158</b>	-	<b>(156)</b>	131	-
Adjusted net income <sup>1</sup> , Rub bn <i>attributable to Rosneft shareholders</i>	<b>34</b>	<b>184</b>	(81.5)%	<b>34</b>	242	(86.0)%
Adjusted operating cashflow <sup>2</sup> , Rub bn	<b>404</b>	<b>502</b>	(19.2)%	<b>404</b>	443	(8.8)%
CAPEX, Rub bn	<b>185</b>	<b>220</b>	(15.9)%	<b>185</b>	214	(13.6)%
Free Cash Flow, Rub bn	<b>219</b>	<b>282</b>	(22.3)%	<b>219</b>	229	(4.4)%
EBITDA, \$ bn	<b>4.9</b>	<b>7.7</b>	(36.4)%	<b>4.9</b>	8.3	(41.0)%
Net Income, \$ bn <i>attributable to Rosneft shareholders</i>	<b>(2.0)</b>	<b>2.4</b>	-	<b>(2.0)</b>	1.9	-
Adjusted net income <sup>1</sup> , \$ bn <i>attributable to Rosneft shareholders</i>	<b>0.5</b>	<b>2.9</b>	(82.8)%	<b>0.5</b>	3.7	(86.5)%
Adjusted operating cashflow <sup>2</sup> , \$ bn	<b>6.3</b>	<b>8.0</b>	(21.3)%	<b>6.3</b>	6.7	(6.0)%
CAPEX, \$ bn	<b>2.8</b>	<b>3.5</b>	(20.0)%	<b>2.8</b>	3.2	(12.5)%
Free Cash Flow, \$ bn	<b>3.5</b>	<b>4.5</b>	(22.2)%	<b>3.5</b>	3.5	-
Urals price, '000 Rub/bbl	<b>3.19</b>	<b>3.92</b>	(18.5)%	<b>3.19</b>	4.18	(23.6)%

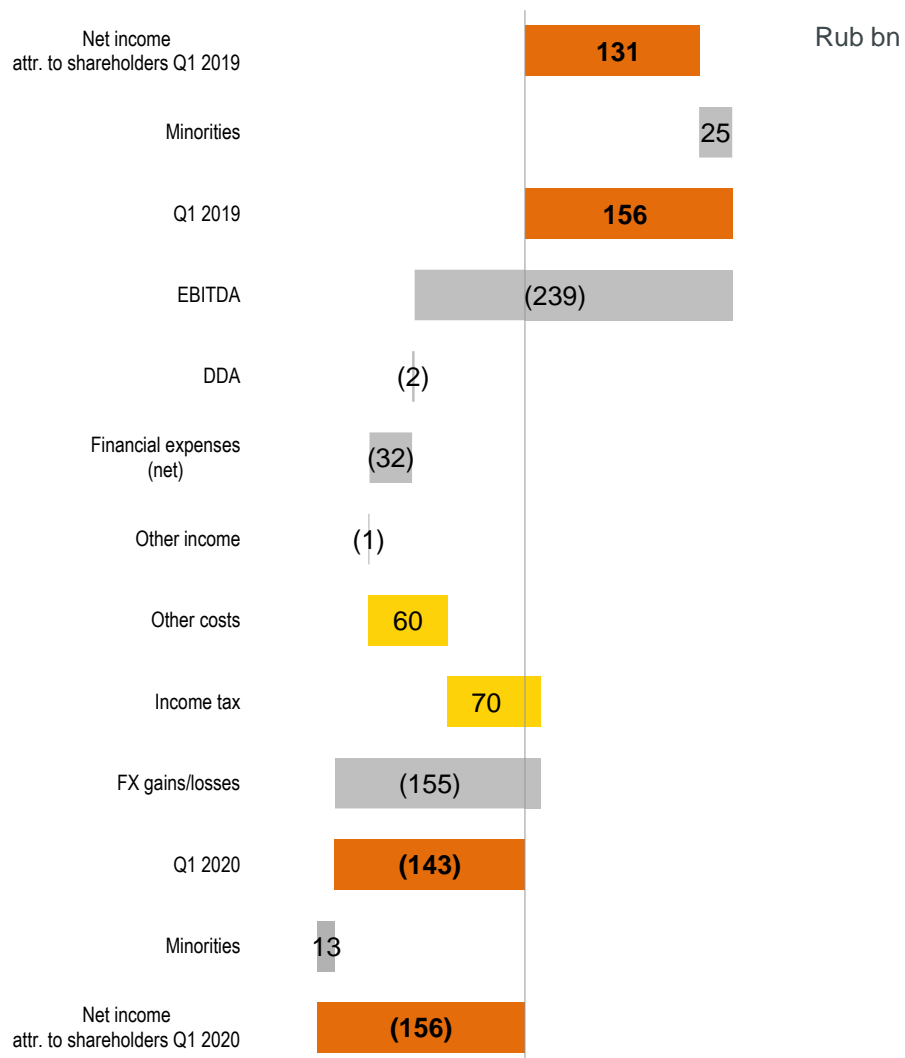
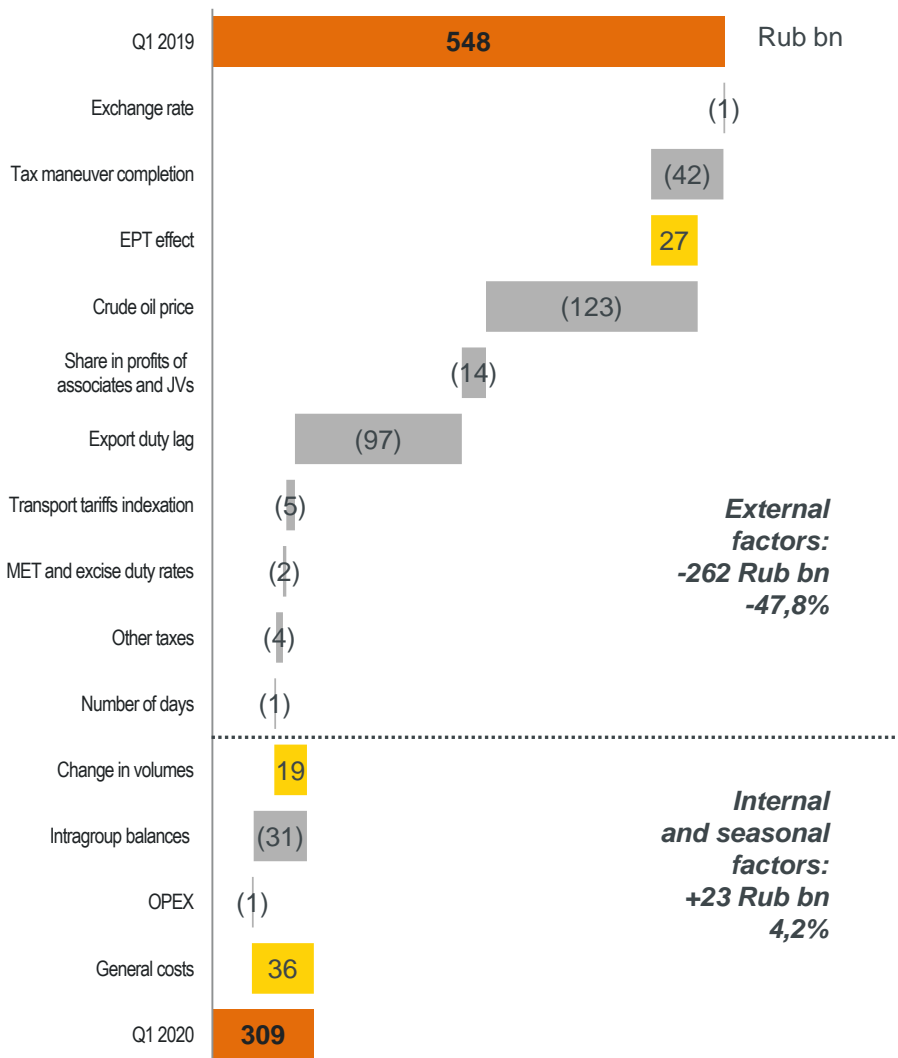
Note: (1) Adjusted for FX gains/losses and other one-off effects; (2) Adjusted for prepayments under long-term crude oil supply contracts (including accrued interest), net change in operations of subsidiary banks and operations with trading securities (RUB equivalent)

# EBITDA and Net Income Dynamics



## EBITDA Q1 2019 vs. Q1 2020

## Net income Q1 2019 vs. Q1 2020



# Calculation of Adjusted OCF



## Profit and Loss Statement

No	Indicator	Q1 2020, \$ bn
1	Revenue, incl.	27.6
	Reimbursement of prepayments and other financial obligations received	2.4
2	Costs and expenses, incl.	(25.4)
	Reimbursement of prepayments granted	(0.1)
3	<b>Operating profit (1+2)</b>	<b>2.2</b>
4	Expenses before income tax	(4.4)
5	Income before income tax (3+4)	(2.2)
6	Income tax	0.4
7	<b>Net income (5+6)</b>	<b>(1.8)</b>

## Cash Flow Statement

Q1 2020, \$ bn	Indicator	No
(1.8)	<b>Net income</b>	<b>1</b>
5.3	Adjustments to reconcile net income to cash flow from operations, incl.	2
(1.7)	Reimbursement of prepayments received under crude oil and petroleum products supply contracts	
(0.7)	Reimbursement of other financial obligations received	
0.1	Reimbursement of prepayments granted under crude oil and petroleum products supply contracts	
3.5	Changes in operating assets and liabilities, incl.	3
(0.2)	Interest on prepayments under long-term crude oil supply contracts	
(1.6)	Income tax payments, interest and dividends received	4
<b>5.4</b>	<b>Net cash from operating activities (1+2+3+4)</b>	<b>5</b>
(1.6)	Net change in operations of subsidiary banks	6
2.5	Effect from prepayments	7
<b>6.3</b>	<b>Adjusted operational cash flow (5+6+7)</b>	<b>8</b>

# Finance Expenses, Rub bn



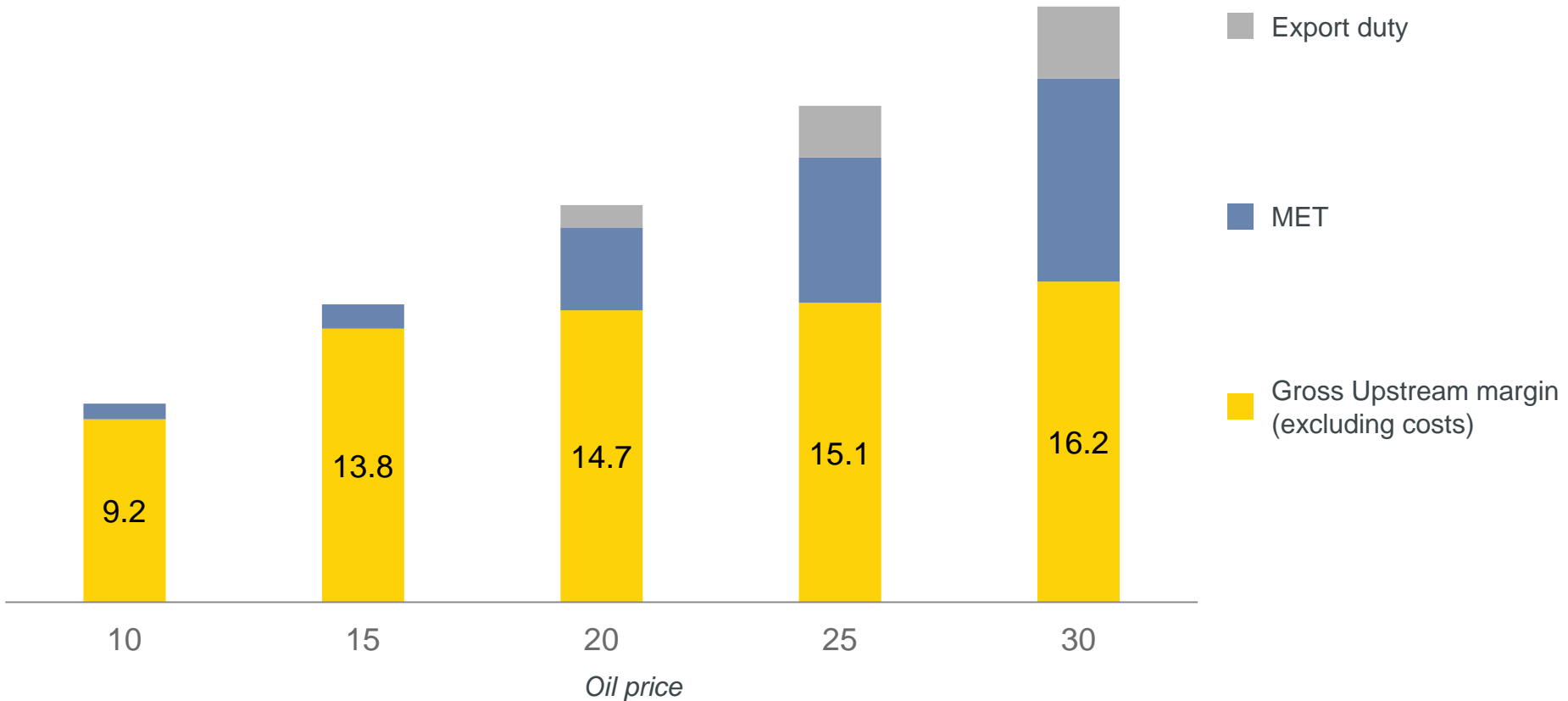
Indicator	Q1 2020	Q4 2019	%	Q1 2020	Q1 2019	%
1. Interest accrued <sup>1</sup>	65	67	(3.0)%	65	74	(12.2)%
2. Interest paid and offset <sup>2</sup>	66	72	(8.3)%	66	73	(9.6)%
3. Change in interest payable (1-2)	(1)	(5)	(80.0)%	(1)	1	–
4. Interest capitalized <sup>3</sup>	36	37	(2.7)%	36	41	(12.2)%
5. Net loss from operations with financial derivatives <sup>4</sup>	7	–	–	7	–	–
6. Increase in provision due to the unwinding of a discount	6	5	20.0%	6	5	20.0%
7. Interest on prepayments under long-term oil and petroleum products supply contracts	12	14	(14.3)%	12	21	(42.9)%
8. Change in fair value of financial assets	22	–	–	22	–	–
9. Increase in loss allowance for expected credit losses on debt financial assets	1	2	(50.0)%	1	1	–
10. Other finance expenses	3	–	–	3	4	(25.0)%
<b>Total finance expenses (1-4+5+6+7+8+9+10)</b>	<b>80</b>	<b>51</b>	<b>56.9%</b>	<b>80</b>	<b>64</b>	<b>25.0%</b>

Note: (1) Interest accrued on credits and loans and other financial obligations, (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, (4) Net effect on operations with financial derivatives was related to FX component fluctuations of cross-currency interest rate swaps.

# Fiscal Support During Crude Oil Price Fall



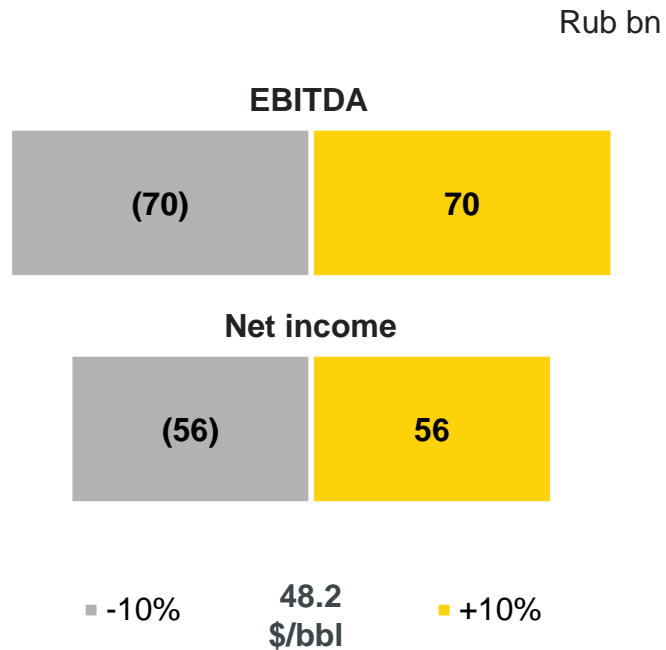
Main rental payments in the price of a barrel of oil produced in Russia  
\$/bbl



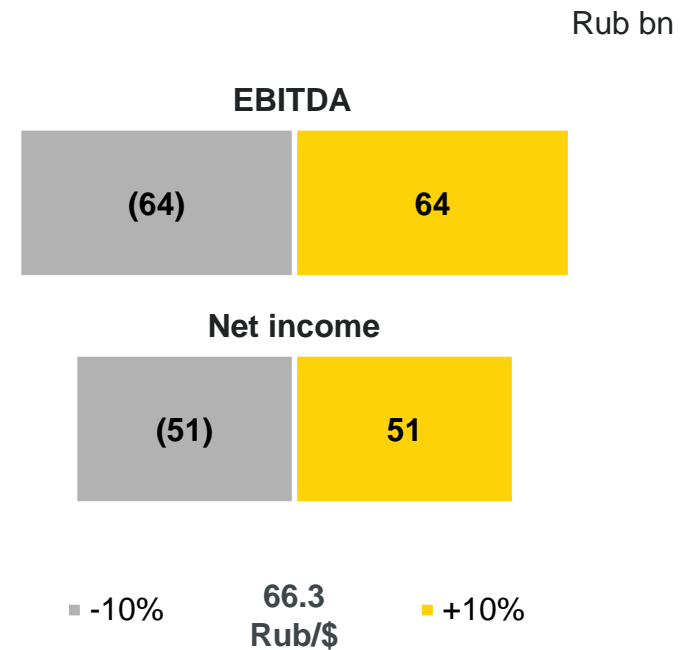
# Variance Analysis



Q1 2020 EBITDA and net income sensitivity to +/- 10% change in Urals price



Q1 2020 EBITDA and net income sensitivity to +/- 10% change in Rub/\$ exchange rate





# Questions & Answers

