

# Rosneft Oil Company IFRS Results Q3 2020



November 13, 2020

# Important Notice

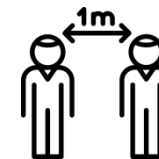
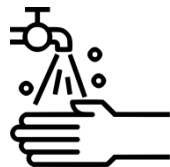


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# Facing the COVID-19 Challenge: Priority to People's Health and Well-being



## Care for employees

- Transition to remote work
- Regular testing (>560,000 tests)
- Psychological aid hotline
- >29.3 mln units of personal protective equipment
- Strict compliance with sanitary and epidemiological requirements
- >5.8 mln liters of disinfectant for offices and workplaces treatment

## Care for operations

- **Priority Action Plan** approved by the Board of Directors to ensure operational stability
- Emergency monitoring and response centers in **284** subsidiaries
- Epidemiological alertness regime in **117 rotation camps** and **230 shift camps**
- Rotation period is increased to **90 days**
- **263 observation rooms** for **21,400 patients** and **398 isolation rooms** for **13,400 patients**

## Care for customers

- Production of two **sanitizer components**, ethyl alcohol (ethanol) and acetone
- **32,300 tons** of acetone and **2,700 tons** of ethyl alcohol sold on the domestic market
- Contactless fuel payment service
- Personal protective equipment and financial support for medical institutions

# The Company's Progress in Sustainable Development is Reflected in Designated International ESG Ratings



## Bloomberg

**One of the global leaders, ahead of most O&G companies**

Rating improved to 70.1



**The best Russian oil and gas company in the Global CDP climate change and water security rating**

The Climate change rating improved to B. Rosneft was assigned the B- Water security rating for the first time



FTSE4Good

**Rosneft was included in the international FTSE4Good Index**

The highest score in the Management category

## REFINITIV

**Among top 10 industry leaders**

Rating improved to A



**The company integrates climate issues into the decision-making process of its operating activity**

The rating in the Management quality category improved to 3 points out of 4

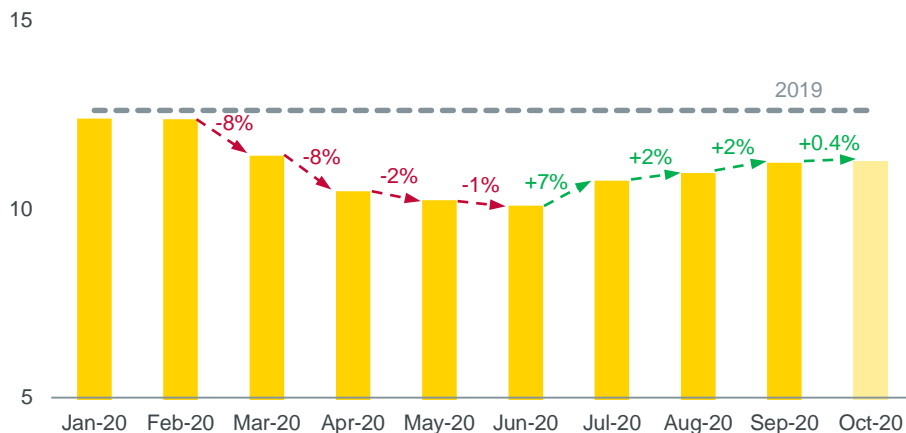


**The Company was included in the top 100** of 843 emerging market companies, representing 32 sectors of the economy from 31 countries

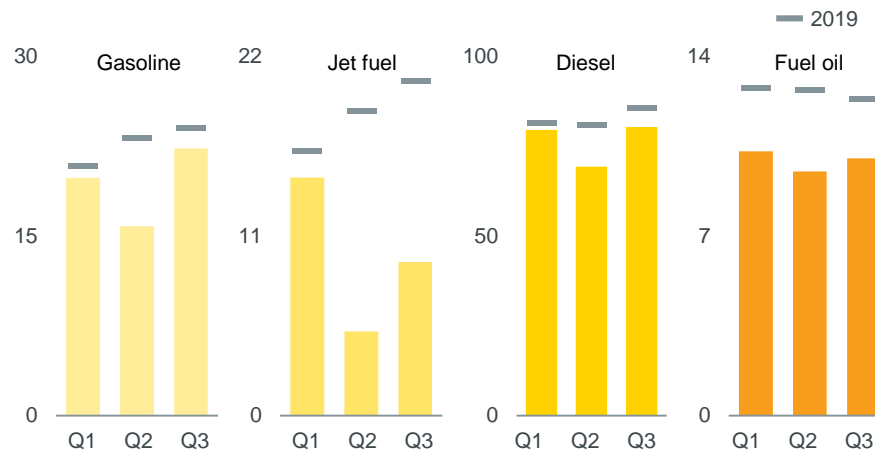
# COVID-19 Impact on Crude Oil and Petroleum Products Demand



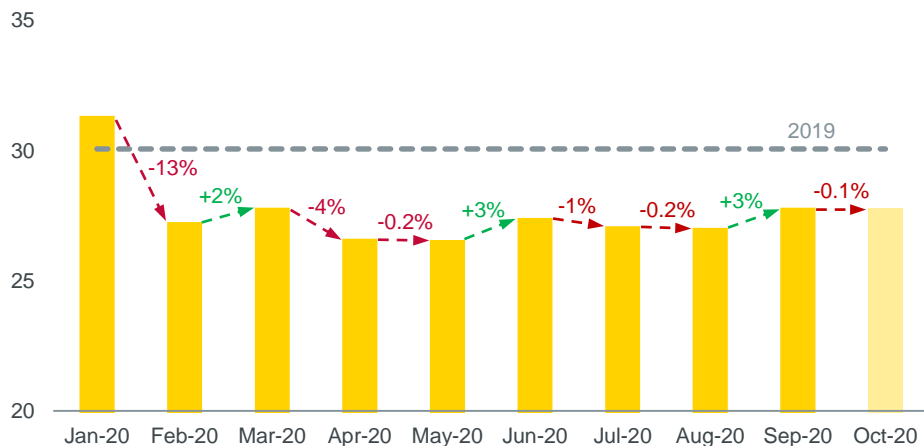
## Oil demand in Europe, mmbd



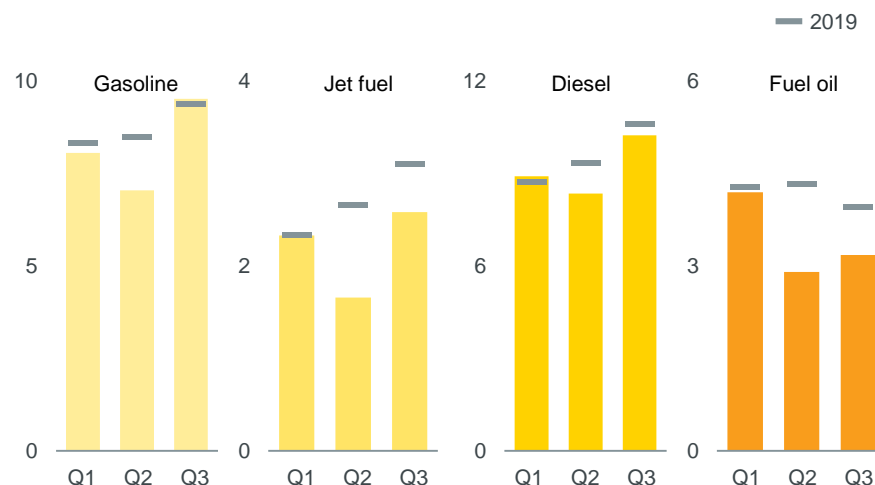
## Main petroleum products demand in Europe, mmt



## Oil demand in Asia-Pacific region, mmbd



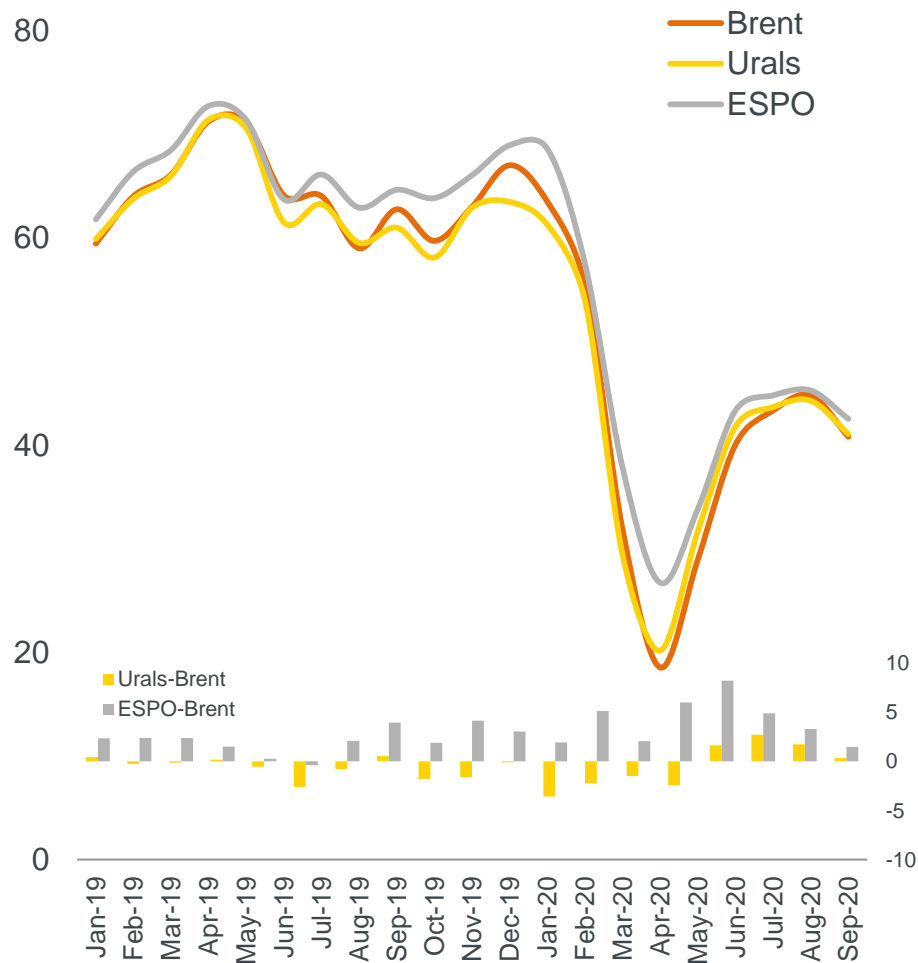
## Domestic demand for main petroleum products, mmt



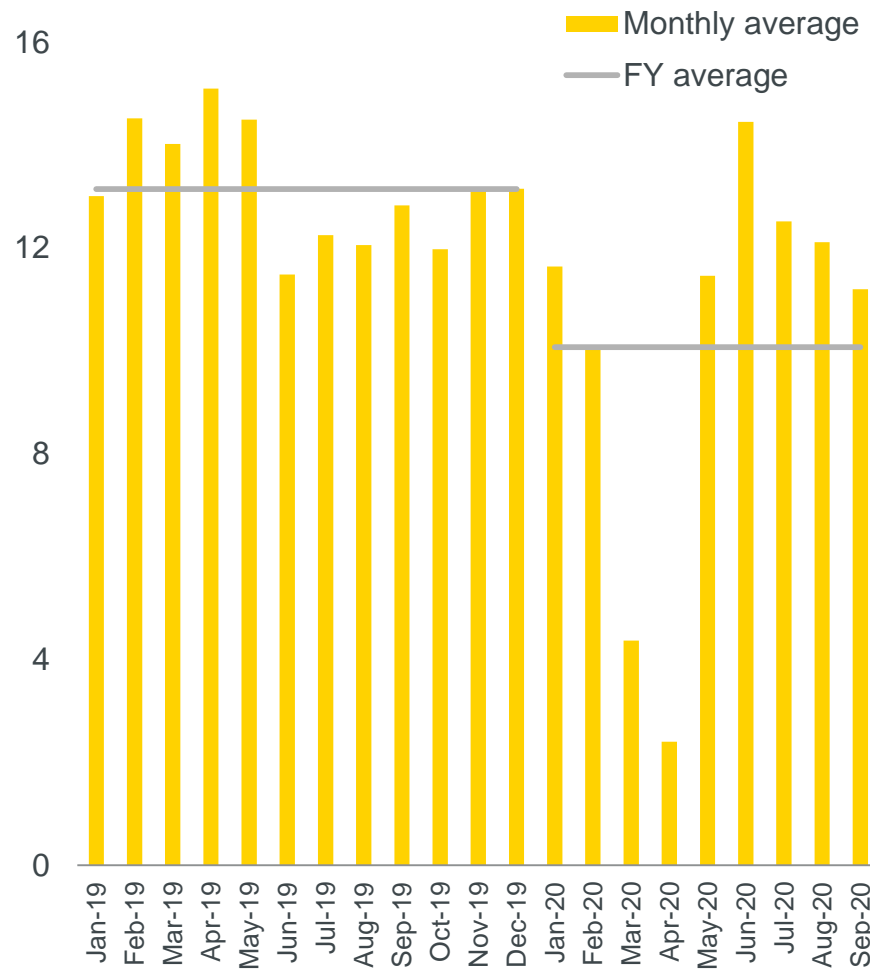
# Record Low Oil Prices Followed by Partial Recovery



Oil prices and differentials<sup>1</sup>, \$/bbl



Gross Upstream margin<sup>2</sup>, '000 Rub/t



Note: (1) Monthly averages, (2) Calculated as Urals price less export customs duty and effective MET rate

# Key Events



- 1 New tax initiatives for the Russian oil and gas sector were approved<sup>1</sup>
- 2 Tightened cost control.  
Unit lifting costs reduced to \$2.8 per bbl
- 3 Despite continued pressure from external factors, Q3 EBITDA exceeded the pre-crisis Q1 level
- 4 The Company generated positive free cash flow and continued to reduce debt
- 5 Over 80 mln shares and GDRs for a total of c. \$370 mln have been purchased under the share buyback program<sup>2</sup>



# Impact of New Tax Initiatives



	CONTENT	SUBJECT
<b>Cancellation of tax benefits for depleted fields with an option to switch to EPT regime</b>	<p>Cancellation of MET relief</p> <p>Option to switch to EPT provided (Group 3)</p> <p>Provision of a 20% MET relief starting 2024</p>	c. <b>57 mmt</b> of crude produced at depleted fields in 2019 subject to reduced MET rate
<b>Cancellation of tax benefits for high-vicious oil and export duty holidays for certain projects</b>	<p>Zero/reduced MET and export duty rates were replaced by the standard ones, an option to switch to EPT provided</p>	<p>Russkoye,</p> <p>Vostochno-Messoyakhskoye</p> <p>Srednebotuobinskoye fields</p>
<b>Revision of the EPT parameters</b>	<p>Introduction of an increased MET coefficient for the fields included in Group 2</p> <p>Tax deductible historical costs, operating and capital expenses were limited</p>	<p>Prirazlomnoye field</p> <p>&gt; <b>27 mmt</b> of crude produced in 2019 at fields transferred to the EPT regime</p>
<b>MET deduction for certain projects</b>	<p>Reduction of the cut-off price for the MET deduction to \$25/bbl Urals, zero MET period for greenfields extended to 16 years</p> <p>Provision of a MET deduction for the implementation of an investment agreement</p>	<p>Vankor cluster - funds for the construction of the Vostok Oil project infrastructure</p> <p>Priobskoye field - up to Rub 460 bn (until 2032) to finance the field development</p>

■ mixed impact

■ negative impact

■ positive impact



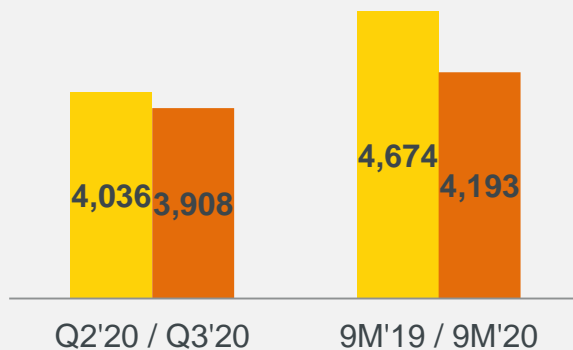
# Operating Results



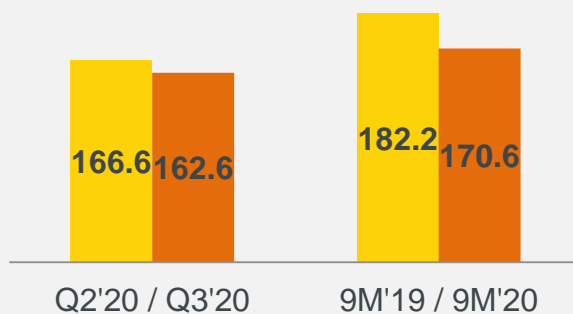
# Key Operating Indicators



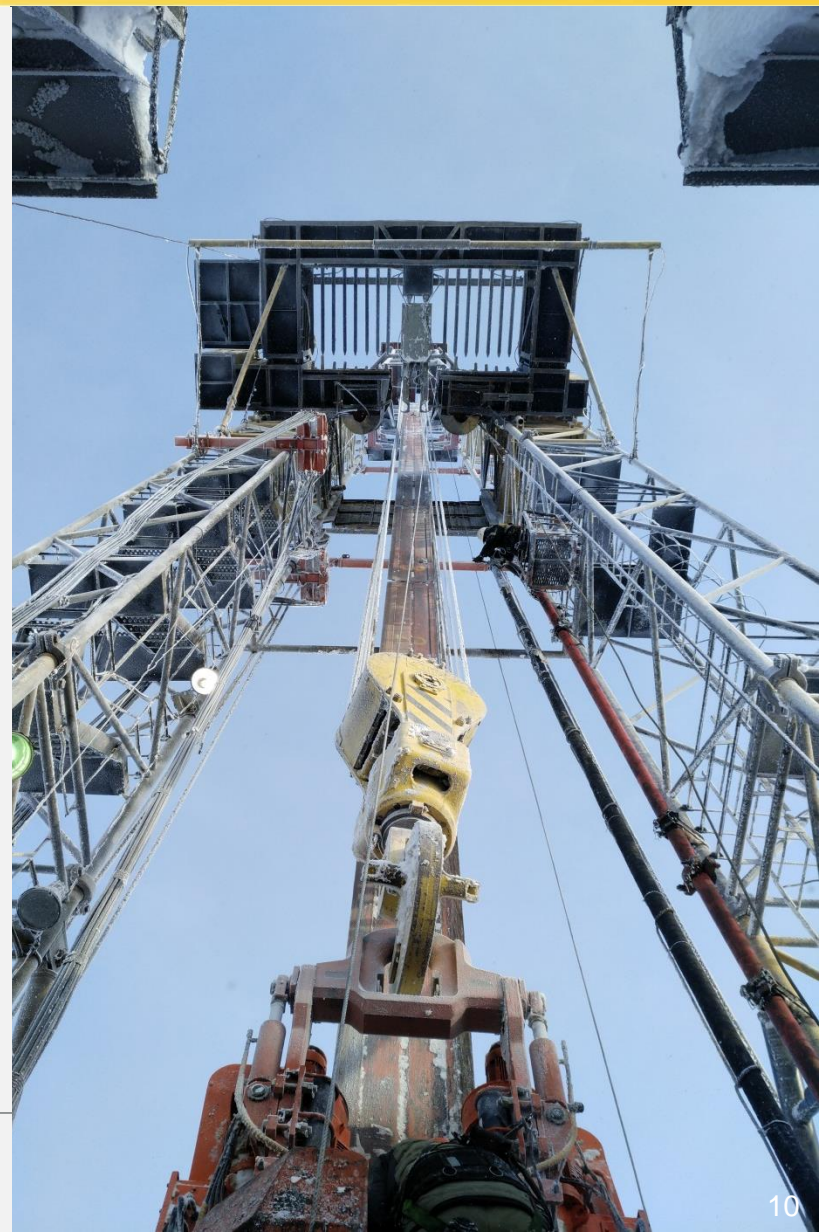
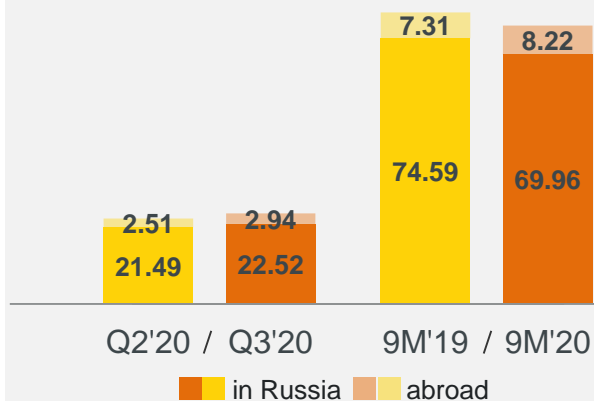
**Liquids production,**  
*kbd*



**Gas production,**  
*mmcmd*



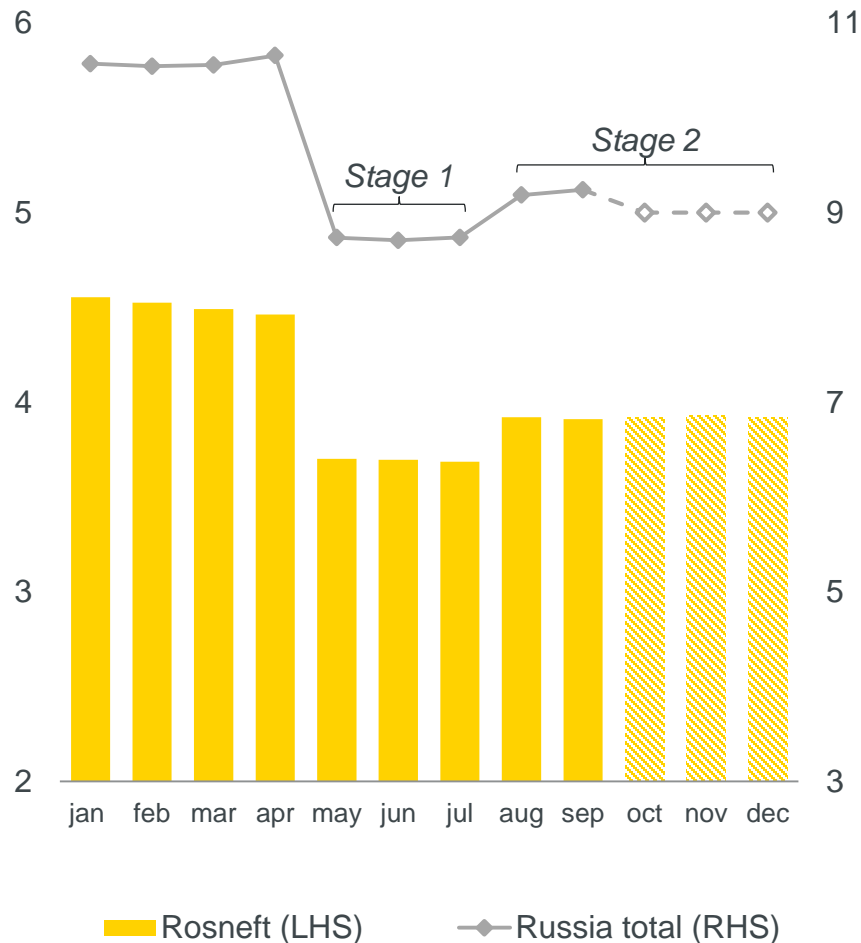
**Refining throughput,**  
*mmt*



# Navigating OPEC+ Environment



Crude oil production in Russia (2020), mmbd



- The Company has started oil production cuts under the new OPEC+ agreement since May 2020
- Production cuts on a pro rata basis
- Stage 1 extended till the end of July 2020
- Easing of restrictions starting August until December 2020 under Stage 2
- Rapid production recovery in Stage 2 – a 6% increase already in early August
- Commitment to successful execution of the chosen approach to cut production:
  - Asset selection (to cut production) is based on economic efficiency
  - Continued development of new fields
  - Efficient long-cycle wellworks to be continued according to schedule
  - Efficient well stock management

# Development of Key Oil Projects



Severo-Komsomolskoye field	Lodochnoye field
<p>3P (PRMS) reserves – 269 mmtoe<sup>1</sup></p> <p>The implementation of the 1<sup>st</sup> stage of full-scale field development (PK-1 horizon) has begun</p> <p>Development drilling is in progress, 51 wells have been drilled as of September 30, 2020</p> <p>Engineering preparation of the main facilities sites for the full-scale development of the field is underway</p>	<p>3P (PRMS) reserves – 85 mmtoe</p> <p>Pilot development programs are being implemented with connection to the facilities of the Vankor field</p> <p>Development drilling is in progress, 41 well have been drilled as of September 30, 2020</p> <p>Construction and installation work is underway at infrastructure facilities and oil and gas processing facilities</p>
<p>The map shows the Irkutsk Region with three key oil fields marked: YaNAD (top), KhMAD (middle), and Severo-Danilovskoye (bottom). Dotted lines with arrows connect these fields to the project detail boxes above and below.</p>	
Erginskiy LA	Severo-Danilovskoye
<p>3P (PRMS) reserves – 89 mmtoe</p> <p>Launch – Q3 2020, production plateau – ~4.5 mmt (2024)</p> <p>Development drilling is in progress at 10 pads, 199 wells have been drilled as of September 30, 2020</p> <p>A 79 km pressure pipeline welding is completed, the pipeline was put into operation, shipping of commercial oil to the Transneft system began</p> <p>Construction of infrastructure facilities, pads, infield pipelines and electric power transmission lines is underway</p>	<p>3P (PRMS) reserves – 101 mmtoe<sup>2</sup></p> <p>Launch – Q4 2020, production plateau – ~2 mmt<sup>2</sup> (2024)</p> <p>95 well to be drilled, 13 wells have been drilled as of September 30, 2020. The majority of wells will be horizontal</p> <p>A 4 MW mobile power center was put into operation. The welding of the oil pipeline to the Verkhnechonskoye field is completed, preparatory work for hydraulic tests is underway</p> <p>Construction of pads, infrastructure facilities and motor roads is underway</p>

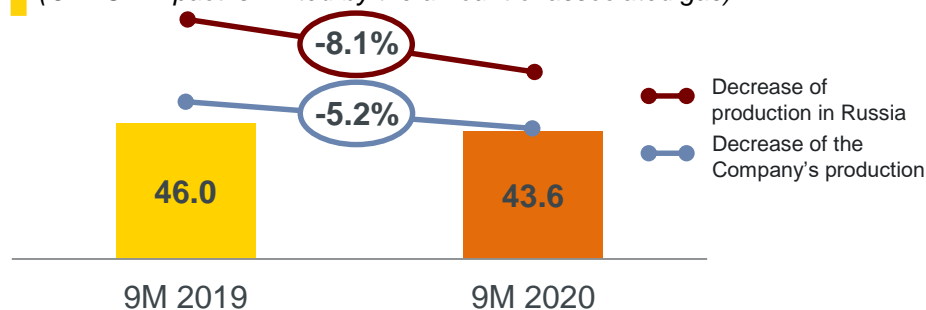
Note: (1) Reserves volume of the entire field; (2) Reserves volume and production plateau of the entire field

# Gas Business

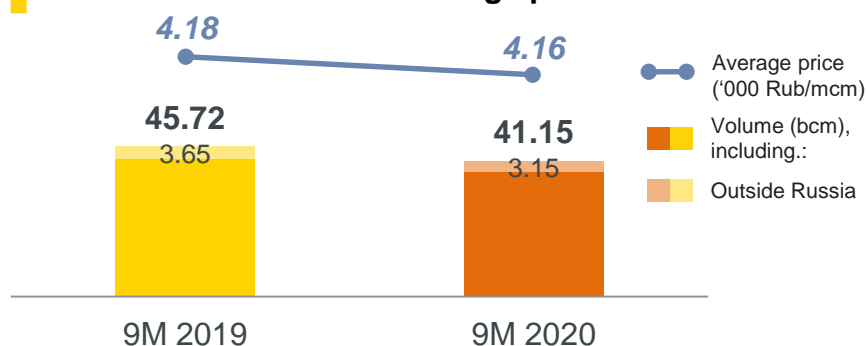


## Gas production in Russia, bcm

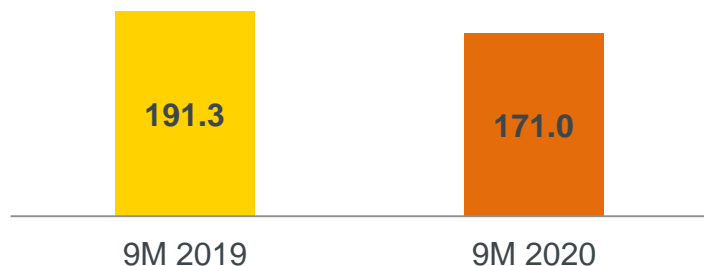
(OPEC+ impact is limited by the amount of associated gas)



## Gas sales volumes and average price



## Gas sales revenues, Rub bn



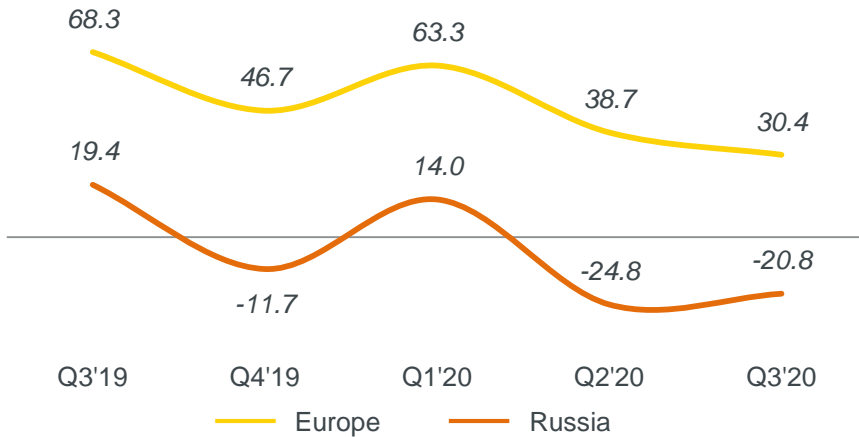
- The Company's 9M 2020 gas production declined by 5.2% (YoY) compared to 8.1% total reduction in Russia<sup>1</sup>
- The main growth driver is the Rospan project, which provides the largest incremental production increase for both gas and liquids
- Projects development at Sibneftegaz and Kharampurneftegaz fields is in active phase
- According to the Federal Antimonopoly Service gas prices for industrial consumers and citizens have been increased by 3% starting August 1, 2020
- Decrease of revenues was caused by demand reduction following warm weather conditions as well as external factors that negatively influenced end consumers

Note: (1) Gas extracted less gas flared

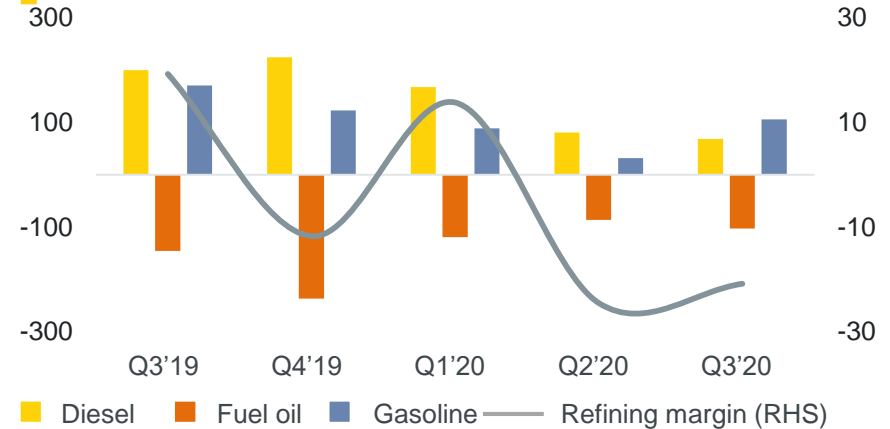
# Refining



## Refining margins<sup>1</sup>, \$/tonne

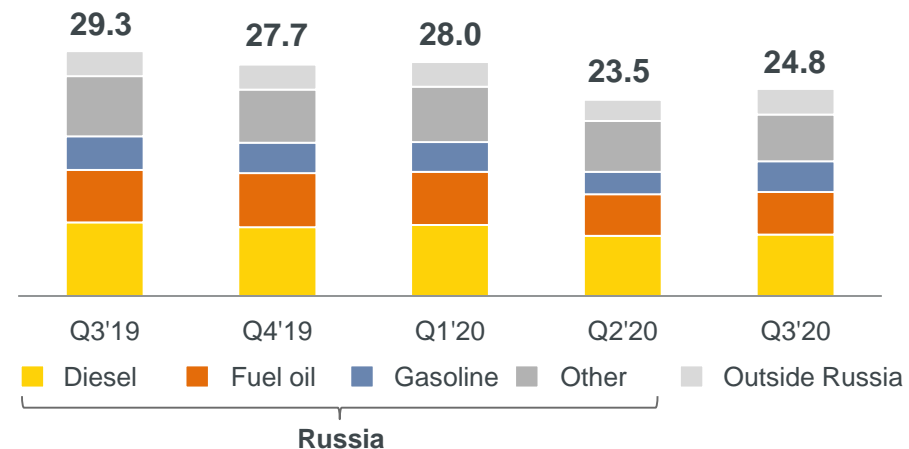


## Key product prices less cost of feedstock, Russian refineries<sup>1</sup>, \$/tonne



- Negative refining margin in Russia in Q3 2020 was caused by poor market environment:
  - Crude oil prices recovery
  - Decrease of wholesale prices starting August
  - Damper effect that remained in the negative zone. While its figure was better than in Q2 2020 providing positive margin dynamics in Q3
- Negative refining margin dynamics outside Russia in Q3 2020 was caused by crude oil prices recovery and reduction of key petroleum product crack spreads

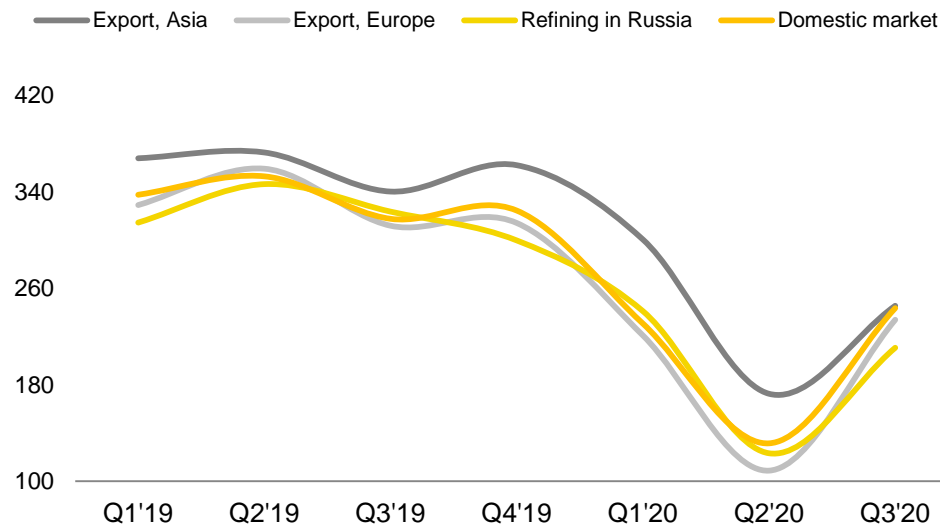
## Product output (mmt)



# Focus on Distribution Channels Development

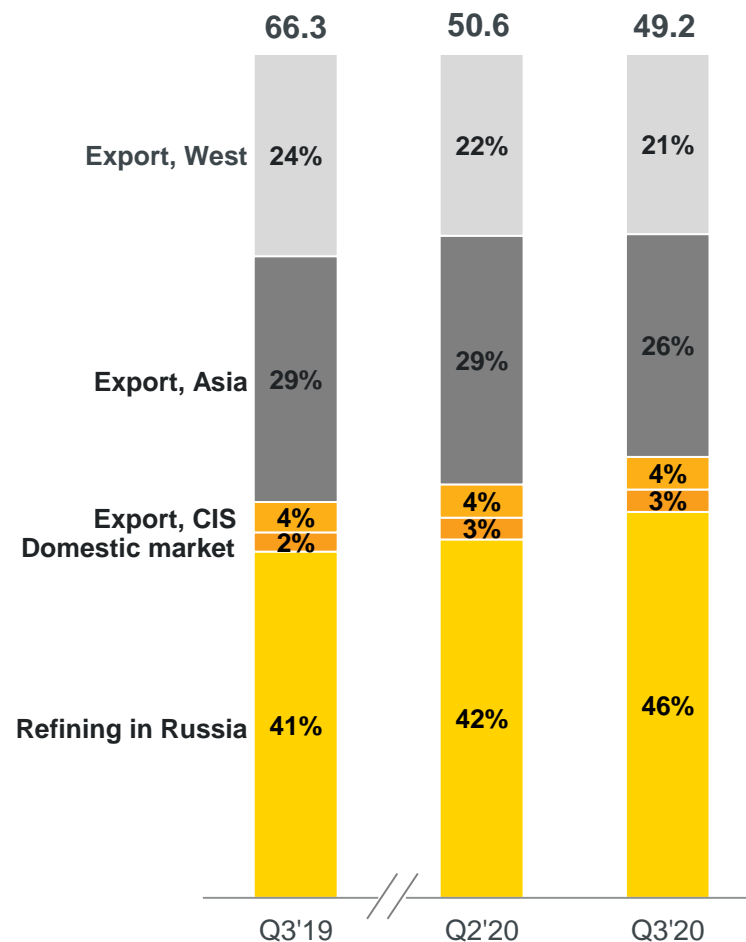


## Netbacks of the main crude oil marketing channels, \$/tonne



- In Q3 2020 crude oil supplies to non-CIS countries amounted to 23.5 mmt, including crude oil supplies eastwards that reached 13.0 mmt, i.e. 55.3% of total sales to non-CIS countries
- In Q3 2020 crude oil exports to non-CIS countries amounted to 21.7 mmt while the share of 1+ years term contracts amounted to over 90%
- In Q3 2020 motor fuel sales via the exchange exceeded the required level by 3x times

## Crude oil marketing breakdown, mmt



# Financial Results





# Key Financial Indicators



**366** Rub bn

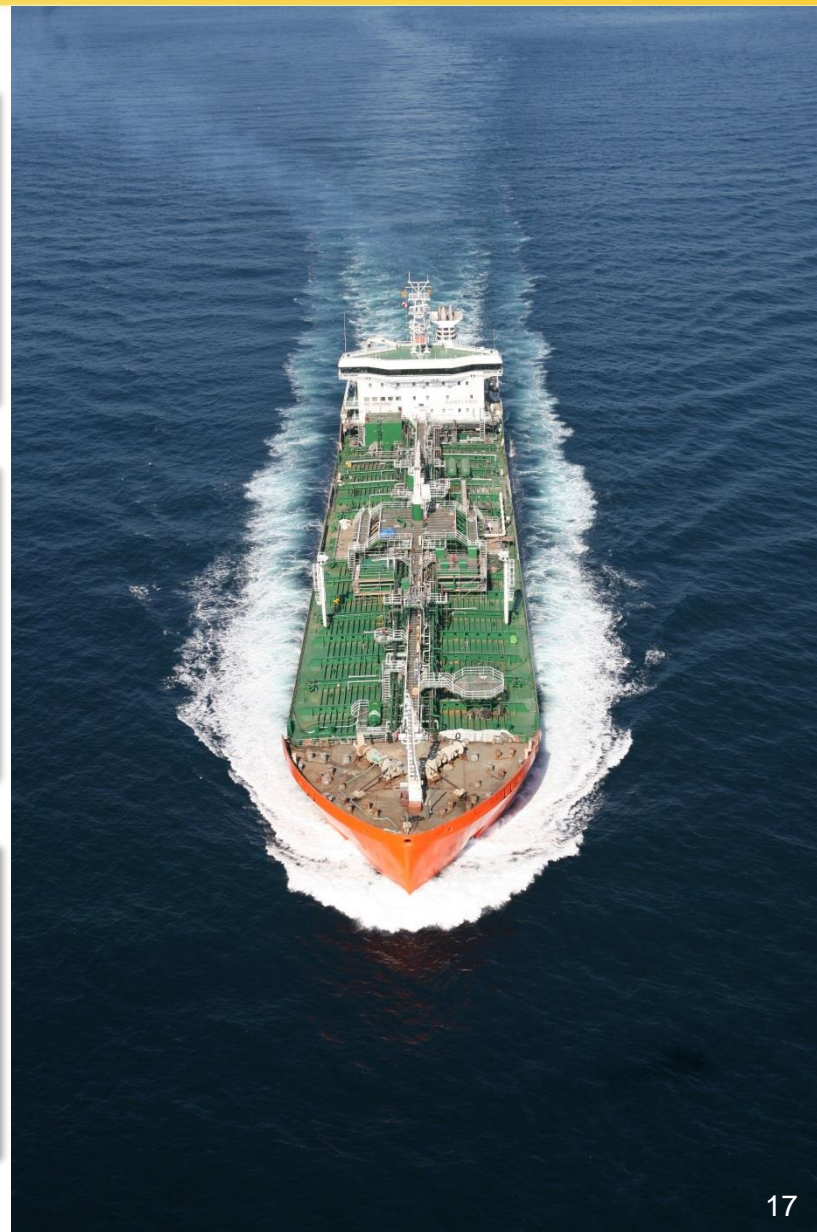
Q3 2020 EBITDA  
+18% vs.  
pre-crisis Q1

**352** Rub bn

9M 2020 free cash flow

**-5.7** \$ bn

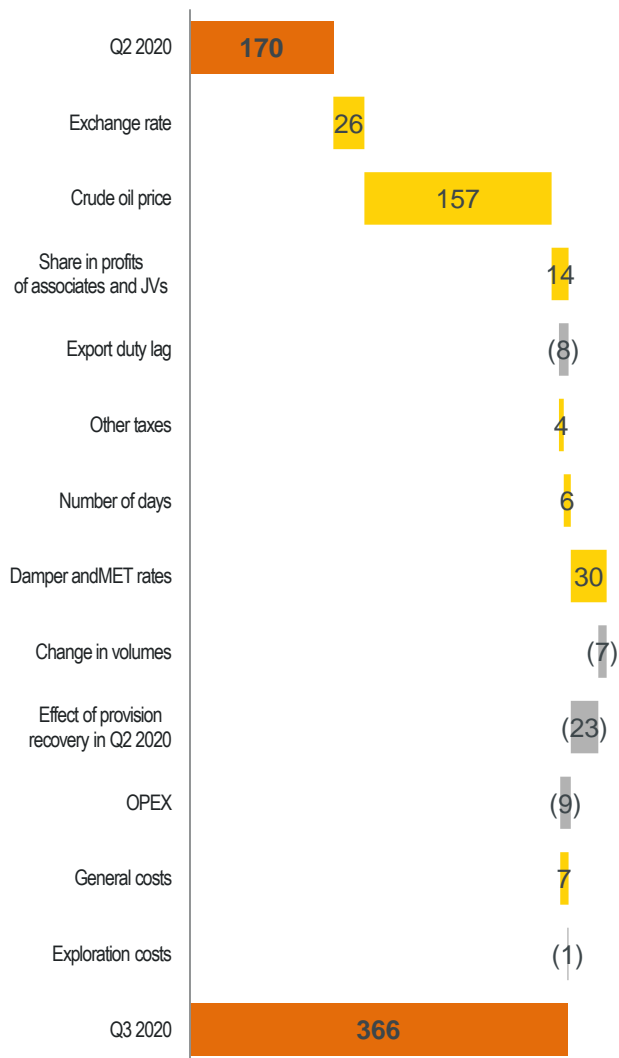
Reduction of debt and trading  
liabilities YTD



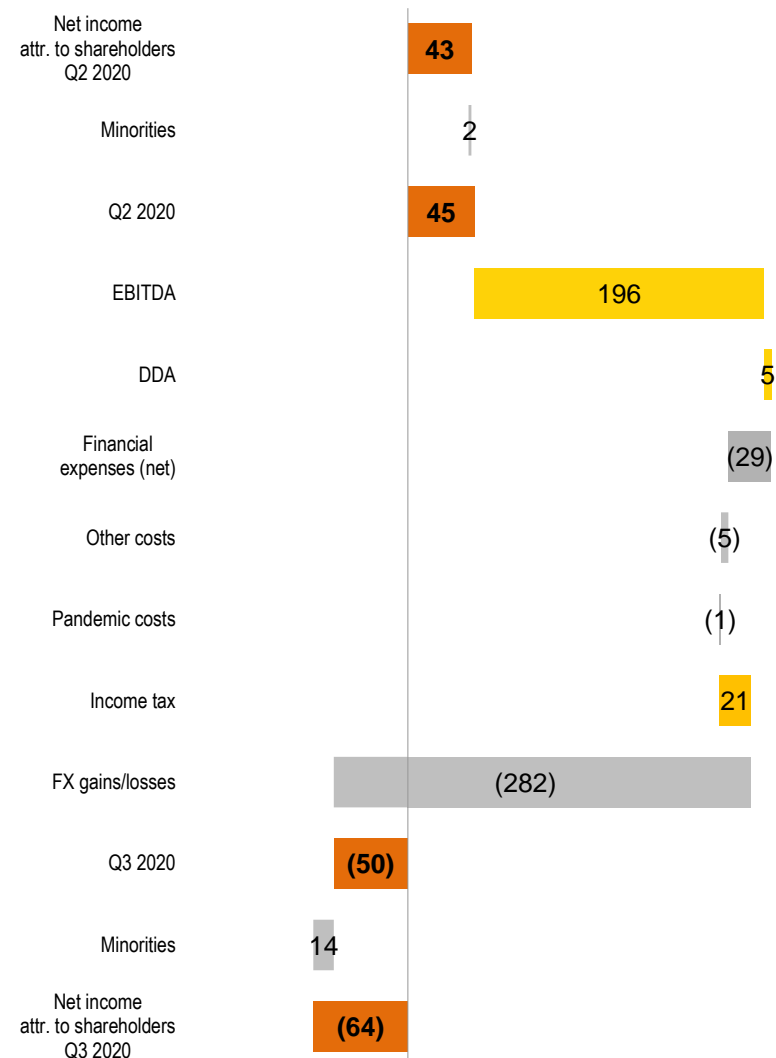
# EBITDA and Net Income Dynamics



## EBITDA Q3 2020 vs. Q2 2020, Rub bn



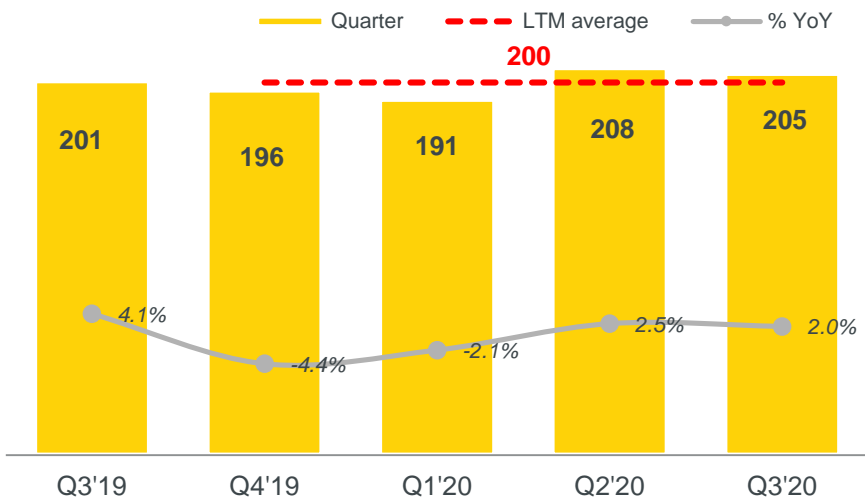
## Net Income Q3 2020 vs. Q2 2020, Rub bn



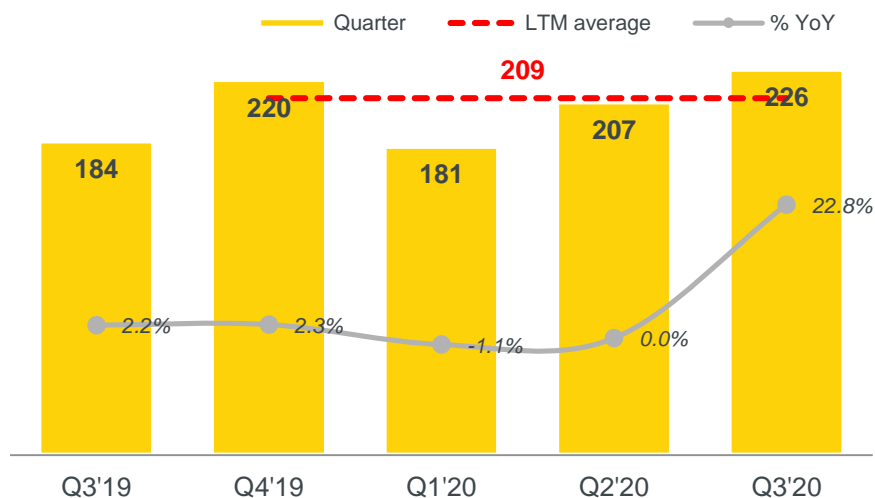
# Costs Dynamics



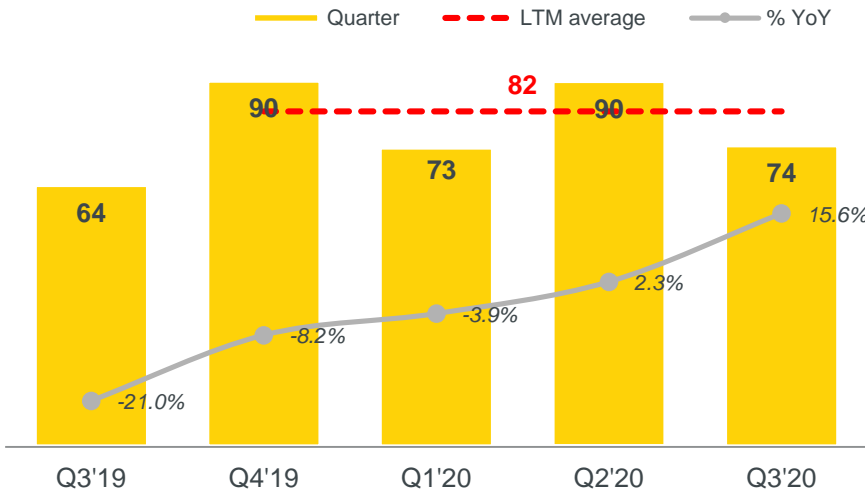
## Lifting costs, Rub/boe



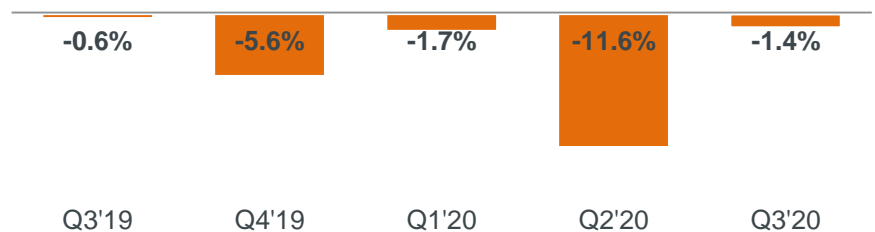
## Refining costs in Russia, Rub/bbl



## General and administrative costs<sup>1</sup>, Rub/boe



## Producer Price Index (annual basis), %

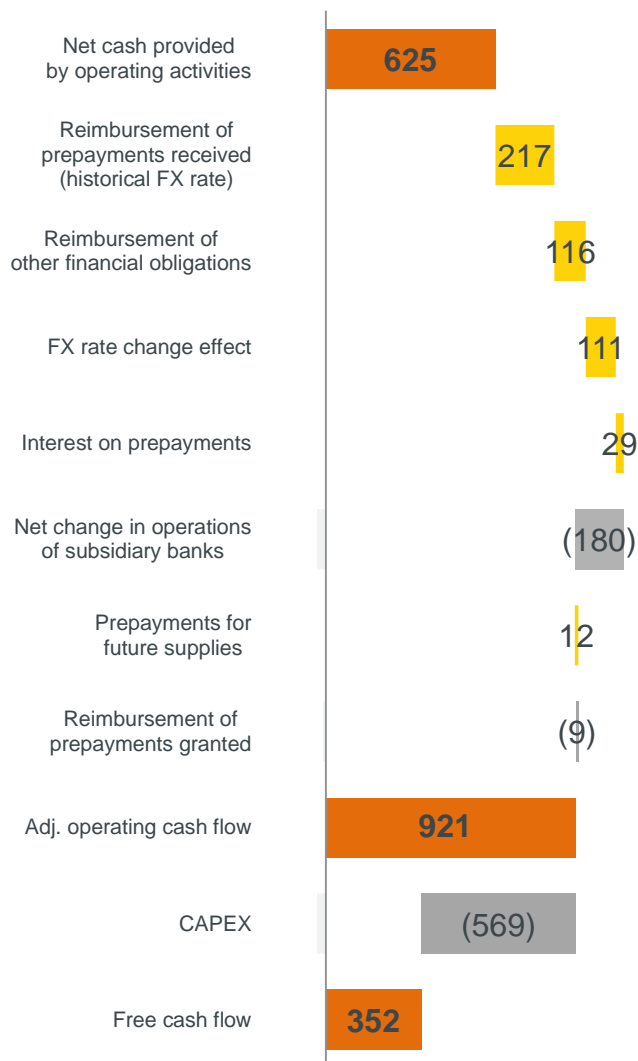


Note: (1) Excluding provisions

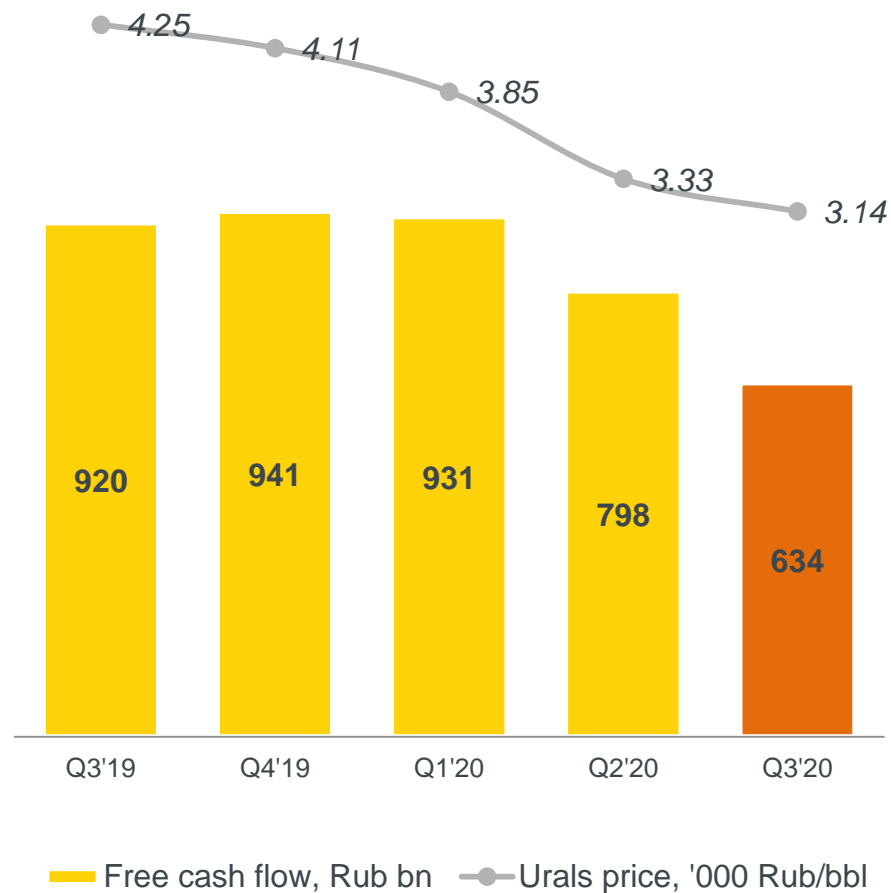
# Strong Free Cash Flow



## Free cash flow calculation, Rub bn



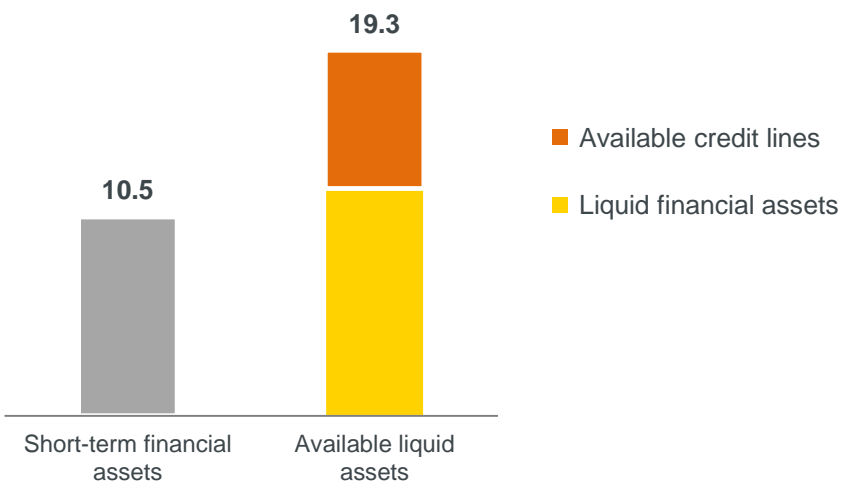
## Crude oil price and free cash flow dynamics, LTM



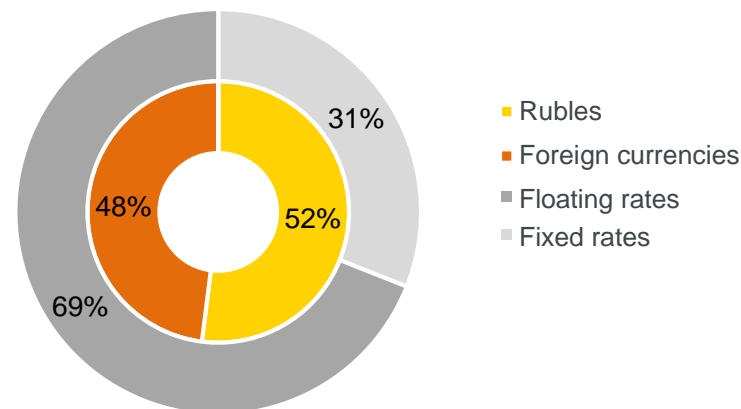
# Debt Optimization



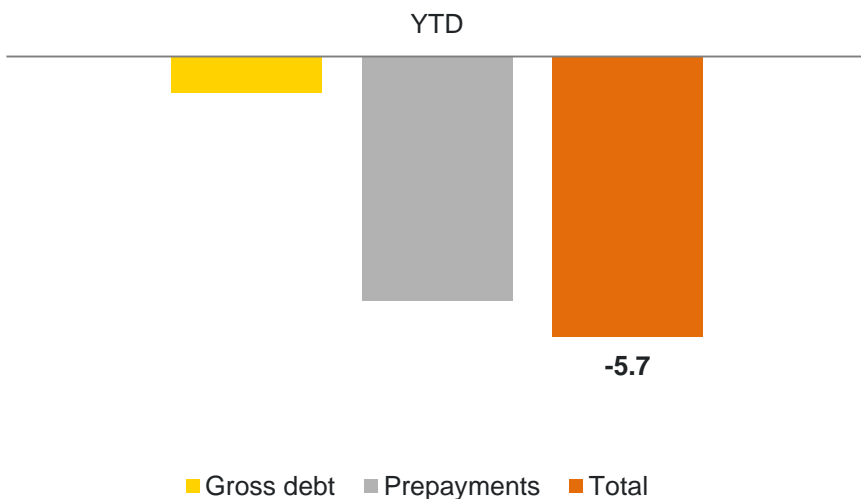
## Liquidity position as of September 30, 2020, \$ bn



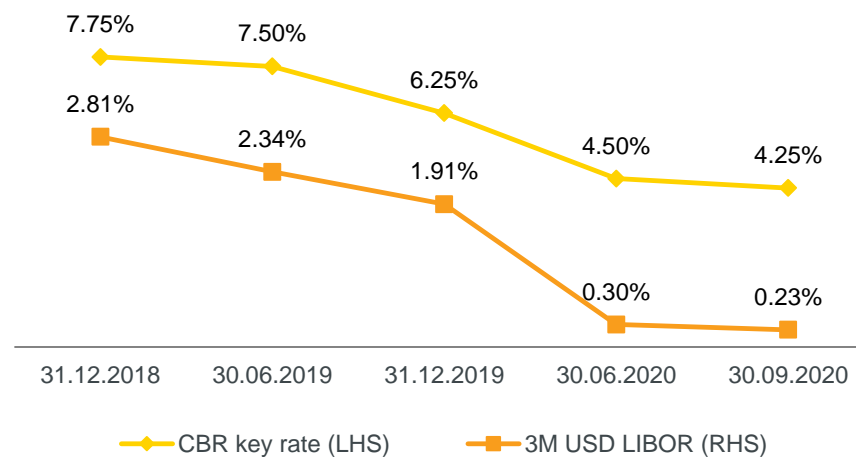
## Financial debt breakdown as of September 30, 2020



## Gross debt and trading liabilities dynamics, \$ bn



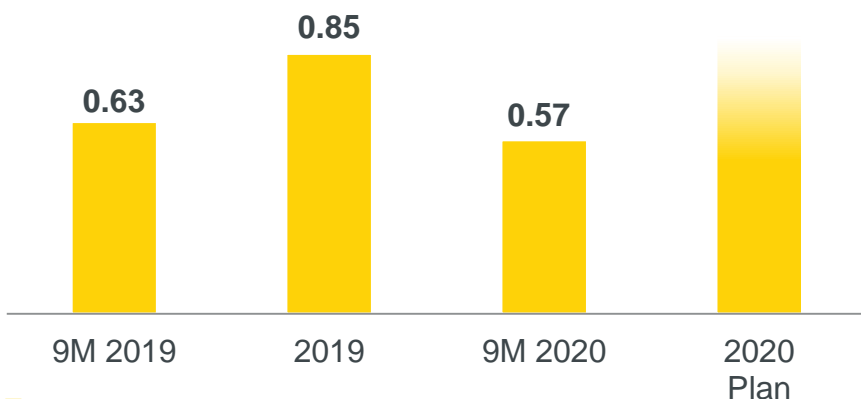
## CBR key rate and LIBOR



# CAPEX



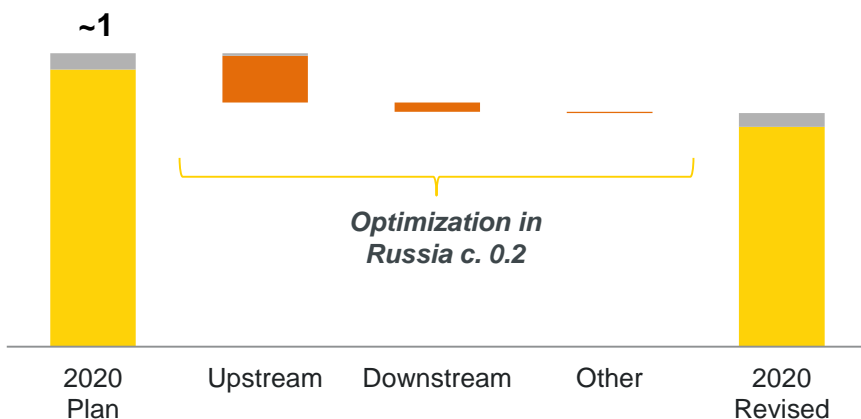
## CAPEX evolution, Rub trln



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 / production restrictions will be lifted

## Revision of CAPEX, Rub trln



### Key areas for optimization

- Postponing/eliminating less economically viable projects
- Rising hurdle rates for certain groups of projects
- Maintaining active pre-investment work on high-margin perspective projects

# Appendix



# Key Operational Highlights



Indicator	Q3 2020	Q2 2020	%	9M 2020	9M 2019	%
Hydrocarbon production, incl. kboed	<b>4,898</b>	5,051	(3.0)%	<b>5,232</b>	5,783	(9.5)%
Liquids kbpd	<b>3,908</b>	4,036	(3.2)%	<b>4,193</b>	4,674	(10.3)%
Gas kboed	<b>990</b>	1,015	(2.5)%	<b>1,039</b>	1,109	(6.3)%
Oil refining mmt	<b>25.46</b>	24.00	6.1%	<b>78.18</b>	81.90	(4.5)%
Product output in Russia mmt	<b>21.76</b>	20.93	4.0%	<b>67.76</b>	72.06	(6.0)%



# Key Financial Highlights



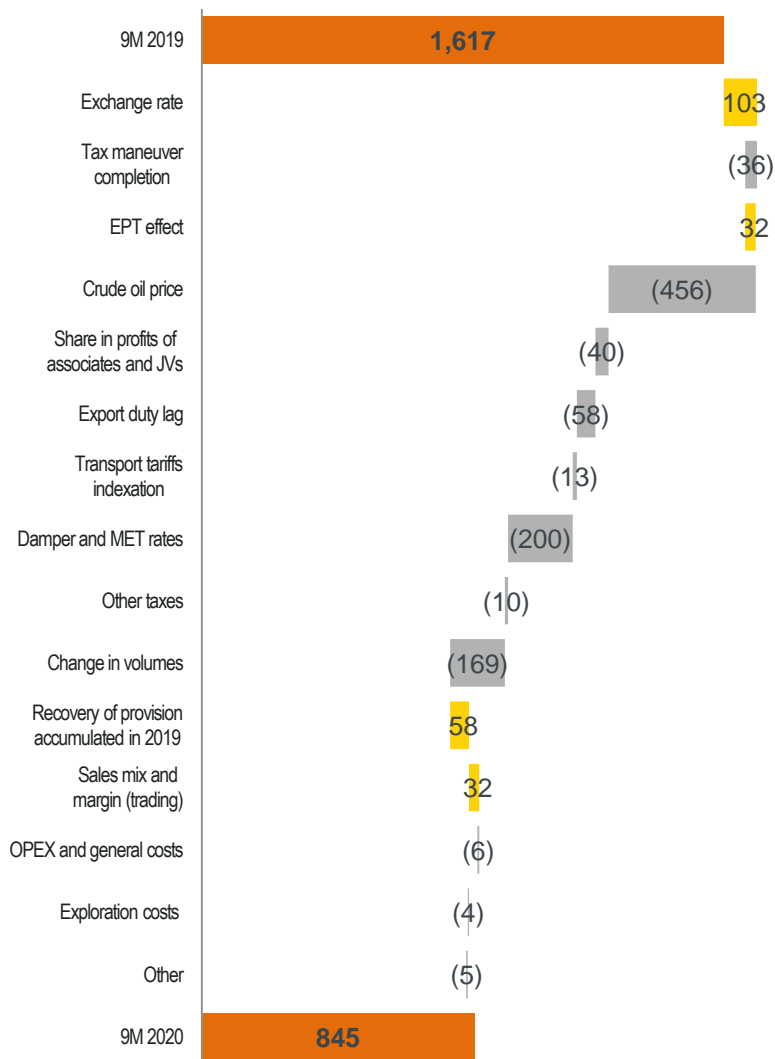
Indicator	Q3 2020	Q2 2020	%	9M 2020	9M 2019	%
EBITDA, Rub bn	366	170	>100%	845	1 617	(47.7)%
Net Income, Rub bn <i>attributable to Rosneft shareholders</i>	(64)	43	>100%	(177)	550	>100%
Adjusted net income <sup>1</sup> , Rub bn	108	(56)	–	86	733	(88.3)%
Adjusted operating cashflow <sup>2</sup> , Rub bn	348	169	>100%	921	1 293	(28.8)%
CAPEX, Rub bn	202	182	11.0%	569	634	(10.3)%
Free Cash Flow, Rub bn	146	(13)	–	352	659	(46.6)%
<hr/>						
EBITDA, \$ bn	5.0	2.5	100.0%	12.4	24.8	(50.0)%
Net Income, \$ bn <i>attributable to Rosneft shareholders</i>	(0.8)	0.7	–	(2.1)	8.5	–
Adjusted net income <sup>1</sup> , \$ bn <i>attributable to Rosneft shareholders</i>	1.5	(0.8)	–	1.2	11.3	(89.4)%
Adjusted operating cashflow <sup>2</sup> , \$ bn	4.7	2.4	95.8%	13.4	19.7	(32.0)%
CAPEX, \$ bn	2.7	2.5	8.0%	8.0	9.7	(17.5)%
Free Cash Flow, \$ bn	2.0	(0.1)	–	5.4	10.0	(46.0)%
<hr/>						
Urals price, '000 Rub/bbl	3.17	2.26	40.1%	2.89	4.17	(30.8)%

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)

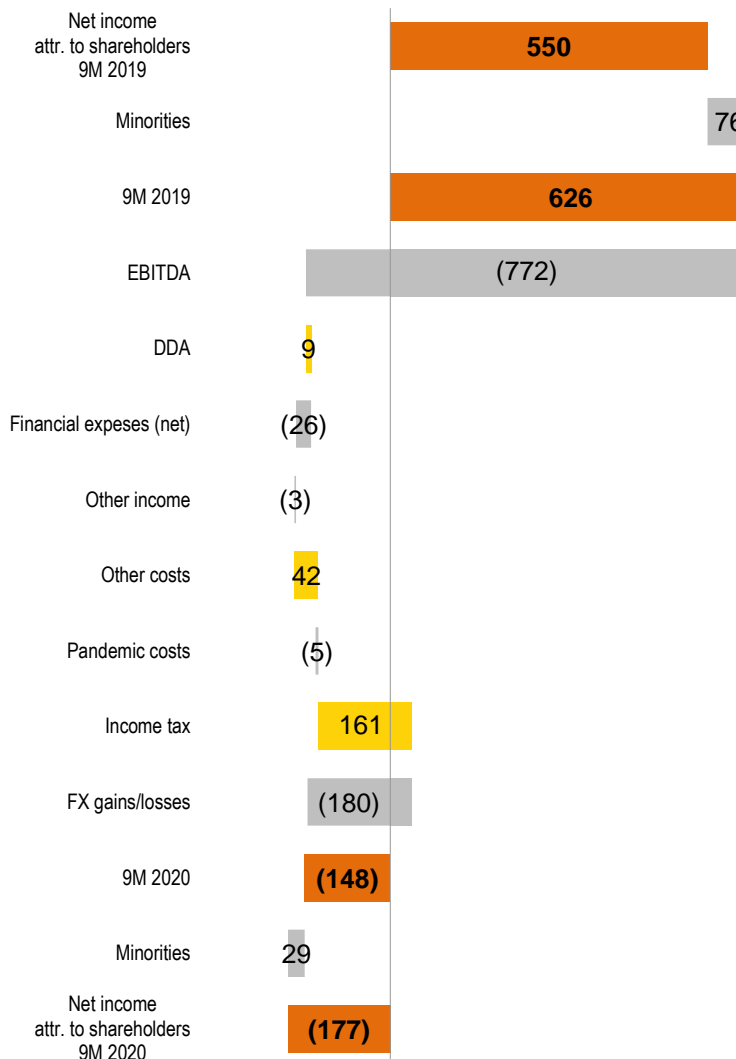
# EBITDA and Net Income Dynamics



## EBITDA 9M 2020 vs. 9M 2019, Rub bn



## Net Income 9M 2020 vs. 9M 2019, Rub bn



# Calculation of Adjusted OCF



## Profit and Loss Statement

No	Indicator	9M 2020, \$ bn
1	Revenue, incl.	62.6
	Reimbursement of prepayments and other financial obligations received	6.3
2	Costs and expenses, incl.	(57.4)
	Reimbursement of prepayments granted	(0.1)
3	<b>Operating profit (1+2)</b>	<b>5.2</b>
4	Expenses before income tax	(7.2)
5	Income before income tax (3+4)	(2.0)
6	Income tax	0.3
7	<b>Net income (5+6)</b>	<b>(1.7)</b>

## Cash Flow Statement

9M 2020, \$ bn	Indicator	No
(1.7)	<b>Net income</b>	<b>1</b>
7.0	Adjustments to reconcile net income to cash flow from operations, incl.	2
(4.6)	Reimbursement of prepayments received under crude oil and petroleum products supply contracts	
(1.7)	Reimbursement of other financial obligations received	
0.1	Reimbursement of prepayments granted under crude oil and petroleum products supply contracts	
4.3	Changes in operating assets and liabilities, incl.	3
(0.4)	Interest on prepayments under long-term crude oil supply contracts	
(0.3)	Income tax payments, interest and dividends received	4
<b>9.3</b>	<b>Net cash from operating activities (1+2+3+4)</b>	<b>5</b>
(2.7)	Net change in operations of subsidiary banks	6
0.2	Prepayments for future supplies	7
6.6	Effect from prepayments	8
<b>13.4</b>	<b>Adjusted operational cash flow (5+6+7+8)</b>	<b>9</b>

# Finance Expenses, Rub bn



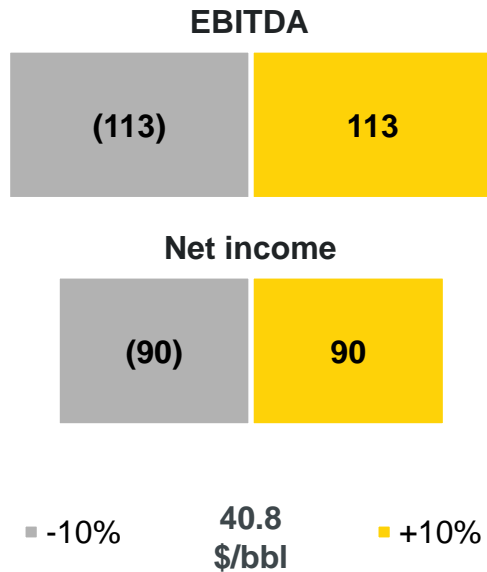
Indicator	Q3 2020	Q2 2020	%	9M 2020	9M 2019	%
1. Interest accrued <sup>1</sup>	66	63	4.8%	194	215	(9.8)%
2. Interest paid and offset <sup>2</sup>	64	60	6.7%	190	211	(10.0)%
3. Change in interest payable (1-2)	2	3	(33.3)%	4	4	–
4. Interest capitalized <sup>3</sup>	32	32	–	100	121	(17.4)%
5. Net loss from operations with financial derivatives <sup>4</sup>	3	(4)	–	6	–	100.0%
6. Increase in provision due to the unwinding of a discount	6	6	–	18	14	28.6%
7. Interest on prepayments under long-term oil and petroleum products supply contracts	8	9	(11.1)%	29	56	(48.2)%
8. Change in fair value of financial assets	(1)	(20)	(95.0)%	1	–	100.0%
9. Increase in loss allowance for expected credit losses on debt financial assets	4	–	100.0%	5	3	66.7%
10. Other finance expenses	1	3	(66.7)%	7	9	(22.2)%
<b>Total finance expenses (1-4+5+6+7+8+9+10)</b>	<b>55</b>	<b>25</b>	<b>120.0%</b>	<b>160</b>	<b>176</b>	<b>(9.1)%</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.

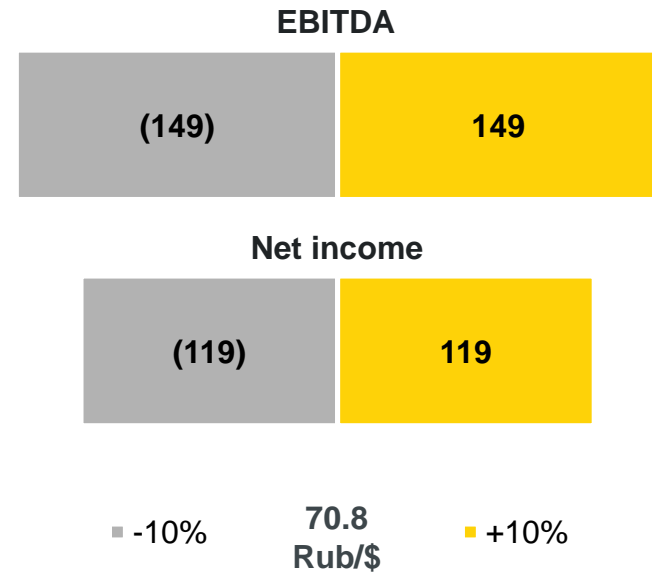
# Variance Analysis



9M 2020 EBITDA and net income sensitivity to +/- 10% change in Urals price, Rub bn



9M 2020 EBITDA and net income sensitivity to +/- 10% change in Rub/\$ exchange rate, Rub bn



# Questions & Answers

