



# **ROSNEFT**

## **Focused on Delivering Value**

**Peter O'Brien,  
Member of Management Board  
Vice-President, Finance &  
Investments**

**Investor Roadshow  
Highlights from Q3 2008**

**December 2008**



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## Q3 and 9M'08 Highlights

### Positives

- Leading EBITDA and FCF growth:
  - EBITDA up to **USD 5.3 bln** in Q3'08 and **USD 17.1 bln** in 9M'08
  - Operating cash flow up to **USD 4.4 bln** in Q3'08 and **USD 13.8 bln** in 9M'08
  - FCF up to **USD 2.2 bln** in Q3'08 and **USD 7.3 bln** in 9M'08
- Net debt reduced by **USD 6.9 bln** during 9M'08
- Daily crude oil production up **8.3%** y-o-y vs 9M'07, organic growth **4.5%**
- Growth in refinery throughput and corresponding increase in petroleum product output (**+33.0%** y-o-y vs 9M'07)
- Growth in retail sales volumes and other support services

### Challenges, Priorities

#### 9M'08

- Real rouble appreciation against USD (**13.0%** for the year ended September 30)
- Tax payments (export duty and MET) increased by **91.0%** vs 9M'07

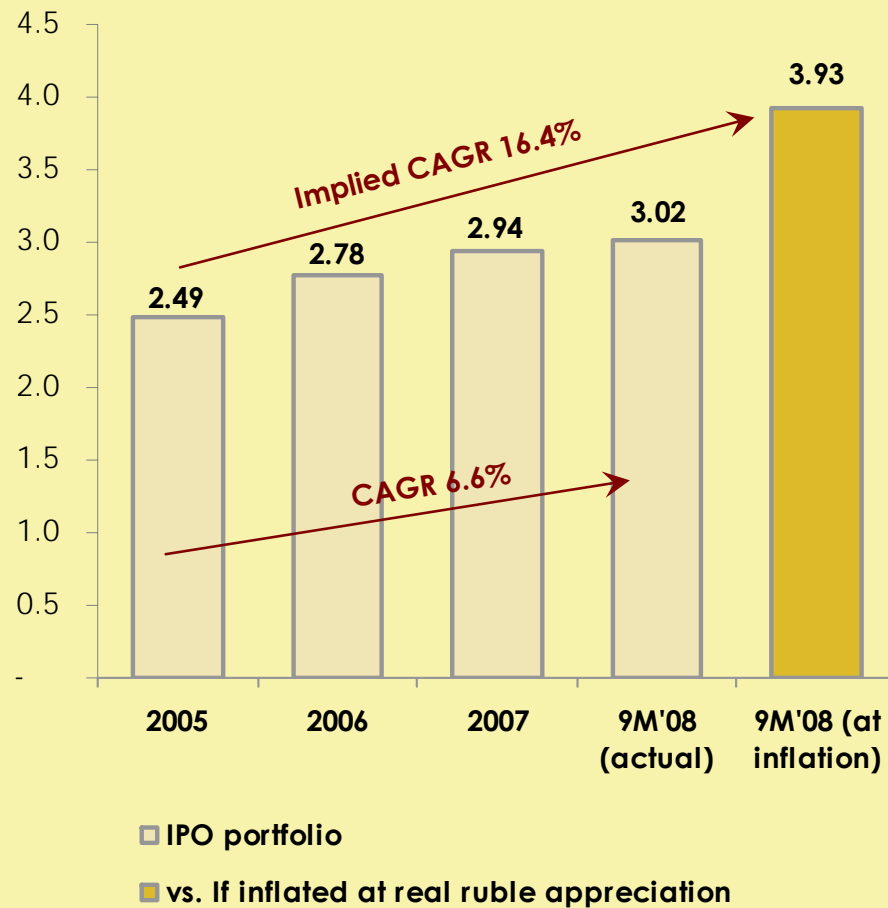
#### Q4'08 - 2009

- Continue to reduce real costs
- Business plan for 2009
  - Cash flow positive at Brent \$50/bbl
- Launch Vankor production
- Participate in continuing discussion to update tax regime
- Continue to optimize downstream activities, grow higher margin sales
- Participate in finalization of the Russian Energy strategy to 2030 (Government to review in December)
  - Incorporate into updated strategy of Rosneft



# Cost Control & Efficiency Gains: Upstream

Upstream OPEX/bbl of crude oil produced



- **Challenging environment through Q3'08:**

- Inflation
- Currency appreciation

- **Efficiency gains almost 1 USD/bbl since 2005:**

- Leading new well flow rates
- Cost control
- Services strategy

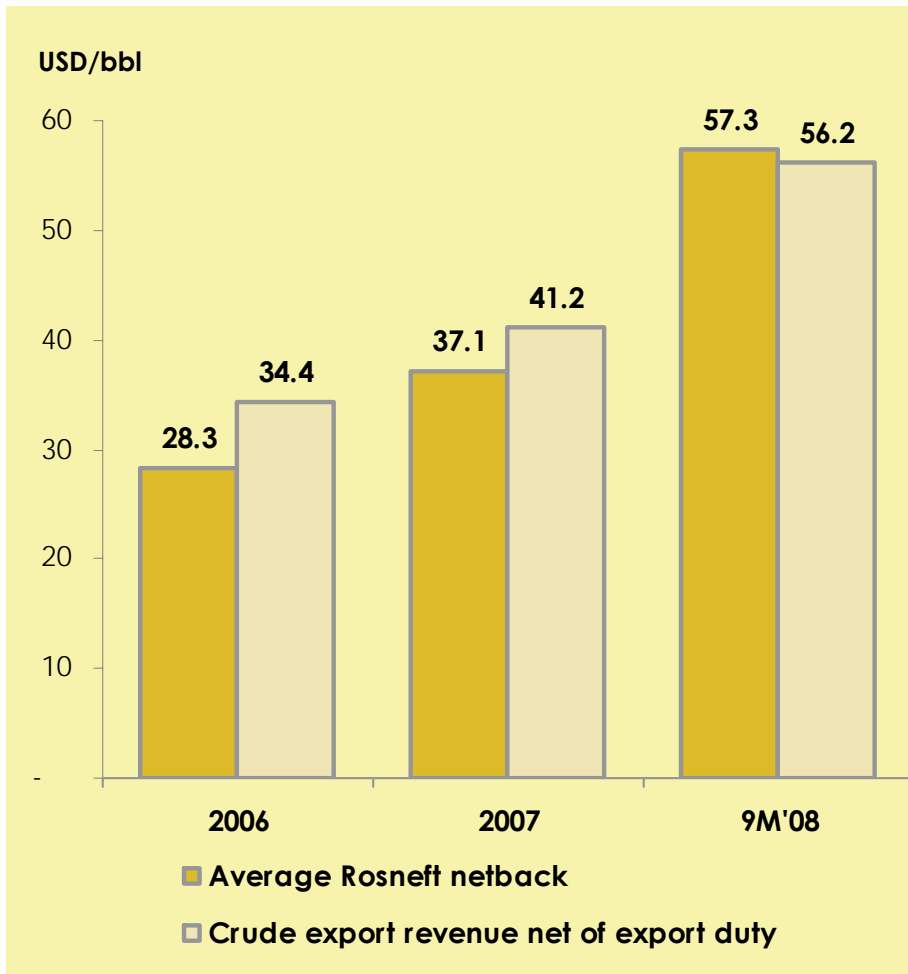
- **Outlook improving:**

- Inflation decreasing
- Materials prices falling
- Available service capacity
- Currency



# Creating Value in Downstream

## Average netback vs. net export revenue



### ■ Average netback now exceeds net export revenue:

Revenue

- sales taxes (export duty, excise)
  - transportation costs
  - refining costs
  - retail costs
  - related SG&A
- = Netback

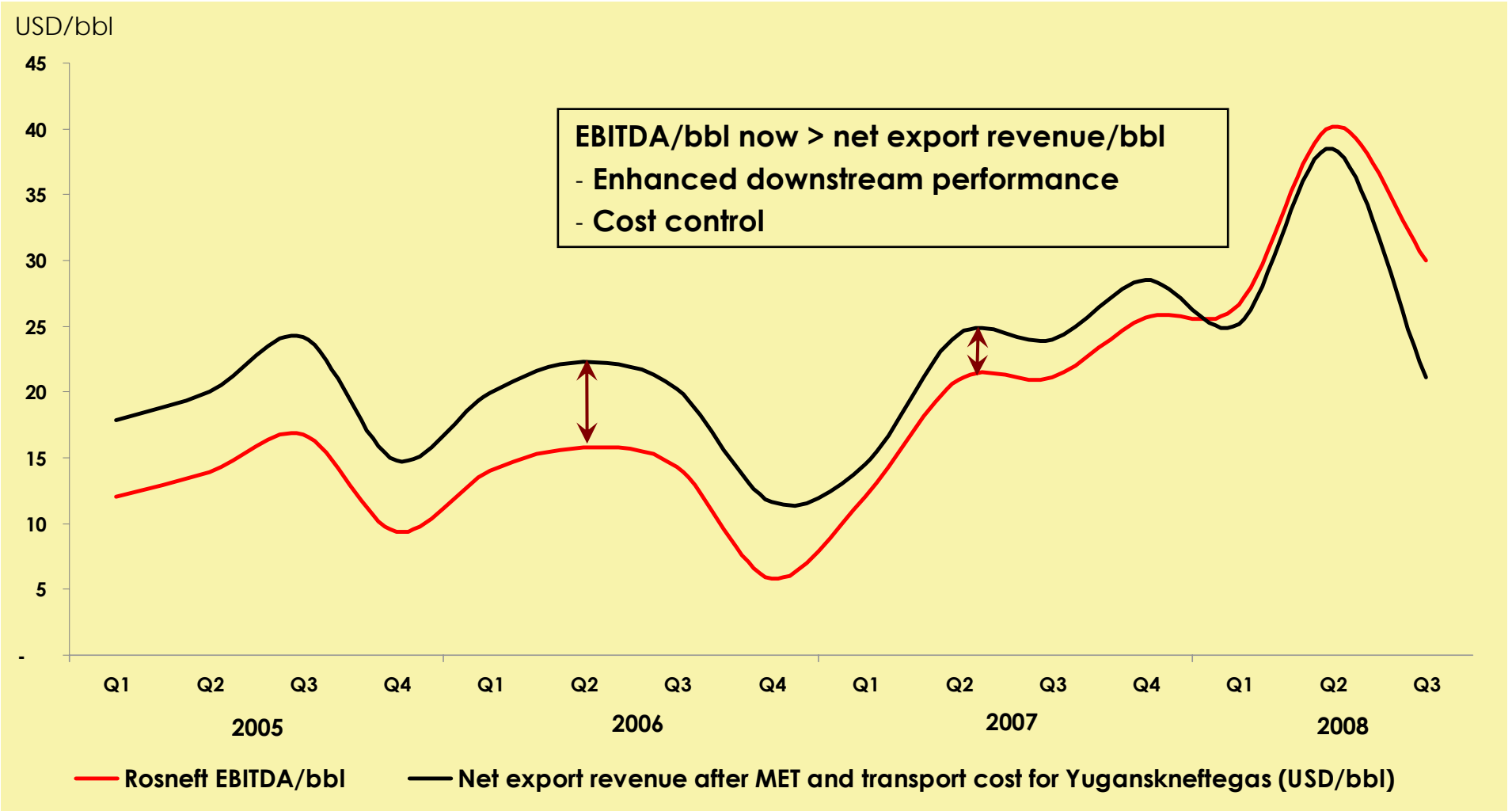
### ■ Gap reversed from negative \$6.1/bbl to positive \$1.1 USD/bbl

### ■ Value created through:

- Higher refining cover
- Optimized logistics, netbacks
- Increased retail throughput
- Increased flexibility
- Sakhalin-1 production



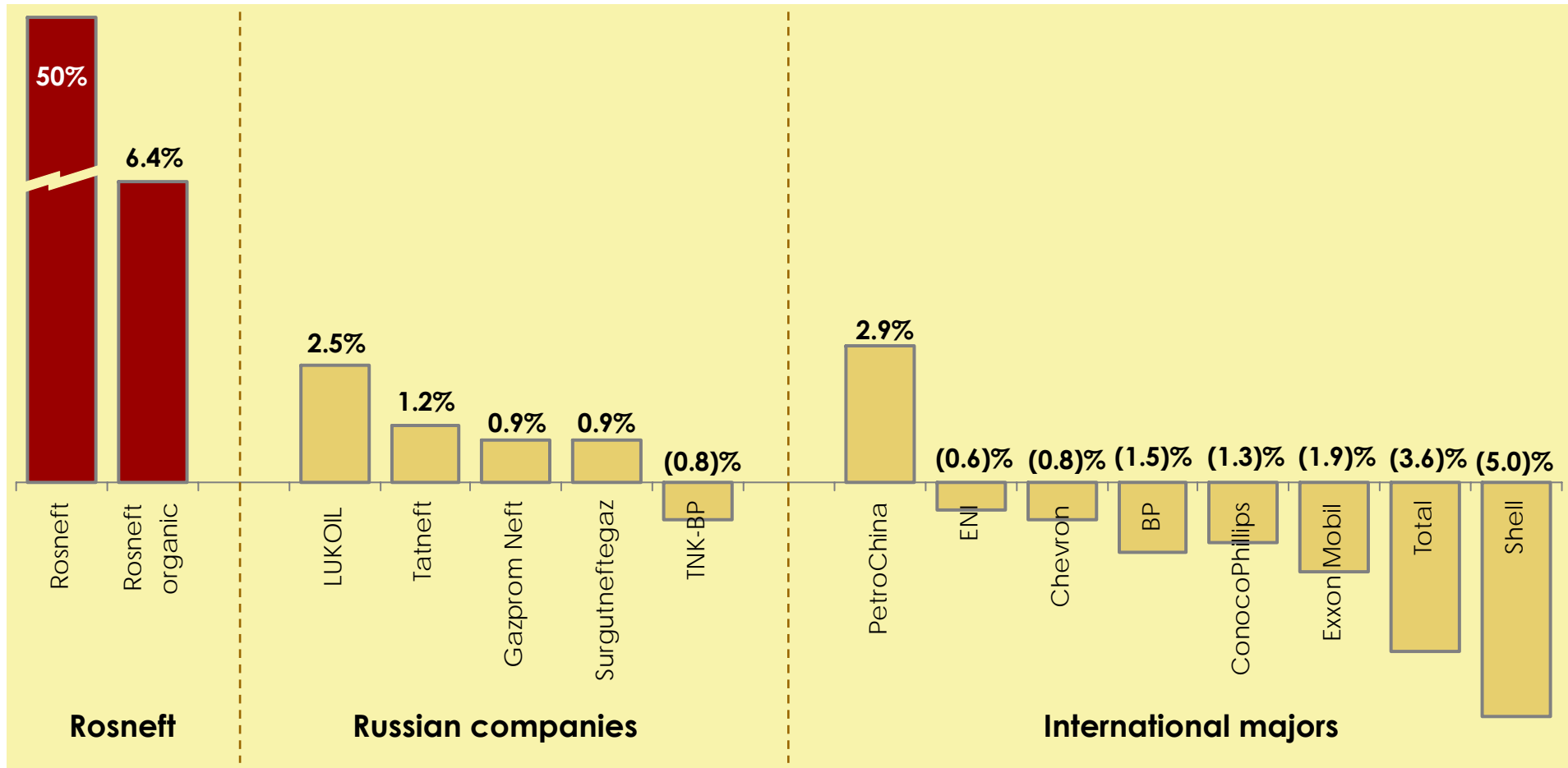
# Capturing More EBITDA





# Crude Oil Production: Consistently Superior Growth

Oil production CAGR (2004-9M'08), %

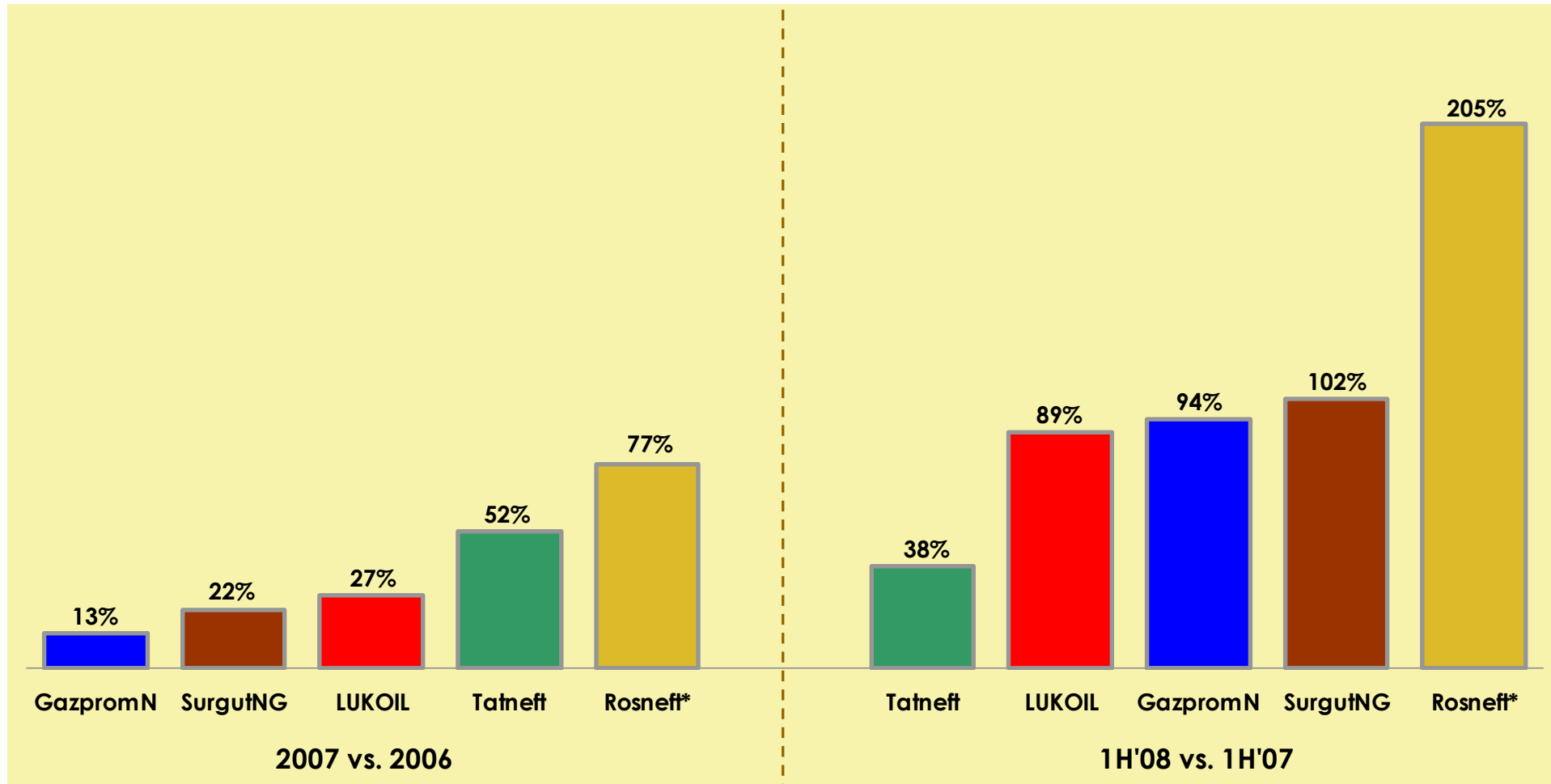


Source: CDU TEK, company reports, Rosneft, (TNK-BP and Gazprom Neft include 50% of Slavneft each).



# Leading Earnings Growth

Earnings per share (EPS) growth rates: 2007 vs. 2006, 1H'08 vs. 1H'07

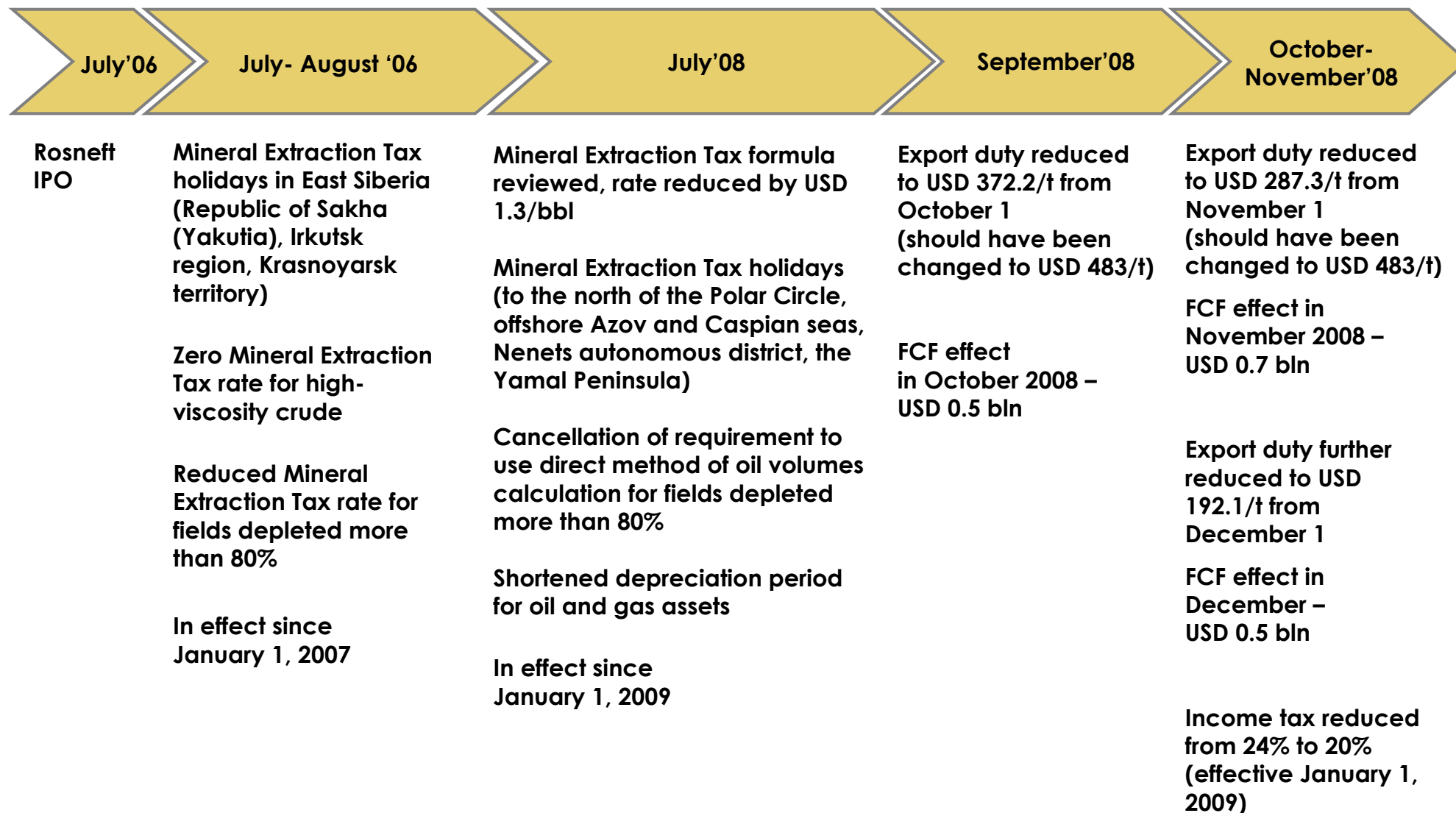


\* Adjusted (reduced) for net income from Yukos bankruptcy



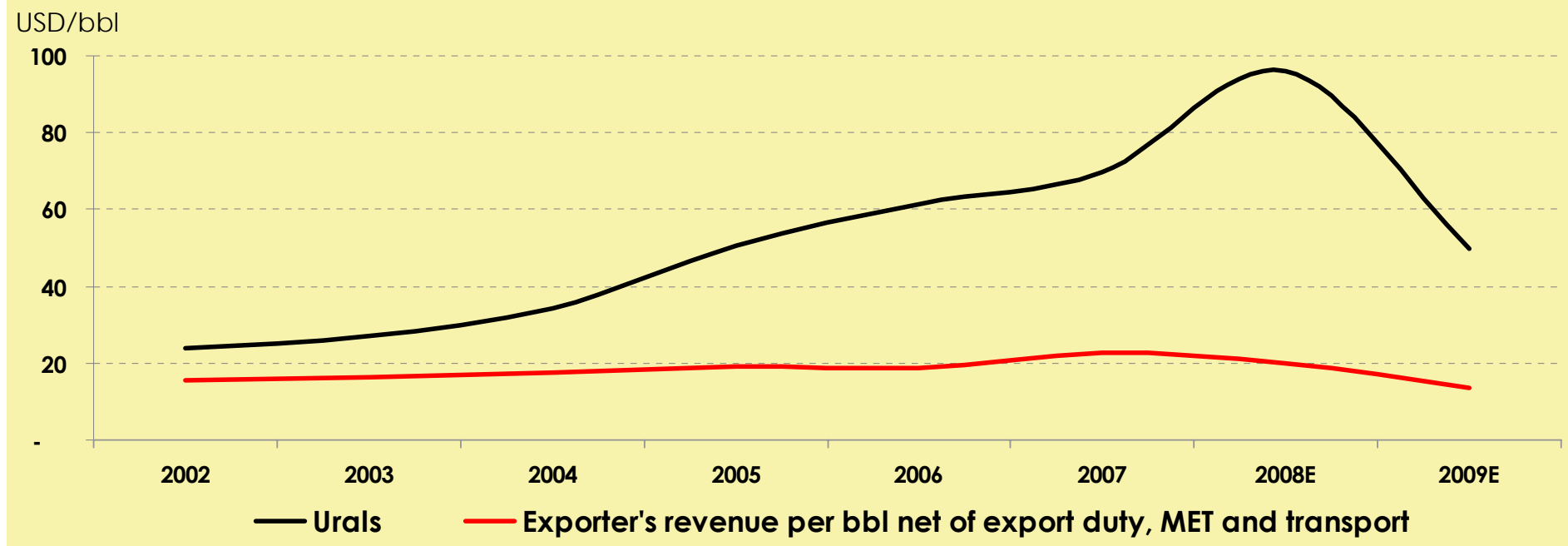


# Progress on Tax Regime





## Further Changes Needed



### Areas of concern

- Net revenue to exporters nearing '02 level
- Cash costs up ~3 times since '02 (inflation, tariffs)
- Increasing capital intensity of production growth

### Potential steps

- Short term: amend tax regime for inflation and growing capital intensity
- Longer term: profit based



# Looking Ahead: Current Priorities

## Short term

- Record results for 2008
- 2009 business planning
  - Prudent assumptions
  - Cost control
  - Free cash flow generation
  - Prioritize investments
- Optimize financing cost
- Slow monopoly tariff increases, other inflationary effects
- Balanced proposals for further tax reform

## Always

- Create value for shareholders
  - Grow earnings, dividends
  - Grow cash flow
- Increase profitable volumes
  - Upstream production
  - Refining, retail throughput
  - Sales: crude, products, gas
- Develop technologies, capabilities
- Constantly improve governance, transparency



# Cost Reduction Program: Key Priorities

## I. Reducing non-controllable costs

- Lower tax burden
- Lower natural monopoly tariffs (transportation, electricity)

## II. Reducing capital expenditures

- Prioritizing capital expenditures (short payback period, compliance with Rosneft's Strategy)
- Reducing costs of construction, materials and equipment

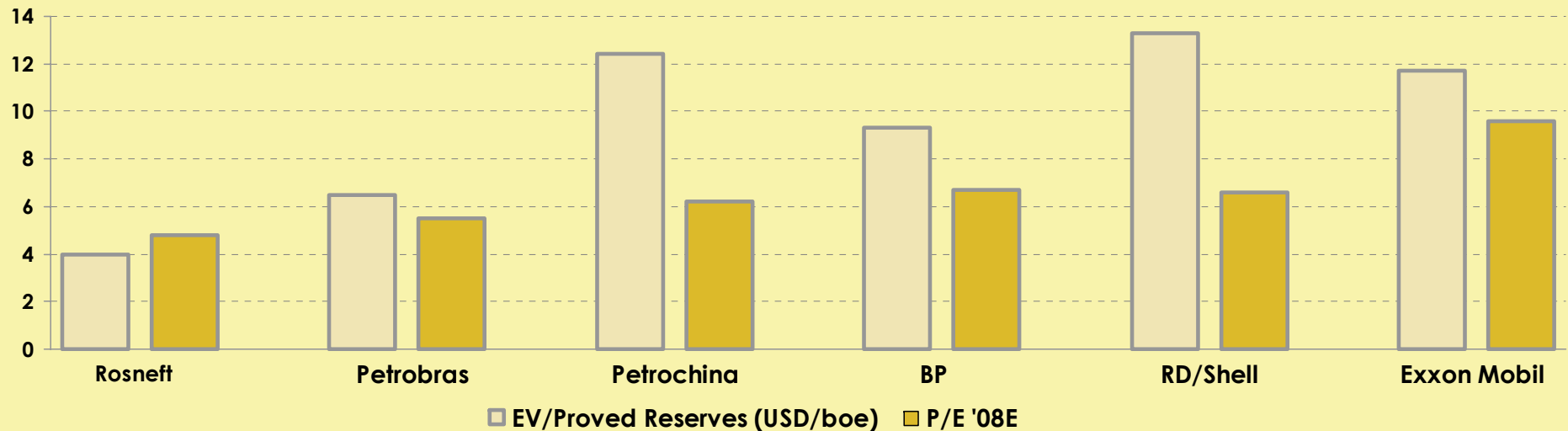
## III. Reducing operating expenses

- Reducing, and improving the efficiency of, resource use (fuel and lubricants, electricity, etc.)
- Reducing prices of materials and services
- Headcount optimization
- Cutting administrative expenses
- Reducing debt and interest expenses
- Reducing the number of entities and related expenses



# Current Valuation: Reality Check

## Current trading multiples\*



## Relevant facts

### Rosneft:

- 22 bln boe proved reserves
- >100 bln boe 3P + resources
- Strategic enterprise
- Exporter, ruble depreciating
- Portfolio for East & West

### Russia:

- ~ USD 450 bln f/x reserves
- 3% external debt to GDP ratio
- Sound fiscal policy

\* Source: 'Valuation Comparison' by UBS as of 27 November, 2008.



# Best in Class Transparency, IR Effort

## Consistently enhancing disclosure



IPO and bond prospectus



Quarterly US GAAP, MD&A



Investor presentations, conference calls



New website

## Recent awards

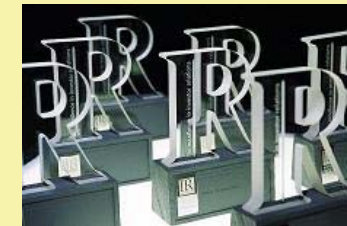
### S&P Transparency & Disclosure Rankings

- 2nd in 2008
- 10th in 2007
- 12th in 2006



### IR Magazine (October '08)

- Best Overall IR for Large Cap in Russia & CIS
- Best Annual Report & Corporate Literature
- 4 other awards



### Multiple awards for website



# Rosneft Q3 and 9M 2008 US GAAP Financial Results

## Appendix



## Macroeconomic Environment

	Q3'08	Q3'07	Δ, %	9M'08	9M'07	Δ, %
Average RUB/USD rate	24.25	25.51	(4.9%)	24.05	25.89	(7.1%)
Inflation for the period, %	1.9%	1.8%		10.6%	7.5%	
Real RUB appreciation/depreciation against USD for the period, %	(5.3)%	5.3%		7.5%	13.5%	
Urals price (av. Med and NWE), \$/bbl	113.2	72.2	56.8%	108.0	63.9	69.1%
Gasoil 0.2% (av. Med), \$/tonne	1,056.0	670.1	57.6%	1,028.2	603.4	70.4%
Fuel oil (av. Med), \$/tonne	615.6	365.1	68.6%	535.4	313.5	70.8%
High octane gasoline (av. Russia), \$/tonne	1,138.1	825.6	37.9%	1,043.8	749.4	39.3%
Diesel fuel (av. Russia), \$/tonne	992.8	582.6	70.4%	940.5	550.2	71.0%





## Q3'08 and 9M'08 Results Overview

	Q3'08	Q3'07	Δ, %	9M'08	9M'07	Δ, %
<b>Oil, mln bbl<sup>1</sup></b>	<b>194.90</b>	<b>191.41</b>	<b>1.8%</b>	<b>580.88</b>	<b>517.52</b>	<b>12.2%</b>
<b>Petroleum product output, mln t</b>	<b>12.07</b>	<b>11.93</b>	<b>1.2%</b>	<b>34.98</b>	<b>26.32</b>	<b>32.9%</b>
Revenues, USD mln	20,690	13,742	50.6%	58,192	32,747	77.7%
EBITDA, USD mln	5,326	4,054 <sup>2</sup>	31.4%	17,076	9,399 <sup>2</sup>	81.7%
<b>Net Income, USD mln</b>	<b>3,469</b>	<b>1,928<sup>3</sup></b>	<b>79.9%</b>	<b>10,345</b>	<b>4,328<sup>3</sup></b>	<b>139.0%</b>
Operating cash flow, USD mln	4,413	489	802.5%	13,791	3,772 <sup>4</sup>	265.6%
<b>Net debt, USD mln</b>	<b>19,388<sup>5</sup></b>			<b>19,388<sup>5</sup></b>		

<sup>1</sup> Production for Q3 and 9M 2007 is adjusted to reflect 50% in Tomskneft production (a 50% share in Tomskneft was sold on December 27, 2007).

<sup>2</sup> Adjusted for the effect of non-operating accrual of fines and penalties related to pre-acquisition Yuganskneftegaz tax debt.

<sup>3</sup> Adjusted for the effect of non-operating accrual of fines and penalties related to pre-acquisition Yuganskneftegaz tax debt, and income from Yukos bankruptcy and related income tax.

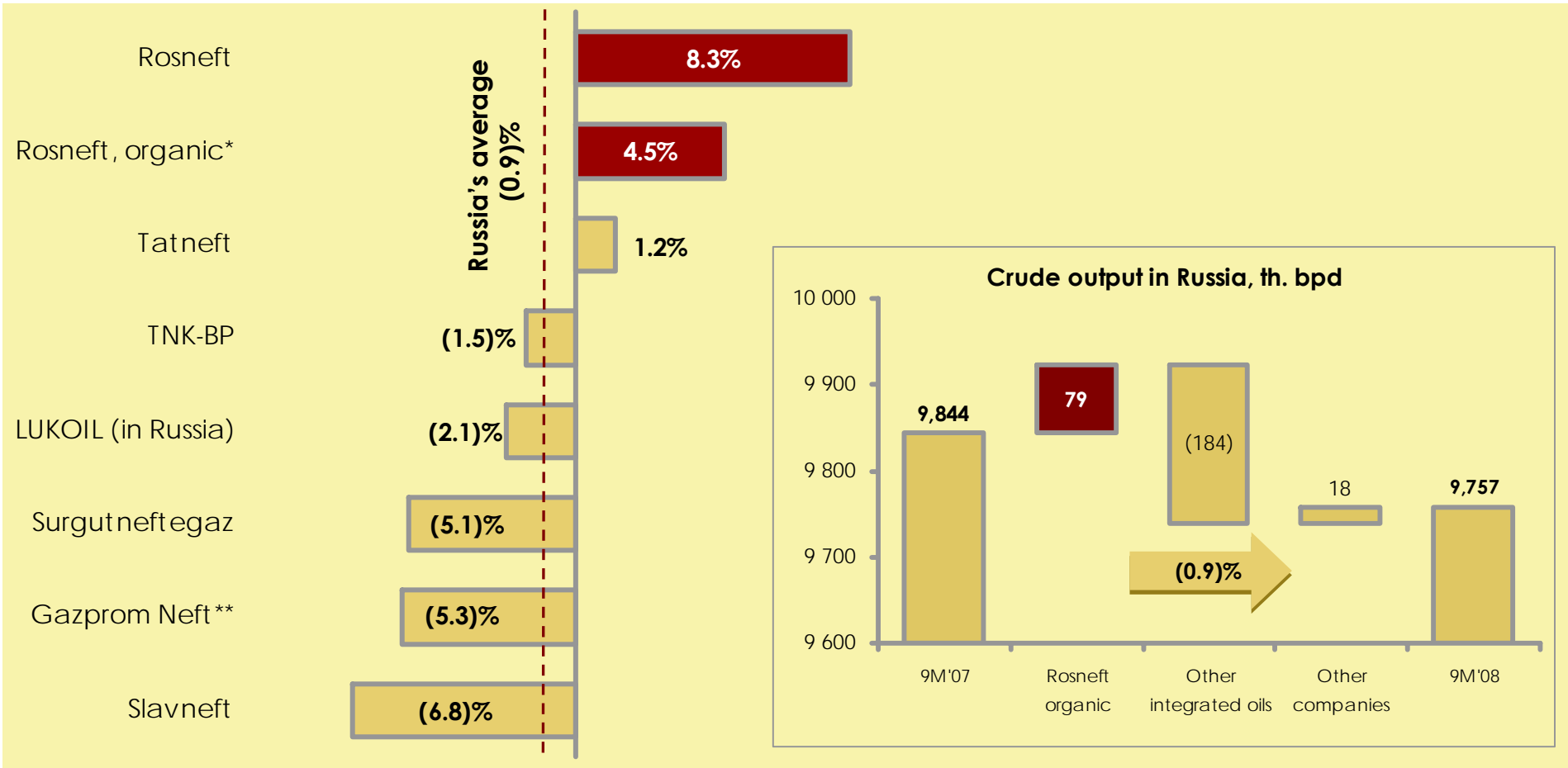
<sup>4</sup> Adjusted for cash received in Yukos bankruptcy process.

<sup>5</sup> Adjusted for cash deposits (reflected as short-term investments) used for debt settlement (placed till debt scheduled maturity).



# Daily Crude Oil Production: Steady Organic Growth

Daily Crude Oil Production in Russia, 9M'08 vs 9M'07

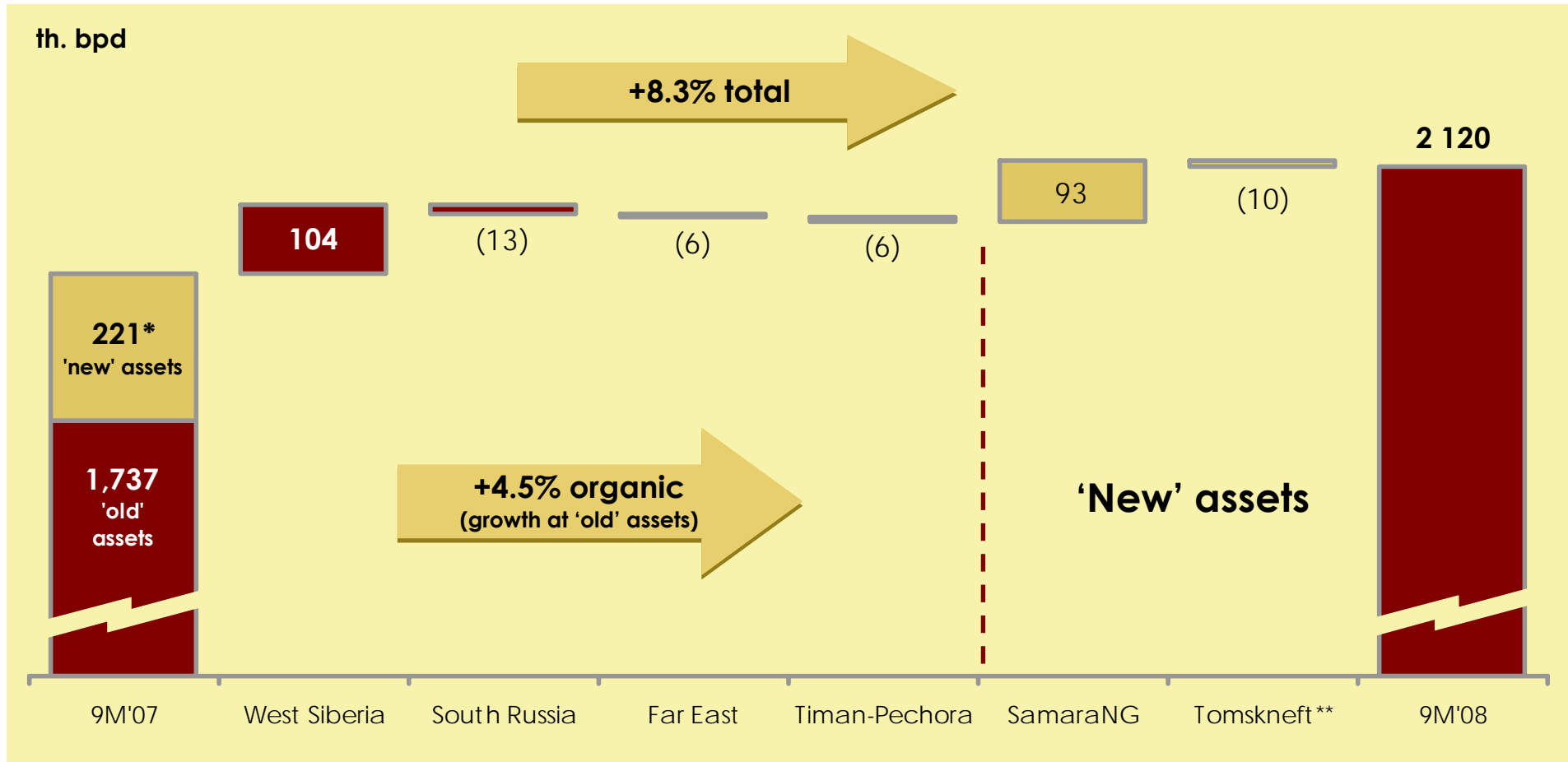


\* Excluding acquisition of Tomskneft, Samaraneftgaz and VSNK.  
 \*\* Excluding share in Tomskneft.



# Daily Crude Oil Production: Steady Organic Growth (cont.)

Rosneft Daily Crude Oil Production Reconciliation, 9M'08 vs 9M'07



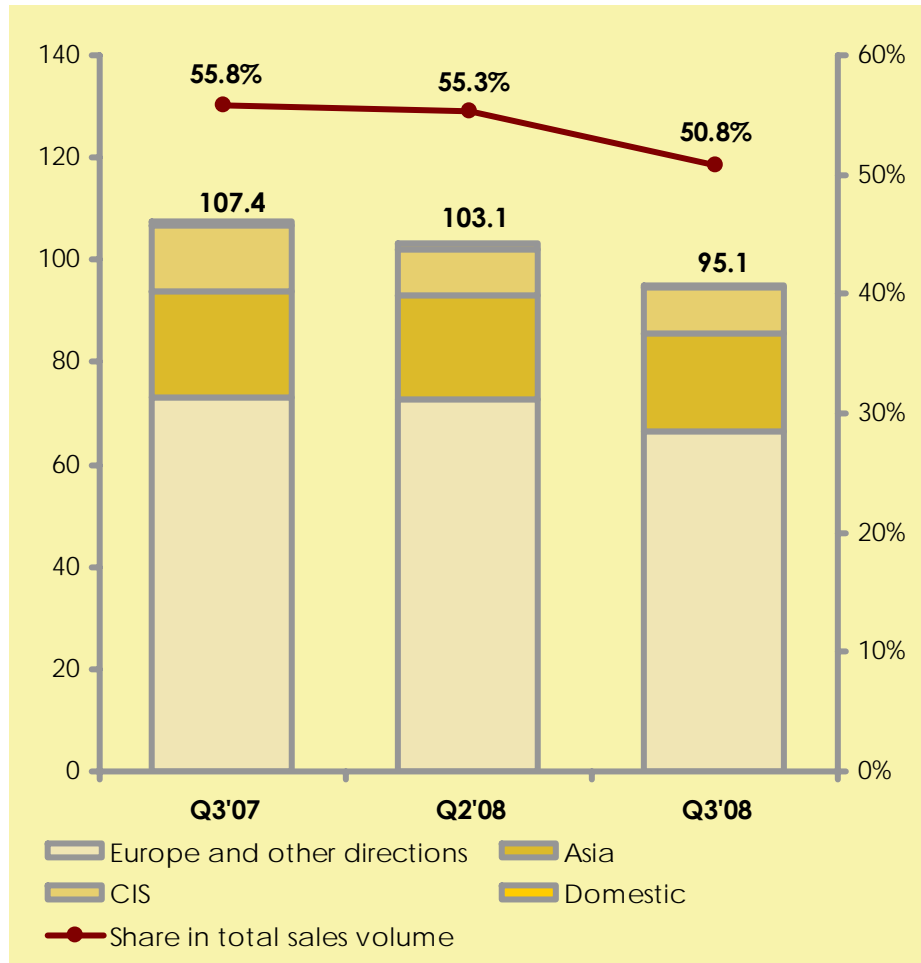
\* Production by Samaraneftgaz, Toms kneft and VSNK from the date of acquisition in May 2007 to the end of September 2007, divided by 273.

\*\* Since the date of sale of Toms kneft in December 2007 its production is accounted for on a 50.0% equity basis.

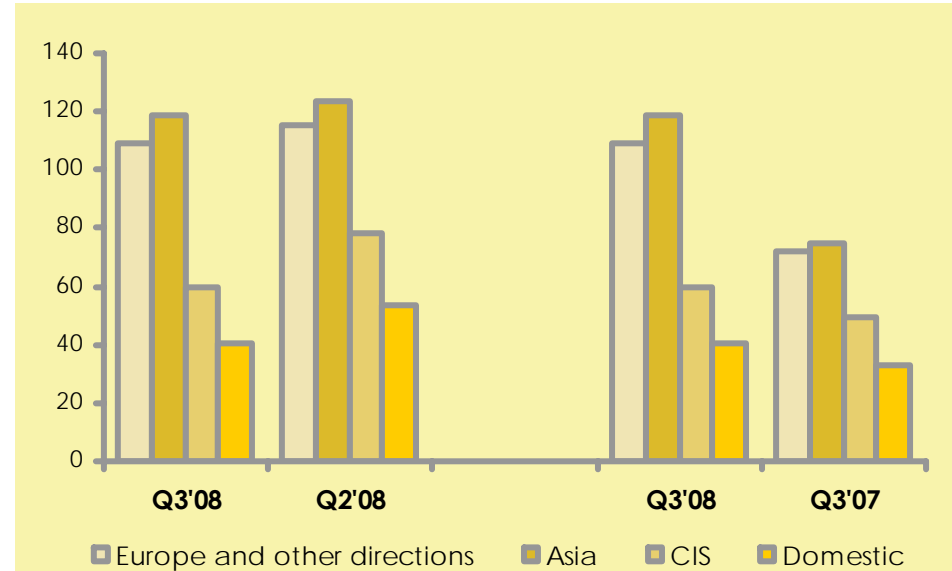


# Crude Oil Sales

Crude Oil and Condensate Sales Volumes, mln bbl



Average Prices, USD/bbl

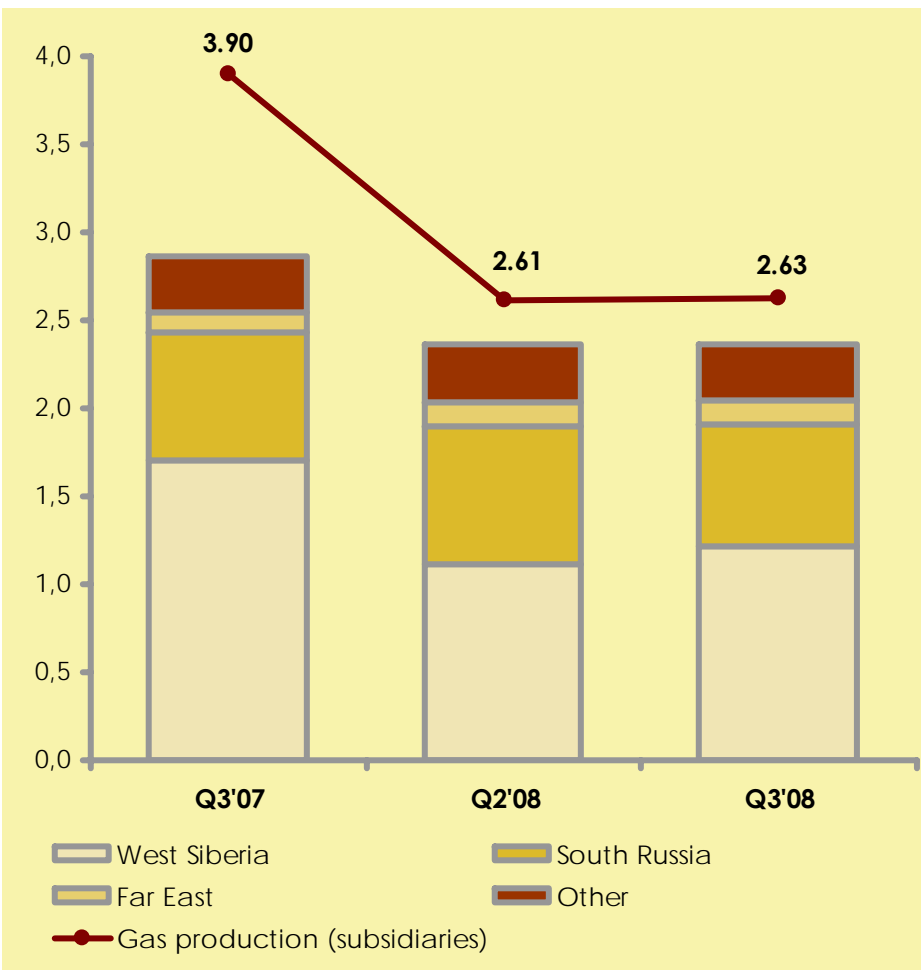


	Q3'08	Q2'08	Q3'08	Q3'07
	(USD/bbl)		(USD/bbl)	
Average Brent (Platts)	114.78	121.38	114.78	74.87
Urals (average Med+NWE) (Platts)	113.16	117.54	113.16	72.19
Rosneft export				
Europe and other direction	109.39	115.62	109.39	71.98
Asia	118.77	123.28	118.77	74.63

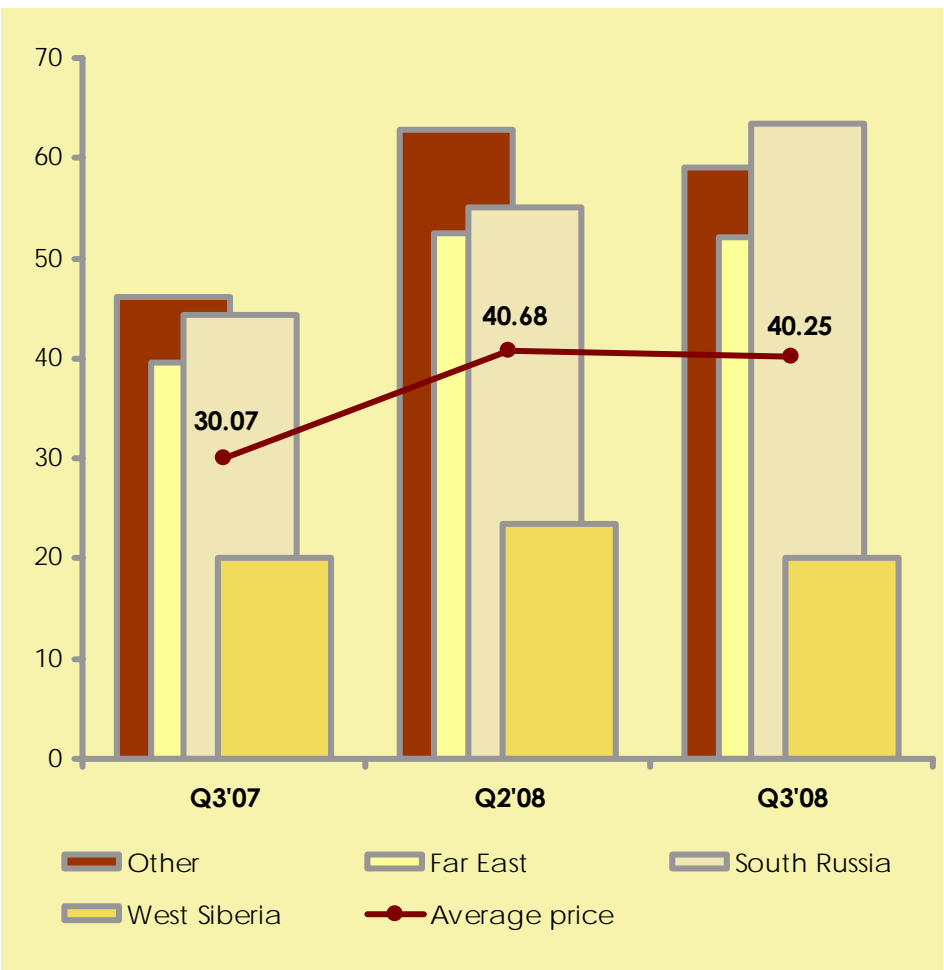


# Gas Production and Sales

**Gas Sales Volumes vs Production, bcm**



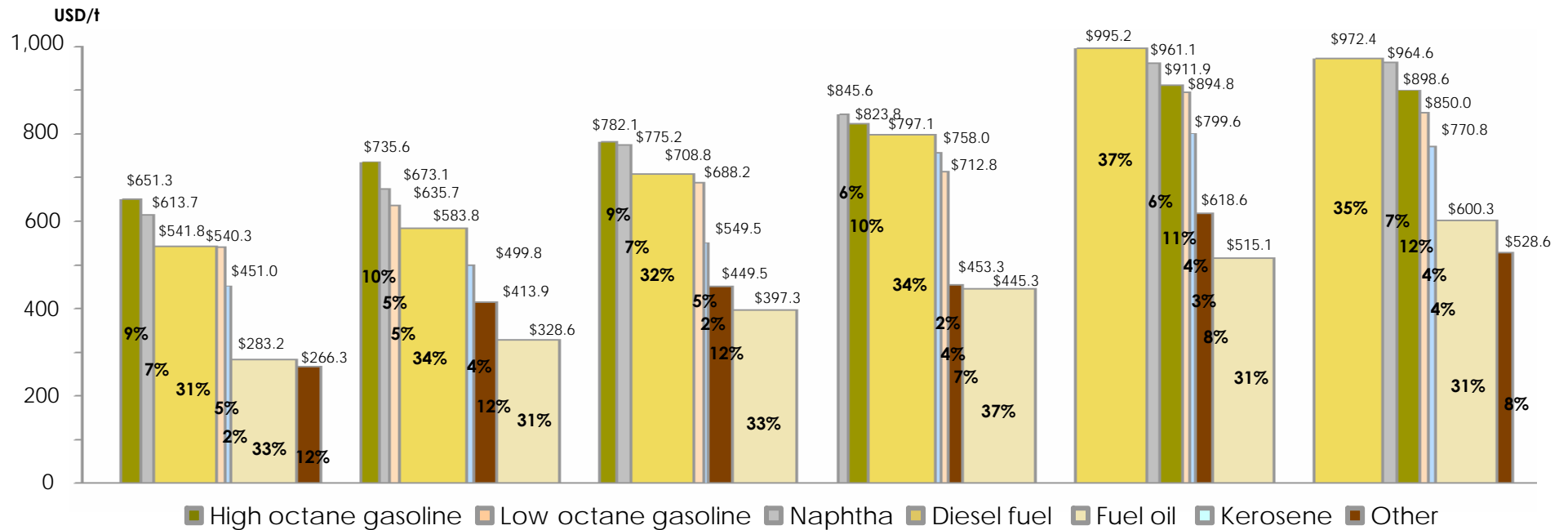
**Gas Sales Prices, USD per 1,000 cubic meters**





# Petroleum Product Revenues

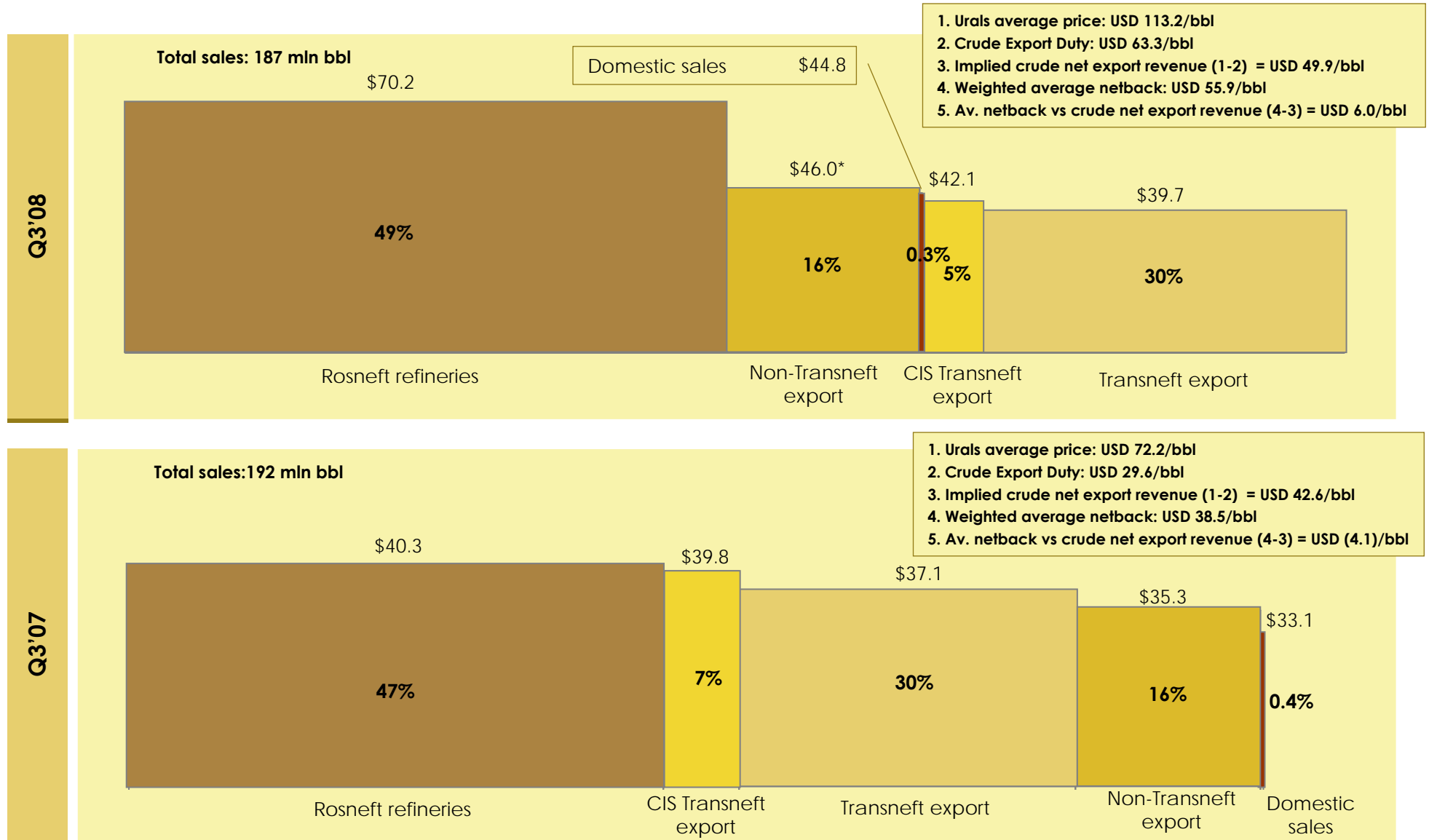
## Petroleum Products: Average Prices and Volume Breakdown



	Q2'07	Q3'07	Q4'07	Q1'08	Q2'08	Q3'08
Revenue, USD mln	3,299	5,805	6,718	7,233	8,852	9,988
Excise and export duty, USD mln	520	965	1,145	1,341	1,440	1,922
Net revenue, USD mln	2,779	4,840	5,573	5,892	7,412	8,066
Volume sold, mln tonnes	7.55	11.51	11.58	11.23	11.17	12.47
<b>Net revenue per tonne, USD</b>	<b>368</b>	<b>421</b>	<b>481</b>	<b>525</b>	<b>664</b>	<b>647</b>



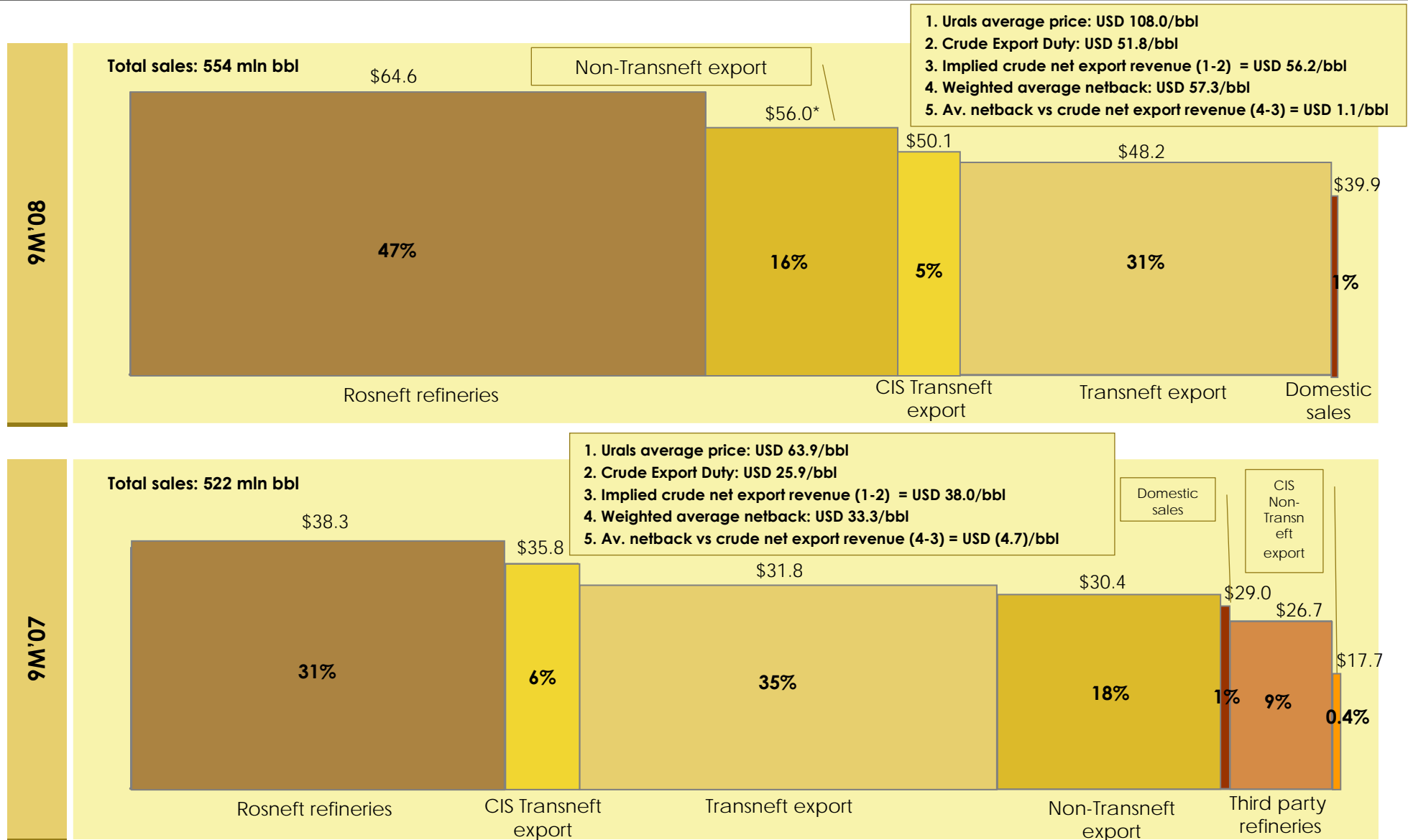
# Average Netback Exceeds Crude Net Export Revenue



\* Non-Transneft export netback is higher than Transneft export netback due to the effect of Sakhalin-1 exports which are not subject to export duty.



# Average Netback Exceeds Crude Net Export Revenue (cont.)

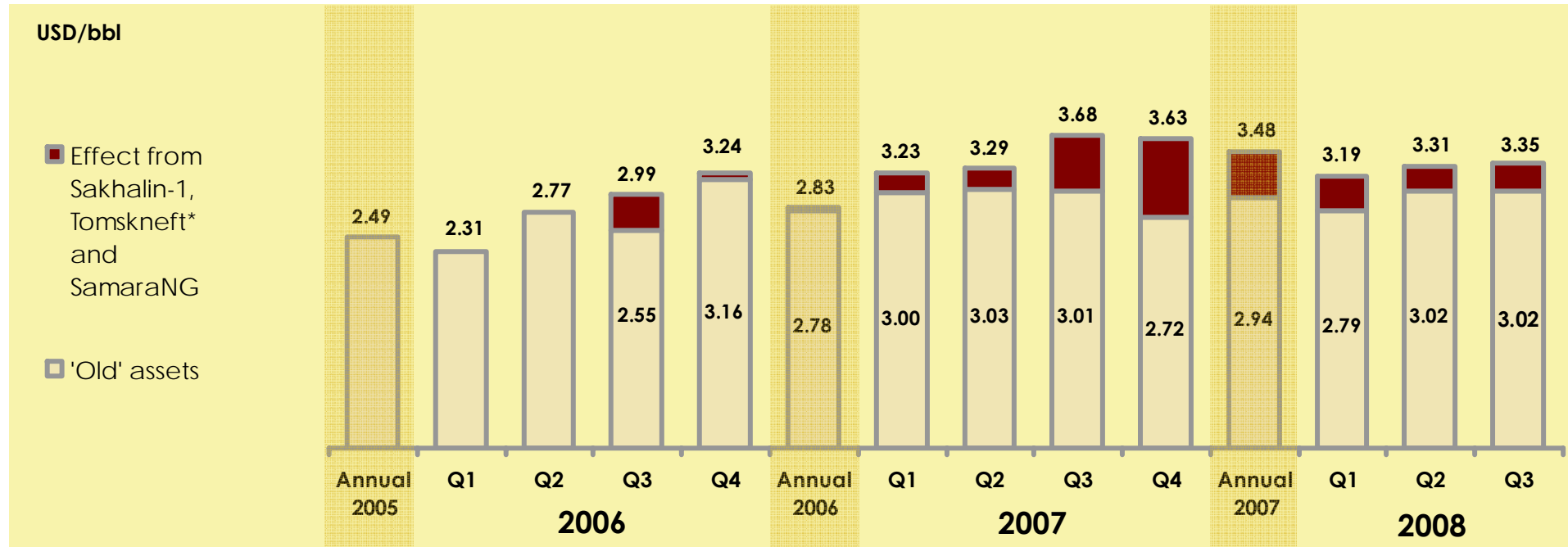


\* Non-Transneft export netback is higher than Transneft export netback due to the effect of Sakhalin-1 exports which are not subject to export duty.





# Upstream Operating Expenses



<b>RUB/USD average</b>	28.29	28.16	27.20	26.81	26.59	27.19	26.31	25.86	25.51	24.65	25.58	24.26	23.63	24.25
<b>RUB inflation**, %</b>	10.9	16.4	17.1	18.9	20.9	20.9	25.0	27.8	29.3	30.4	30.4	36.7	41.8	44.2
<b>Real RUB appreciation**, %</b>	6.8	16.1	20.4	22.9	27.1	27.1	33.1	37.2	43.4	46.7	46.7	56.2	62.3	57.7

Upstream operating expenses include materials and electricity, workover, wages and salaries, and cost of transport to a trunk pipeline.

\* Since 27.12.07, Tomskneft is accounted for on an equity basis

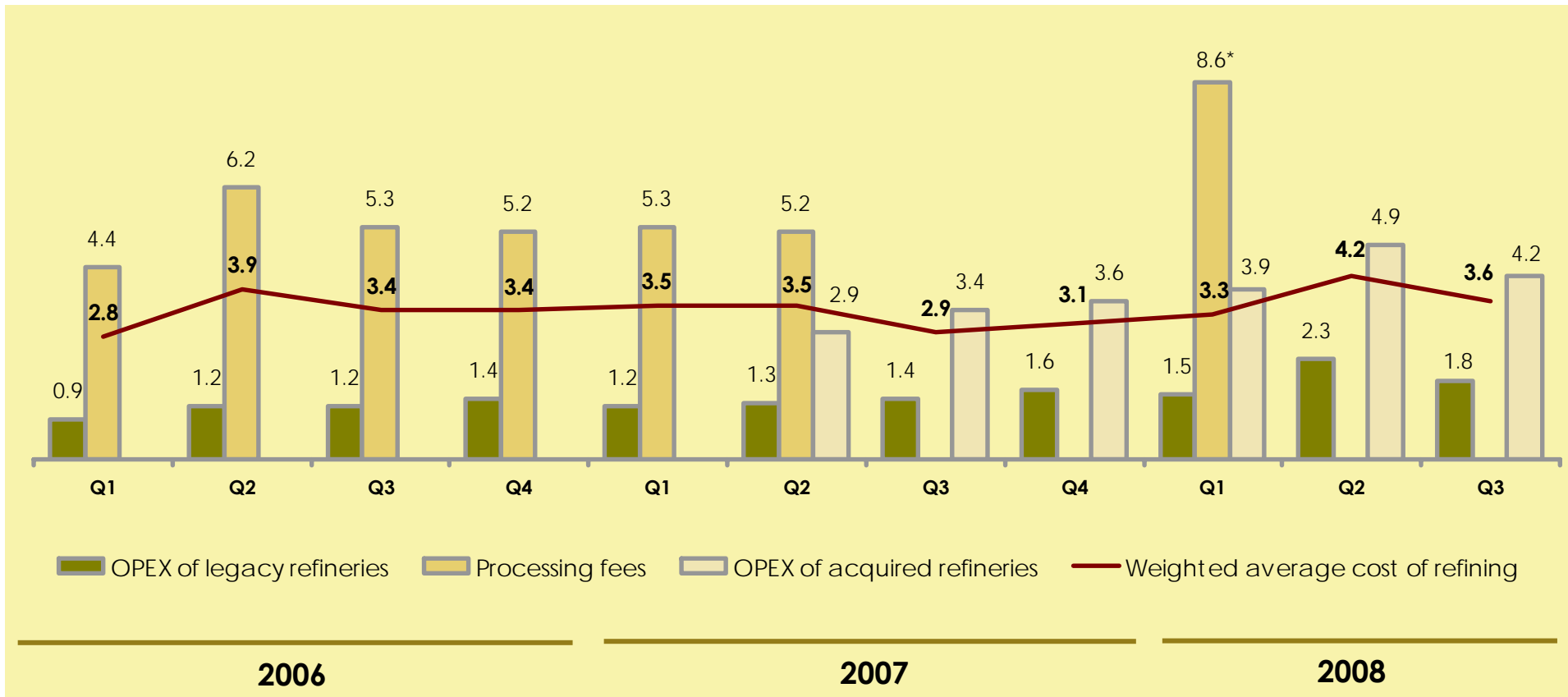
\*\* Cumulative from 01.01.2005

Decrease in OPEX during Q3'07-Q1'08 is the result of Tomskneft deconsolidation and optimization of OPEX structure by consolidation of service companies.



# Downstream Operating Expenses

## Refining Costs, USD/bbl



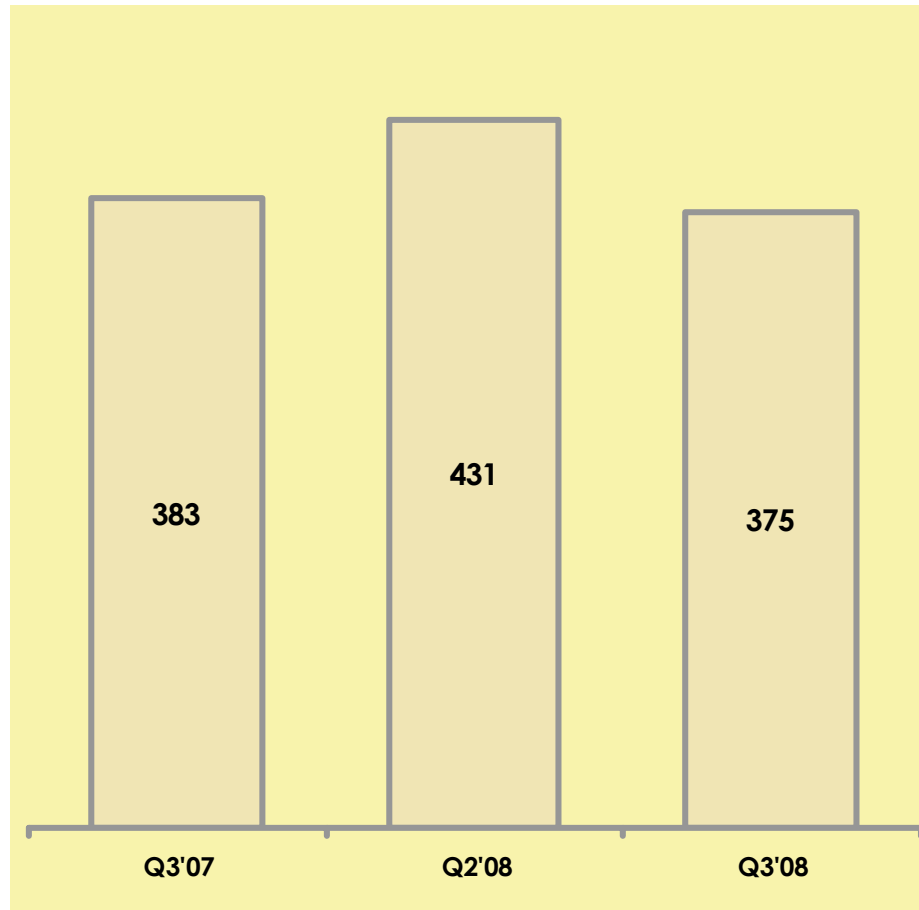
Third-party refineries were purchased in Q2'07. Rosneft fully consolidates these refineries since the date of acquisition. Expenses of own refineries do not include DD&A. OPEX of own refineries includes cost of materials, maintenance, fuel, electricity, wages and salary, rental payments and other items.

\* Cost of processing at the Strezhevoi refinery after December 27, 2007. In February 2008, Rosneft stopped processing crude at the Strezhevoi refinery as Tomskneft started to directly process its crude at the refinery.

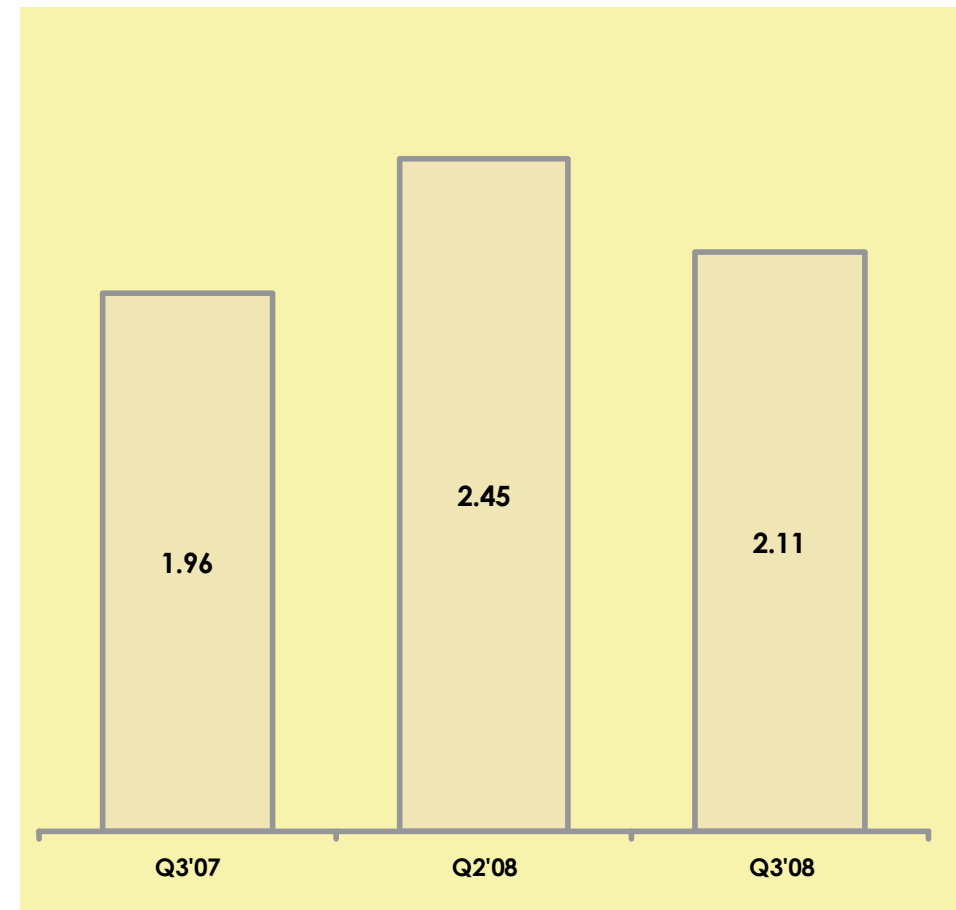


# SG&A Expenses

USD mln



USD/bbl produced

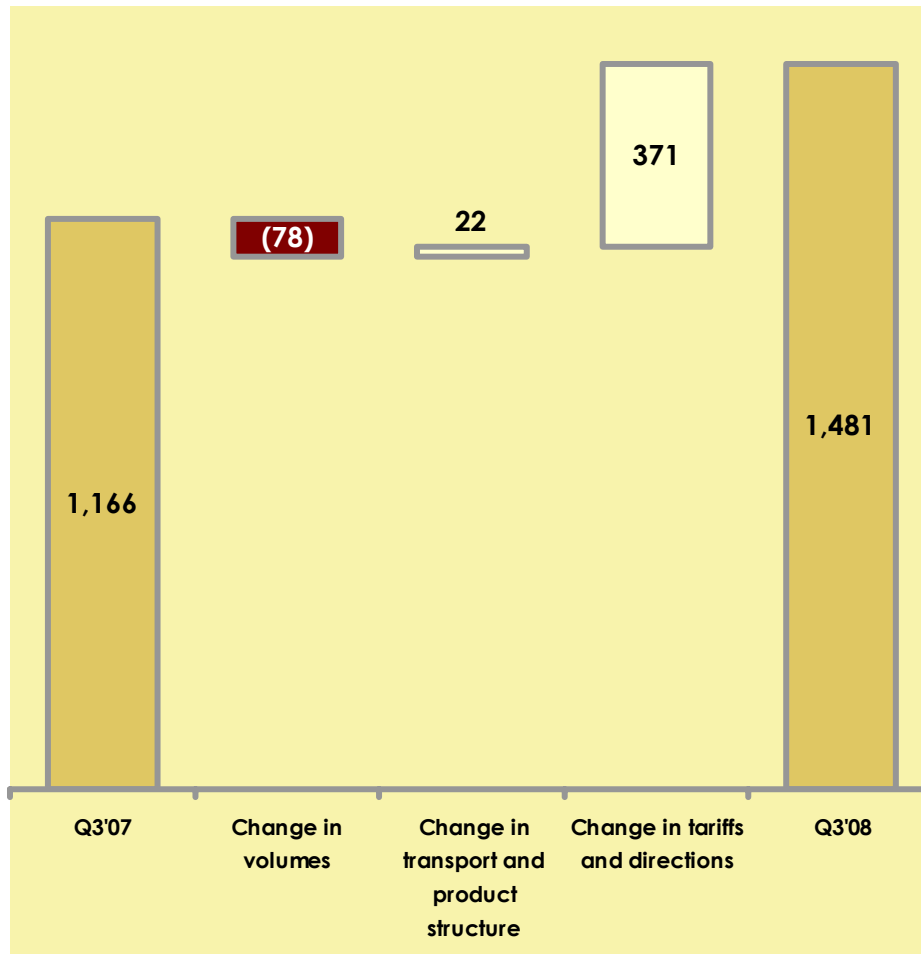


Selling, general and administrative expenses include payroll at headquarters and management-related subsidiaries, payroll of top management of operating subsidiaries, audit & consulting expenses, bad debt allowance and other costs.

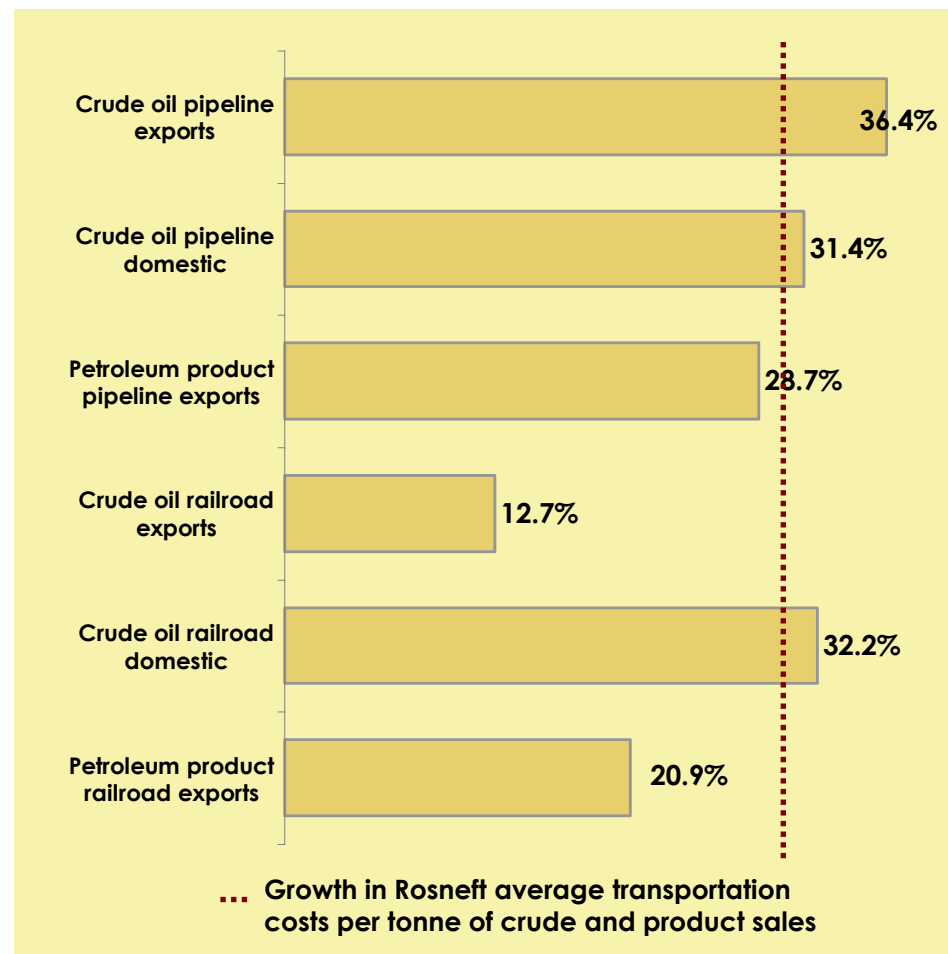


# Transportation Costs: Q3'08 vs Q3'07

Transportation Costs (Q3'08 vs Q3'07), USD mln

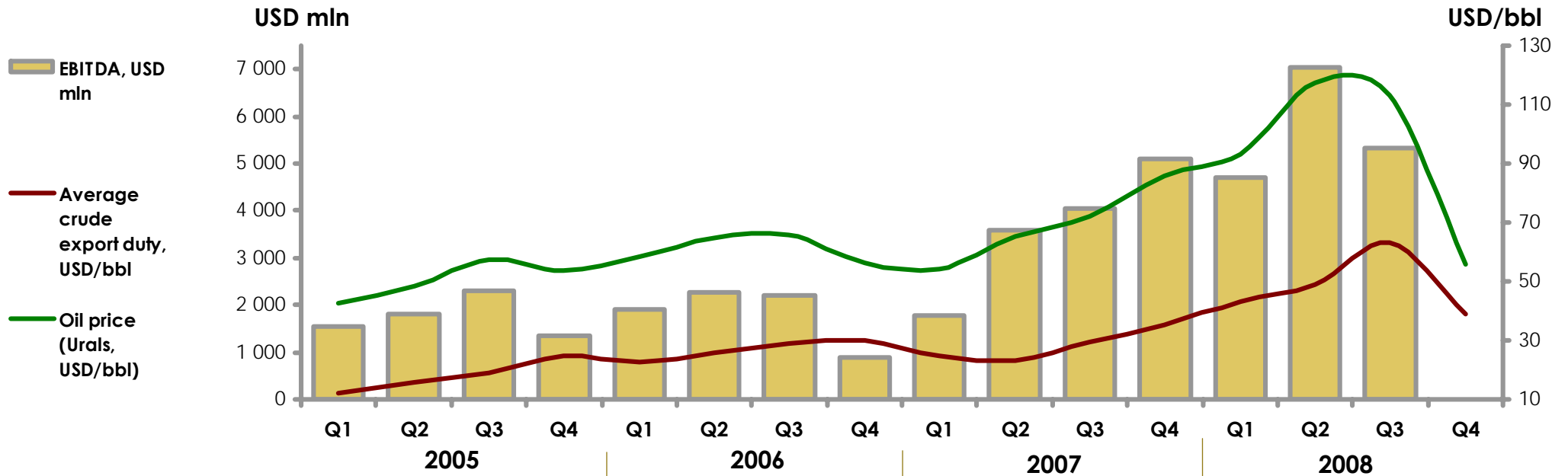


Average Change in Transportation Tariffs of Russian Monopolies in USD terms (Q3'08 vs Q3'07)





# EBITDA Growth

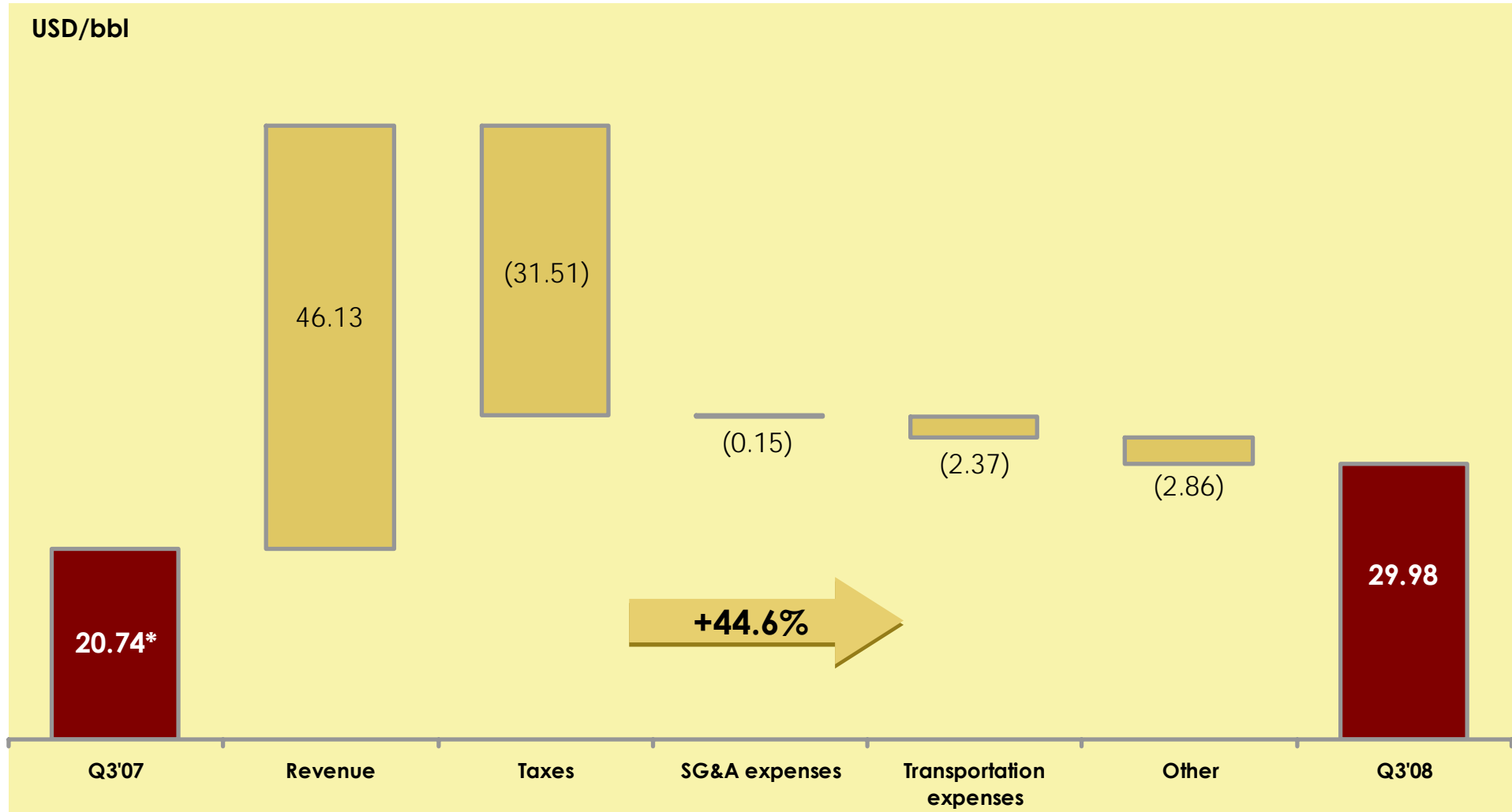


USD/bbl	2005				2006				2007				2008			
1. Av. Urals price	42.8	48.2	57.2	53.7	58.2	64.8	65.8	56.3	54.3	65.2	72.2	85.9	93.3	117.5	113.2	55.9*
2. Av. MET	7.4	8.6	10.6	9.8	10.8	12.2	12.5	10.3	9.9	12.4	13.9	16.9	18.6	23.7	22.6	10.2*
3. Av. export duty	12.1	15.5	18.8	24.5	22.8	26.0	28.8	29.8	24.6	23.4	29.5	35.3	43.0	49.1	63.3	38.8
4. Av. net export revenue after MET (=1-2-3)	23.2	24.1	27.9	19.3	24.6	26.5	24.5	16.2	19.9	29.4	28.8	33.8	31.7	44.7	27.3	6.9
5. EBITDA/bbl	12.0	13.9	16.8	9.4	14.0	15.8	14.3	5.8	12.0	20.9	21.1	25.7	26.6	40.2	30.0	TBD
6. Implied av. total cash cost to market (= 4-5)	11.2	10.2	11.1	9.9	10.6	10.7	10.3	10.4	7.9	8.5	7.7	8.1	5.1	4.5	(2.7)	TBD

\* Based on a Urals price of USD 45 per barrel for December 2008.



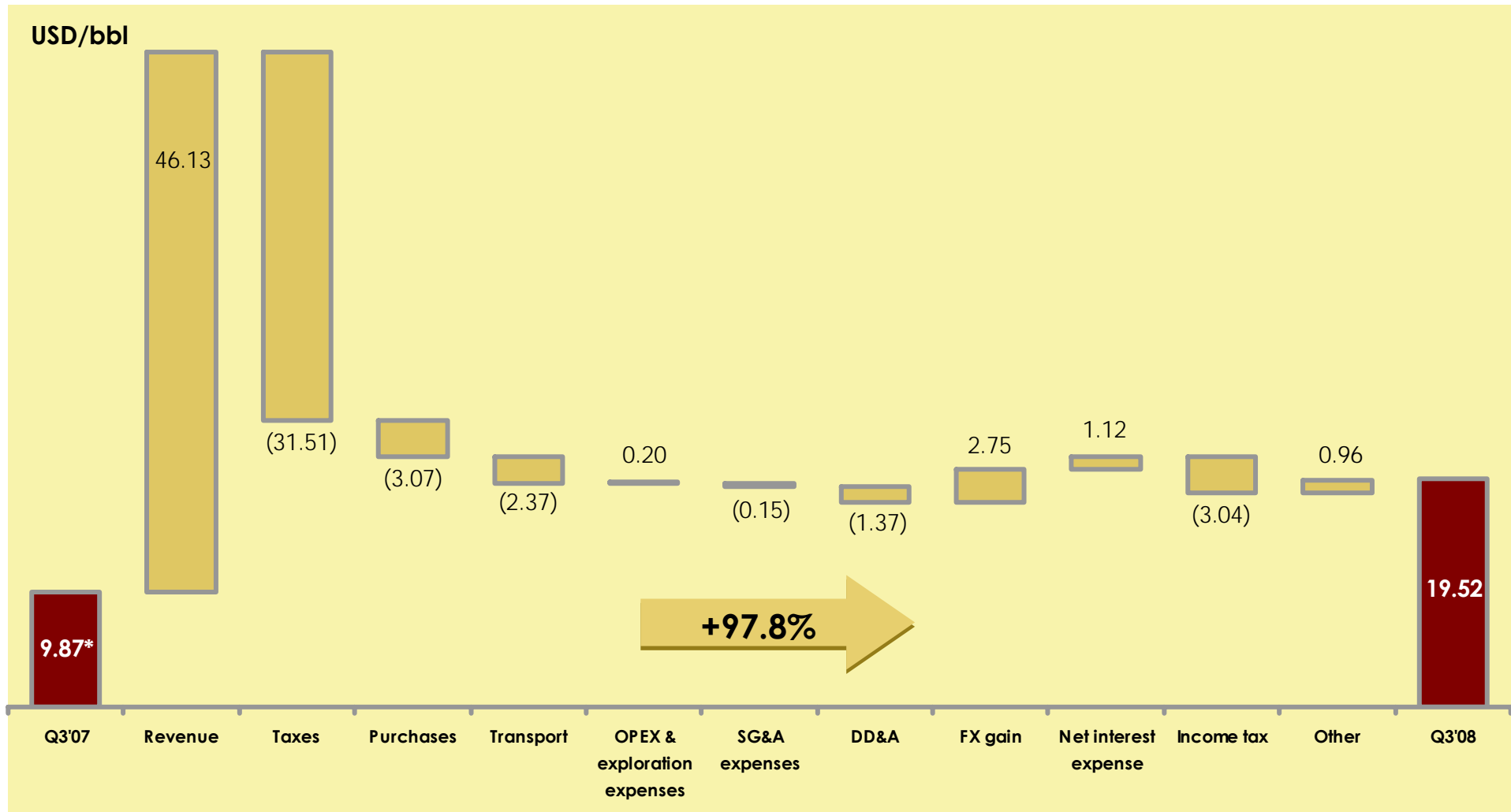
# EBITDA/bbl Reconciliation: Q3'08 vs Q3'07



\*Adjusted for the effect of non-operating accrual of fines and penalties related to pre-acquisition Yuganskneftegaz tax liabilities.



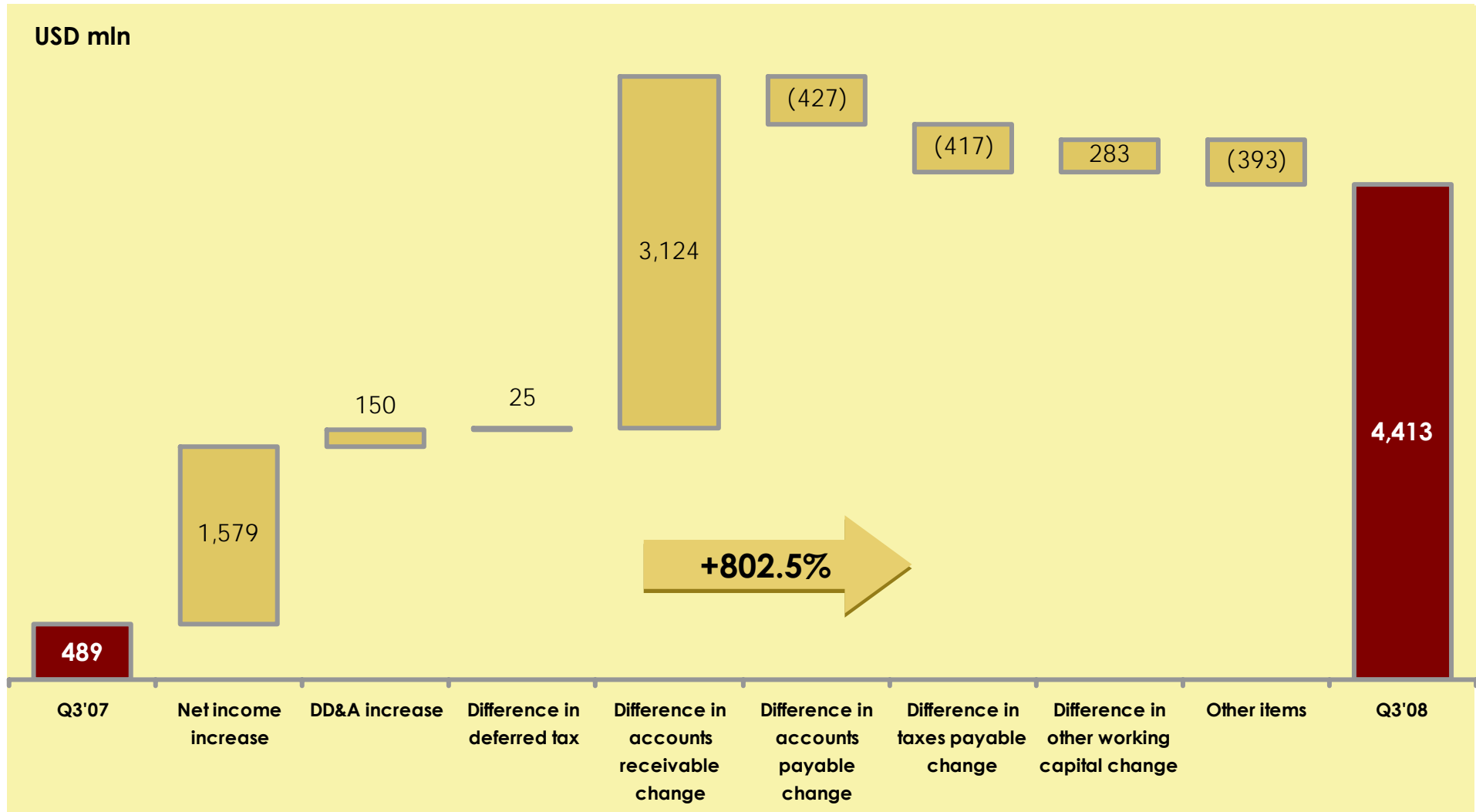
# Net Income/bbl Reconciliation: Q3'08 vs Q3'07



\* Adjusted for the effect of non-operating accrual of fines and penalties related to pre-acquisition Yuganskneftegaz tax liabilities.



# Operating Cash Flow Reconciliation: Q3'08 vs Q3'07







# Capital Expenditures

USD mln	9M'08	9M'07	Q3'08	Q3'07
<b>Exploration and production</b>	<b>4,678</b>	<b>3,185</b>	<b>1,636</b>	<b>1,444</b>
Yuganskneftegaz	2,048	1,713	732	727
Vankor	1,715	717	617	325
Purneftegaz	406	259	112	114
Severnaya Neft	144	154	53	68
Tomskneft	-	110	-	110
Samaraneftegaz	134	48	54	48
Other upstream <sup>1</sup>	231	184	68	52
<b>Refining and marketing</b>	<b>828</b>	<b>486</b>	<b>274</b>	<b>282</b>
OJSC NK Rosneft <sup>2</sup>	113	59	11	5
Tuapse Refinery	115	43	31	13
Komsomolsk Refinery	45	44	18	12
Purchased Refineries	216	109	72	109
Marketing Business Units and Other downstream <sup>3</sup>	339	231	142	143
<b>Other</b>	<b>376</b>	<b>124</b>	<b>171</b>	<b>96</b>
<b>Sub Total</b>	<b>5,882</b>	<b>3,795</b>	<b>2,081</b>	<b>1,822</b>
Acquisition of lots 17-18	-	288	-	288
Construction materials (Vankorneft, Yuganskneftegaz, etc.)	544	455	98	140
<b>Total Capital Expenditures</b>	<b>6,426</b>	<b>4,538</b>	<b>2,179</b>	<b>2,250</b>
License purchase	47	52	-	47
<b>E&amp;P capital expenditures per barrel produced, USD/bbl</b>	<b>8.83</b>	<b>6.19</b>	<b>9.21</b>	<b>7.39</b>

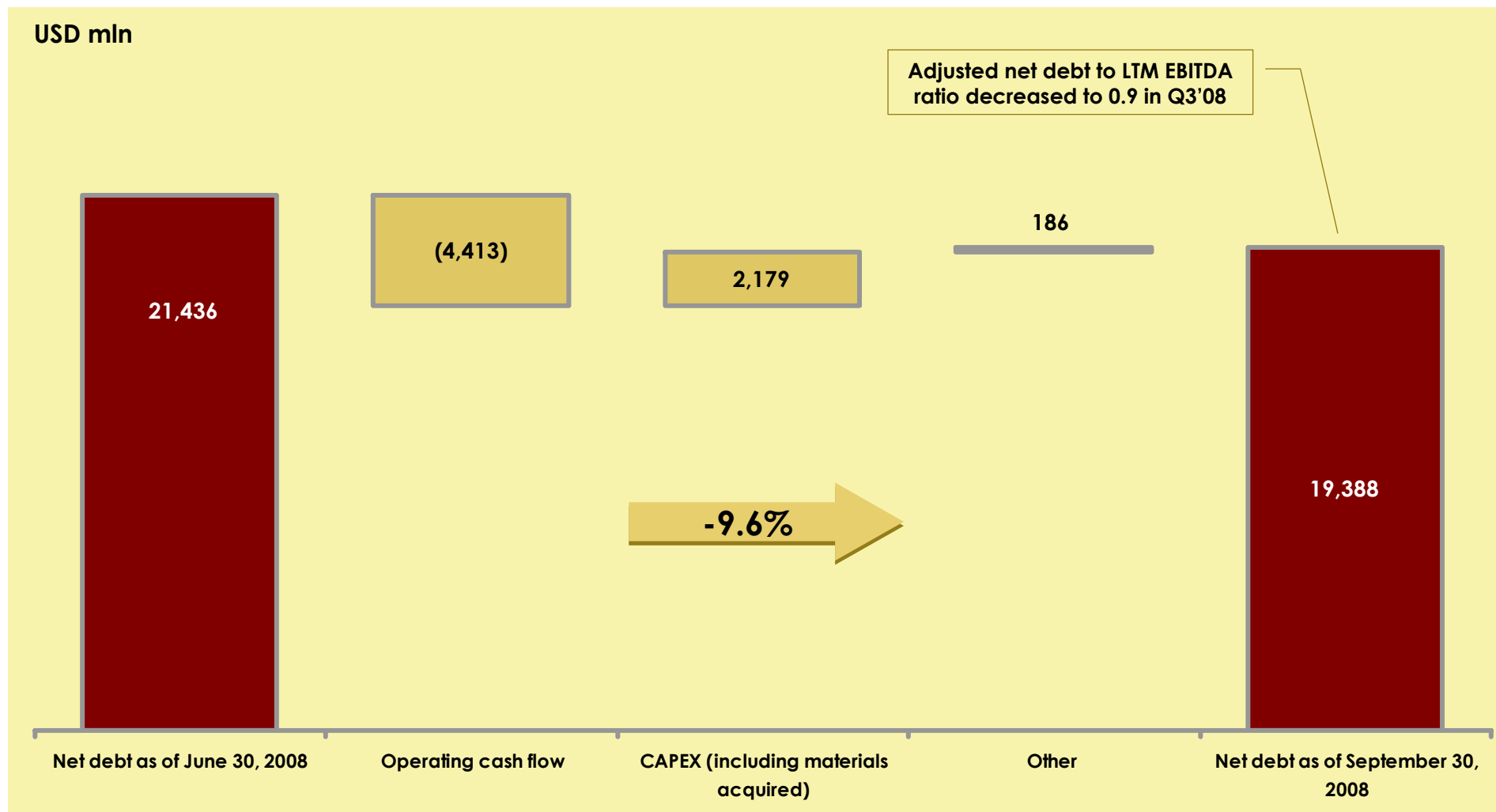
1 Includes Krasnodarneftegaz, Stavropolneftegaz, Sakhalinmorneftegaz, Grozneftegaz, Sakhalin-1 etc.

2 The growth is due to advances for gas-turbine equipment.

3 Mainly companies providing processing and storage services.



# Net Debt Reconciliation\*

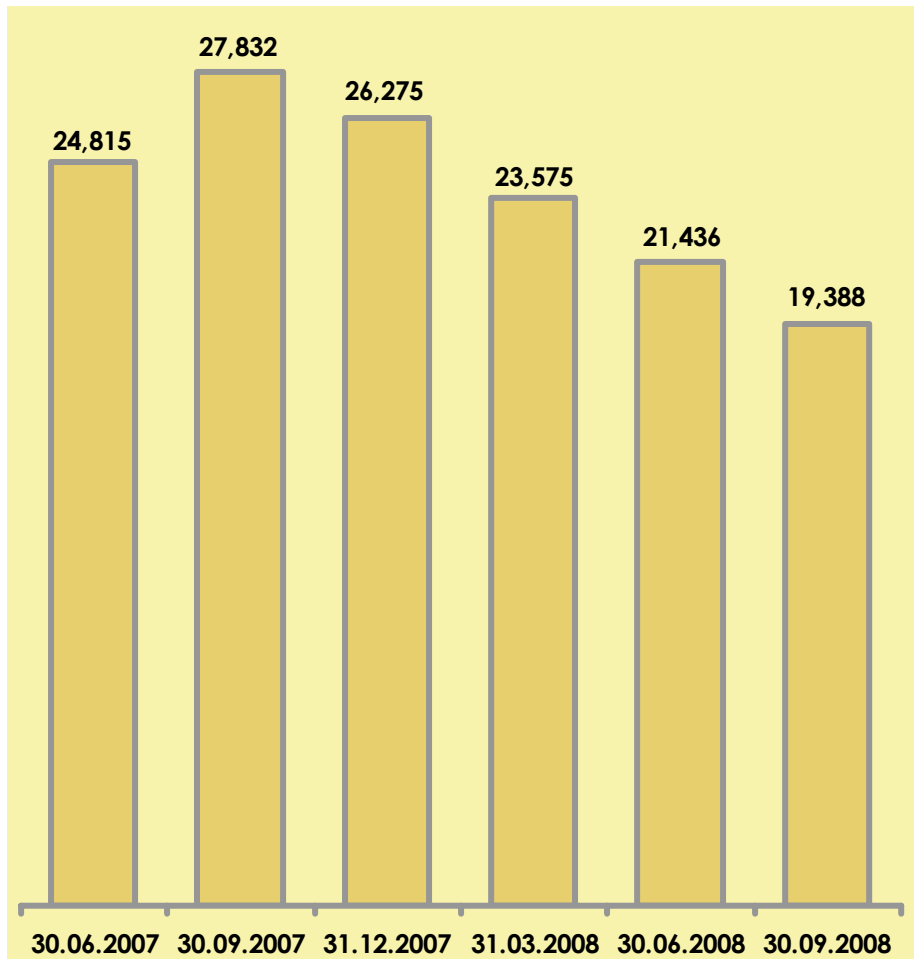


\* Net debt adjusted for cash deposits of USD 1,291 mln as of June 30, 2008 and USD 210 mln as of September 30, 2008 (reflected as short-term investments as they are placed for more than 3 months) that are intended for debt settlement and placed until debt maturity.

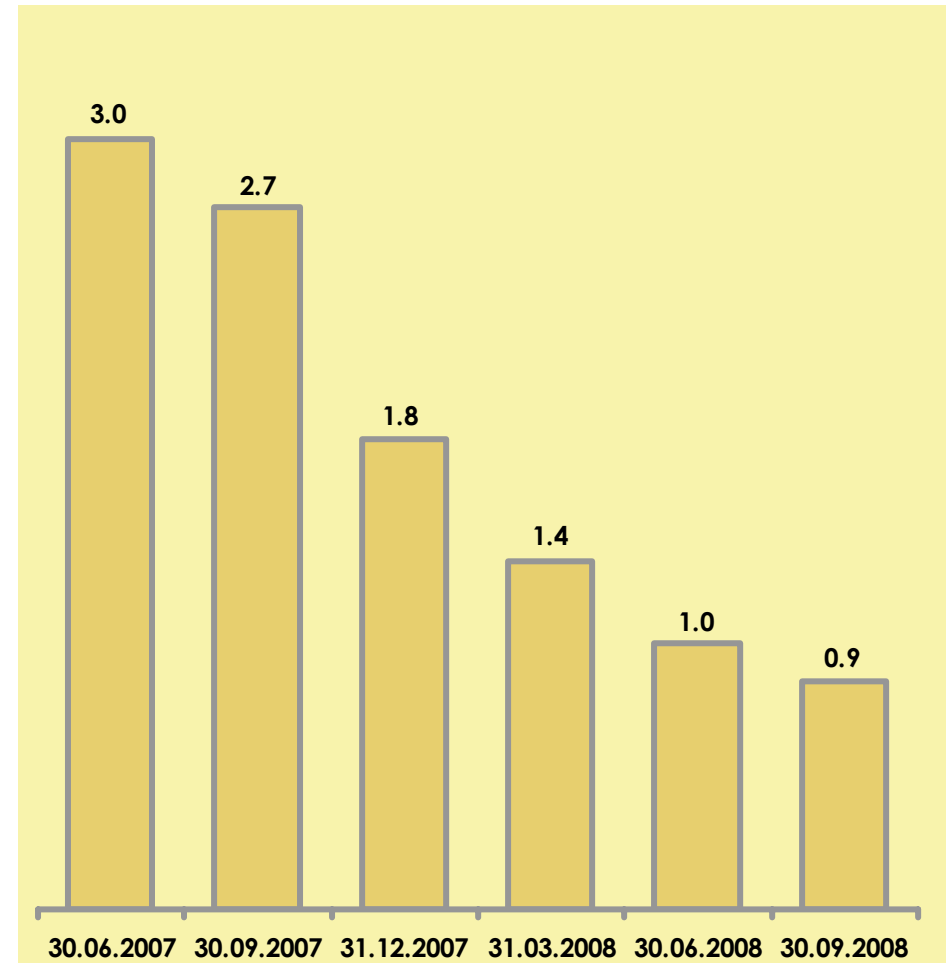


# Reduction of Net Debt

Net debt, USD mln

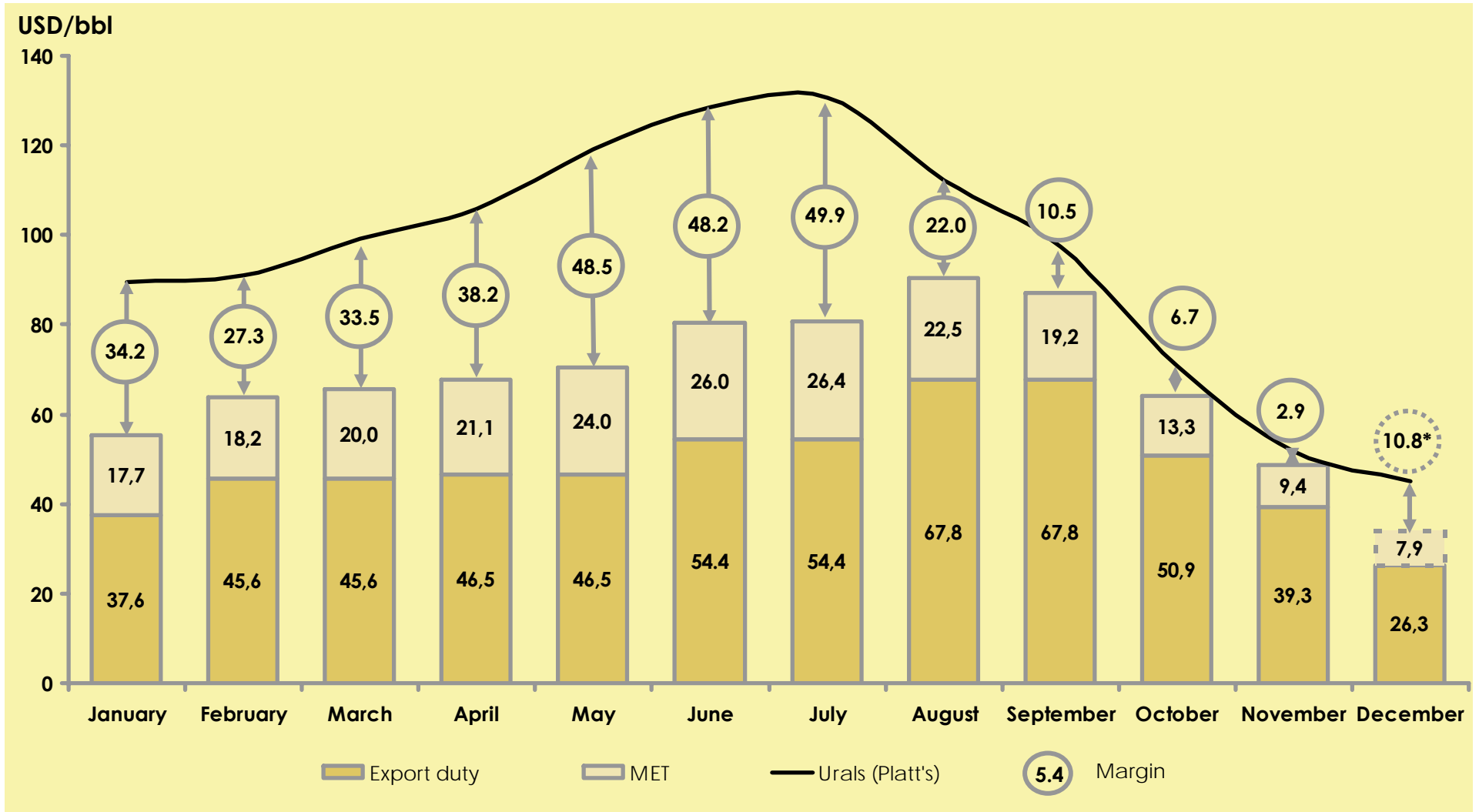


Net debt to LTM EBITDA





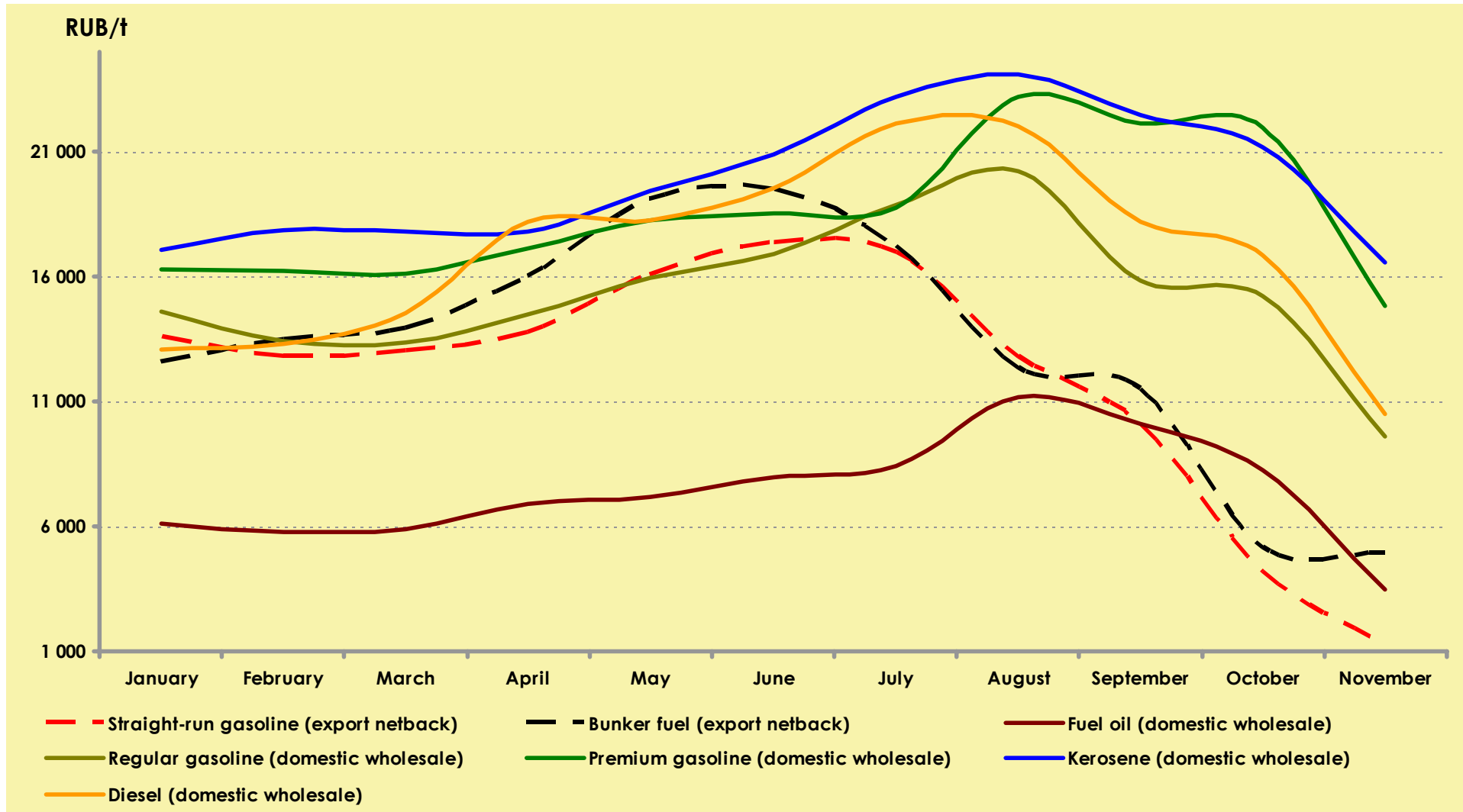
# Net Revenue of an Oil Exporter in 2008



\* Based on a Urals price of USD 45 per barrel for December 2008.



# Petroleum Product Prices in 2008 (Rosneft Refineries)\*



\* Refinery-gate export netback or domestic wholesale price net of VAT and excise (average for Rosneft refineries).