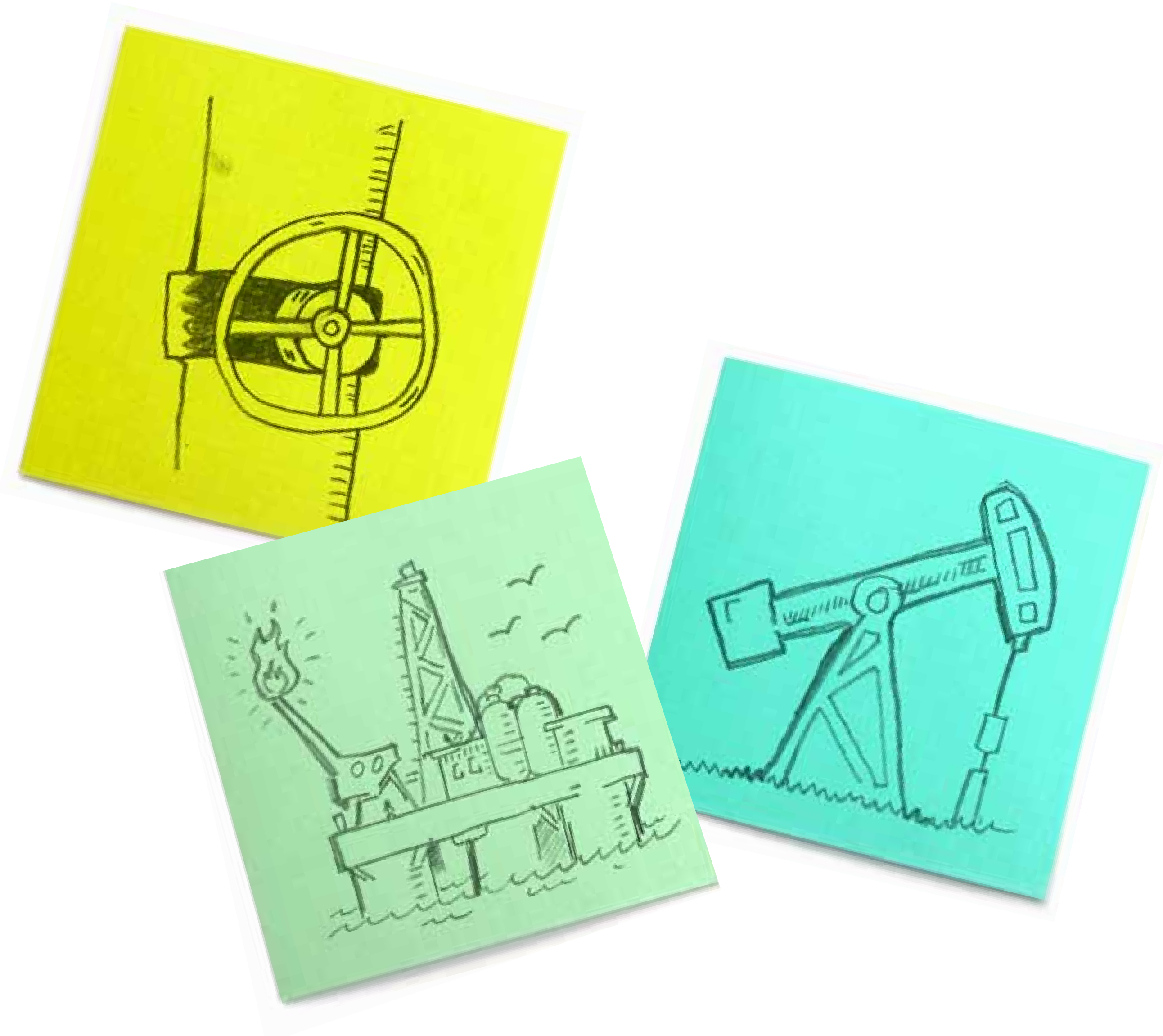
2013 Russian Oil & Gas Outlook Survey



Russia
Year 2013

Introduction

I am pleased to present you, on behalf of the CIS Oil and Gas group, the findings from Deloitte's annual survey of oil and gas executives. As in previous years, we wanted to understand how they assess the interim performance of the sector as a whole and the current performances of individual companies, and find out their views on short term and long term business development prospects in 2013.

According to our respondents, 2012 was notable for greater activity in investments into current operations, innovative solutions and environmental programmes. 79% of survey respondents also reported an increased expenditure on capital projects, which is significant too.

Most of the respondents cited efficient asset management as a driver for sustaining and enhancing their competitive edge. Other drivers given include the implementation of new technologies, innovative solutions and performance management programmes, and the reduction of operating and administrative costs. Only 13% of oil and gas companies, however, mentioned risk management.

Optimising inventory and infrastructure costs and the use of energy-saving technologies are seen as the most popular ways to reduce costs. Although 10% of respondents are considering headcount optimisation, talent shortfall remains one of the key issues for 22%.

Given the favourable outlook for hydrocarbon demand both domestically and globally and the expected stability of oil prices in the upcoming year, most oil and gas companies still plan to increase their financing of core operations and are preparing to invest in the exploration, production, sale and distribution of hydrocarbons. As for the sources of financing, half of the respondents plan mainly to use third-party loans with only 21% saying they will raise funds internally.

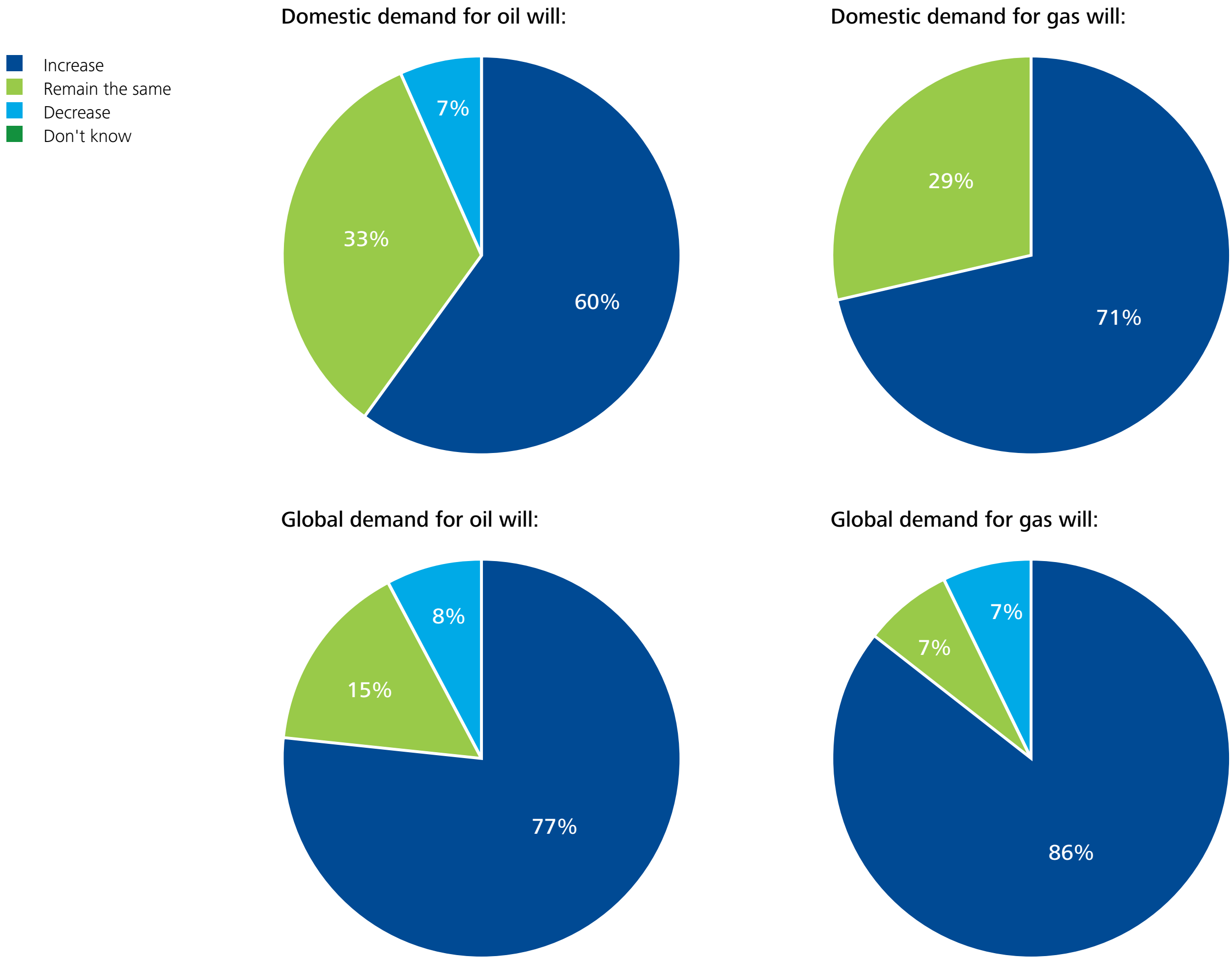
Expert opinions on the above matters and many others can be found in the following pages.

We would like to especially thank all of our oil and gas professionals who shared their thoughts on the industry in this survey, and we wish our readers all the best for 2013!

Elena Lazko
Partner
CIS Oil & Gas Group Leader

2013 Russian Oil and Gas Outlook Survey

How do you think the demand for oil and gas will change over the next five years in both the domestic (Russian) and global markets?

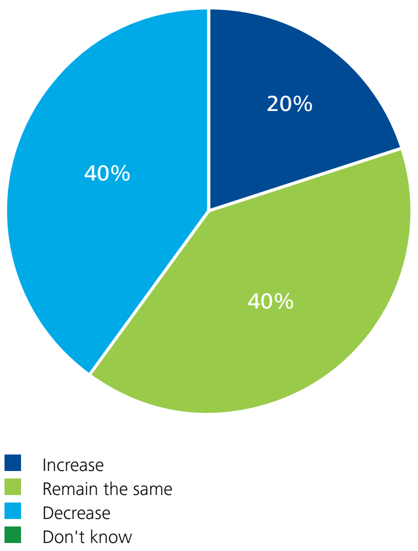


A large proportion of respondents – although smaller compared to last year – are as optimistic about the demand for oil and gas as they were in 2011.

60% of those surveyed expect the domestic demand for oil to grow, representing a 5% fall in comparison to last year. Similarly, 7% of respondents versus 0% in 2011 believe the demand for oil will decrease. Domestic gas market forecasts are similar to those for oil, with the percentage of respondents expecting commodity prices to rise down by 4 % from last year to 71%.

77% of respondents said the global demand for oil would increase, with 15% thinking that it will remain the same and 8% answering that it will decline (compared to 91%, 9% and 0% in 2011 respectively). Gas demand is anticipated to grow as well, as believed by 86% of respondents: up 6% from last year's results.

Compared with current prices, oil prices in 2013 will:

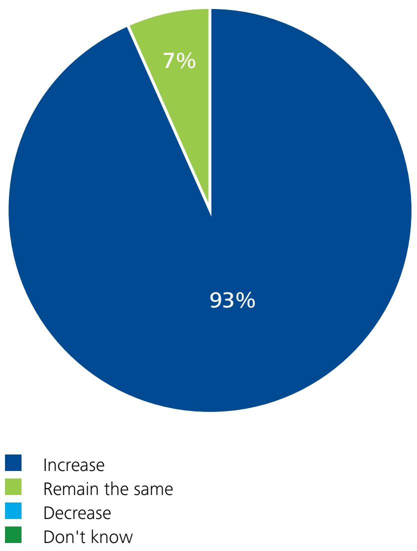


In 2012 oil prices remained the same, as predicted by the majority of the respondents last year: 48% expected no change in oil prices, 33% thought there would be a decrease and 19% predicted an increase. The average price of Urals oil brand has stabilised, reaching USD 109 and USD 111 per barrel in 2011 and 2012 respectively*.

40% of those surveyed do not anticipate any further changes in prices, whereas 40% predict a decline. Only 20% – almost the same number as a year ago – said that oil prices might rise.

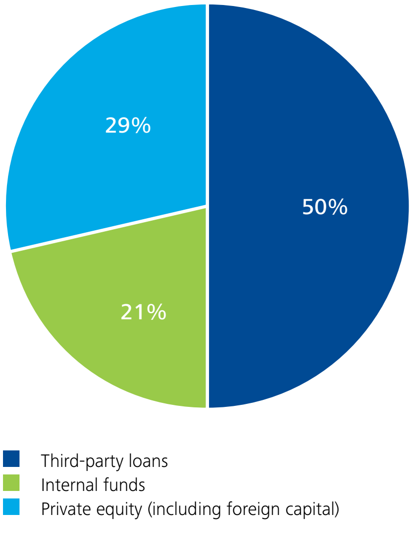
*Source: RIA Novosti

Over the next five years, demand for capital in the Russian oil and gas industry will:

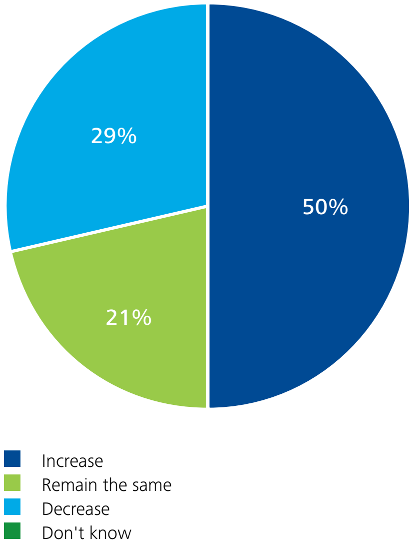


As with last year, a majority of respondents (91%) expect to see the demand for capital in the Russian oil and gas sector grow over the next five years. Buoyed by projected increases in demand for energy sources and the need to invest in developing new, hard-to-extract fields, enhancing oil recovery and upgrading production facilities, capital investment levels are apparently on the rise.

Over the next five years, the primary source of capital for the Russian oil and gas industry will be:



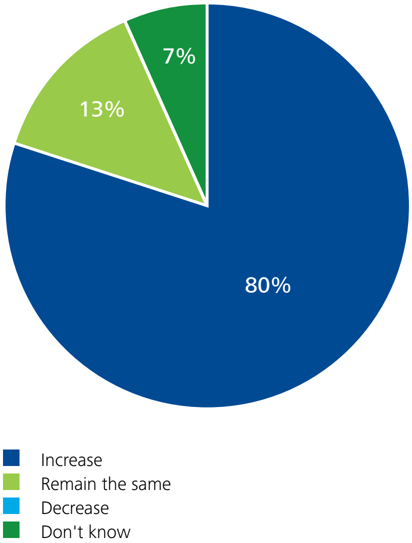
Over the next five years, the inflow of capital into the Russian oil and gas industry will:



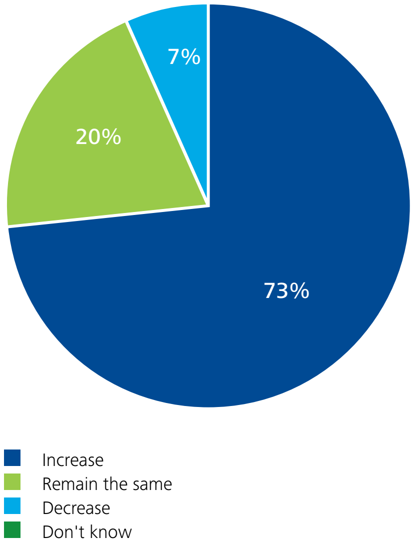
In 2011, only 24% of respondents indicated third-party loans as the main source of capital, which reflected a more cautious approach towards obtaining capital funding. This is likely to have been related to rumours and expectations of a second dip caused by the financial crisis, as well as the presidential elections in 2012. This year the number of respondents that expect to use third-party loans mainly has soared to 50%, encouraged by a stabilised central bank monetary policy and strengthened mutual confidence between financial institutions and non-financial businesses. This year, private equity is expected to be the primary source of capital by a slightly larger number of respondents (29% compared to 24% in 2011), whereas internally available funds were cited by 21% (versus 38% in 2011).

Capital inflow forecasts are less optimistic compared to the previous year. Despite high energy prices, only 50% of respondents (versus 72% the year before) believe there will be an increase in investment in the oil and gas sector in the upcoming year. In fact, the proportion of respondents anticipating a decline in capital inflow has grown sharply this year to 29% from just 9% in 2011.

Over the next five years, participation by state companies in the industry will:

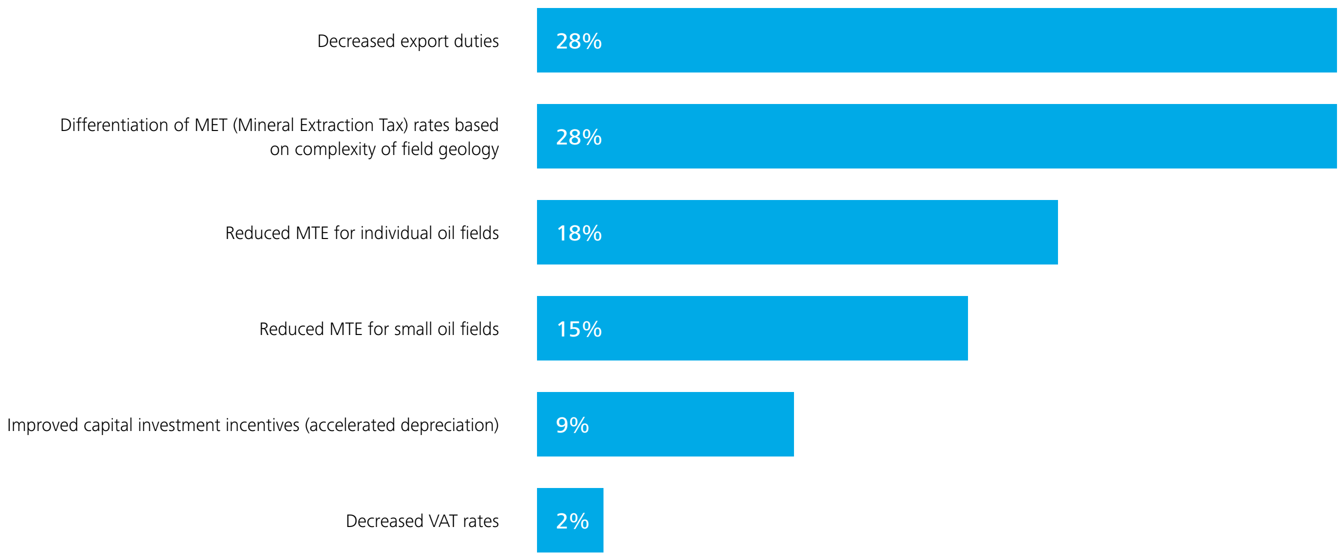


Over the next five years, state regulation of the oil and gas industry will:



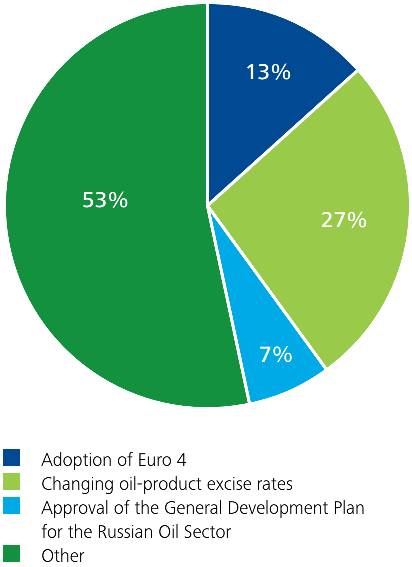
In previous years, the proportion of respondents who believed that state companies’ participation in the industry would increase stayed within a range between 46% and 57%. This year, an all-time record of 80% of respondents believe state companies’ participation will grow, which is most likely to be due to the upcoming deal in which Russia's Rosneft plans to buy a 100% stake in TNK-BP, currently owned on a fifty-fifty basis by BP (UK) and AAR consortium (Russia). A similar trend can be seen regarding views on state regulation: 73% of respondents indicated that state influence in the oil and gas sector would increase: a 26% rise from the previous year. 20% believe that state influence will not change, and only 7% suggest it will decrease, compared with 43% and 10% in 2011 respectively.

The tax benefits and tax adjustments that the industry will most benefit from are (please select):



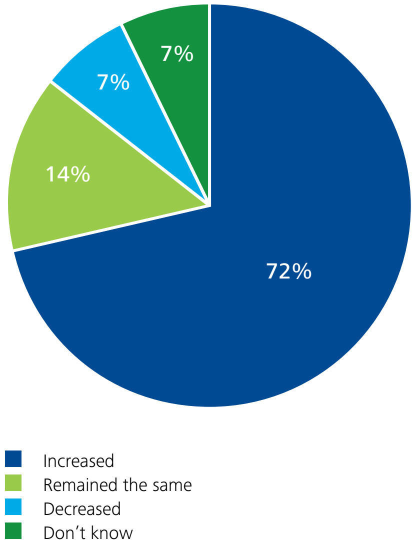
Whilst differentiation of MET rates was the most cited tax incentive that would have the greatest benefit to the industry in 2011, reduced export duties were added to the list of incentives this year and gained 28% of all responses. Reduced MET for individual oil fields is another of the most-preferred incentives for the industry (18% against 7% last year).

Which of these events do you think will have the greatest impact on oil processing companies?



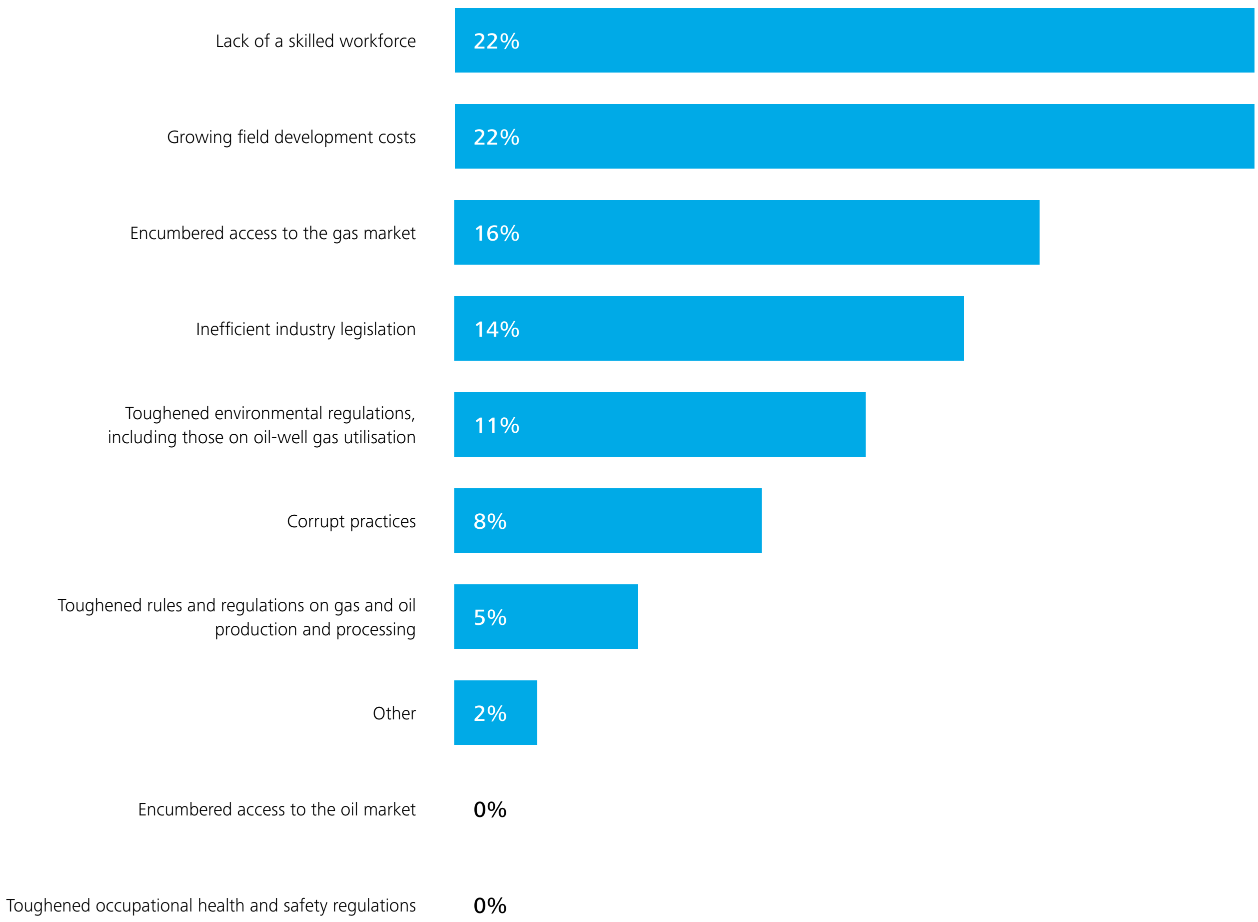
According to respondents (27% versus 15% last year), the singular event that is expected to have the most significant impact on the oil refining industry is the changing of oil-product excise rates. Only 13% cited the adoption of Euro 4 as the most significant event, compared with 35% the year before. The percentage of respondents who regard the approval of the General Development Plan as the most important (7%) is also lower than last year.

In 2012, your production assets have:



As in the previous two years, about 70% of respondents reported an increase in their asset levels. Around 14% said that their asset portfolios had remained the same and 7% said that they had decreased.

In your view, what could be the most serious problem facing oil and gas companies?

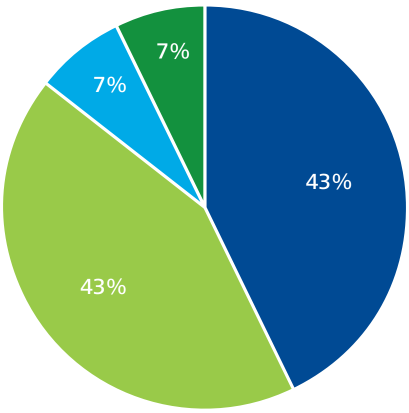


Lack of a skilled workforce and growing field development costs top the list of the most significant issues confronted by oil and gas companies (chosen by 44% of respondents: 22% each). Encumbered access to the gas market and inefficient industry legislation are also seen as serious problems (16% and 14% of respondents, respectively, compared with 11% and 14% last year). Notably, the issue of corruption is down 2% from the previous year.

In 2012, your headcount has:

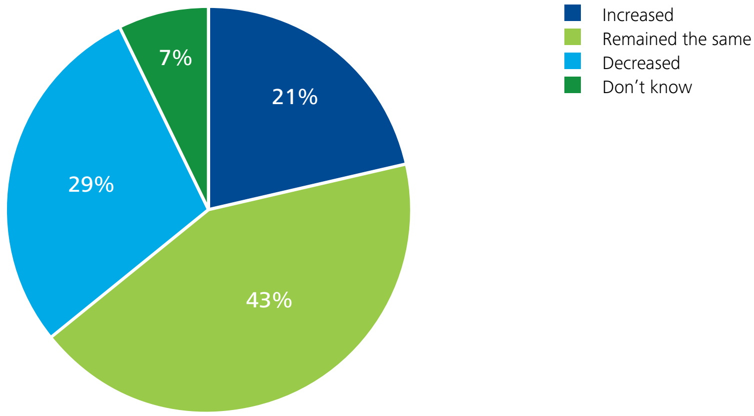
Headquarters

Management

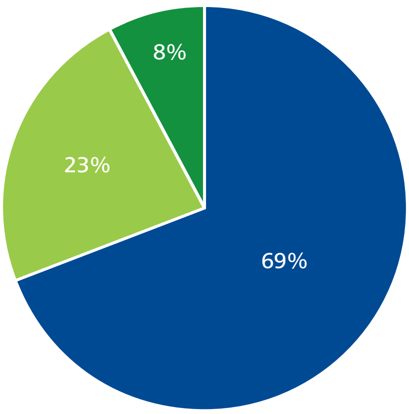


Production units

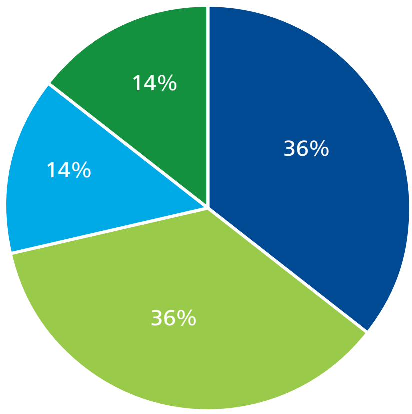
Management, professional and administrative staff



Professional and administrative staff



Manual workers



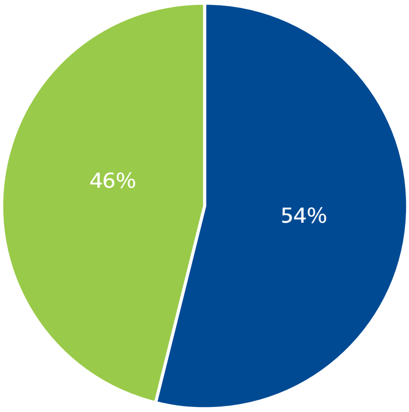
43% of the companies surveyed have increased, and a further 43% have maintained, the number of staff at their headquarters (compared to 25% and 55% respectively in 2011). As for professional and administrative staff, headcount growth was confirmed by 69% of those surveyed (versus 37% in 2011). 23% reported no change in the numbers of professional and administrative staff.

Production units demonstrated less positive headcount dynamics than headquarters, with 43% of respondents reporting stable headcount numbers for management, professional and administrative staff, 29% reporting a decrease and only 21% an increase. For manual workers these figures were 36%, 36% and 14% respectively.

With respect to the areas specified below, how did your company's spending structure change in 2012?

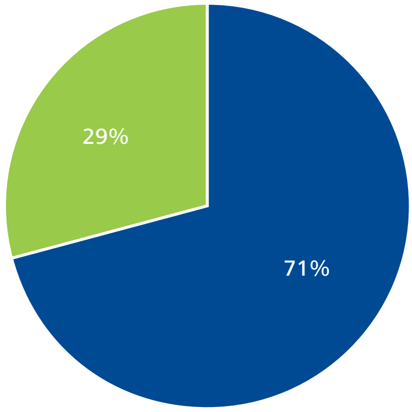
Increased
Remained the same
Decreased
Don't know

The level of innovative activities in oil and gas production has:



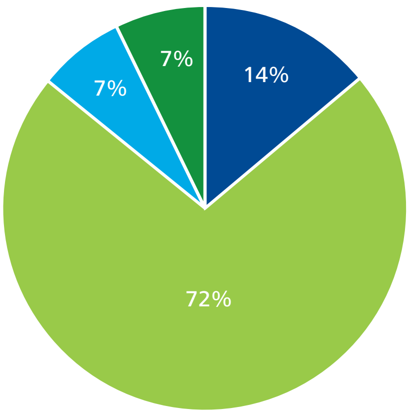
54% of respondents increased their R&D expenditure, while 46% had similar levels of expenditure to the previous year (55% and 30% respectively in 2011).

The level of operating activities has:



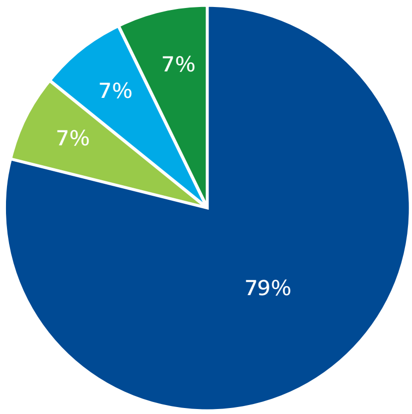
71% of those surveyed indicated an increase and 29% reported no change in their levels of operational expenditure, thus demonstrating a remarkable rise from the equivalent percentages from last year of 60% and 5% respectively. This rise was due to the desire of companies to intensify their activities.

The level of social programme investments has:



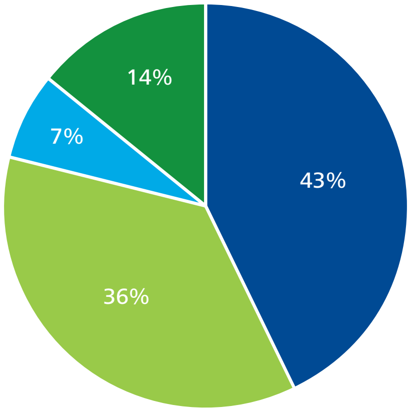
Only 14% of the companies surveyed increased their spending on social programmes, showing a downward trend compared to last year (40%), 72% of respondents spent the same amount as in 2011, and 7% spent less.

Levels of capital construction have:



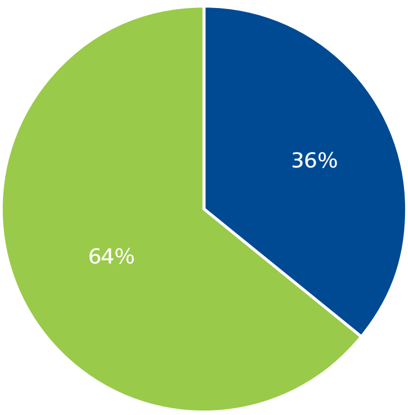
79% of respondents indicated that their levels of expenditure on capital construction are still growing, as was the case in the year before. High oil prices of more than USD 100 per barrel continue to drive investment into capital projects. 7% of the companies surveyed did not change and 7% reduced their spending levels.

Expenditure on occupational health and safety has:



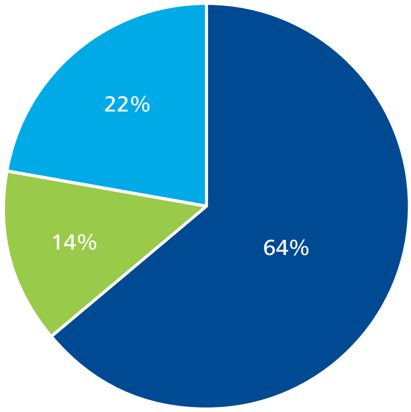
Spending dynamics for occupational health and safety is similar to those in 2011. 43% of respondents reported an increase, 36% reported no change and 7% reported a decrease in their expenditure (compared to 40%, 40% and 10% respectively in 2011).

Expenditure on personnel training activities has:



The vast majority of the companies surveyed (64%) kept their expenditure on personnel training at the same level as the previous year. Only 36% reported increased expenditure.

The level of environmental expenditure, including associated gas utilisation has:



Increased
Remained the same
Decreased
Don't know

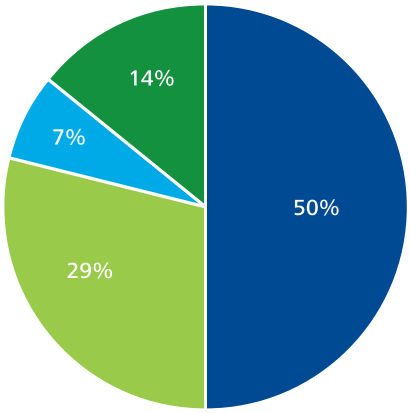
The requirement to utilise 95% of associated petroleum gas which came into effect on 1 January 2012 led to an increase in environmental spending in the oil and gas sector in 2011. Last year 65% of the companies surveyed confirmed that they had been investing more in internal environmental programmes. The situation did not change drastically in 2012, with the share of companies giving the same response being 64%. 22% of respondents reported a decrease in their environmental expenditure.

Compared with 2012, which of the following operational areas are you planning to expand or cut back on in 2013?

- Increase
- Remain the same
- Decrease
- Don't know

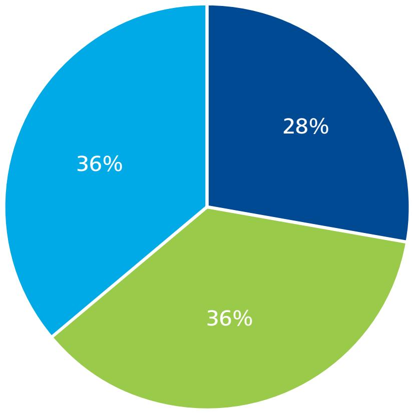
Upstream

Drilling — Expenditure on drilling operations in your company will:

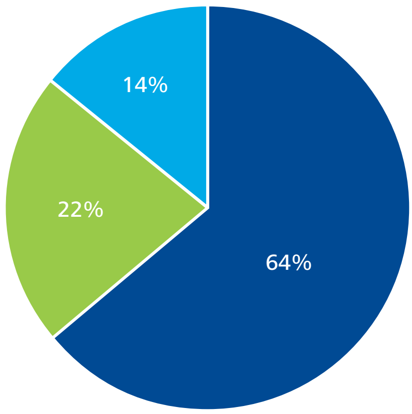


Midstream

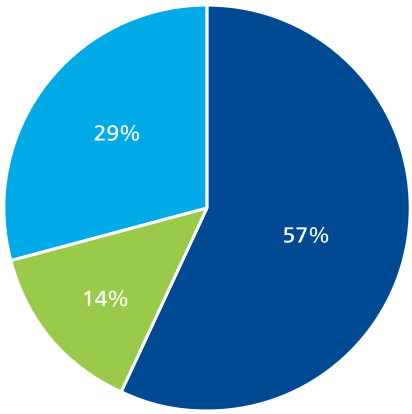
Total processing capacity — Expenditure on processing capacity in your company will:



Efficient field development — Expenditure on efficient field development in your company will:



Refining efficiency — Expenditure on improving refining efficiency in your company will:



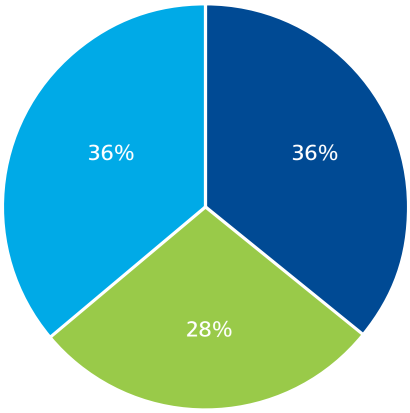
The share of respondents planning to increase their drilling expenditure has dropped by 15% this year to 50%. 29% plan to keep their expenditure at the same level as last year, and only 7% intend to reduce their spending. The percentage of companies that plan to increase expenditure on efficient field development has also dipped compared to last year by 11% to 64%.

36% of respondents are not yet ready to forecast their expenditure on processing capacity in 2013. 36% expect to spend the same amount as in the previous year, and only as few as 28% intend to increase their expenditure on processing capacity.

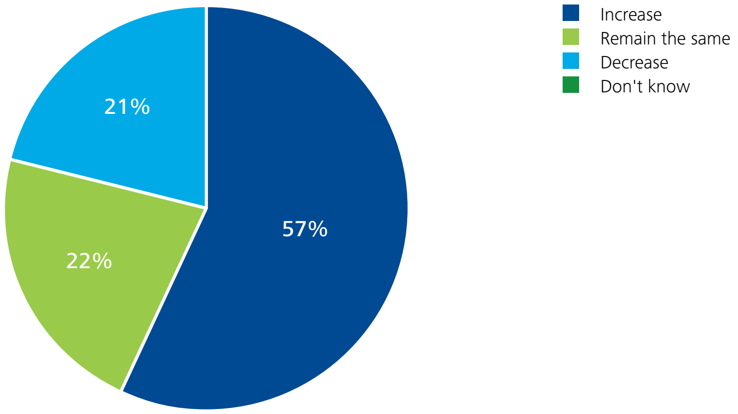
Refining efficiency plans reflect the same trends as last year, with 57% of companies surveyed planning to increase their spending in this area, 14% intending to keep their spending at the same level and 29% not able to give a definite answer.

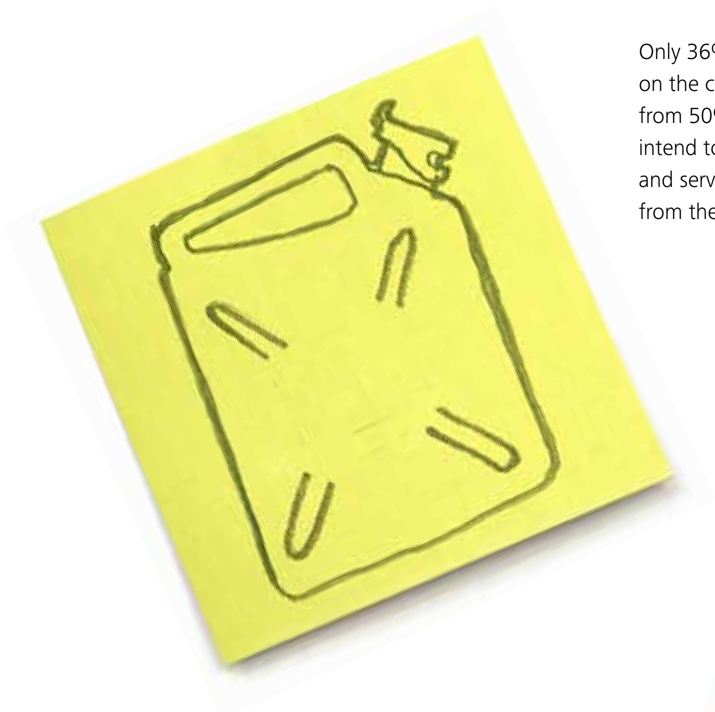
Downstream

Number of filling stations — Expenditure in this area will:



Product and service offerings — Your company's expenditure on product and service offerings will:



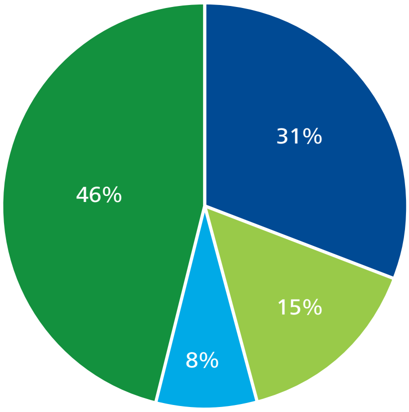


Only 36% of respondents plan to increase expenditure on the construction of new filling stations, down from 50% last year. However, as much as 57% intend to invest in the expansion of their product and service offerings, representing an increase of 27% from the year before.

Compared with 2012, which of the operational areas specified below are you planning to expand or cut back capital investment on in 2013?

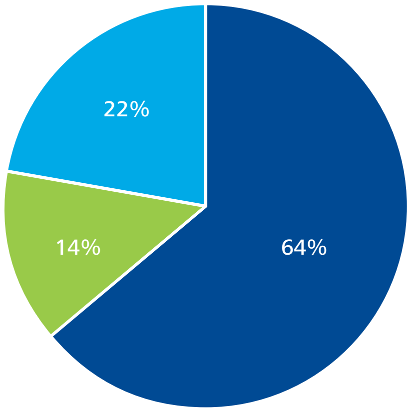
Increase
Remain the same
Decrease
Don't know

Your company's expenditure on inventory purchases will:



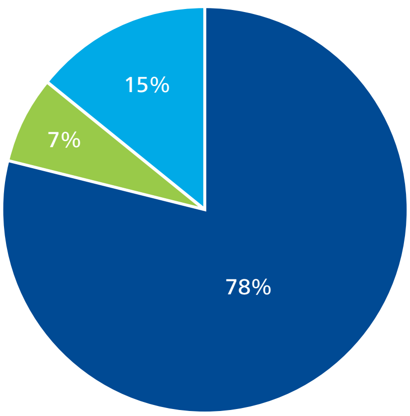
Almost half of respondents (46%) could not give a definite answer on their plans for the upcoming year concerning inventory purchases. 31% said they would increase expenditure on inventory purchases, while 15% plan to maintain their spending in this area. Only 8% plan to reduce their capital investments in inventory purchasing.

Investment into field development activities in your company will:



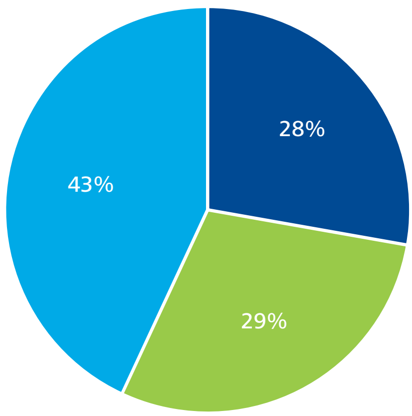
Companies are going to increase their investment in field development, as they did in the previous year. Nevertheless, the percentage of respondents indicating such an intention has fallen from 79% last year to 64% this year. 14% of respondents said they would maintain the same levels of investment as in the previous year.

Expenditure on extracting activities by your company will:



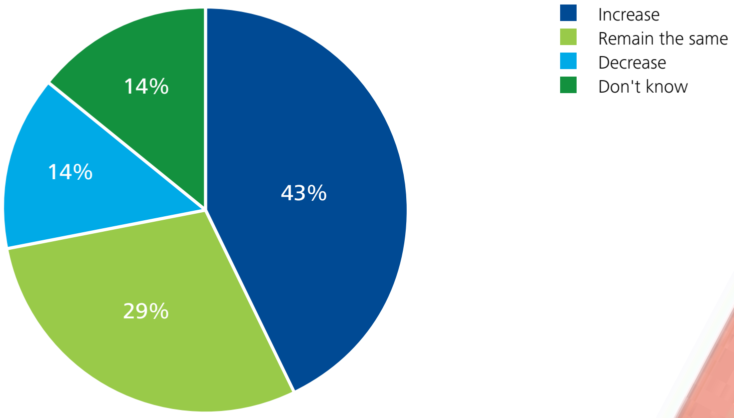
A vast majority of the companies surveyed (78%) plan to increase upstream expenditure, while 15% were uncertain and only 7% said they would keep their investments at the same level.

Expenditure on expanding sales by your company will:

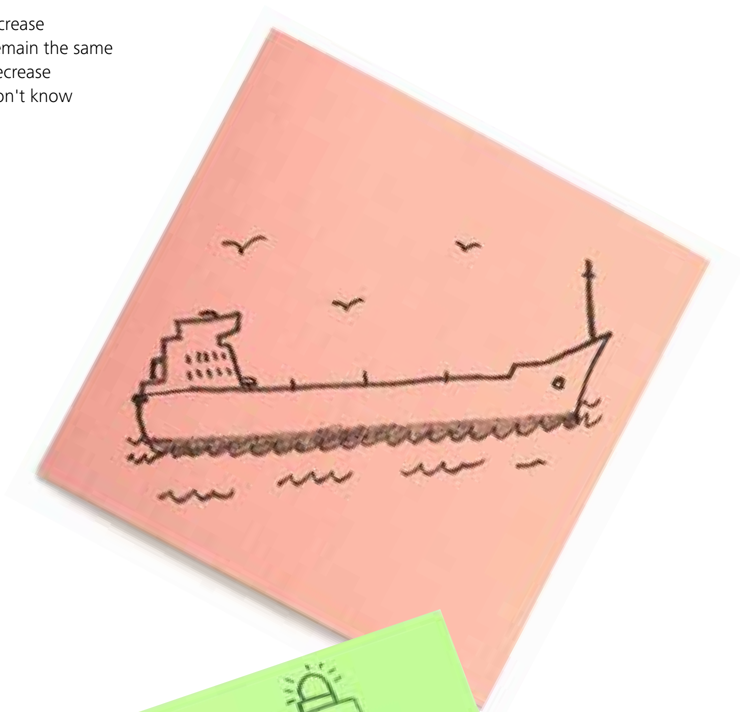


43% of respondents could not give a definite answer about their plans concerning downstream investments. 29% of the companies surveyed plan to spend the same amount as they did last year, whereas 28% intend to step up their investments in this area.

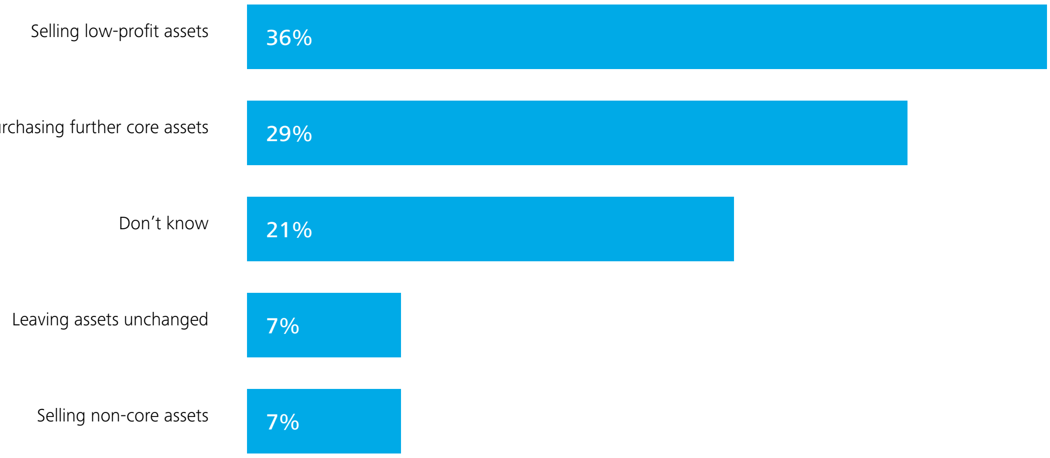
Expenditure on refining activities by your company will:



The number of respondents planning to increase their spending on refining activities is almost the same as last year, amounting to 43% (against 42% in 2011). A further 29% of the companies surveyed plan to maintain their previous year's expenditure and 14% plan to cut their spending.

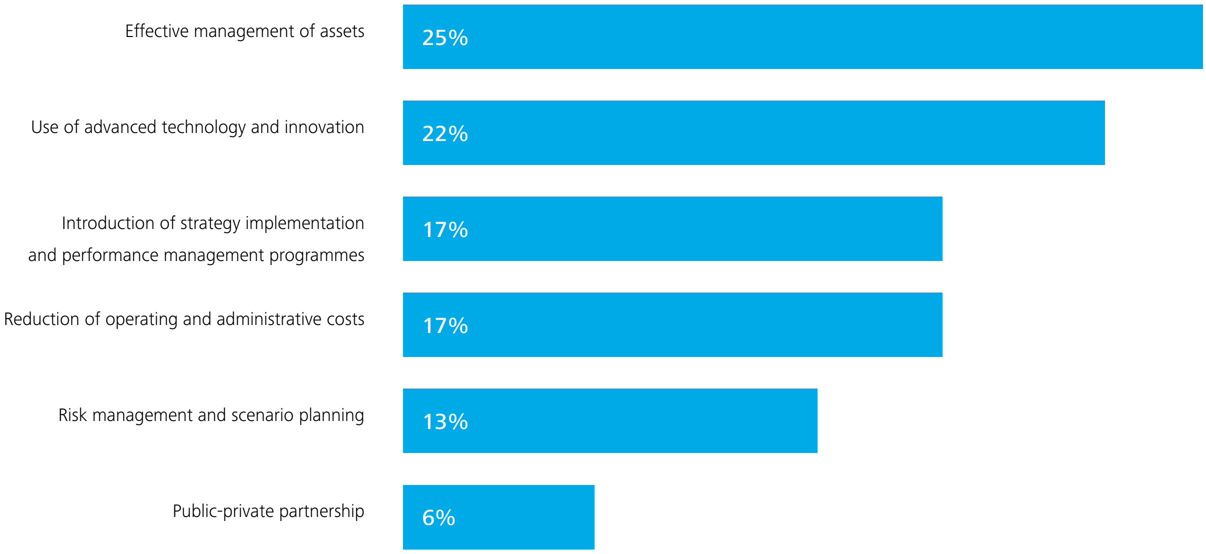


What is the main plan that your company has for managing its assets in 2013?



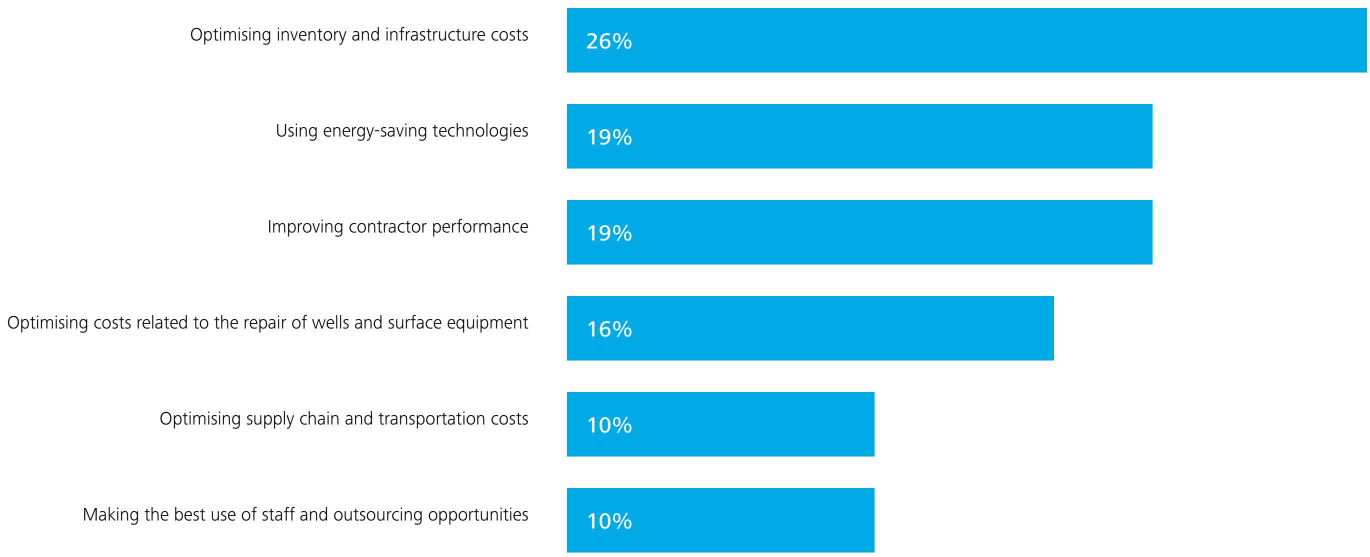
In 2013 oil and gas companies plan to restructure their asset portfolios by selling low-profit (36%) and non-core (7%) assets and purchasing further core assets (29%), while the year before, 39% of respondents planned to purchase further core assets.

In your view, which of the strategic initiatives listed below is the most important so that your company remains competitive?



As was the case last year, more respondents (25%) gave effective asset portfolio management as the principal driver for retaining and increasing their competitive edge. Other strategies cited include implementation of new technologies and innovative solutions (22%), introduction of performance management programmes (17%) and reduction of operating and administrative costs (17%). Only 13% of oil and gas companies, however, mentioned risk management as the major strategy for remaining competitive.

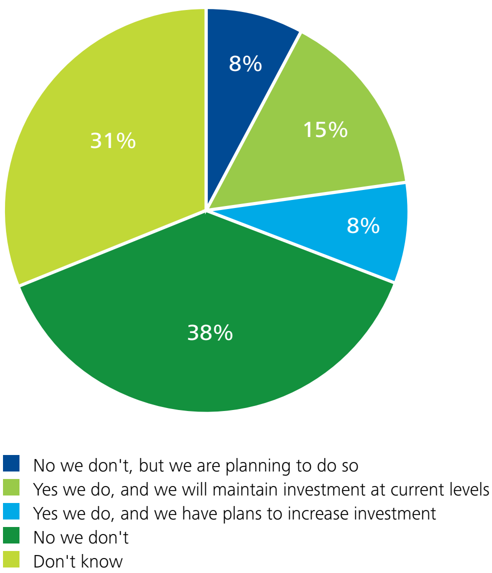
In 2013, what will be your company's approach to controlling/reducing operating expenses?



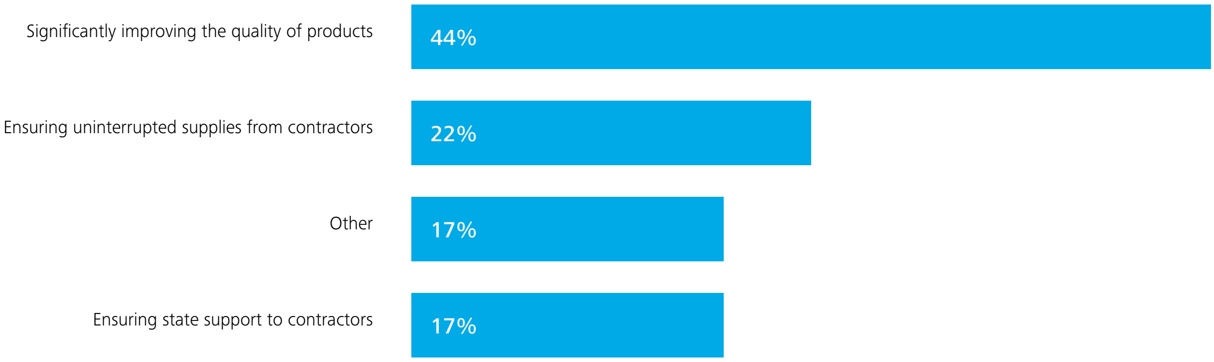
According to our respondents, the most important strategic initiative for companies to reduce costs in 2013 will be the optimisation of inventory and infrastructure costs (26%). Other popular strategies include the use of energy-saving technologies and the improvement of contractor performance (19% each).

Do you invest in alternative energy research and development?

Despite the depletion of resources and the increasing complexity of mineral extraction, a significant percentage of the companies surveyed (38%) are not making investments in alternative energy research and development. 31% of respondents did not give a definite answer to this question. 15% invest and plan to maintain investment at current levels, and only 8% invest and have plans to increase investment in alternative energy R&D.

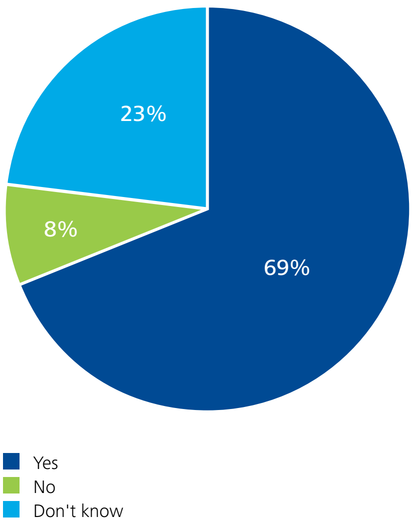


What do you think needs to be done to increase participation by domestic contractors in oil and gas projects?



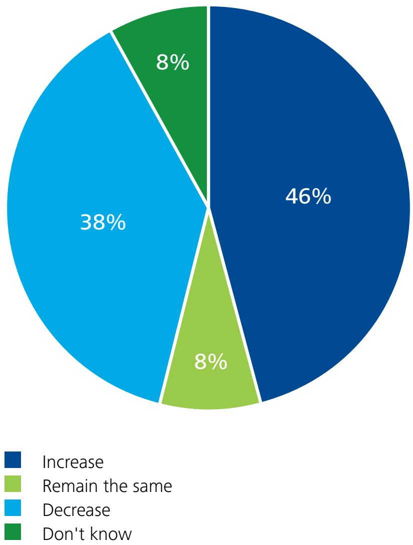
In the industry's view, a significant improvement of product quality is most likely to result in the greater participation of domestic contractors in oil and gas projects (44% of respondents). 22% of respondents highlighted the importance of timely deliveries in order to boost confidence in domestic contractors. Finally, 17% of the respondents stressed the need for state support to contractors.

Is there a need for the creation of a unified public database of oil and gas contractors?



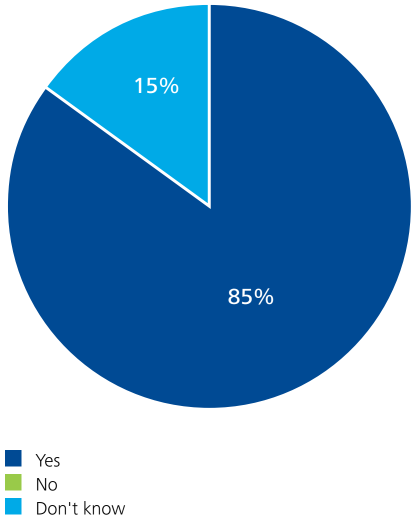
A large proportion of those surveyed (69%) are in favour of a unified public database of oil and gas contractors. Almost a quarter of respondents were uncertain and only 8% said there was no such need.

How will foreign participation in oil and gas projects change in 2013?



Almost half of respondents (46%) believe that foreign participation in oil and gas projects will increase. This is perhaps related to the necessity to attract foreign investment and technology for the development of fields where extraction is more difficult. 38% of respondents suggested that foreign participation would decline.

Do you think there is a need for a return to the use of product sharing agreements (PSA) to develop the Russian continental shelf?

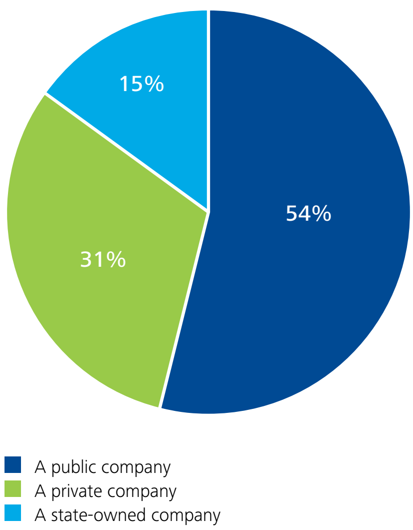


Almost all respondents (85%) agreed that there is a need to start using PSAs again. Only 15% of respondents could not answer definitively.

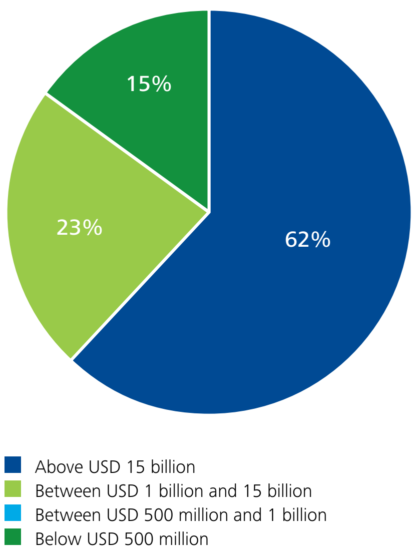
Our respondents

We surveyed executives of various seniority levels (senior executives, heads of divisions and departmental heads, etc.) who are involved in hydrocarbon exploration, production and processing. The survey covers both local and international large vertically-integrated companies and independent small- and medium-sized businesses.

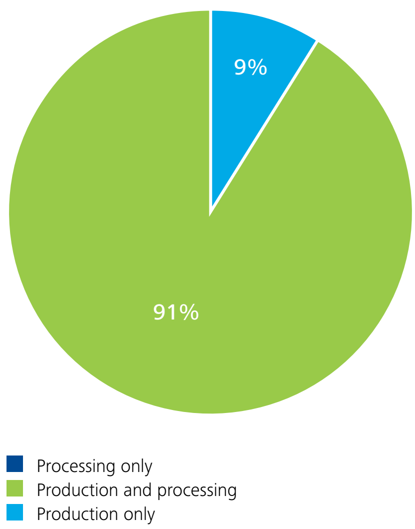
Your company is:



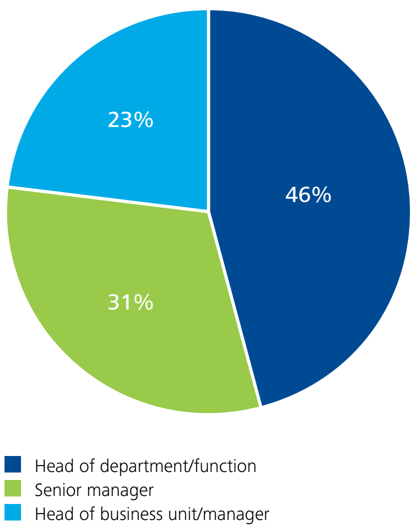
The consolidated annual revenue of your company is:



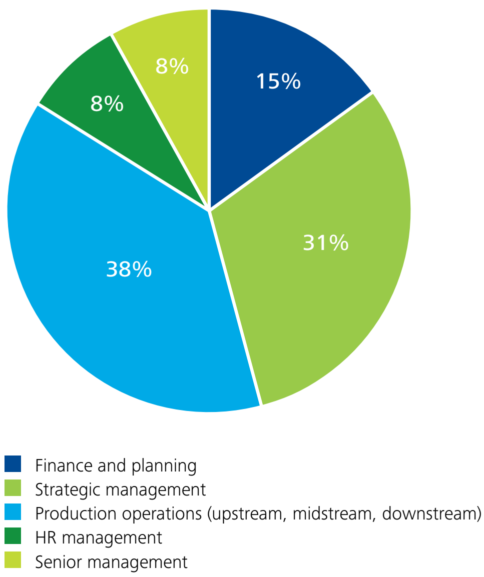
Your operational activities include:



Your position within the company is:



Your function within the company is:



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