

Deloitte.



2016 Russian Oil & Gas Outlook Survey

10th anniversary edition
Russia, 2016



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Introduction

Deloitte CIS has completed its tenth annual Russian Oil and Gas Outlook Survey, based on interviews with executives from state and private enterprises. Its findings highlight the interim results of operations throughout the industry, current results of certain companies, their plans and short-term and medium-term growth opportunities.

As demand growth slowed down and markets became over-saturated, 2015 saw a further decrease in oil prices, following the previous year's drop. Renewed EU and US sanctions against Russia put energy companies in an even more challenging environment, both financially and technically. Nonetheless, oil production in Russia grew in 2015, mostly due to increased oil recovery from conventional fields and the exploration of new deposits, including reserves that are hard to recover. Indeed, Russia set a historic record last year beating the Soviets with daily oil production at 10.7 mbpd.

Experts believe that the decline in oil prices is pushing the upstream sector to improve the profitability of oil fields in 2016, including by raising the production efficiency of extensively depleted fields. At the same time, the overwhelming majority of respondents anticipate a significant growth in capital needs across the industry in 2016, while only 18 percent predict more investment, the opinion shared by most professionals being that investment in oil and gas is likely to decrease or at best remain at the same level. The major sources of capital are still loans and borrowings (used by 46 percent

of companies); other sources, namely share capital, strategic investors and internally available funds, are each used by companies in equal proportion.

Naturally, with the current level of prices and scarce investment, the industry expects government regulation to increase. Great importance is placed on the approval of the General Development Plan for the Russian Oil Sector: 64 percent of respondents see it as a major incentive for the industry, particularly for the exploration of oil and gas potential in the Russian Arctic. The adverse impact of market fundamentals and sanctions imposed on Russia is likely to continue in 2016. In these circumstances, companies should focus on efficiency and adapting to the new environment in the long term.

Our review includes more extensive commentary from oil and gas industry executives regarding the current situation and their business plans for 2016. We would like to thank the experts who shared their vision of the current state of affairs and the outlooks for the oil and gas industry.

We wish all our readers prosperity in 2016 and hope that your business successfully overcomes the challenges that it might face in coming years.

Elena Lazko
Partner
CIS Oil and Gas Leader



The adverse impact of market fundamentals and sanctions imposed on Russia is likely to continue in 2016. In these circumstances, companies should focus on efficiency and adapting to the new environment in the long term.

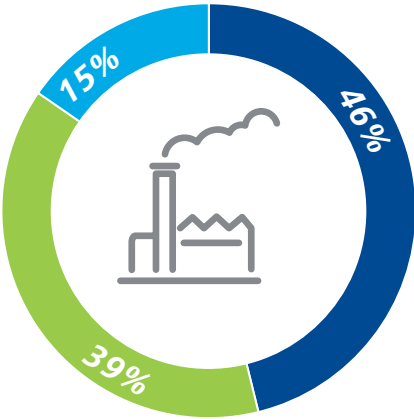
Our respondents



Our respondents

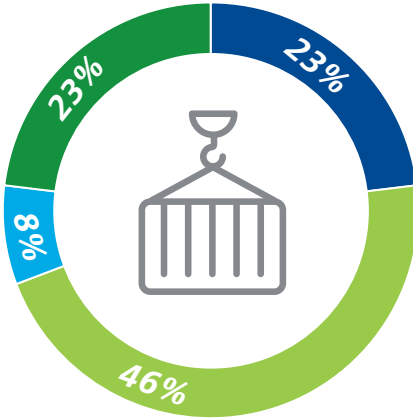
We surveyed executives of various levels (top managers, function leaders, department directors and heads) in the hydrocarbon exploration, production and processing sectors, and in service companies. The survey covers large local and international, vertically integrated companies and independent small and medium-sized businesses. Most of the participants are not state-owned.

> TYPE OF OWNERSHIP



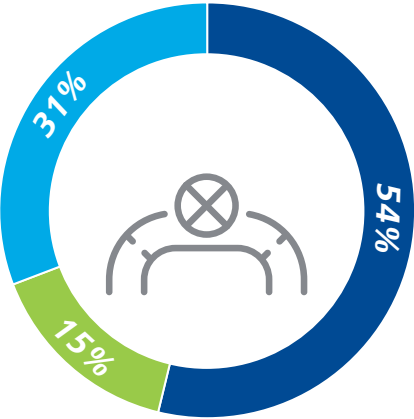
- A public company
- A private company
- A state-owned company

> CONSOLIDATED ANNUAL REVENUE



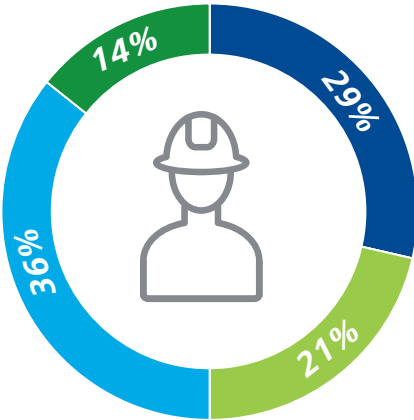
- above 15 billion US Dollars
- between 1 and 15 billion US Dollars
- between 500 and 1 billion US Dollars
- below 500 billion US Dollars

> BUSINESS MODEL



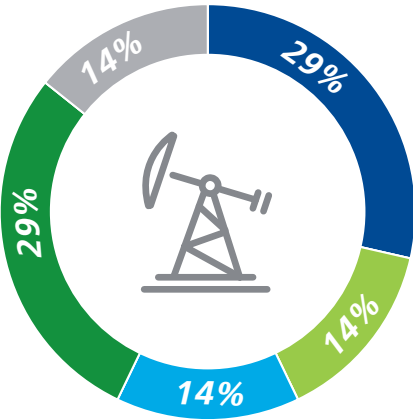
- Production and processing
- Production only
- Service company

> POSITION



- Head of a department/function
- Senior management
- Head of business unit/manager
- Other

> FUNCTION AREA



- Finance and planning
- Strategic management
- Operational division (extraction, processing and sales)
- HR management
- Senior management

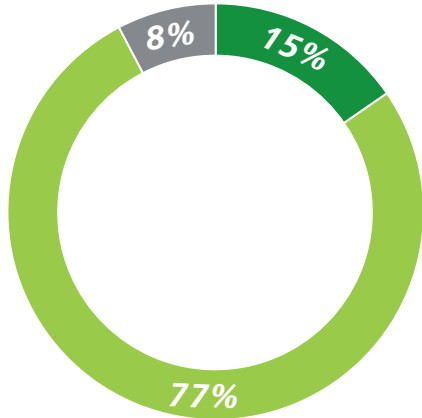
2016 Russian Oil & Gas Outlook Survey



Survey results

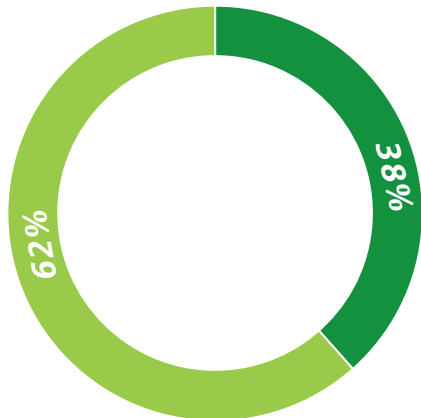
Change in demand for oil and gas on the domestic and global markets over the next 5 years

> DOMESTIC DEMAND FOR OIL WILL



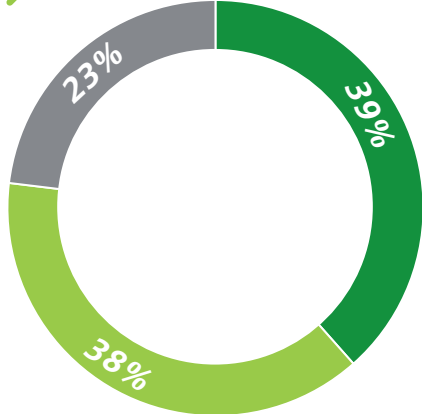
- Increase
- Remain the same
- Decrease

> DOMESTIC DEMAND FOR GAS WILL



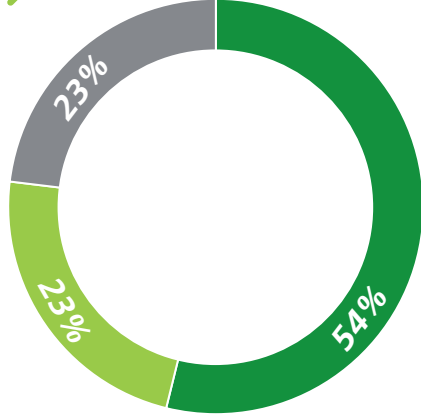
- Increase
- Remain the same

> GLOBAL DEMAND FOR OIL WILL



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

> GLOBAL DEMAND FOR GAS WILL

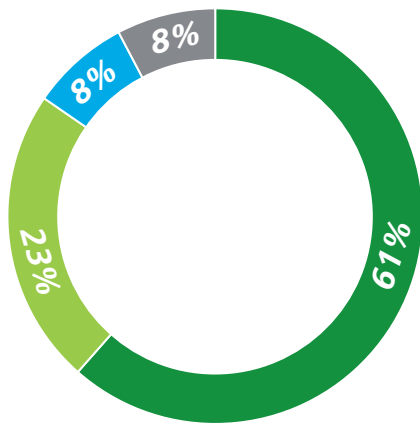


- Increase
- Remain the same
- Decrease
- Don't know

Expectations for demand growth in the domestic oil and gas market in 2016 have been decreasing since 2014. Only 15 percent of respondents believe that demand for oil may grow, compared to 40 percent of respondents in 2015 and 69 percent of respondents in 2014. Oil consumption will remain the same according to 77 percent of participants; 62 percent of participants anticipate no change in gas consumption. The proportion of respondents expecting the domestic demand for oil to fall stands at 8 percent, whereas in 2015 only 4 percent of respondents were of the same opinion. Just like last year, none of our respondents expect the demand for gas to decrease.

The proportion of respondents arguing that global demand for oil will grow shrank to 39 percent, as compared to last year's 64 percent. Expectations of increased demand for gas also dropped from 80 percent in 2015 to 54 percent in 2016.

Compared to current prices, in 2016 oil prices will:

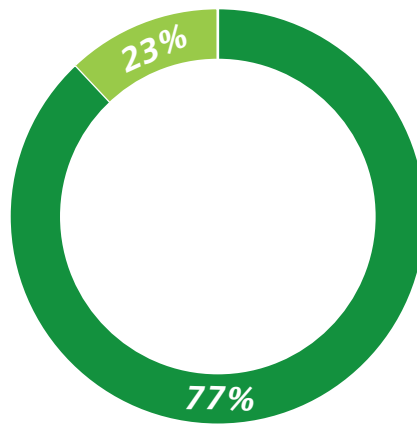


- Increase
- Remain the same
- Decrease
- Don't know

In 2015, 56 percent of participants believed oil prices would grow, 12 percent anticipated no significant changes and only a third of respondents expected that oil prices would decrease. Despite the experts' predictions, oil prices continued to decline; after the 2014 dive of Brent oil average quotes by more than 40 USD per barrel, in 2015 they shed nearly USD 10 per barrel more.

In 2016, most experts (61 percent) believed that a recovery in oil prices was likely, 23 percent believed prices would remain at their current level, 8 percent expected a further decline, while another 8 percent could not answer definitely.

Over the next 5 years, the demand for capital in the Russian oil and gas industry will:



- Increase
- Decrease

In 2016, 11 percent fewer respondents believe that capital needs in the Russian oil and gas sector will grow over the next five years (77 percent respondents) than in 2015.

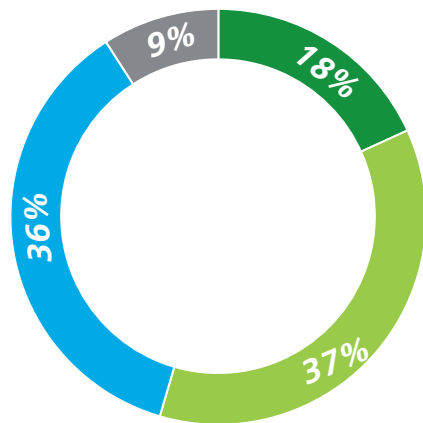
This year, 23 percent of participants expect no changes in the level of investment needs. Like in 2015, there are no expectations of a decrease in capital needs.

On the one hand, factors driving higher capital needs across the industry remain in 2016, namely:

- The depletion of old major fields with high productivity, the need to increase their level of oil recovery, impairment of equipment;
- The remoteness of new oil fields from existing infrastructure and the hard-to-recover nature nature of extracting these reserves.

At the same time, due to the less optimistic market expectations of demand on the domestic oil and gas market, estimates of higher capital needs also declined.

Over the next 5 years, the inflow of capital into the Russian oil and gas industry will:

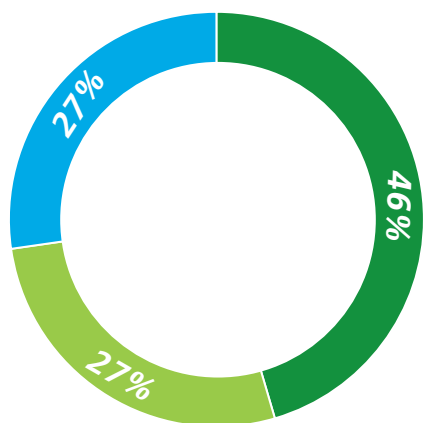


- Increase
- Remain the same
- Decrease
- Don't know

According to the results of our survey, 2016 may be even less favourable than 2015 in terms of investment in the Russian oil and gas sector. Only 18 percent of experts expect an increase in investment, which is 30 percent fewer than last year. A similar percentage of experts believe that in 2016 the amount of investments will remain the same (37 percent) and decline (36 percent), as compared to 8 percent and 36 percent respectively in 2015.

As tumbling quotes on the global market heap pressure on oil and gas companies worldwide, an additional limitation for Russian producers is a lack of investment due to the sanctions.

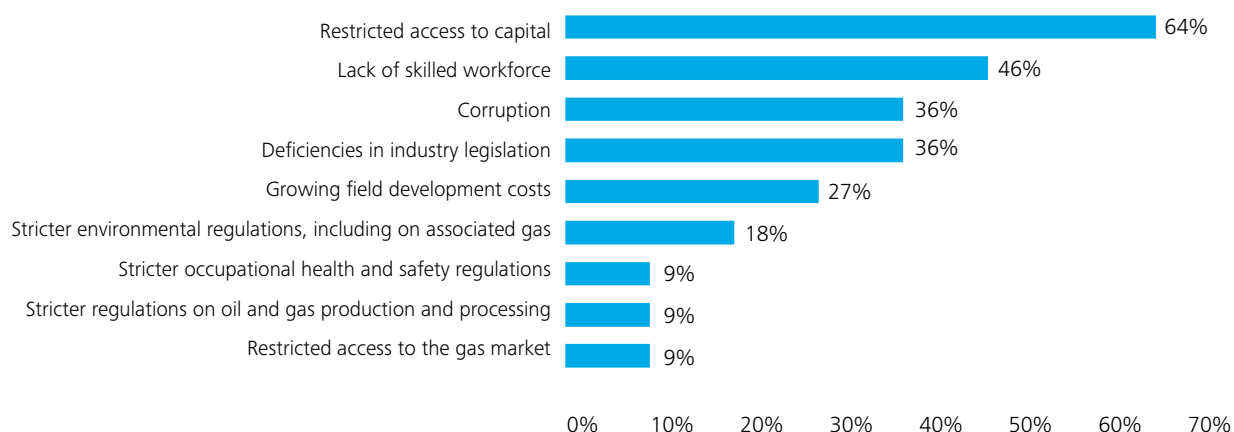
Over the next 5 years, the primary source of capital for the Russian oil and gas industry will be:



- Loans and borrowing
- Equity investment (IPO, strategic/financial investor)
- Internally available funds

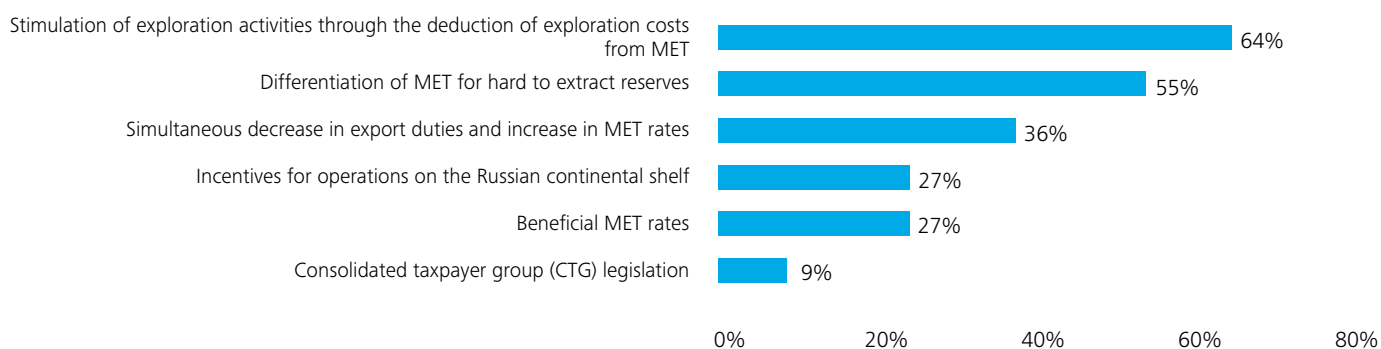
The structure of new capital sources has not changed significantly compared to last year. The percentage of experts who believe that loans and borrowings will remain the major source of finance for Russian oil and gas companies remained essentially unchanged at 46 percent (44 percent in 2015). Slightly fewer respondents indicated internally available funds (27 percent in 2016 as compared to 32 percent in 2016), while the percentage of experts expecting greater use of share capital, on the other hand, increased from 12 percent in 2015 to 27 percent in 2016. As a result, an equal number of companies are considering the use of share capital and equity in 2016. These changes are mostly due to the economic environment, which is characterized by Russian companies' margins being driven down and their inability to access external sources of long-term financing on the US and EU markets.

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



As the US and EU sanctions against Russia remain in place, 64 percent of respondents defined restricted access to capital as the key challenge that oil and gas companies face. The lack of a skilled workforce was cited by 46 percent of experts; 36 percent referred to corruption and deficiencies in industry legislation. According to 27 percent of respondents, growing field development costs is having an adverse effect on the performance of oil and gas companies; 18 percent named stricter environmental regulations as the major negative factor. The least significant issues, mentioned by only 9 percent of the interviewed experts, are stricter occupational health and safety regulations and restricted access to the gas market.

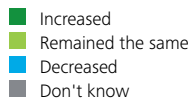
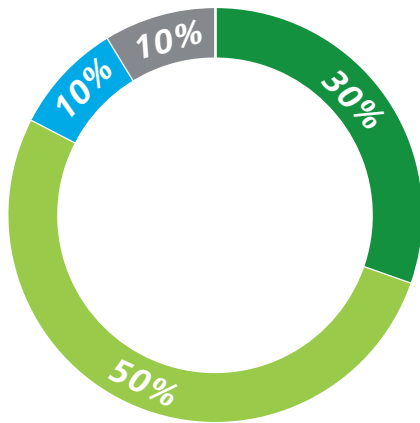
The tax benefits and legislative initiatives the industry will most benefit from are:



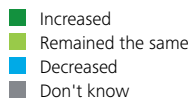
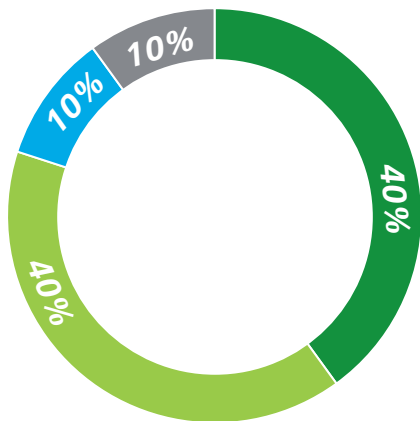
The depletion of traditional oil reserves is pushing the upstream sector to increase potential reserves by expanding exploration activities; 64 percent of respondents therefore chose the stimulation of exploration activities through the deduction of exploration costs from MET as the most significant factor for industry development. Of the respondents, 55 percent consider the differentiation of MET for hard to extract reserves an equally important stimulus for the industry. The simultaneous decrease in export duties and increase in MET rates was indicated by 36 percent of participants in the survey. The introduction of beneficial MET rates and new incentives for operations on the Russian continental shelf were named as favourable conditions by 27 percent of the respondents.

How did your headcount change in 2015?

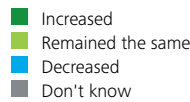
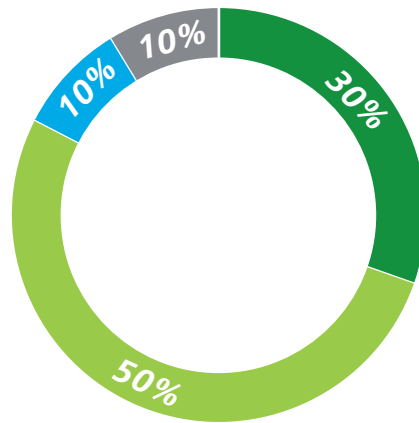
> HEADQUARTERS MANAGEMENT



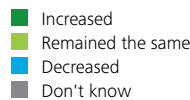
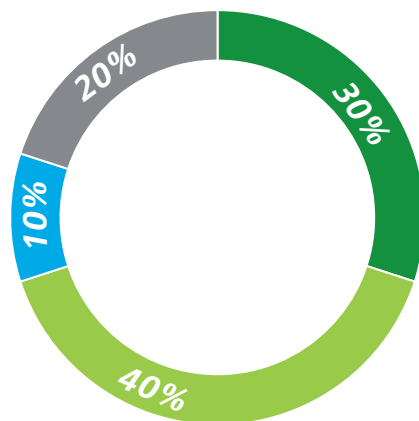
> PRODUCTION UNITS MANAGEMENT, PROFESSIONAL AND ADMINISTRATIVE STAFF



> HEADQUARTERS PROFESSIONAL AND ADMINISTRATIVE STAFF



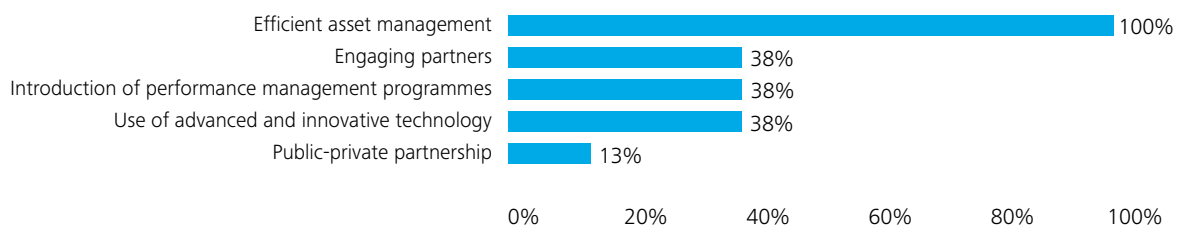
> PRODUCTION UNITS BLUE-COLLAR STAFF



The headcount of management, professional and administrative staff remained unchanged in 2015 at 50 percent of the participating companies, whereas in the previous year 52 percent of respondents noted that the management headcount had been reduced and 32 percent noted that the number of professional and administrative employees had been reduced. According to 30 percent of the respondents, the headcount of both management and professional and administrative staff increased (in 2014, 30 percent indicated an increase in management and 36 percent indicated that the professional and administrative headcount increased). Only 10 percent of experts noted a decrease in the headcount of managers and professionals in the company's headquarters. In 2014, 9 percent of participants were of the same opinion with regard to management personnel and 27 percent agreed that professional and administrative staff had decreased.

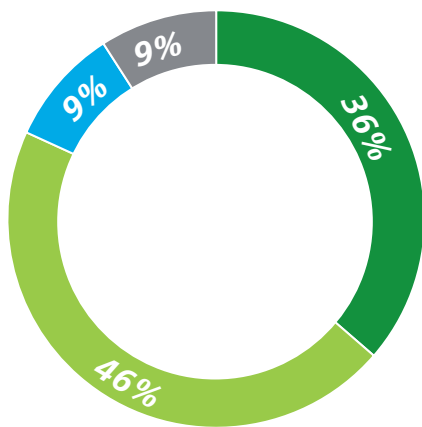
The production units of 40 percent of companies that participated in the survey saw an increase in management staff in 2015; it remained unchanged in another 40 percent of companies, and 10 percent of respondents noted a decrease in their management staff (in 2014, the management headcount decreased by the same amount). An increased number of blue-collar employees, on the other hand, was reported by only 30 percent of the respondents (as compared to 50 percent in 2014). According to 40 percent of the experts, the number of blue-collar employees remained unchanged, while 10 percent said it decreased.

In your view, which of the strategic initiatives listed below are the most important for your company to stay competitive?



All experts chose efficient asset management as the most important strategic initiative protecting the company's competitive advantages. According to 38 percent of the respondents, partner engagement, the introduction of performance management programmes and the use of advanced and innovative technology are key factors in preserving the company's competitive advantages. Only 13 percent picked public-private partnership.

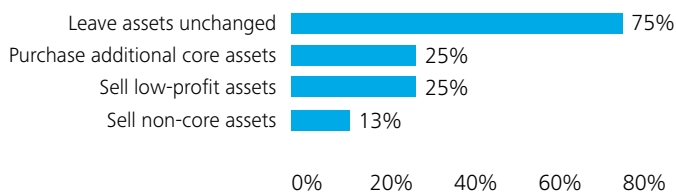
In 2015, your production assets have:



The asset-building trend saw a slight change: only 36 percent of oil and gas professionals spoke about building up assets in 2015, while in 2014 and 2013 the percentage was 57 percent and 52 percent, respectively. Compared to last year, more respondents indicated that their asset portfolio remained unchanged (46 percent in 2015 versus 30 percent in 2014) or decreased (9 percent in 2015 versus 4 percent in 2014).

- Increased
- Remained the same
- Decreased
- Don't know

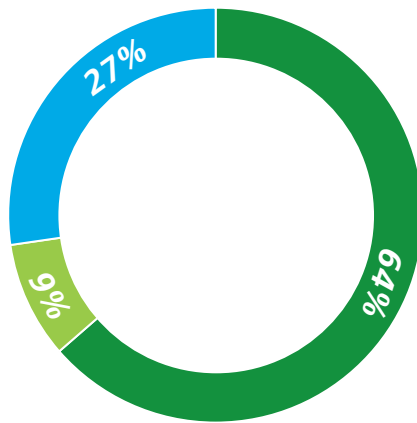
What plans does your company have for asset management in 2016?



The overwhelming majority of participants do not plan to change their asset portfolios in 2016 (75 percent). An increased number of companies have adhered to this asset management strategy in recent years (48 percent in 2015, 38 percent in 2014). Purchasing additional core assets and selling low-profit assets was an option for 25 percent of companies, while 13 percent were planning to dispose of non-core assets.



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



- Approval of the General Development Plan for the Russian Oil Sector
- Adoption of the Euro 5 standards
- Changing oil-product excise rates

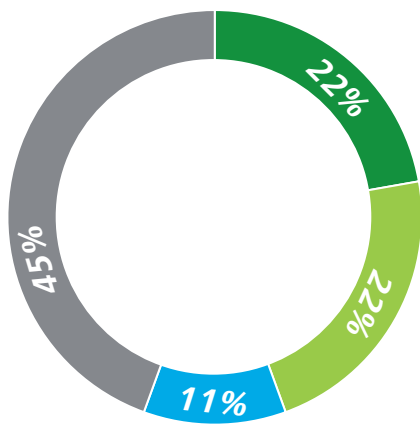
According to 64 percent of respondents, the approval of General Development Plan for the Russian Oil Sector will have the greatest impact on oil processing companies. In 2015, only 25 percent of participants shared this opinion. Last year's most popular response (42 percent) "Changing oil-product excise rates" was chosen by only 27 percent of industry professionals in 2016. Even fewer respondents (only 9 percent compared to 12 percent in 2015) placed importance on the adoption of the Euro 5 standards.

Compared to 2015, which of the following operational areas are you planning to expand or cut back on in 2016?

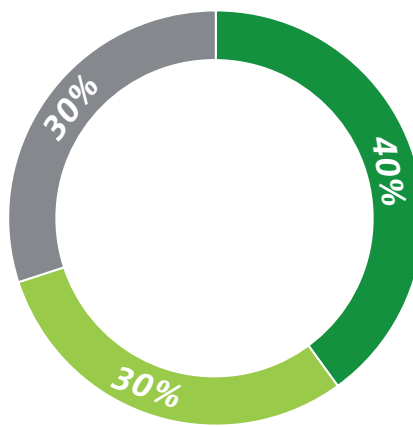
EXPLORATION

SEISMIC SURVEY — THE LEVEL OF EXPENDITURE ON SEISMIC EXPLORATION IN YOUR COMPANY WILL:

EXPLORATORY DRILLING — THE LEVEL OF EXPENDITURE ON EXPLORATORY DRILLING IN YOUR COMPANY WILL:



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



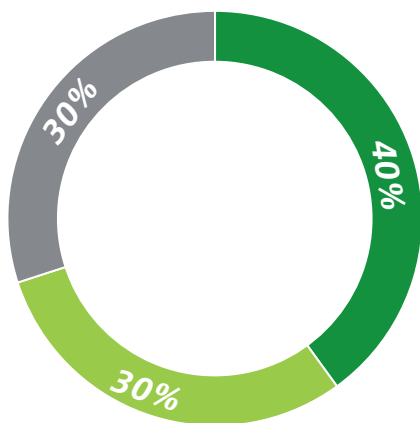
- Increase
- Remain the same
- Don't know

In 2016 22 percent of companies that participated in the survey are planning to increase expenditure on seismic exploration, while the same percentage intend to maintain their current level of expenditure. Only 11 percent of companies are considering cutting expenditure on seismic exploration. As far as exploratory drilling is concerned, companies are mainly planning to increase expenditure (40 percent); 30 percent are planning no changes.

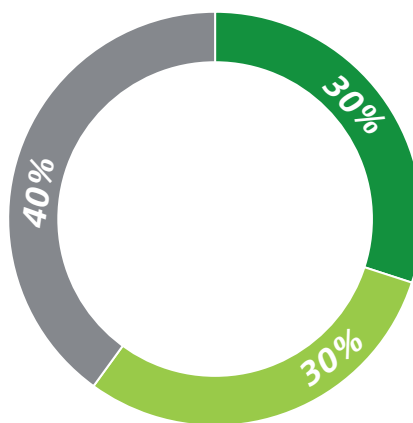
UPSTREAM

DRILLING — THE LEVEL OF EXPENDITURE ON DRILLING OPERATIONS IN YOUR COMPANY WILL:

EFFICIENT FIELD DEVELOPMENT — THE LEVEL OF EXPENDITURE ON EFFICIENT FIELD DEVELOPMENT IN YOUR COMPANY WILL:



- Increase
- Remain the same
- Don't know

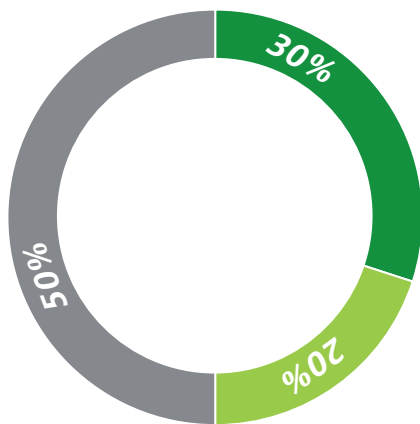


- Increase
- Remain the same
- Don't know

As for expenditure on drilling and investments aimed at enhancing efficiency, companies are mostly planning to expand (40 percent and 30 percent of respondents, respectively) or maintain the level of 2015 (30 percent of respondents in both categories).

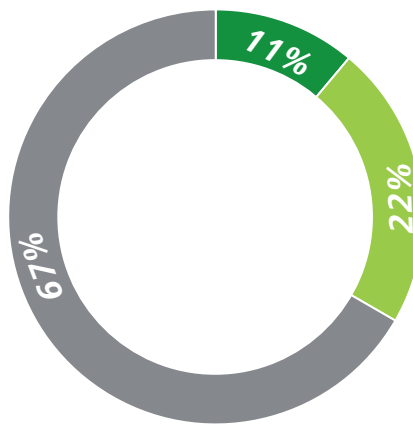
MIDSTREAM

TOTAL PROCESSING CAPACITY — THE LEVEL OF EXPENDITURE ON PROCESSING CAPACITY IN YOUR COMPANY WILL:



- Increase
- Remain the same
- Don't know

REFINING EFFICIENCY — THE LEVEL OF EXPENDITURE ON IMPROVING REFINING EFFICIENCY IN YOUR COMPANY WILL

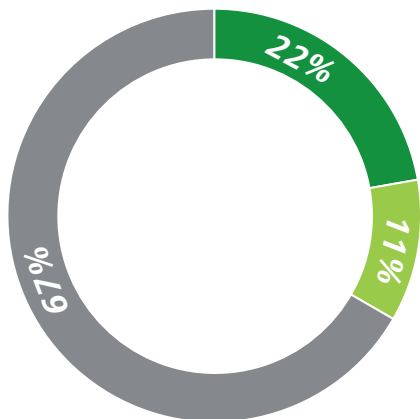


- Increase
- Remain the same
- Don't know

In the midstream segment, 30 percent of companies reported planning to increase expenditure on processing capacity; 20 percent intend to maintain the expenditure at last year's level. Predictions on investments in refining efficiency are more cautious: 11 percent of participants may increase related expenditure, while 22 percent of companies plan no changes.

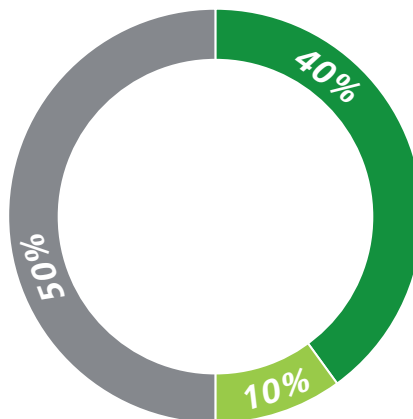
DOWNSTREAM

NUMBER OF FILLING STATIONS — EXPENDITURE IN THIS AREA WILL:



- Increase
- Remain the same
- Don't know

PRODUCT AND SERVICE OFFERINGS — YOUR COMPANY'S EXPENDITURE ON PRODUCT AND SERVICE OFFERINGS WILL:

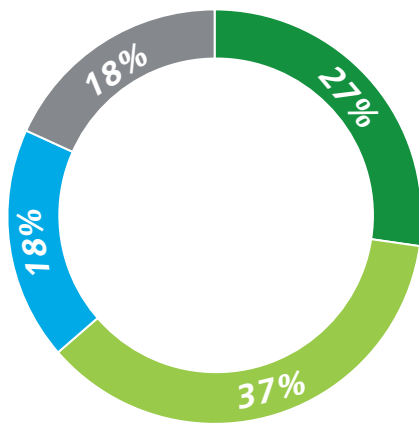


- Increase
- Remain the same
- Don't know

More spending on filling station chain development is the intention of 22 percent of companies; 40 percent of respondents plan to invest more in expanding product and service offerings. None of our respondents mentioned planning to cut midstream and downstream costs. A high percentage of participants (50 percent) could not make a prediction about possible spending changes in these areas.

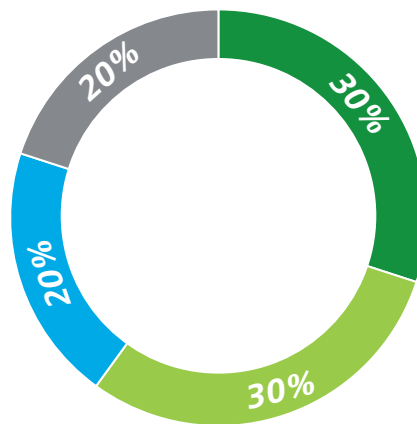
How did your company's spending in the following areas change in 2015?

> R&D EXPENDITURE ON OIL AND GAS EXPLORATION AND PRODUCTION



- Increased
- Remained the same
- Decreased
- Don't know

> R&D EXPENDITURE ON OIL AND GAS PROCESSING



- Increased
- Remained the same
- Decreased
- Don't know

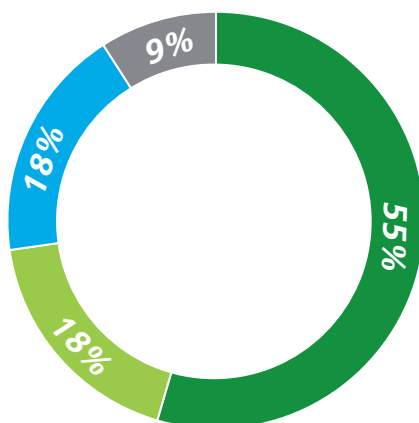
We found that 27 percent of participants noted an increase in spending on R&D in oil and gas exploration and production in 2015, which is 21 percent less than in 2014. However, 37 percent of respondents noted that the level of expenditure in this area remained unchanged (as compared to last year's 13 percent).

While 30 percent of companies increased their expenditure on R&D in oil and gas processing in 2015, another 30 percent of companies maintained this expenditure at the same level (versus 48 percent and 10 percent, respectively, in 2014).

Again, most companies (55 percent in 2015) expanded capital construction (61 percent in 2014), while a larger proportion of companies decided to reduce capital investments (18 percent in 2015 versus 4 percent in 2014). The same percentage (18 percent) made no changes to their capital construction volumes.

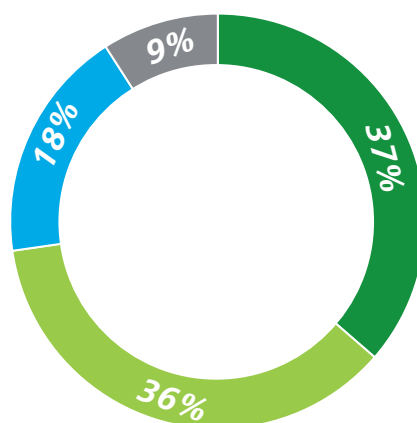
A significantly lower number of companies added to their operating costs in 2015: only 37 percent versus 61 percent in 2014. The same level of operating costs was maintained by 36 percent of participants; 18 percent cut their expenses, which is 5 percent more than in 2014.

> CAPITAL CONSTRUCTION PROJECTS



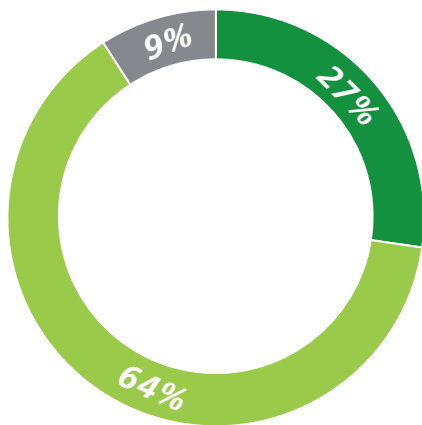
- Increased
- Remained the same
- Decreased
- Don't know

> EXPENSES ON OPERATING ACTIVITIES



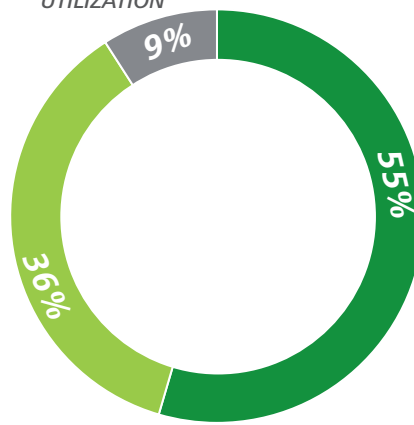
- Increased
- Remained the same
- Decreased
- Don't know

➤ SOCIAL PROGRAMS



■ Increased
■ Remained the same
■ Don't know

➤ ENVIRONMENTAL EXPENDITURE, INCLUDING ASSOCIATED GAS UTILIZATION



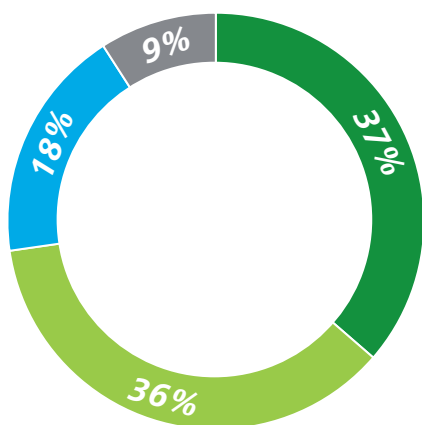
■ Increased
■ Remained the same
■ Don't know

In 2015, changes in spending on social programmes followed the trend of previous years: 27 percent of companies increased their expenses (26 percent in 2014), 64 percent maintained their expenses at the same level (57 percent in 2014) and none of the respondents noted a decrease in spending in this area.

Growth in environmental expenses (including associated gas utilisation) returned in 2015: 55 percent of companies increased their spending, compared to 41 percent in 2014.

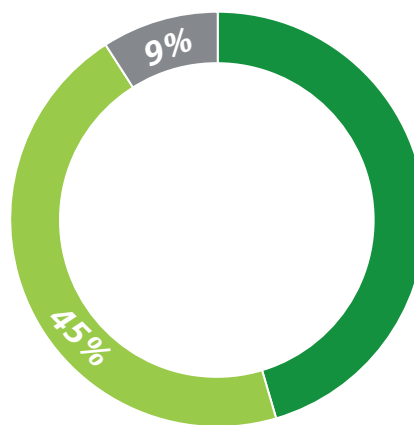
At the same time, the proportion of companies increasing their staff costs shrank significantly from 64 percent in 2014 to only 37 percent. Staff costs are being maintained at the same level by 36 percent of participants, while 18 percent of participants are cutting costs (as compared to 18 percent and 9 percent, respectively in 2014).

➤ STAFF EXPENSES



■ Increased
■ Remained the same
■ Decreased
■ Don't know

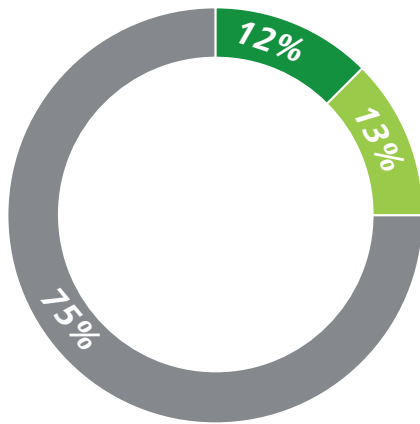
➤ OCCUPATIONAL HEALTH AND SAFETY



■ Increased
■ Remained the same
■ Don't know

Trends in expenses on occupational health and safety showed little or no change: 46 percent of respondents noted an increase (44 percent in 2014), 45 percent indicated no change. Like in 2014, no respondents indicated a decrease in spending in this area.

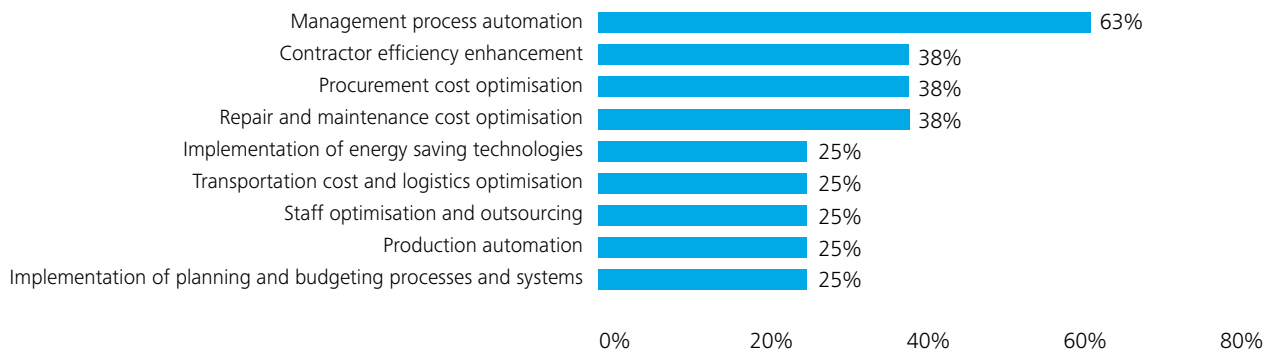
Do you invest in alternative energy R&D?



- No, we don't, but we are planning to
- Yes, we do, and we will maintain investment at current levels
- No, we don't

Last year's trends in investments in alternative energy R&D were essentially repeated in 2015: 75 percent of companies did not invest in alternative energy R&D (73 percent in 2015). Furthermore, 13 percent made investments and are planning to maintain their level, which is 5 percent less than in 2015. On the other hand, slightly more companies are planning to start investing in alternative energy R&D: 12 percent versus 9 percent in 2015. According to the last two years' results, the interest in alternative energy source development has decreased somewhat across the industry.

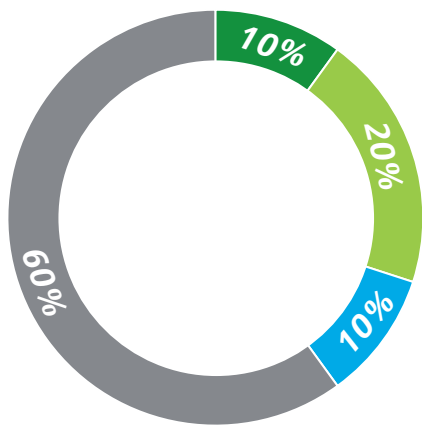
In 2016, what will your company's approach to controlling/reducing operating expenses be?



Management process automation is cited as the main method of reducing operating expenses in 2016 by 63 percent of participants, and 38 percent of experts indicated contractor efficiency enhancement, procurement cost and repair and maintenance cost optimisation. Furthermore, 25 percent of companies are planning to implement the following measures: energy saving technologies, transportation cost and logistics optimisation, staff optimisation and outsourcing, production automation, and implementation of planning and budgeting processes and systems.

Compared with 2015, what plans exist in regard to capital investments in the operational areas specified below in 2016?

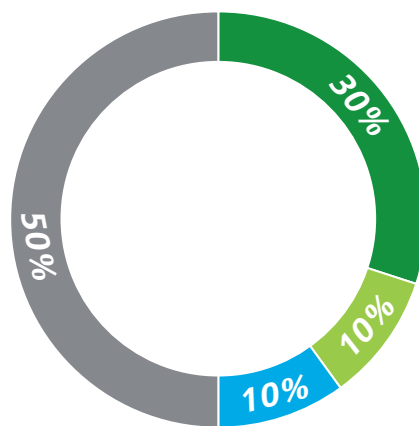
> YOUR COMPANY'S EXPENDITURES ON PURCHASING INVENTORIES WILL:



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

The companies' plans as regards capital investments show a high level of uncertainty, with as many as 60 percent of respondents being unable to give a definite answer. We found that 10 percent of participants intend to increase costs, 20 percent are maintaining the same cost level, and 10 percent mentioned cost reductions. Last year, 36 percent of experts spoke about cost reductions.

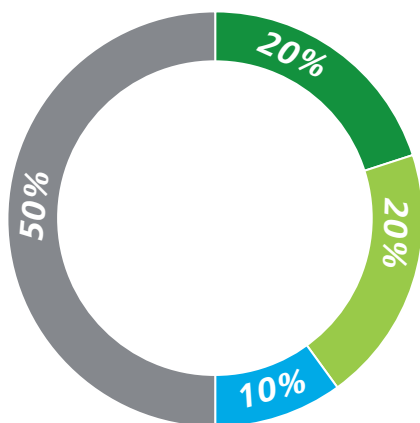
> THE LEVEL OF FIELD DEVELOPMENT ACTIVITY IN YOUR COMPANY WILL:



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

As far as field development is concerned, 30 percent of industry professionals anticipate an increase in costs, which is 11 percent more than last year's result. The survey showed that 10 percent of companies intend to maintain the current level of investment, and another 10 percent intend to reduce spending.

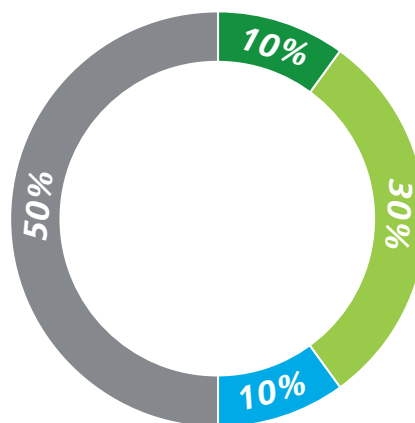
➤ THE LEVEL OF EXPENDITURE ON EXTRACTING ACTIVITIES BY YOUR COMPANY WILL:



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

Of the executives who participated in the survey, 20 percent said their companies were planning to increase expenditure on extracting activities. The same percentage of respondents intend to maintain the current level of spending, while 10 percent of companies may cut their expenditure on extracting activities.

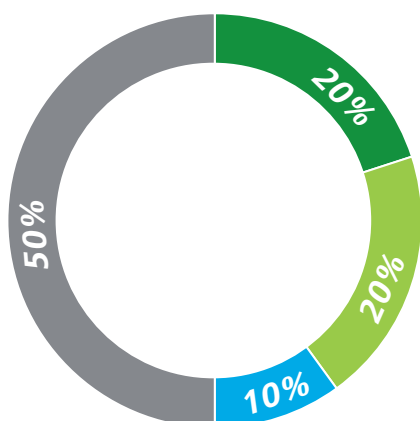
➤ THE LEVEL OF EXPENDITURE ON REFINING ACTIVITIES BY YOUR COMPANY WILL:



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

Only 10 percent of companies are planning to increase expenditure on refining activities in 2016, which is 5 percent higher than last year, but significantly lower than in previous years (39 percent in 2014). According to 30 percent of respondents, spending in this area will remain at the level of 2015, while 10 percent predict a reduction.

➤ THE LEVEL OF EXPENDITURE ON EXPANDING SALES BY YOUR COMPANY WILL:

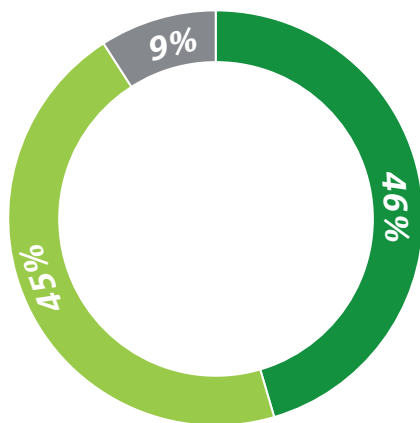


- Increase
- Remain the same
- Decrease
- Don't know

An increase in sales expansion expenditure is on the agenda of 20 percent of the participants (which is 5 percent more than in 2015); the same percentage of companies intend to maintain these costs at the same level in 2016. We found that 10 percent of respondents intend to make cuts to sales expansion expenditure.

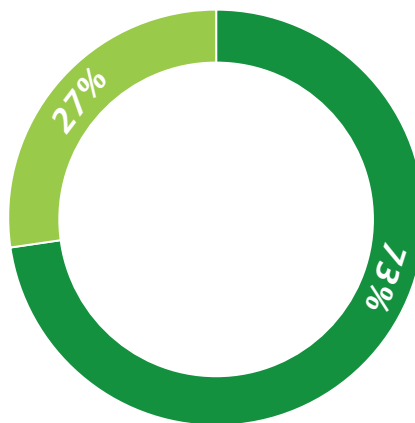


Over the next 5 years, the participation of state companies in the industry will:



■ Increase
 ■ Remain the same
 ■ Don't know

Over the next 5 years, state regulation of the oil and gas industry will:



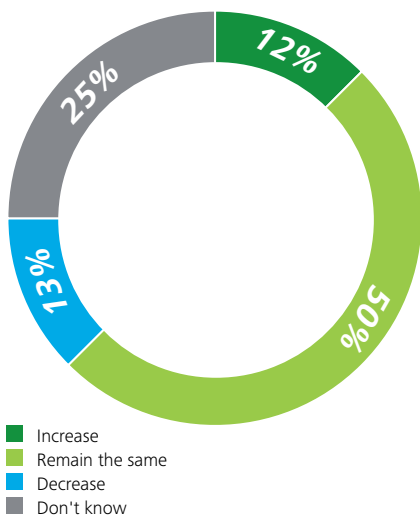
■ Increase
 ■ Remain the same

In 2016, almost equal percentages of experts anticipated that the share of state companies in the oil and gas sector will increase and remain the same (46 percent and 45 percent, respectively), whereas last year most respondents believed that state participation in the industry would increase (80 percent). None of our respondents envisions a decrease in the share of state companies in 2016 (compared to 8 percent last year).

As far as state regulation is concerned, most experts expect an increase (73 percent versus last year's 60 percent). Compared to 2015, slightly more respondents believe that the level of state regulation is likely to remain the same (27 percent versus last year's 24 percent).

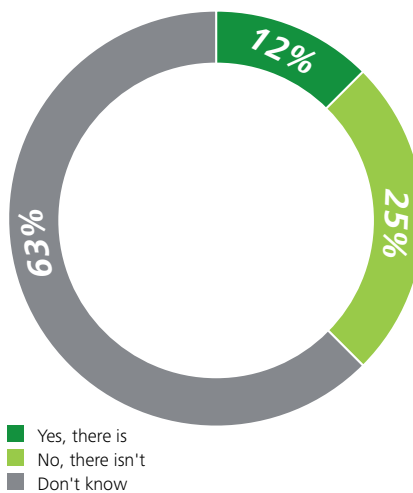


How will foreign participation in oil and gas projects change in 2016?



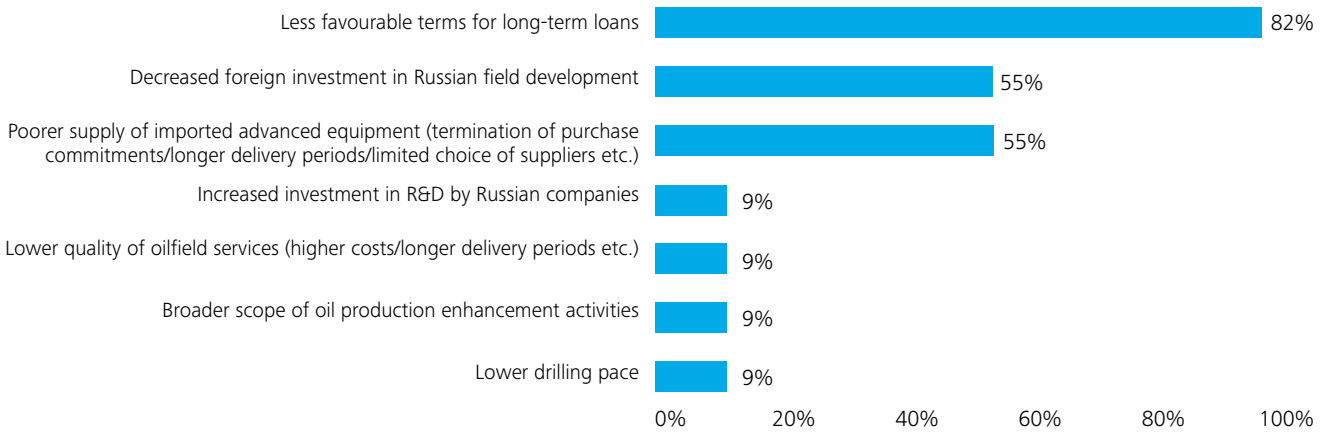
In view of the renewed economic sanctions against Russia, half of our respondents expect no change in foreign participation in oil and gas projects. Only 12 percent of participants anticipate an increase in its share, while almost as many predict a decrease.

Do you think there is a need to go back to using production sharing agreements (PSA) in the exploitation of the Russian continental shelf?



Last year's survey showed that opinions were split fairly evenly on the need for restoring the PSA regime on the Russian continental shelf. In 2016, most respondents could not give a definite answer (63 percent versus 35 percent in 2015). According to 25 percent of respondents, there is no need to resume the use of PSAs; 12 percent are in favour of them.

What is the potential impact of the US and EU sanctions on Russia's oil and gas industry in the short term?



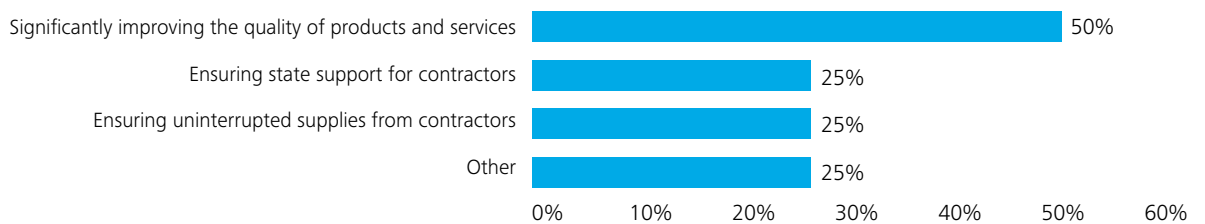
Most experts (82 percent) believe that the sanctions will limit companies' access to long-term loans.

According to 55 percent of respondents, foreign investment in Russian field development will decrease and the supply of imported advanced equipment will become poorer.

Only 9 percent of participants are anticipating that, as a result of the sanctions, Russian companies will invest more in R&D, versus last year's 76 percent.

Another 9 percent of oil and gas professionals cited lower quality of oilfield services, broader scope of oil production enhancement activities and lower drilling pace as consequences of the imposed sanctions.

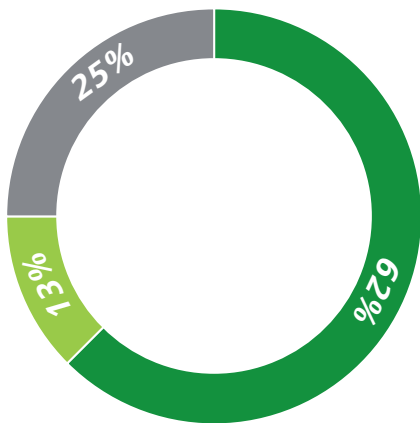
What do you think needs to be done to increase the participation of domestic contractors in oil and gas projects?



Over the last 4 years, most oil and gas experts (50 percent in 2016) have cited increased quality of services as the key factor driving the engagement of domestic contractors in oil and gas projects.

We found that 25 percent of respondents note the importance of state support and uninterrupted provision of supplies by the contractor.

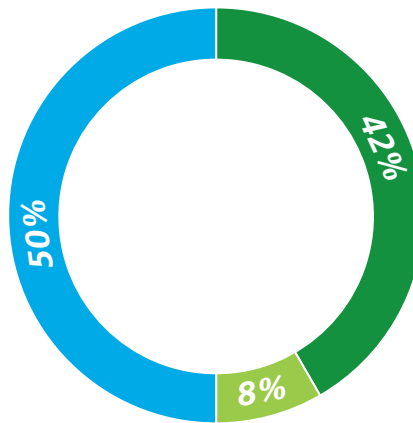
Is there a need to create a unified public database of oil and gas contractors?



- Yes, there is
- No, there isn't
- Don't know

The opinions of industry experts on the necessity of a unified public database of oil and gas contractors are virtually identical to the last year's results: most respondents (62 percent) agree that it is necessary, 13 percent disagree and 25 percent could not give a definite answer.

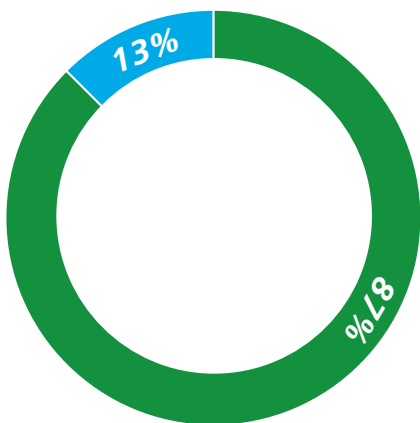
In your opinion, which are the key supply chain risks that your company faces?



- Risk of contractual failures by suppliers (shipment delays, inadequate quality, etc.)
- Risks of low competition between suppliers, technology-based monopolism and growth in non-competitive purchases
- Macroeconomic risks (overall financial situation, volatility of commodity prices, etc.)

In 2016, 50 percent of industry experts considered macroeconomic risks the most significant among all key supply chain risks. Last year, this risk was noted by only 27 percent of respondents. The second most significant risk, according to oil and gas professionals, is the risk of contractual failures by suppliers (42 percent of respondents, which is 6 percent more than last year). Low competition between suppliers was cited as an adverse factor giving rise to supply chain risks by only 8 percent of participants, as compared to 23 percent in 2015.

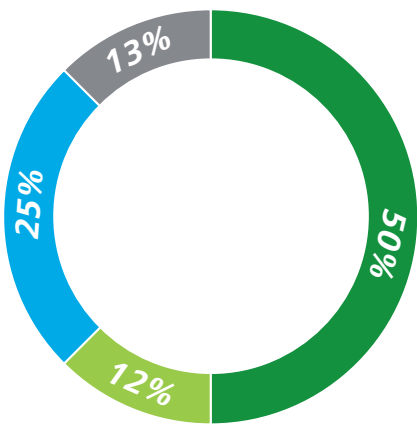
Does your company categorise procured materials and services? Does it apply procurement strategies to these categories?



- Yes it does
- No, it doesn't

The number of companies that categorise procured materials and services has been growing over the last 3 years: in 2015, an overwhelming majority of businesses implemented this practice (87 percent), compared to 64 percent in 2014 and 45 percent in 2013. Only 13 percent of companies do not categorise procured materials and services.

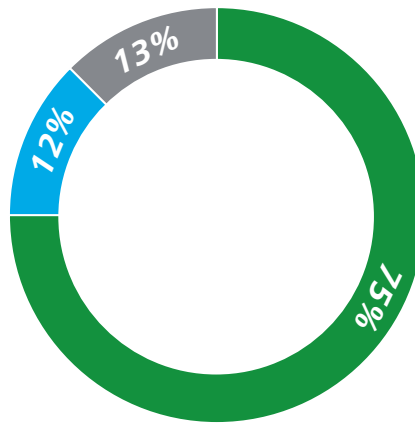
Does your company participate in funding import substitution projects for technology and equipment?



- Yes, and we are planning to increase funding
- Yes, and we are planning to maintain funding at the current level
- No
- No, but we are planning to

Half of the companies across the industry are now participating in import substitution projects for technology and equipment and are planning to increase their funding. Another 12 percent are planning to maintain funding at the current level. 13 percent of companies are not engaged in these projects now, but are planning to initiate them in the future. 25 percent are not engaged or interested in funding import substitution projects for technology and equipment.

Compared to 2015, your company's R&D costs in 2016 will:



- Increase
- Decrease
- Don't know

A 75 percent majority of industry experts expect R&D costs in their companies to grow in 2016, whereas 12 percent believe R&D costs will decrease, and 13 percent of the respondents could not give a definite answer.

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