

# **Speech on the First Item of Agenda of Rosneft Annual General Shareholders Meeting**

## **Approval of the Company's Annual Report**

**(June 15, 2016)**

**Dear Shareholders! Dear guests of the Meeting! Thank you for your participation in today's event. The meeting is not only attended by our esteemed shareholders but also, by our partners from ExxonMobil, Statoil, Ernst&Young, SODECO, and federal government officials**

Welcome to Rosneft Annual General Shareholders Meeting!

### **SLIDE 3. GLOBAL PLAYER AT THE ENERGY MARKET: 2006 – IPO. 10 Years of Success**

**In 2016, it is 10 years since** our Company's IPO on London and Moscow stock exchanges, since the time when the Company attracted foreign and Russian shareholders and recasted its image. That IPO was the world's fifth largest , and the largest among the Russian companies.

It has been a long way for Rosneft since the moment the Company shaped its current image. 20 years ago, the Company produced a little more than 4 million tons of crude oil p.a., while over the last years Rosneft has undergone profound transformation to become a global player in the energy market in record short time. Since IPO in 2006, oil production increased 2.5 times, gas production grew more than 4.5 times, refining volumes went up more than fourfold. Today, the Company is a leader of global industry operating in **23 countries, and an absolute leader of the Russian economy**. We steadily outperform other Russian companies in terms of market capitalization, and the difference in value with Gazprom, the second largest Russian company, is over USD 5 billion.

We maintain the **global leadership** among public oil companies in terms of **operating and economic performance, and efficiency**.

As I said, we started with producing 4 million tons of oil, and last year we stated production of 254 million tons of liquid hydrocarbons.

Rosneft strong performance is recognized by the investment analysts, by the world leading rating agencies . For instance, S&P

Global Platts Agency placed our company on the 10<sup>th</sup> position among 250 global energy companies. That was the top assessment awarded to a Russian oil and gas business entity.

The year 2015 became a real challenge for the international oil and gas industry. Global market crisis affected all spheres of the world economy and created a climate of uncertainty among the leading hydrocarbon producers. Despite the price volatility, Rosneft not only coped with this challenge, but demonstrated a quality performance improvement thus confirming the right choice of the development strategy.

#### **SLIDE 4. EFFICIENT PRODUCTION GROWTH AND AVAILABILITY OF HIGH-TECH SERVICES**

At the end of 2015, the Company remaining recoverable ABC1+C2 reserves amounted to **11.5 billion tons** of oil and condensate, and **7.5 tcm** of gas; while the overall resource potential, i.e. the Company's geological resources exceed 49 billion tons of oil. Replacement of ABC1 commercial categories of hydrocarbon reserves amounted to 429 mtoe, or 168% of the overall amount produced in Russia. At the current rate of production, the **reserves** life makes **46 years**. This is **the best result globally**; the reserves of the international company ranked

the second (after us) is 50% lower. I am not going to give the name of this company, this is a very respectful company and our partner, yet these are the facts.

Last year we established another record in hydrocarbons production - **254 mtoe**, primarily due to increased footage in development drilling (**by 36%, to 7 million meters**) and bringing in over 1800 new wells.

Efficiency of exploration drilling increased to achieve the record **84%**. This is the world industry best result. We discovered 7 fields and 117 new deposits with aggregate reserves exceeding 230 million mtoe. Onshore, over 2 000 linear km of 2D seismic were completed, and over 6 000 square km of 3D. The offshore 2D seismic survey covered over 20 000 km in the Arctic shelf, and 3D seismic - over 1 000 square km in the Pechora Sea and in the Sea of Okhotsk.

Rosneft is implementing the strategy of developing its own oilfield services. This allows significant improvement of the production segment efficiency being another sustainable long-term strategic advantage of the Company. In 2015, Rosneft performed **more than a half** of all development drilling using in-company resources, and in the near future it will strive to increase this rate.

Currently Rosneft drilling services are the most advanced among the Russian companies. Over **60%** of the Company's drilling rigs have the service term **less than 10 years**, which is a much better indicator than the average one in the Russian oilfield services. Specific cost parameters of in-company services reduced against 2013, whereas the producer price index went up by 22% within the same period. This is one of the circumstances we took into account while making a decision on the development of our own oilfield services.

20% of **hydrofracs were performed by** Rosneft using in-company resources. In 2016, the Company performed a **29-stage fracturing** in Samotlor field – the record for the Russian Federation.

Due to the development of our own oilfield services, we improved the reliability of planning and ensured competitive cost of services including those provided by third parties.

From year to year, Rosneft has been also strengthening its position in the gas market. In 2015, the Company increased its gas production by 10% to produce **62.5 bcm** of gas. Rosneft share in the domestic gas market has reached **16%**. The production growth

was mainly ensured by such companies as Vankorneft, Sibneftegaz, Purneftegaz, and Rospan.

In order to increase the efficiency of gas commercialization and to create a mechanism of reference prices, the Company participates in development of exchange gas trade. **Our Company sells every third cubic m of gas sold at the exchange.**

Rosneft business has a significant multiplicative effect on the Russian economy; we purchase equipment and services to more than **1 trillion 400 billion rubles**. In order to improve the procurement efficiency, the Company has started a transfer to the long-term contracts that allow fixing the price beneficial for the Company and ensuring the required scope of deliveries taking no additional commitments. Thus, we improve efficiency of the entire supply chain.

## **SLIDE 5. OFFSHORE PROJECTS DEVELOPMENT – INVESTMENTS IN FUTURE**

Another strategic target is offshore projects development. Each dollar invested in offshore hydrocarbons exploration and production brings up to **seven-dollars of the national GDP growth.**

In 2016, we celebrated the 20<sup>th</sup> anniversary of launching the first large-scale international project of the Russian offshore oil production – Sakhalin-1. Within ten years after the commencement of commercial operation, total volume of production amounted to ca. 77 million tons of oil and ca. 18 bcm of gas. With investments exceeding USD 22 billion, the estimated growth of goods and services production in the Russian economy through the multiplicative effects of the project amounts to USD 57 billion. The project implementation resulted in Russian GDP growth by ca. USD 39 billion.

Sakhalin-1 development allowed laying the foundation for the full-scale development of other Rosneft offshore fields using state-of-the-art technologies. Last year, Arkutun-Dagi field in Sakhalin started working at full capacity. Commercial oil production of Sokol grade started at the unique offshore platform Berkut. This is a light low-sulphur product, sold last year at a price by **2.2 USD/bbl** higher than the benchmark Brent grade.

In another field of Sakhalin-1 Project – Chayvo, Rosneft as a member of an international consortium (and I'd like to mention that representatives of SODECO Company that also participate in this project are present here today) set a new global record

completing drilling of the **longest wellbore in the world – 13 500 meters**.

The Company strengthens its position on the Arctic shelf. Eighteen months ago, we drilled the northern-most well in the Russian Federation and discovered **Pobeda** field in the Kara Sea, its reserves amounting to 130 million tons of oil and 396 bcm of gas. I would like to stress that those reserves were put into the Company's books after drilling of one well only. Thus, this field is one of the **largest fields** discovered over the last three years. This discovery allowed confirming the extension of the largest West-Siberian petroleum-bearing province into the Kara Sea shelf, its resource potential being comparable to the resource base of Saudi Arabia. Only in three East-Prinovozemelskiy blocks of the Kara Sea we discovered 34 petroleum-bearing reservoirs containing 87 billion BOE of initial oil in place.

In 2015, the Company continued increasing its offshore projects portfolio: the license was received for a block in Khatanga Bay, the Laptev Sea, with the resource potential of 284 million tons of reference fuel. The Company started preparing for drilling commencement next spring.



Within the scope of the effective licenses, the Company continues fulfilling unprecedented amounts of geological explorations in the Russian offshore, over-fulfilling license commitments undertaken in relation to a number of LA.

In conjunction with our Norwegian partners that are also present here today, we started drilling 2 exploration wells in Magadan-1 and Lisyanskiy blocks in the Okhotsk Sea. For that purpose, modern customized and upgraded drilling equipment is used. We have already **commenced** drilling an exploration well in Lisyanskiy license block, the first 757 meters have already been drilled, and we expect to discover a field with initial oil in place exceeding 100 mtoe.

Moreover, from year to year, the Company has been doing its R&D. In 2015, we organized an arctic geological expedition to Novaya Zemlya and Frantz Josef Archipelagos (the Barents Sea) and continued large-scale works of regional geological exploration of the Russian shelf.

For Rosneft, Arctic fields' development does not only comprise geological exploration and development of a shelf, but also, a major comprehensive scientific research, a clear and well thought-out program for polar ecosystems protection. This June,

we finished the world largest in the last 20 years research expedition “Kara-Winter-2015”. The works continued for over ten weeks along the coast of the Arctic Ocean. During the year 2015, specialists of the Company managed to practically restore the weather observation system in the Arctics. The basis is being prepared for infrastructure development and equipment construction for Arctic exploration, unique for our country and giving competitive advantages to the Company during the development of the Arctic offshore fields.

## **SLIDE 6. PROFITABILITY GROWTH OF NTEGRATED REFINING, COMMERCE, AND LOGISTICS**

At the end of 2015, Rosneft again proved to be the leader of Russian oil refining industry, its market share making 32%. The amount of products refined in the Russian and foreign refineries grew up to almost **97 million tons**. Refinery yield went up to 66.5% due to the large scale upgrade program of the refining infrastructure. The Company has the largest retail chain in the Russian Federation. We keep selling high quality fuel to the Russian consumers, on a regular basis and in full, and our share of **retail market exceeds 20%**. The Company maintains maximum

efficiency of retail chain and stable amounts of average daily sales at each retail site, without significant investments.

Last year all of Rosneft refineries switched to producing the highest environmental class gasoline and diesel fuel, Euro-5, for the Russian market, ahead of schedule, in order to ensure strict compliance with process operating procedure. The scope of investments in refining and petrochemistry in 2015 amounted to ca. **108 billion rubles**. We implemented the modernization program and introduced isomerization units in Kuibyshev and Novokuibyshev refineries, catalytic cracking reforming in Novokuibyshev refinery, started vacuum gas oil production at Tuapse refinery.

All Russian refineries of the Company succeed in implementing the import-replacement technology development program. We use catalysts of domestic manufacture in the catalytic cracking units. The Company started producing and successfully using its own catalysts for the reforming and hydrogen units. In 2015, **reforming catalyst** produced by **Angarsk refinery belonging to the Company** was successfully tested and used, thus allowing us to fully satisfy our demand for that type of catalyst through in-company production.

Rosneft keeps using all trading tools to improve the efficiency of raw hydrocarbons monetization, including diversification of export channels, substitution operations, and outreach to end customers.

Another significant event that had an effect on the development of petrochemical business in 2015 was integration with one of the newest petrochemical plants located in Samara Area, a petrochemical complex **Sanors**. After purchasing Sanors, Rosneft became the **3<sup>rd</sup> largest producer of the liquefied petroleum gas (LPG)** in Russia, the Company got a basis for further petrochemistry development and production of more profitable products, and ensured guaranteed sale of a product profitable in the Russian market , a propane-propylene fraction (6000-8000 ton/month), which Sanors uses for production of phenol and acetone. As a result, a unique production facility was established in Samara Area, ensuring **deep integration of producing and refining** capacities with the **petrochemical ones**. Its refining capacity is up to 1 700 000 tons of crude hydrocarbons p.a. Annual **synergy** of this transaction will exceed **20-30% of the purchase cost**. I'd like to remind you that we have 4 major refining complexes and a producing company in Samara Area, and

bringing petrochemical facilities closer to feed stock sources will definitely have a significant economic effect.

## **SLIDE 7. ZVEZDA SHIPYARD – the largest project for cutting-edge technologies localization**

One of the key investment projects of the Company was the construction of the largest shipyard in the Far East. Construction of Zvezda complex will allow commissioning of the first workshops in 2016, and for the first time ever in the history of the Russian ship construction, as Andrey Belousov, the Chairperson of Rosneft Board of Directors, said, modular shipbuilding will begin, as well as manufacturing of the materials and components required for offshore projects of the Company.

## **SLIDE 8. FINANCIAL STABILITY AND INVESTMENT ATTRACTIVENESS**

This is the first shareholders meeting where I welcome you as **the head of the largest Russian Company in terms of capitalization** . **Strong operational performance of our Company goes hand in hand with the leadership in efficiency and financial performance.** Over the last year, **capitalization of the Company increased almost by 30%**, and Rosneft shares

showed **gross corporate profitability of over 35% outstripping of both Western and Russian competitors**. I'd also like to mention that our foreign colleagues showed a downward trend last year.

The Company demonstrated the best specific indicators in OPEX among the largest Russian and foreign oil companies. Specific OPEX in 2015 made **2.6 USD/BOE**. Due to strict control of costs, we succeeded in further improvement of this indicator. In the end of Q1, specific upstream OPEX **reduced by 19%** and amounted to **2.1 USD/BOE**, which is **30%** better than that of the nearest competitor of our Company.

Successful production and operation allowed our Company to generate stable cash flow under global volatility conditions.

Dear colleagues, I'd like you to note that we have been generating **positive free cash flow for 16 quarters in a row**, despite the complicated market conditions. This is a unique **result** in the global industry where the results of most our competitors were negative.

In 2015, Rosneft free cash flow increased by 10% and achieved **657 billion rubles**. Rosneft earnings increased by 2%

and amounted to **355 billion rubles**. Those are the best results among the world oil and gas majors.

Strong financial performance and efficient work with the long term crude delivery contacts portfolio allowed reducing Rosneft's **net debt by 47% even in USD equivalent** vs. 2014. Cash attraction and management have been very efficient. Payments to shareholders keep growing. Based on the results of 2015, the Board of Directors recommended allocating **35%** of earnings under IFRS to payment of dividends, increasing **total payment by 43%** vs the previous year. Hence, this year the amount of dividends paid from IPO will exceed **600 billion rubles** subject to the approval of the recommendation by the Shareholders Meeting.

## **SLIDE 9. DEVELOPMENT OF INTERNATIONAL PARTNERSHIPS TO INCREASE SHAREHOLDER VALUE**

Our strategy is aimed at increasing the shareholder value in all chains of integrated business. Value of the Company shares is primarily affected by its activities in the international markets, breakthrough transactions with the partners from Asia, Latin America, and with European companies.

In order to confirm the fundamental value of the Company, we attracted partners to such production projects as Vankor and

Taas-Yuryakh fields, thus allowing a fundamental re-evaluation of the Company. With due account for the base price of Vankor transaction, the estimated value of Rosneft hydrocarbon reserves more than doubles the current market value of the Company thus confirming the high potential of shareholder value growth, should the impact of geopolitical factors be mitigated.

As part of the program for attracting strategic partners to the upstream projects, the Company closed the sale to BP of **20%** of interest in Taas-Yuryakh- Neftegazodobycha project. Attracting a partner will allow accelerating the development of Srednebotuobinskoe oil and gas condensate field – one of the largest fields in East Siberia.

In September 2015, at the Eastern Economic Forum in Vladivostok, Rosneft executed a contract with the Indian **ONGC** for the sale of a 15% of share in Vankorneft – two weeks ago, the Company closed this deal, and the cash was credited to the Company balance. In March, the parties agreed a potential increase of the Indian share up to 26%, and exploring the possibility of joint hydrocarbons trading. Heads of Agreement were also signed for the purchase of up to 23.9% share in Vankor project by the same Indian consortium that had farmed-in the Taas-Yuryakh project.



Rosneft keeps expanding cooperation in the upstream with Latin American countries. As part of JV Petromiranda in Venezuela, the Company drilled **a record horizontal well** of ca. 2 000 meters in a shallow pay zone – 347 meters, within **Junin-6 project**. Drilling of such wells opens new prospects for developing Orinoco belt hydrocarbons in Venezuela. Early this year, we increased our share in JV Petromonagas to 40%, which should ensure additional production **of about 2 million tons p.a.** Please pay special attention to our work in Venezuela. Venezuela is a number 1 country in terms of reserves, and as you could see from our report, the formations are not very deep there, namely, the above well in **Junin-6** project. This is a unique field, which definitely requires our close attention and expansion of our presence in the area with such significant reserves.

In Brazil, the Company received a controlling stake in Solimoes project and became the project operator. In Mozambique, in October 2015, Rosneft-ExxonMobil consortium **joint operation resulted in winning** a highly competitive tender **for three offshore blocks in the gas fields.**

We have been efficiently strengthening cooperation with the traditional partners, looking for and using the opportunities for

creating additional value in the new markets. In 2015, the Company exported over **109** million tons of oil.

We increased supplies to the traditional European markets, to the **Czech Republic** and **Poland**, to **PKN Orlen** and **Grupa LOTOS** companies in the competitive environment (let me remind you that last year Saudi Arabia started supplying its products to Poland). However, we managed to demonstrate our efficiency and entered into long-term supply contracts with Poland and the Czech Republic. Agreement has been signed with **Hellenic Petroleum (Greece)** on basic terms and conditions of crude and products supply to Greece. The Agreement offers opportunities for independent sale of oil products manufactured at Hellenic Petroleum Refineries for bunkering and trading. At the same time, we keep increasing supplies to the promising Asian markets. In 2015, we executed a long-term contract with a new Chinese partner, **ChemChina**. The amount of crude sold in Asia increased by **18.5%**, up to almost **40** million tons.

We signed several agreements for oil products export to Egyptian companies, including the company's first-ever contract for the delivery of liquefied natural gas. So, cooperation with

**EGAS** helped the Company enter **the global market of LPG trading**.

Implementing the key European market penetration strategy, the Company closed the deal for the purchase of a **16.67%** stake in the oil refinery in **Schwedt**, Germany, from the French Total. Schwedt is the largest oil refining complex located near Berlin, and it is of particular interest because of its close vicinity to the Druzhba trunk pipeline. Actually, it is a former Soviet refinery, its manufacturing strategy, configuration, and logistics being familiar to us, with direct links with West-Siberian fields.

The Company also signed a legally binding Agreement with BP for restructuring of **Ruhr Oel GmbH (ROG)** joint venture in Germany.

Upon completion of the restructuring process expected in the end of 2016, Rosneft will become a direct shareholder of the three refineries and will increase its participation interest in some of them to the controlling stake, in particular in Schwedt Refinery – up to more than 54%.

Controlling stake in Schwedt Refinery will allow us to determine the areas of the refinery development, implement more ambitious efficiency improvement projects, and thereby, to

strengthen our position in the market of Berlin-Brandenburg region – an important area of oil export. Currently, Rosneft is already **the largest oil supplier to Germany**, accounting for **about one fourth** of the total imported volume. After the JV's restructuring, the Company will directly sell petroleum products in the markets of Germany and neighboring countries.

### **SLIDE 10. TO THE BENEFIT OF RUSSIA**

Rosneft is an undisputed driver of the Russian economy. Last year, Rosneft ensured the sale of over USD **45.5** billion thus lending **significant support to the national currency** of Russia. The Company accounts for almost **one fourth of the state budget revenues**. Despite the global financial crisis and current market deterioration, last year Rosneft credited **2 trillion 300 billion rubles** to the budget.

It is also important to note that Rosneft remains Russia's largest employer. Over **360 000 people** are employed by its subdivisions, contractors, and subcontractors. The Company creates hundreds of thousands of jobs purchasing goods and services from the Russian manufacturers, and directly promoting well-being of about one million of workers and their family members. Overall number of Russian citizens in one way or

another related to the Company operation achieves **10 million people**.

Oil market analysts think that Rosneft has found an efficient formula ensuring significant success when low prices dominate. Thus, analytical reports of Bank of America Merrill Lynch, Citi, Morgan Stanley, Goldman Sachs investment banks **point out the sustainability of the Company's business model**. The analysts say that, unlike international competitors, Rosneft has managed to increase its CAPEX, the level of dividends, and **to accelerate projects implementation** even under the complicated market conditions. In future, this will allow us to hold a better competitive position when consumption grows.

Today, you are the shareholders of the **Russian largest company in terms of its market value, the leader of Russian oil and gas industry**, with its controlling stock being held by the government. At the same time, **we keep proving with our business that our first priority is to improve the efficiency and to achieve operational and financial performance excellence in the industry**. This is already **reflected in the market evaluation of our Company**, and I am sure such situation will persist. We

will keep working for the development and prosperity of our country and our Company.

Thank you for your attention.