

**Report of
Rosneft Chief Executive Officer
Igor Sechin**

**Contribution of Rosneft in the development of the Far East of Russia
Vladivostok, 1 Sept 2016**

Rosneft is **the largest company of Russia** with capitalization of **3,8 trln. RUB** and annual revenue over **5 trln. RUB**. Participation of Company in GDP of Russia taking into account multiplicative effect is over **30%**.

Our **participation in the GDP** of the East of Russia reaches **25%**. Already over 35% of Company investments are made in the East of the country.

Our advance to the East accelerates and the investments planned in the coming years **will increase up to 50% the contribution of Rosneft into the growth of regional domestic product of the East of Russia**.

We develop long term partnership with leading international companies, recognized leaders of the global economy. In the last ten years the share of direct **foreign investments** attracted by Rosneft in the Far Eastern Federal District accounted for one quarter of total foreign investments in the region.

Currently all businesses of Rosneft are represented in the Far East: from Exploration and Production to Downstream and Sales.

Exploration

Rosneft exploration projects in the Eastern Arctic and Far Eastern shelf have huge resource potential: **11,6 bn t of oil and condensate and 11 trln. cu. m of gas**.

The Company has 19 offshore licenses in the Far East. Even under the sanctions we fully and ahead of time deliver all license commitments including seismic studies and E&A drilling. These are expensive operations but they are important as they provide valuable information and result in the discovery of new fields.

For the first time in the history of development of the Russian shelf the Company completed large scale seismic surveys in the Sea of Okhotsk - over 16 km of 2D seismic and 3,600 sq.km of 3D seismic acquisition and drilled in summer 2016 two exploration wells jointly with Norwegian company Statoil. This will help to re-estimate the hydrocarbon potential of the Sea of Okhotsk and to define priority areas of work.

The next important priority of regional exploration will be study of the potential of northern part of the Sea of Japan at Centralno-Tatarsky area with an area of 30,000 sq.m and resources of 270 mln.t of oil and 322 bcm of gas. It is planned to conduct 10,000 km of 2D and 2,000 km of 3D seismic to identify and drill promising structures.

In general until 2021 the Company plans to invest in exploration in the Far East over **130 bn RUB**.

PRODUCTION

Rosneft produces in the Far East half of the total amount of hydrocarbons produced in this region.

In total in the Eastern regions of the country (Eastern Siberia and the Far East) the annual production of the Company exceeded 35 mln. t while in 2005 it was less than 2 mln. t.

It is planned that the East of the country will account for main part of incremental production - and we plan to increase production by 2020 to 315 mln. toe.

Important project for Rosneft in the Far East is Sakhalin-1. **Over 82 mln. t of oil and 19 bcm of natural gas have been produced by this project.** According to our estimates the revenues from Sakhalin-1 to the budget of the Russian Federation **by 2055 will amount to 6 trln. RUB.**

The most important part of this project is experience, new competence, possibility of application of the cutting edge offshore technologies. The project hit several world records: **9 of 10 of the longest wells** were drilled in Sakhalin-1. The latest achievement is **unique well 13,500 m long with 12,236 extended reach**, drilled from Orlan platform.

Currently the driving force of Sakhalin-1 is production at Arkutun Dagi field from unique oil platform **Berkut**.

Development of this field will add up to **4.5 mln. t of oil to annual production in Sakhalin**.

For monetization of Sakhalin gas Rosneft plans jointly with its partners to build a LNG plant in the Far East the business models of which are currently being developed. **The output of the first stage of this plant is 5 mln. t p.a.** This volume is already provided with agreements with the customers in APR on a long-term base.

In the continental part of the Far East the key production asset of Rosneft is Taas-Yuryakh Neftegazodobycha. Based on this asset the Company creates an international cluster with involvement of the leading international investors: after BP the consortium of Indian investors consisting of Indian Oil, Oil India и Bharat Petroresources joins the project. Total amount of foreign investments that Rosneft attracted to this project amounts to **1.8 bln USD**.

REFINING AND SALES

In order to supply the growing demand for oil products in the Far East the Company is actively investing in the development of the refining facilities. This is requested by the market as today the amount of such facilities in the region is not sufficient and around the half of the oil products consumed there is being transported from the other regions of the country.

Rosneft created **over 60%** of refining facilities situated in the Far East.

Key asset is the Komsomolsk refinery which production is in demand both in the East of the country and export markets of Asian-Pacific region. The company used high-tech processes. Its motor fuel meets Euro-5 standard. In the result of upgrading program the conversion ratio in Komsomolsk refinery will exceed **90%**.

Rosneft created large sales network in the Far East: **over 90 gasoline stations**. Without any benefits and preferences we increased in 2015 the share in the regional oil product market to **30%** and plan that by 2020 it will reach **40%**.

In 2012 Rosneft commissioned fueling facility in Knevichi airport of Vladivostok. This is the largest fueling facility construction project in the last **30 years**. Investments of Rosneft in the construction of the facility amounted to **3.5 bln rub**. In 2015 the share of in-wing fueling **exceeded 70%**.

Rosneft develops logistical facilities in the region. The Company has built the sea terminal in the Far East for oil product transshipment - Nakhodka terminal. **Its annual capacity is 7.5 mln. t p.a.**

In 2015 Rosneft exported to APR markets **40 mln. t of oil** which is **19%** more than in the last year. Oil product export amounted to **13 mln. t** (increase by 6 %).

PROMISING PROJECTS

Russian Far East is our way to fast growing APR markets. Developing ice-free ports are situated in the south of the region and allow the year-round operations.

Realizing that we implement in the Far East two large-scale projects for development of **petrochemical and shipbuilding clusters**.

Rosneft plans to create in the Far East the largest refining and petrochemical complex in Russia - FEPCO. Preliminary estimation of investments for implementation of the project including investments in construction of infrastructure facilities amounts to around **1.5 trln. RUB**. On June 25, 2016 Rosneft and ChemChina signed Heads of Agreement for joint development of FEPCO project.

This project will ensure development of infrastructure and related production facilities and will create around 50,000 skilled jobs. Expected multiplicative effect from its implementation will amount up to **6 trln. RUB**.

On the basis of Far Eastern Shipbuilding and Ship Repair Center Rosneft **under your assignment develops** a unique shipbuilding cluster. Zvezda shipyard will become its core.

SOCIAL PROJECTS

Rosneft is socially responsible company. The level of salary of employees of subsidiaries of the Company in the Far Eastern Federal District exceeded 70,000 RUB per month, the salary of employees of Zvezda is 60,000 RUB vs. average monthly salary of 44,000 RUB in the region.

The Company is one of the leading investors in the social projects of the region. In the last ten years the projects implemented by Rosneft in the Far East created over 28,000 jobs. In 2016 total amount of investments in social programs in the Far East will exceed **1.7 bln RUB**.

Since 2004 the Company participates in the program of resettlements of people from dilapidated and hazardous housing in Sakhalin Region. 24 residential houses were built with **310 apartments**. Company spent over 800 mln. RUB. Komsomolsk refinery implements a program for construction of residential complex for 544 apartments. Total construction cost is 2,8 bn RUB. For employees of Zvezda shipbuilding complex in Bolshoi Kamen the Company will build **6 houses for 408 apartments**. Rosneft ensured gasification of Belgo village in Khabarovsk Krai

investing funds in the construction of automated gas distribution station and gas pipeline branch.

420 mln. RUB was spent by the Company for construction of Cathedral in Yuzhno-Sakhalinsk

Rosneft provides an active support for development of sports in the region – the Company allocated **300 mln. RUB** for construction of 5 ice arenas in Primorsky Krai and **80mln. RUB** for development and promotion of the football in Khabarovsk.

Rosneft actively cooperates with research community in the Far East. The Company has the only oil and gas R&D institute in the region.

We will continue to develop our projects in the Far East and we are confident that this region will make an important contribution in energy security of the country and needs of the global energy markets.