

Rosneft President Igor Sechin
keynote address at CERA Week
Houston, Texas, March 6, 2013

Slide 1. New era of petroleum

Slide 2. Important notice

Ladies and gentlemen! Distinguished colleagues!

First of all I would like to thank you for the invitation to speak at CERA Week today in Houston. I am especially happy to greet our friend Daniel Yergin, one of the most distinguished analysts in the energy sector.

It is an honor for me to speak at the CERA Week, one of the most well attended and respected forums of the oil and gas industry.

The global energy industry is now undergoing major transformation, and many of the distinguished people gathered in this room are making a highly commendable contribution to that transformation.

These efforts take place under very challenging conditions and demanding environment. Regarding the tragedy that has just happened in Algeria, I would like to extend my sincere condolences to our colleagues at BP and Statoil whose employees lost their lives. Also recently the news came from Iraq and Nigeria about disorders at oilfields. After all, we remember the Fukushima accident.

Slide 3. Global petroleum industry requires advanced technologies to meet growing demand

By the mid-2000s the growing demand for hydrocarbons and insufficient new discoveries of traditional oil led to continuous decline in the global reserves coverage ratio. It was one of the factors that contributed to the growth of the hydrocarbon prices, and that in turn created grounds for new technologies development. It is this technological revolution in the world energy sector that makes it possible to move towards the development of more complex and challenging resources. Nowadays it is obvious that any concerns about insufficiency of oil resources are not justified. Indeed, the easy-to-recover reserves were already produced by previous generations and they provided the basis for world economic growth to date. However, new technologies enable development

of oil and gas resources in remote regions, in the deepwater shelf, in the Arctic, and in the low-permeability shale formations.

Technological progress unlocked the significant potential of non-traditional resources like shale gas and tight oil. This was not taken into account some ten years ago. Current estimates show that the unconventional resource base has reached the size of conventional resources and with further development of technology, the volume of this resource base is estimated to be even larger. The next step may be gas hydrates and hydrogen energy.

The overall global cost of oil exploration and development has increased three times over the last 15 years, as IHS Herold reports. The development of technologies was sourced from hydrocarbons price growth. It is also important to mention the benefits to the economy: growing investments in high-tech development of oil and gas benefit the whole economy, create new jobs, develop related industries, both in the oil consuming countries on one hand, through commodity supply, and import of equipment to the oil-producing countries on the other. The multiplier effect from one dollar of investments is 3-7 dollars of GDP growth, as various assessments show. Thus the entire society benefits from involvement of suppliers and manufacturers and not just the oil companies. Therefore, I encourage both energy producers and consumers to cooperate in order to enhance the mutual benefits.

Energy resources to a certain extent are present everywhere on Earth. They are not always contained in reservoirs and traps, but technological progress unveils for us new categories of resources, often in the regions that were not known for oil and gas production before. I hope that successful progress of our industry will reinforce energy security by eliminating grounds for international conflicts over energy resources.

In this new environment the successful oil and gas companies are becoming the technology leaders, they generate substantial profits from technology sharing by the means of licensing, technology and process-based project management. Thus we observe and welcome a new era of high-tech oil.

These large-scale issues create challenges for all industry players and establish the grounds for industry transformation and consolidation based on new technological platforms. Companies that cannot replenish their resource base or those unable to efficiently develop it are at risk.

I will tell you how Rosneft responds to these challenges and what cooperation opportunities are out there for our existing and potential partners.

Slide 4. Acquisition of TNK-BP opens new wave of industry consolidation

In the recent years we have witnessed the beginning of a new consolidation wave throughout the industry. The acquisition of TNK-BP by Rosneft is part of this new trend. Taking into account that the acquisition of TNK-BP it was structured predominantly in cash, it is the biggest acquisition deal in history. Rosneft creditworthiness was affirmed by the leading global financial institutions, and our shareholders became more closely integrated into the global oil market.

Slide 5. High efficiency of Rosneft's exploration

For Rosneft, assets acquisitions are not the main source of resource base growth, we are able to replace and increase reserves successfully through exploration. In 2009-2011, the reserves replacement ratio exceeded 200% per year; in 2012 we replaced 130% of reserves, and we did it with lower costs compared to those of our competitors. The data on reserves growth do not include our offshore projects and emphasize Russia's importance compared to other parts of the world as a promising source of new high-technology reserves.

Slide 6. Technology development is our priority

Rosneft is becoming a more technologically advanced company. We apply enhanced production methods, such as multi-staged hydrofracturing combined with horizontal drilling. The nature of our deposits requires the development and tailoring of reservoir stimulation technologies and we implement this program with the involvement of our partners - Statoil and ExxonMobil.

Our specialists have mastered horizontal well drilling with deviations from the vertical line of up to 7 kilometers, including offshore, with efficient drilling of up to 1 kilometer through reservoirs being only 3 to 4 meters thick. We are developing low permeability carbonate reservoirs by drilling horizontal wells, including the multiple borehole wells.

We conduct our own research of GTL (gas-to-liquids) technology to produce synthetic motor fuel; we invest into catalysts and composite polymers manufacturing technologies.

For efficient natural and associated gas processing we apply Russian-developed super-sonic separation technologies, which were just presented at this conference.

Our refineries upgrade program is well underway and requires total investments of \$25 billion. More than 50 new refinery units are under construction and we apply the most advanced technologies provided by the Russian institutes as well as international licensors like Shell, Chevron, Exxon, Lummus, Axens and many others.

Rosneft's R&D branch includes 11 research and engineering institutes, the Arctic center for offshore development and a state of the art center for petro- and gas chemistry. Rosneft has 650 employees with Doctorate or PhD degrees with 60% of them working at the company's production facilities. This is a big potential for any company.

Slide 7. Vankor — the biggest new project in post-soviet Russia

Vankor field, which had set the basis for a new oil province in East Siberia, is a good example of Rosneft's capability to implement big projects and develop the reserves efficiently.

This field is the largest new oil development project in post-Soviet Russia. Our construction workers and drilling crews had to develop the deposit in the remote area of East Siberia to commissioning within 6 years, despite the complete absence of infrastructure and severe climate conditions: winter temperatures can reach minus 70 degrees Fahrenheit, in summer it is plus 86 Fahrenheit and today in the morning the temperature was minus 47 °F. It is tundra, all-over swamps with irregularly structured permafrost.

This project was possible due to the active application of a full range of modern technologies in the design and construction of the field development facilities. In particular, pre-fabricated modules were used for the facilities construction, reducing the building and assembly time. The field development plan assumes high-technology horizontal drilling and state-of-the-art systems of reservoir pressure maintenance.

We discovered 3.9 billion barrels of oil equivalent 3P reserves at Vankor, and today the stable level of oil production is more than 400 thousand barrels per day.

Integration of TNK-BP assets allows us to increase the resource base of the region by 2.7 billion barrels of oil equivalent. Since 1994 these reserves have not been developed due to large-scale investments requirements. Now it becomes possible thanks to considerable synergies from the use of transportation infrastructure created by Rosneft at Vankor.

Integrated development of Vankor region projects can generate about 4 to 5 billion dollars of additional value.

It is just one example. Other significant synergies can be achieved through the joint development of Yurubcheno-Tokhomskiye and Kuymbinkoye fields, and Verkhnechonskoye field.

Slide 8. Successful development of the Sakhalin shelf

Rosneft is the leader in the development of the Sakhalin oil and gas province. The company owns more than 30 onshore licenses (operated by Sakhalinmorneftegaz); the Sakhalin oil industry workers produced the first barrels of oil in 1928. Today Rosneft operates the unique offshore projects in the Sea of Okhotsk – Sakhalin-1, 3, 5, Northern Chayvo development and some other offshore fields.

Development of fields is done both from land and from the sea platforms using the latest technologies. A good example is the record-breaking inclined directed well more than 12 km long, drilled at Sakhalin-1 by the unique Yastreb drilling rig. Today we have in this audience Mr. Zeljko Runje, who headed the drilling operations at Sakhalin-1 and now he is in charge of the exploration and production block in our company.

Slide 9. Rosneft holds the largest license portfolio on the Russian offshore

Rosneft is the largest subsoil license-holder at the Russian offshore. Total estimated recoverable resources under these licenses exceed 275 billion barrels of oil equivalent. The exploration program includes drilling of 96 wells. I hope that the representatives of Halliburton, Schlumberger, Saipem, Weatherford and other service companies hear my message.

In order to develop such large-scale projects Rosneft has engaged ExxonMobil, Eni and Statoil as its strategic partners. Their carry investments into geological exploration at the first stage will amount to at least 14 billion dollars.

We continue to establish new partnerships and expand the existing ones – for example, Rosneft and ExxonMobil have recently extended their partnership in the Arctic by including 7 additional licenses into it.

As part of this strategic cooperation, Rosneft and the partners assumed obligations for Russian content of the considerable equipment investments. We started engineering and construction of a drilling platform for Arctic offshore exploration at Russian shipyards with the application of advanced international technologies. Technologies, experience and experts are being exchanged. I am glad to announce that during this conference we have signed a deal with ExxonMobil to acquire a 30% stake in the Loki block in the central Gulf of Mexico.

This February we signed the agreement with ExxonMobil to enter Point Thompson on Alaska offshore. Last year we entered Cardium project in Canada.

Our offshore investment decisions will make a provision for the anchor order from other industries. Russia invites the leading suppliers of equipment and oil services providers to participate in the development of the Arctic shelf. It is expected that for the first stage of the offshore development alone, investments will exceed 500 billion dollars – this effect is noticeable even on the global scale. On our website www.rosneft.ru you can find the initial list of equipment which is required for the exploration stage at the Russian offshore.

Slide 10. Rosneft has already started full-scale operations in the Arctic

The year 2012 marked the beginning of large-scale operations at the Russian Arctic shelf. We successfully performed the exploration program at our fields in the Kara sea. As a result of that and together with our partner ExxonMobil, the core structure for drilling in the Kara Sea was selected – it is Universitetskaya, where spudding is scheduled for 2014 – a year ahead of the license requirement. To drill this well, West Alfa semi-submersible drilling platform has been contracted. We expect that based on the drilling results we should be able to open a new Arctic offshore oil and gas province by the end of 2014. The estimated resource base of this block alone is more than 35 billion barrels of oil equivalent and the total resources for the Kara sea are above 100 billion barrels of oil equivalent.

Slide 11. Russian offshore to meet rising global LNG demand

Natural gas can account for a half of resource base in the Arctic. Commercialization of these volumes is only possible with the development of infrastructure for liquefied natural gas.

We are already in discussions with interested customers for this LNG.

Slide 12. New production growth from development of tight oil in Russia

Next is oil production from the non-conventional oil fields. We have a tremendous and still underestimated potential of hard-to-recover resources. I would like to mention only one kind of formation – Bazhenov.

Estimated recoverable resources of this geological formation alone amount to over 22 billion barrels of oil, which is equal to approximately half of the shale oil resources in the USA. About half of these resources are within the license acreage of Rosneft and TNK-BP.

By its properties, the Bazhenov Formation is similar to the US shales.

We started research and preparation of pilot development of Russian hard-to-extract resources in partnership with ExxonMobil and Statoil, using the technologies tested in North America.

Slide 13: New tax policy provides incentives for developing new categories of reserves

The new tax initiatives of the Russian government put new oil and gas regions in Russia among the most fiscally attractive regions to investors.

An essential part of tax reform in the Russian energy industry is fiscal stability to provide comfort for large-scale investment into the new exploration and production projects.

Slide 14. Acquisition of TNK-BP makes Rosneft the largest public oil and gas company in the world

Last year Rosneft signed the agreements to acquire TNK-BP company and now we are in the process of completing this transformational deal. As a result of this

acquisition Rosneft will become the largest producer of hydrocarbons among the world's public companies and will be the largest holder of hydrocarbon reserves.

This is a complex transaction, resulting not just in significant expansion of the geography of our operational presence and increase of the scale of our business, but also in BP becoming our second-largest shareholder after the Russian State, holding a stake of almost 20%.

The deal to acquire TNK-BP will create the largest company with a balanced portfolio and capabilities to generate significant cash flow and add shareholder value.

Slide 15. Sources of synergies in TNK-BP acquisition

Increased shareholder value will among other things be based on synergies. The search for synergies is facilitated by the complementary assets of the two companies — both Rosneft and TNK-BP produce and process oil at geographically adjacent territories. The scale of our business after the acquisition creates additional opportunities for cost optimization and focus on the best projects of the combined portfolio.

We also expect synergies from the transaction through optimization of the united company costs, both at the corporate headquarters and at the level of operational subsidiaries and projects.

We also see great opportunities for synergies in the swaps of crude oil and petroleum products in order to reduce costs and improve the efficiency of our refining complex.

Today we estimate the overall synergies value at no less than \$10 billion. The consolidated balance of Rosneft will also include about \$5 bn of cash accumulated on the accounts of TNK-BP.

After the acquisition closings, which is expected to take place early in Q2, Rosneft will provide to its investors an updated synergies' forecast for the united company.

Slide 16. New Rosneft – new opportunities

In conclusion, I would like to say the following:

Rosneft has been and remains to be a reliable partner for the international oil and gas companies in Russia and abroad. Over the last year we have made a breakthrough in establishment of strategic partnerships with ExxonMobil, Statoil, ENI and BP. I would like to take this opportunity and thank the leaders of these companies for their keen approach based on mutual trust.

We are interested in establishing long-term partnerships with the leading service and research companies.

I believe that only through the joint efforts of companies and national governments to harmonize the regulatory and tax environment can we ensure the sustainable development of the global energy markets.

We are building long-term relationships with consumers. Recently, for the first time since the collapse of the Soviet Union, we have signed direct long-term contracts for supply of crude oil to Germany and Poland. This week we announced the unprecedented financing deal with Glencor and Vitol, where Rosneft will receive a long-term pre-payment of \$10bn.

Slide 17: The future is defined today

The future is created today and it is defined by the decisions we are making. We bear enormous responsibility, because the future of our children depends on these decisions of ours.

Thank you very much for your attention.