Meeting with Rostec State Corporation CEO Sergei Chemezov

Sergei Chemezov presented to the President a report on the state corporation's performance in 2023 and its current activities.

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President of Russia Vladimir Putin: Mr Chemezov, I am listening.

Rostec State Corporation CEO Sergei Chemezov: Good afternoon, Mr President.

Vladimir Putin: Good afternoon.

Sergei Chemezov: We have finalised the assessment of our enterprises' performance in 2023. As always, I would like to present our comprehensive annual report to you.

Rostec continues to contribute to the achievement of national objectives, which include strengthening the security and defence capability of our country, as well as promoting its industrial independence.

Let me share some statistics. First, consolidated corporate earnings have increased by almost 34 percent, reaching 2,840 billion. We hope to surpass the three-trillion mark by the end of this year, in 2024. Our net profits have also increased and amounted to 60,100 million. However, these profits remain relatively low considering our current earnings. This is primarily due to the large volume of state defence contracts we have.

Regrettably, the current profitability of these state defence contracts is not very high, totalling about two percent. Additionally, military acceptance agencies do not cover all

overhead expenses. Due to these factors, it is sometimes impossible to cover all the expenses incurred by our enterprises in fulfilling state defence contracts.

Of course, we have not forgotten your instruction to increase the share of civilian goods, and we are actively working on this.

Vladimir Putin: What is the current average share?

Sergei Chemezov: Currently, we have achieved a 5.5 percent increase in the production of civilian goods in absolute terms. Their volume has reached almost one trillion rubles, or 993 billion, to be more exact.

Vladimir Putin: When did you achieve this 5.5 percent increase, and for which period?

Sergei Chemezov: In 2022.

Vladimir Putin: What is the overall share at present?

Sergei Chemezov: It is 993 billion in absolute terms.

Vladimir Putin: No, if we consider the total as 100 percent, what is the share of civilian goods?

Sergei Chemezov: Unfortunately, our relative figures have decreased. In 2022 and 2023, we achieved shares of 44.5 percent and 35 percent, respectively. I would like to reiterate that the absolute figures have increased, but the relative figures have declined.

This indicates that the volume of state defence contracts has significantly increased, leading to a decrease in the share of civilian goods.

Vladimir Putin: I see.

Sergei Chemezov: The amount of investment in 2023 grew to 527 billion, which is a record compared to previous years. For example, investment amounted to only 292

billion in 2022. This means that today, we need to expand production and modernise the manufacturing of military equipment, arms, munitions, and so on. Therefore, the majority of the investment is spent on upgrading and expanding production capacities.

The main focus of the report this year is Rostec as the country's pillar of strength. We have broken it down into four sub-topics.

First, the protection of national sovereignty. As in previous years, Rostec traditionally shows a high percentage of state procurement order execution, around 99.5 percent. The order execution for some models that are particularly in demand for the special military operation is as high as 100 percent. We have not breached a single contract. Eighty percent of the equipment currently involved in the special military operation is produced by our industrial facilities. In 2023, we supplied our main customer, the Defence Ministry, with new serial aircraft, Sukhoi Su-34, Sukhoi Su-57, Sukhoi Su-35, Ilyushin IL-76, Yakovlev Yak-130, as well as Mil Mi-28 and Kamov Ka-52 helicopters, and T-90M Proryv tanks. This includes both new equipment and deeply modernised one. Compared to 2022, the volume of production and major upgrades for lightly-armoured vehicles has tripled, and for tanks, it has grown by 250 percent. We are producing nine times more tank ammunition and infantry fighting vehicles. Also compared to 2022, the output of self-propelled artillery guns grew tenfold in 2023, with equal growth for munitions.

In 2023, several state-run facilities, specifically powder mills, were handed over to us. The situation there is rather complicated; therefore, it is necessary to conduct a complete overhaul, renovation and revamping. Enormous funds, amounting to tens of billions, have been allocated for this purpose. Deputy Prime Minister Marat Khusnullin has been a great help. He is in charge of construction, overseeing the entire process, and we are very grateful to him.

In addition to defence production, our workers are actively involved in the repair of the equipment currently used in the zone of the special military operation, and sometimes even on the battlefield. Right now, we have 250 crews, or about 1,000 people, operating there.

We have a tradition of highlighting several key products in our annual reports, including new models that have already proven their worth, as well as thoroughly upgraded

hardware. They are all in step with the times and have the required capability to deal with the challenges we face today as far as military strategy is concerned.

Let me offer you some examples.

In 2023, Rostec delivered the first shipment of Malva self-propelled 152 mm artillery guns to the army. This is a cutting-edge mobile artillery system that can use all kinds of munitions and fire them automatically.

There is also the Kub UAV, a high-precision strike system designed to eliminate remote targets on the ground. What are its advantages? It can take off, undetected, and is very precise when carrying out strikes. It is very quiet. There is also the ease of use, which is another advantage. We completed the project to develop this system in 2022, launched it into serial production and started delivering it to the troops in 2023.

We are continuing to improve standard aircraft ammunition, such as the famous FAB-500 bombs. They have been adapted to work with guidance and glide kits and launched into production. In 2023, we started making the FAB-1500 and the FAB-3000 bombs once again. There was a time when we suspended their production, but we have now restored it. This year, in 2024, we adjusted them to operate with guidance and glide kits as well, and the troops on the frontline are already using the first shipments of these upgraded munitions.

There is also the Superkam UAV, which is another cutting-edge device. It exists in a reconnaissance version and a kamikaze model. It took us just five months to launch these drones into production. For that, we created a manufacturing facility covering an area of over 30,000 square metres. It is now hard at work making these UAVs, which have been very effective in the special military operation zone.

Healthcare is the second section in our annual report. As part of our effort to produce more civilian goods, we have gone to great lengths to make medical equipment. Today, our companies manufacture over 150 types of medical hardware for various domains, including cardiology, ophthalmology, gynaecology, as well as equipment for perinatal centres, etc.

We view medical engineering as a strategic sector and plan to gain a bigger foothold in this market by adding more products to our lineup every year.

Let me share with you some examples of the hardware we make.

This is an assisted ventilation device for newborns. It is called Reanimon and is made by Shvabe, a Rostec-owned holding. This device is designed to offer respiratory treatment to newborns, and can also be used by emergency and intensive care units in maternities and perinatal centres. We have already registered it and received the corresponding paperwork, and are about to launch it into serial production.

The MobiVent Oksi ventilator unit is the second example I wanted to share with you. This device is designed for treating hospital patients, both adults and children, who can breathe on their own. We are currently in the certification stage, and will launch serial production down the road.

We have been delivering the previous generation of these devices, the Aventa ventilator units, to healthcare facilities. This hardware has proven its worth during Covid. We have made over 15,000 units of this kind and used them to treat 1.5 million patients.

In addition to this, it is worth noting that apart from medical devices, we also manufacture pharmaceuticals. In particular, Microgen is part of Nacimbio, a Rostec-owned holding company. It is the only manufacturer of allergenic agents and allergoids in Russia – these are allergy treatments.

The company's portfolio includes 64 diagnostic and treatment medications, with 36 of them used in subcutaneous allergen specific immunotherapy. For instance, they are used to treat allergies caused by birch pollen, ambrosine, household dust, as well as allergens contained in sagebrush and saltbush, which has special importance for certain regions. These allergen specific immunotherapies can be used as part of allergy treatment as well as to deal with acute allergic conditions. By injecting them subcutaneously, we can gradually increase their dosage in order to train the patient's immune system to develop a proper response.

In 2023, we continued to supply vaccines as part of the national vaccination programme, and delivered over 106 million doses of medical products to the Russian regions under centralised government procurement orders. This list includes 18 vaccines against nine infectious diseases, such as tetanus, whooping cough, diphtheria, Hepatitis B, tuberculosis, measles, roseola, parotitis, and flu. We met all the targets under the 2023 vaccination programme, and shipments are proceeding as planned this year as well.

Nacimbio uses domestic raw materials and relies on its own know-how, which means that it covers the entire technological cycle.

Also in 2023, Microgen registered a Hepatitis B drug with the Healthcare Ministry. We called it Antigep-Neo. Clinical trials confirmed that it offers high tolerance levels and is safe. It has become the top choice in Russia among intravenous immunoglobulin-specific treatments for preventing Hepatitis B in children, as well as adults.

The third section of our report addresses the topic of technological sovereignty. Initially, when we evaluated the extent of the sanctions and the number of technological partnerships we had established with our Western partners over many years, we had purchased a significant number of components and expected our cooperation to continue indefinitely. Unfortunately, this was not the case. When we were tasked with undertaking substantial import substitution efforts, to be honest, we were doubtful about our ability to succeed. But, as the saying goes, once begun, half done.

We have already replaced tens of thousands of components and products throughout the entire Rostec network.

A notable example is KAMAZ. We have successfully substituted thousands of components at KAMAZ, enabling us to meet the demands of freight, special, and passenger vehicles, among others.

Here are a few examples. The KAMAZ-54901 truck tractor, which represents the flagship of the new generation of K5 trucks, was initially developed in collaboration with Daimler. Since 2023, we have been producing these trucks with imported components fully substituted.

Additionally, the KAMAZ-6595 is the first dump truck in the K5 line designed for work in mining quarries. In November 2023, we began serial production of the import-substituted version of this model as well.

The latest innovation from KAMAZ is the KAMAZ-54902, an articulated lorry designed to haul big trailers. It features a low-floor cabin with a single berth, allowing the driver to rest as needed before continuing their journey. This year, in 2024, we will commence serial production of these import-substituted vehicles.

In addition to civilian equipment, we have made significant strides in import substitution and the development of new models of special vehicles. For several models, imported components have been replaced with domestic ones. This includes armoured steel bodies, bumpers, bulletproof tanks, tires, and armoured glass.

In 2023, our company Remdiesel completed the development of a special vehicle called Akhmat, designed for the safe transportation of military personnel, in just 25 days. You had once asked us to create this vehicle at the behest of Ramzan Kadyrov. We successfully developed it and delivered the first ten vehicles to Chechen fighter units. To date, we have produced over a thousand units, and they have performed exceptionally well.

In 2023, some brand new designs were presented, including the Nerussa specialised vehicle, an armoured lorry for transporting special and hazardous cargoes. Its batch production has already been launched.

To reduce losses in manpower, a remotely controlled, robotised wheeled vehicle has been designed to deliver ammunition, transport wounded personnel, supply quadcopters and other necessities. Currently, it is being tested in line units. The results are positive, and we are beginning to mass-produce it.

As far as the machine-tool industry is concerned, our Stan Holding Company has designed and is producing a robotised machining grinding centre, a numerically operated multi-role grinding machine-tool. It is intended for diamond grinding of carbide cutting inserts in tool-making.

In addition, there is a hybrid milling and alloying machining centre. It can produce or restore parts of any geometrical shape rapidly and economically by using a combination of the direct laser alloying technology and CNC machines.

As far as the engine-making industry is concerned, we have started a batch production of large-scale GTD-110 turbines for heat power plants. The first several turbines of this kind have been tested at the Ivanovo plant for three years. Everything's all right, and we are installing these mass-produced turbines at the Udarnaya heat power station in Taman, Krasnodar Territory. We are building this power plant and will soon launch the GTD-110 turbine.

We used to buy 120–130 MW turbines from General Electrics in the US and Siemens in Germany. So, we have made a 110 MW turbine to replace foreign-made ones.

The fourth important sub-topic is the social protection of our employees and their families. Rostec is a major employer with a staff of over 660,000. In 2023, we hired 70,000 people, and we will need to hire approximately the same number in 2024.

The average pay has grown 22 percent to 88,300 rubles.

In 2023, social spending increased 23 percent to 18 billion. The benefits package we offer includes a private health insurance plan, a private retirement plan, as well as opportunities for visiting recreational and health resorts, a housing programme, and relocation packages.

Regarding the housing programme, retaining qualified young specialists is instrumental for us, since we are the ones who train them. This is why we pay a lot of attention to the housing programme and called it Rostec's Square Metres. It already operates across 17 regions and eight holdings. We will launch three projects soon in Perm, Rybinsk and Arsenyev, Primorye Territory, with its helicopter plant, and are working on 17 more sites.

Turning to the Industrial Medicine project, we launched a dedicated healthcare initiative in 2023. Its mission consists in preventing Rostec workers from falling ill in the course of their professional activity. This includes an effort by Rostec to open and upgrade 40

health stations and mini clinics in 13 regions of Russia. People will be able to receive medical services at these facilities.

Capacity building and personnel training are a major strategic focus for our corporation. We operate 400 common-core and supplementary educational programmes by working together with universities and vocational colleges. Universities are currently training 2,700 students who will graduate with the competences our companies need. In 2023, higher education institutions and companies within our corporation teamed up as part of the Advanced Engineering School federal project and contributed to enhancing and creating 15 advanced engineering schools of this kind.

So far, Rostec affiliates created 36 educational and manufacturing clusters in 23 regions, and the corporation allocated over 470 million rubles to this effect over the past two years.

Students can practice their skills at our enterprises, since we have a two-pronged approach to their training. This way, they spend 70 percent of their training practicing their skills, and study theory during the remaining 30 percent of the time. Every student learns five disciplines at our manufacturing and learning centres, which means that they can do all kinds of work and operate various kinds of equipment.

Vladimir Putin: Very well.

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