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The Annual Report was approved by the General Shareholders Meeting on June 21st, 2018 (unnumbered Minutes).

Visit our website: www.rosneft.com
The Chairman of Rosneft’s Board of Directors, Gerhard Schroeder, has emphasized the Company’s strategic priorities and achievements. In 2017, Rosneft approved its business strategy for the next five years, which is one of the most ambitious in the industry and fully meets the challenges currently faced by oil and gas corporations. This strategy provides a robust strategic basis for the Company’s breakthrough development and takes into account the production capabilities of all its business segments.

As the Chairman of the Board of Directors, I place a significant emphasis on the Company’s strategic priorities and their achievement. In 2017, we approved Rosneft’s business strategy for the next five years – it is one of the most ambitious in the industry and fully meets the challenges currently faced by oil and gas corporations. This carefully elaborated plan provides a robust strategic basis for the Company’s breakthrough development and takes into account the production capabilities of all its business segments. The strategy details organic growth in liquid hydrocarbons production to 250 mmtoe by 2022, and includes Rosneft’s plans for its gas business to become one of the Top 3 global gas companies within the next few years. This is also an increase in the share of products with high added value, such as petrochemical products. Another focus area is transformation of the Company into one of the technological leaders through digitalization. The strategy covers investments, including such areas as refinery modernization, energy efficiency, emission reduction which allow Rosneft to increase the profitability of refining and petroleum products sales of own production.

As a former Chancellor of Germany, I am particularly interested in bolstering Rosneft’s partnerships with European companies and I’m convinced that the Company’s recent steps have been crucial in building productive and effective business relations with its European partners. Rosneft’s integrated approach to major oil and gas projects plays a key role in its overall efficiency, attracting consuming countries interested in guaranteed feedstock volumes, and the production, transportation, and delivery of those volumes to the end consumer. Rosneft maintained its focus on diversifying feedstock supplies between western and eastern destinations throughout 2017, resulting in a 10.7% rise to 47.7 mmt in shipments on the eastern route, while distribution via the high-margin Rosneft retail channel increased by 7% during 2017.

Based on the drilling results from the first offshore appraisal well in the Laptev Sea, a new field was discovered in 2017 with oil reserves exceeding 80 mmt, while a unique start-up complex was commissioned at the Erginsky cluster containing a total of 256 mmt in oil reserves.

Having monitored the activities of Rosneft’s management throughout the year, as a Chairman of the Board of Directors, I value their efforts highly. Rosneft’s portfolio was expanded throughout 2017 with several strategic, high-potential asset acquisitions that have already increased in value alongside the current trend in oil prices. The Company expanded its international refining business through swapping shares in German refineries and acquiring a share in India’s Vadinar refinery, both of which have already generated substantial synergies.

Rosneft is the world’s largest public oil and gas company both in terms of production volume and reserves. Rosneft continues its journey ahead, expanding upon production following an increase from 4 mmtoe 18 years ago to 281.7 mtoe in the reporting year, developing its refining, petrochemicals, and retail businesses, and transforming into an experienced international trader.

In Germany, Russia, and other countries, people often ask me why I accepted the offer to take up an executive position in the Company. In my opinion, Rosneft strives to make the best use of the resources of the global industry, as well as its geographic and technological potential through international cooperation. The Company has dozens of joint ventures across Europe and Asia and invests millions of dollars in their operation, while about 40% of Rosneft shares are owned by foreign shareholders.

Energy security issues are of great concern to us, and their resolution primarily depends on mutual cooperation through openness and common interests. Distrust and political differences can be overcome through closer cooperation. We need to move in this direction starting today.
MESSAGE FROM
ROSNEFT’S CHIEF EXECUTIVE
OFFICER, CHAIRMAN OF THE
MANAGEMENT BOARD

In 2017, the Company reinforced its position as Russia’s largest independent
gas producer, having produced 68.4 bcm of gas. We increased production drilling
by 29.5% year-on-year to 12 million meters while maintaining a 60% rate of
in-house oilfield services in total footage drilled. Through our exploration campaigns
in 2017, we discovered 162 new deposits and 31 fields with a combined total of
233 million in reserves.

Rosneft maintained its leadership position among global oil and gas majors by total
volume of proved reserves and reserve replacement ratio. The Company’s
total SEC proved reserves grew by 6% to almost 40 bboe, while its proved reserve
replacement ratio grew to an impressive 184%.

We increased oil refining volumes at the Company’s Russian refineries by 15% to 100.6 mmt while improving qualitative performance metrics, with light product
yields increasing to 58.4% and improved conversion rates at 75.2%. Supported
by the Company’s ambitious upgrade program for its Russian production assets.

The Company’s strong operating results and successful performance improvement
initiatives were also supported by a solid financial performance. Rosneft’s revenue
increased by 20.8%, while its operating profit before depreciation and amortisation
grew by 9.8%. Net profit attributable to the Company’s shareholders doubled
in Q4, reaching RUB 222 billion by year-end and a 27.6% increase year-on-year
– a strong base for dividend distributions, which were increased from
35% to 50% of Rosneft’s net profit under
IFRS in line with the new dividend policy and
the President of Russia’s instruction.

Rosneft has successfully entered the new,
strategic markets of India and Egypt,
including through closing a deal to acquire a
49% stake in Essar Oil Limited, generating
additional synergies through its provision
of feedstock supplies and expanding
the Company’s portfolio with a fitting,
high-quality asset. Rosneft has gained
a foothold in the high-potential, high-
growth Indian petroleum products market,
and is meanwhile greatly expanding the
geographical distribution of its petroleum
products across Asia Pacific. The Company
also acquired a stake in a project to develop
the Zohr field offshore Egypt – one of the
world’s largest gas assets – operated
by our long-standing partners, ENI and
BP. Production commenced at the field in
December 2017.

Rosneft successfully continued its
strategy to maximize the efficiency of
resource development and production
growth. We launched production at the
Yuriysherno-Tolchonskoye field in 2017, and
put three fields on stream within
the Uvat project. Rosneft commissioned
a start-up complex at the Erginsky cluster,
which contains a total 256 mm in oil
reserves and has a projected plateau
rate of over 1 bmt. The cluster was built
by integrating Kondareff’s assets
with the Erginsky license area, the largest
open acreage block in Russia, acquired
by the Company through auction.
The Company takes an integral approach
to business development, acquiring stakes
in promising assets and engaging foreign
partners in its projects. In 2017, we closed
a deal with China’s Beijing Gas to sell 20%
of Verkhnechonskneftegaz.

Rosneft continued to focus on the Zeveda
Shipyard project in Russia’s Far East, its
launch strongly reflecting the interests
of our business. Rosneft has placed anchor
orders for vessels, with the shipyard’s
product range expected to include tankers,
ic class vessels, and offshore drilling
platforms for oil and gas exploration.
Rosneft’s involvement in the project
demonstrates the need for a multifaceted
approach in the development of a robust
infrastructure, encompassing and
stimulating multiple industries,
including those which inherently produce
innovations.

Rosneft’s operations are sustainably
scaling upward, which drives our stronger
focus on protecting the health and safety
of our employees, partners, and the local
residents in the regions in which we
operate. Over the past four years, we have
invested over RUB 230 billion into reducing
our operational impact on the environment
and are now moving to a new development
stage. Our Rosneft – 2022 Strategy,
approved by the Board of Directors, sets
key development targets for the next five
years. These include, among other things,
increasing business profitability and improving
the performance of existing assets,
stimulating the roll-out of new technologies
and while taking the Company
to a fundamentally new level in the face
of challenges posed by the digital era.

Igor Sechin
Chairman of the
Management Board,
Chief Executive Officer

2017 was a milestone year for
Rosneft – we completed a cycle of
strategic acquisitions and adapted a new
development strategy aimed at achieving
technology leadership, optimizing our
organizational structure and management
framework, and improving margins across
the entire value chain.

Rosneft demonstrated strong operating
results for 2017: we reached a new record
for hydrocarbon production, extracting
281.7 mmt of hydrocarbons, up by
6.2% year-on-year, and sustaining our
global leadership on unit production costs.

* Among publicly quoted companies.
1.1. ASSETS AND REGIONS OF OPERATION

6% share of global oil production

41% share of Russian oil production

86% 27% 10% 0.4% 0.2% –0.5% –0.6% –1.1% 36% share of Russian oil refining

HYDROCARBON PRODUCTION, 2007–2017 CAGR

Source: Company reports.

HYDROCARBON PRODUCTION IN 2017, MMBOE PER DAY


HYDROCARBON PRODUCTION COSTS IN 2017, USD PER BOE

*Information on Rosneft’s reserves is provided according to the Russian resource classification system (АВ1С1+В2С2) as at 1 January 2018, reserves data for other companies are provided on the base of Wood Mackenzie’s appraisal and include commercial and sub-commercial reserves.

HYDROCARBON RESERVES IN 2017, BBOE

See more on p. 162

See more on p. 33

See more on p. 114
Rosneft General Business Principles

**Rosneft’s mission is to efficiently unlock energy potential within projects both in Russia and abroad, ensure energy security, and provide good stewardship of natural resources.**

**1.2. MISSION AND VALUES**

**Health, Safety, and Environment**
- Becoming a global leader which provides safe operation, protects the health and safety of its employees and the local residents in regions of its operation, and minimizes its environmental footprint.

**Finance and Investments**
- Enhancing investment and project management;
- Maintaining operational leadership;
- Providing a high shareholder return.

**Corporate Governance**
- Developing organizational capability and human resources;
- Adopting new forms of management and business organization, including a holding structure;
- Commitment to strong business ethics.

**Advancing Technology**
- Digitize the entire business;
- Creating sustainable technology leadership;
- Localizing manufacture;
- Partnerships in technology;
- Developing the Corporate Scientific Project Complex.

**Company Value for Stakeholders**

**Consumers**
- Rosneft ensures stable supplies of high-quality fuel both in Russia and abroad supplied to consumers in 2017.

**Government**
- ~ RUB 2.6 trln of taxes and customs duties paid by Rosneft in 2017 – one of the largest taxpayers in Russia.

**Shareholders and Investors**
- 50% of net income under IFRS allocated for dividend payouts.
- 64.1% Rosneft’s total shareholder return (TSR), i.e. 9.3 p.p. higher than the average for its Russian peers.

**Employees**
- 302.1 thsd employees average headcount – one of the largest Russian employers.

**Partners and Subcontractors**
- RUB 6.4 trln procurement of goods, works, and services by the Company (Rosneft and Group Subsidiaries) from external counterparties in 2017 (up 137% year-on-year).

**Company**
- Value for Stakeholders

**28.1**
- RUB bln expenditure on social programs in 2017 – a socially responsible business.

**97.9**
- RUB bln share of procurement from SMEs in 2017.

**97.9**
- RUB bln "green" investments.

**922**
- RUB bln in CAPEX in 2017 – one of the largest investors delivering a multiplicative effect for the national economy.

**230**
- RUB bln expenditure on social programs in 2017 – a socially responsible business.

**64.1%**
- Rosneft’s total shareholder return (TSR), i.e. 9.3 p.p. higher than the average for its Russian peers.

**63.9**
- BCM of gas.

**109.6**
- MMT of petroleum products.

**128.7**
- MMT of crude supplied to consumers in 2017.
1.3. COMPANY STRUCTURE

Exploration and Production

- **Russian Federation**
  - Bashneft International B.V.
  - Myanmar
  - Rosneft Vietnam B.V.
  - Iraq
  - Bashneft International B.V.
  - Norway
  - Vanguard Oil AS
  - Venezuela
  - Precision Drilling de Venezuela, C.A.
  - Peru
  - PetroVictoria S.A.
  - Brazil
  - PetroBrazil S.A.
  - Sweden
  - RN Nordic Oil AS
  - Norway

- **Russian Federation**
  - Bashneft International B.V.
  - Iraq
  - PetroVictoria S.A.
  - Brazil
  - PetroBrazil S.A.
  - Sweden
  - RN Nordic Oil AS
  - Norway

- **Timan-Pechora**
  - LLC RN-Svernyaya Neft
  - Bashneft-Neftekhim

- **Far East**
  - Sakhalin-1
  - JSC RN-Shelf Daily Vozd

- **Western Siberia**
  - LLC RN-Yuganskneft
  - LLC RN-Puneneft
  - CJSC Tomskneft
  - RN-Udvodnaya

- **Central Russia**
  - LLC JSC Samaraneftegaz
  - JSC Ulmurtneftegaz
  - PJSC Orenburgneftegaz
  - LLC Bashneft-Dobycha

- **Southern Russia**
  - LLC JSC Krasnodarneftegaz
  - JSC Grozneneft
gas Processing Company
  - PJSC Rosneft-Dagneftegaz
  - JSC Dagneftegaz
  - PJSC RN Ingushneftegaz

- **Venezuela**
  - Petrovazneft
  - CJSC Rosneft-Armenia
  - LLC Petrol Market
  - Armenia

- **Myanmar**
  - Bashneft International B.V.

- **Eastern Siberia and the Far East**
  - LLC Vinnykhchonskneftegaz
  - JSC Vankneft

- **Egypt**
  - Upstream Project Psa

- **Refining and Sales**

- **Latin America**
  - PetroMargarita S.A.
  - PDVSA
  - Ojulio S.A.

- **Central Asia**
  - CJSC Rosneft-Armenia
  - LLC Petrol Market
  - Kyrgyzstan
  - CJSC Rosneft-Armenia

- **Safety**
  - LLC RN-Abkhazia
  - Abkhazia

- **Key information on the legal structure is provided in Appendix 1."
1.4. KEY HIGHLIGHTS

Rosneft and CNPC signed an additional agreement entailing an increase of oil supplies via Kazakhstan and an extension of the existing contract between the parties. Under the agreement, oil supplies will total 91 mmt over a period of 10 years.

Rosneft announced the results of the mandatory offer to purchase ordinary shares from Bashneft’s minority shareholders.

Rosneft began drilling the Central Olginskaya-1 well at the Khatangsky license area, the northernmost well on the Eastern Arctic shelf.

Rosneft signed long-term contracts for the supply of tubular products from TMK and ChelPipe.

Rosneft and Venezuela’s PDVSA launched pilot production in the Orinoco oil belt through the Petrovictoria joint venture.

Rosneft closed a deal to acquire a 100% stake in the Kandaneft project. According to the results of an international audit of reserves conducted by DeGolyer & MacNaughton, the Kandinskoye group of fields holds 157 mmt of oil reserves (2P).

Rosneft’s Board of Directors recommended a final dividend for 2016 of RUB 5.98 per share, or 35% of the Company’s IFRS net profit for the year. Dividend payouts totaled RUB 63.4 bln.

Rosneft and Beijing Gas Group Company Limited (the parent of Beijing Gas Group Company Limited) signed an agreement closing the deal to sell a 20% stake in Verkhnechonskneftegaz.

Rosneft won an auction to develop the Erginsky license area in the Khanty-Mansi Autonomous Area – Yugra, containing 103 mmt of C1+C2 oil reserves.

Rosneft completed the sale of the 12% stake in Saras S.p.A. to institutional investors. Following the sale of the remaining stake, Rosneft fully divests from Saras S.p.A.

A Rosneft Group company began drilling the first exploration well at Block 12 in the Republic of Iraq.

Rosneft and the Iraqi Kurdistan Regional Government signed an agreement on cooperation in upstream, infrastructure, logistics, and trading of hydrocarbons. As part of the agreement, the parties signed a purchase contract to supply oil to Rosneft over the 2017–2018 period.

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91 mmt
total oil suppliers under the agreement within 10 years

103 mmt
of C1 + C2 oil reserves in the Erginsky license area, the Khanty-Mansi Autonomous Area – Yugra

Rosneft and Venezuela’s PDVSA launched pilot production in the Orinoco oil belt through the Petrovictoria joint venture.

Rosneft signed long-term contracts for the supply of tubular products from TMK and ChelPipe.

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Rosneft won an auction to develop the Erginsky license area in the Khanty-Mansi Autonomous Area – Yugra, containing 103 mmt of C1+C2 oil reserves.

Rosneft and China National Petroleum Corporation (CNPC) signed an additional agreement entailing an increase of oil supplies via Kazakhstan and an extension of the existing contract between the parties. Under the agreement, oil supplies will total 91 mmt over a period of 10 years.

Rosneft announced the results of the mandatory offer to purchase ordinary shares from Bashneft’s minority shareholders.

Rosneft began drilling the Central Olginskaya-1 well at the Khatangsky license area, the northernmost well on the Eastern Arctic shelf.

Rosneft signed long-term contracts for the supply of tubular products from TMK and ChelPipe.

Rosneft and Venezuela’s PDVSA launched pilot production in the Orinoco oil belt through the Petrovictoria joint venture.
Rosneft successfully closed a strategic deal to acquire 49.13% in Essar Oil Limited (EOL) from Essar Energy Holdings Limited and its affiliates. Assets within the transaction scope include the Vadinar Refinery, which has a throughput capacity of 20 mtpa and a conversion rate of 95.5%.

Rosneft’s Board of Directors recommended a final dividend for 1H 2017 of RUB 3.83 per share, or 50% of the Company’s IFRS net profit. Payments totaled RUB 40.6 bln.

Rosneft confirmed the discovery of the Centralno-Olginskoye field in the Khatanga Bay, containing over 80 mmt of oil reserves.

Rosneft and the Iraqi Kurdistan Regional Government signed documents to effect Production Sharing Agreements (PSAs) for five production blocks in the Kurdish Autonomous Region.

Rosneft’s subsidiary JSC Rosneftflot signed contracts with LLC Zvezda Shipbuilding Complex for the construction of ten Arctic shuttle tankers, each with a capacity of 42 thousand deadweight tonnes.

The world’s longest well was successfully drilled to completion by Rosneft, acting as a part of the Sakhalin-1 consortium. The well was drilled from the Orlan platform at the Chaivo field in the Sea of Okhotsk and has a total length of 15 thousand meters.

A federal law on amendments to the Russian Tax Code was adopted, providing investment incentives in the form of annual MET reductions of RUB 35 bln over 10 years for the Samotlor field since 2018.

Rosneft commissioned a start-up complex at the Erginsky cluster in Western Siberia, which contains a total 256 mmt of AB1C1-B2C2 oil reserves (as at 1 January 2018).

Rosneft’s Board of Directors approved the Rosneft-2022 Strategy aimed at quantum changes in the Company’s business by introducing advanced management approaches and new technologies while increasing returns on the Company’s existing assets.

As part of the Zohr field development, Rosneft began gas production as an international consortium member. The project is implemented as a joint concession with Italy’s Eni S.p.A. (60%) and UK’s BP (10%). With in-place gas reserves of about 850 bcm, Zohr is one of the largest gas field in the Mediterranean.

Rosneft and Pertamina, Indonesia’s state oil and gas company, completed the establishment of a joint venture for the construction of the Tuban grass root refinery and petrochemical complex (TGRR) in Tuban, in the East Java province of Indonesia.

Rosneft’s Board of Directors approved the terms of out-of-court settlement with Sistema.

At the Eastern Economic Forum, RN-Upstream and Statoil Russia AS signed a shareholders and operating agreement on the joint development of the North Komsomolskoye field whereby Statoil will acquire 33.33% in LLC SevKomNeftegaz.

At the Eastern Economic Forum, RN-Upstream and Statoil Russia AS signed a shareholders and operating agreement on the joint development of the North Komsomolskoye field whereby Statoil will acquire 33.33% in LLC SevKomNeftegaz.
1.5. MACROECONOMIC SITUATION IN 2017

THE COMPANY’S OPERATING PERFORMANCE IN 2017 WAS SIGNIFICANTLY IMPACTED BY THE FOLLOWING KEY MACROECONOMIC FACTORS:

Global and national economic growth rates
Global oil prices
RUB exchange rate and inflation rates in Russia

Global and National Economic Growth Rates

According to January 2018 estimates from the International Monetary Fund (IMF), global economic growth in 2017 (PPP GDP in constant 2010 prices) accelerated to 3.7% year-on-year (3.2% year-on-year in 2016). GDP growth rates in developed economies increased from 1.7% in 2016 to 2.3% in 2017 while growing in emerging markets from 4.4% in 2016 to 4.7% in 2017.

Among developed economies, the most notable economic growth occurred in the USA, Canada, Japan, and the Eurozone. In 2017, GDP growth rate in the USA was 2.3% (1.5% in 2016), 3.0% in Canada (1.4% in 2016), and 1.6% in Japan (0.9% in 2016).

In 2017, GDP growth rate in the Eurozone was 2.4% (up 1.8% in 2016). Germany and France remain leaders in economic growth within the Eurozone, their GDP growth rates reaching 2.2% and 1.8% in 2017 from 1.9% and 1.2% in 2016, respectively.

In fourth place was the mining sector with a contribution of 8.4% to the GDP growth (1.4% growth year-on-year), transportation and storage (contributed approximately 16%; 3.7% growth year-on-year), and real estate transactions (contributed approximately 14%; 2.2% growth year-on-year). In fourth place was the mining sector with a contribution of 8.4% to the GDP growth (1.4% growth year-on-year).

According to IMF estimates, the growth in international trade in goods and services accelerated from 2.5% in 2016 to 4.7% in 2017. Global trade in goods and services grew mainly due to increasing prices in metals (up 24.2% year-on-year) and energy (up 23.6% year-on-year), and the declining real effective exchange rate of USD to the currencies of main trade partners (down 0.5% year-on-year).

After two years of crisis, the Russian economy returned to growth in Q4 2016. In 2017, the GDP growth in Russia was largely supported by the improved macroeconomic environment of growing energy prices and increased price competitiveness of domestic producers due to RUB depreciation during 2014–2015.

According to an initial assessment from Rosstat, in 2017, the Russian GDP accelerated by 1.5% (down 0.2% in 2016). With a combined 58.3%, the following three sectors were the largest contributors to the GDP growth: retail and wholesale trade, vehicle and motorcycle repairs (contributed approximately 28%; 3.1% growth year-on-year), transportation and storage (contributed approximately 16%; 3.7% growth year-on-year), and real estate transactions (contributed approximately 14%; 2.2% growth year-on-year).

Global trade growth is expected to slow down to 4.8% year-on-year in 2018 and to 4.4% year-on-year in 2019.

The IMF forecasts the Russian GDP growth rate to accelerate to 3.9% in 2018 and 2019 (World Economic Outlook as at 22 January 2018).
The observed oil surplus in 2014—2016 gave way to shortages in 2017 caused by the growing demand for oil and the deal to curb oil output, reached by OPEC and 11 non-members. According to the International Energy Agency (IEA), shortage in the oil market totaled 0.4 mmb per day in 2017. Since June 2017, oil prices have been showing a slight upward trend.

As a result of the oil shortage, the annual average Brent price in 2017, as according to Platts, was up 24.3% to USD 54.3 per barrel, compared with USD 43.7 per barrel in 2016. In 2017, the annual average Urals price increased by USD 11 per barrel compared with the 2016 price of USD 53.1 per barrel, a 26.1% rise year-on-year.

An improving global commodity market environment and growing Russian exports drove an increase in Russia’s export income. According to the Bank of Russia’s data, Russian exports (according to the Balance of Payments methodology) grew by 25.2% year-on-year in 2017, from USD 281.8 bln to USD 353.0 bln. Crude oil exports were up 26.6% to USD 93.3 bln; petroleum product exports were up 26.3% to USD 58.2 bln; natural gas exports up 22.0% to USD 38.0 bln; and LNG exports up 9.5% to USD 3.2 bln.

Crude hydrocarbons and petroleum products accounted for 54.6% of total exports in 2017. An increase in export income had a positive effect on the ruble exchange rate despite ongoing financial sanctions. According to the Bank of Russia, the annual average nominal USD/RUB rate was down from RUB 67.03 per USD in 2016 to RUB 58.35 per USD in 2017, thus the ruble appreciated against the US dollar by an average of 14.7% year-on-year.

The nominal USD/RUB rate was down from RUB 60.66 per USD as at year-end 2016 to RUB 57.60 per USD as at year-end 2017. The ruble appreciated by 5.3% year-on-year.

Inflation in 2017 (year-on-year as at December 2017) was 2.5% (5.4% in 2016), 1.5 percentage points below the 2017 target of 4.0% set in the Monetary Policy Guidelines for 2017–2019 published by the Central Bank of the Russian Federation. In 2017, the annual average consumer price index was 3.7% (7.1% in 2016). The inflation slowdown in 2017 was supported by the policy of the Central Bank of the Russian Federation, as well as by the growing nominal exchange rate of the Russian rouble to the currencies of Russia’s key trade partners, and an increase in agricultural production. According to the Bank of Russia’s forecast as at 22 November 2017, inflation in 2018–2020 will be at 4.0%.

In 2017, producer prices were up 8.4% (year-on-year as at December 2017) (7.5% in 2016). In 2017, the annual average producer price index was 7.8% (4.3% in 2016). According to the Ministry of Economic Development forecast as at 27 October 2017, the producer price index will be 2.5% in 2018 (year-on-year as at December 2017).

In 2017, oil companies’ transportation costs in Russia grew following an increase in tariffs. As of 1 January 2017, PJSC Transneft’s rates for oil transportation via trunk pipelines increased by 3.5%, and 4.0% indexation was applied to export tariffs for the Eastern Siberia – Pacific Ocean pipeline to China and the Kazakhstan oil loading port.

As of 1 February 2017, transit tariffs for oil transportation via the Republic of Belarus increased by 7.7%.

As of 1 January 2017, railroad transportation tariffs increased by 4%, and an additional 2% indexation was applied in January 2017 to the December 2016 tariff.
1.6. GLOBAL OIL AND GAS MARKET

Global Oil Market

According to preliminary data from IEA, global demand for liquid hydrocarbons (LH) slightly accelerated in 2017 to 1.6% (1.3% in 2016) at 97.8 mb/d per day, up 1.6 mb/d year-on-year. About 35% of the demand originated from Asia, accounting for 66% of growth in global LH demand in 2017. LH output mainly dropped in Saudi Arabia (down 0.4 mb/d per day) and Venezuela (down 2.1 times year-on-year to 0.8 mb/d per day), while an increase in crude output was primarily recorded in Libya (up 2.1 times year-on-year to 0.8 mb/d per day) and in Iran (up 7.0% year-on-year to 3.6 mb/d per day).

The drop in LH output (down 2.5% year-on-year) observed in OECD’s North American member countries in 2017 reversed to a 3.9% year-on-year growth to 20.2 mb/d per day. The regional production growth was mainly driven by the US, where 2017 LH output was up 5.3% year-on-year to 13.2 mb/d per day, including crude production up 5.4% year-on-year.

As a result of slowed production rates, IEA estimates that in 2017 the oil market showed a slight production deficit of 0.4 mb/d per day. In November 2017, commercial crude inventories in OECD countries dropped 6.0% year-on-year to approximately 1.11 billion barrels.

IEA forecasts that global LH demand in 2018 will grow 1.4% year-on-year to 98.2 mb/d per day. The US Energy Information Administration (EIA) forecasts that accelerated LH production growth will drive a surplus of 0.2 mb/d per day in 2018 and 0.3 mb/d per day in 2019. According to EIA projections, global LH demand in 2018 will grow 1.7% year-on-year to 100.2 mb/d per day, with global LH output up 2.5% year-on-year to 100.4 mb/d per day.

According to preliminary data from IEA, global LH output in 2017 grew by 0.4 mb/d per day to 97.4 mb/d per day. Production growth slowed down from 0.5% year-on-year in 2016 to 0.4% year-on-year in 2017. The slowed production results from measures taken under the joint production cut agreement between OPEC members and non-OPEC countries to reduce oil production. The total oil output in 2017 by the 14 OPEC member countries reduced 1.4% year-on-year to 32.3 mb/d per day, although the production of gas condensate liquids was up 1.3% year-on-year to 6.9 mb/d per day. Production trends varied across OPEC’s 14 countries. In 2017, crude output mainly dropped in Saudi Arabia (down 0.4 mb/d per day) and in Venezuela (down 2.1 times year-on-year to 0.8 mb/d per day), while an increase in crude output was primarily recorded in Libya (up 2.1 times year-on-year to 0.8 mb/d per day) and in Iran (up 7.0% year-on-year to 3.6 mb/d per day).

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Overview of the Global Gas Industry

The global demand for gas grew 2.4% to 3.6bcm in 2017. A considerable part of the demand growth (up 34 bcm = 42% of total growth for 2017) is attributable to Asia-Pacific, primarily China. The market is supported by the increasing accessibility of supplies and relatively competitive prices, particularly prices for oil and petroleum products.

The demand growth was accompanied by an increase in global gas output to 3.6 bcm, with 26% of global gas output attributable to North America, approximately 19% to Russia, and 17% to Asia-Pacific. In 2017, gas producing countries exported about 1.1 bcm of gas. Approximately 66% of global gas exports are transported by pipelines, and 32% as LNG.

Gas Production by Region, bcm

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>1,200</td>
<td>1,300</td>
<td>1,266</td>
</tr>
<tr>
<td>Russia</td>
<td>1,300</td>
<td>1,250</td>
<td>1,250</td>
</tr>
<tr>
<td>Rest of CIS</td>
<td>200</td>
<td>200</td>
<td>190</td>
</tr>
<tr>
<td>Middle East</td>
<td>80</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>800</td>
<td>850</td>
<td>900</td>
</tr>
<tr>
<td>Europe</td>
<td>800</td>
<td>750</td>
<td>720</td>
</tr>
<tr>
<td>Africa</td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Latin America</td>
<td>1,200</td>
<td>1,250</td>
<td>1,250</td>
</tr>
</tbody>
</table>

Gas Consumption by Region, bcm

<table>
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<th>Region</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>1,200</td>
<td>1,300</td>
<td>1,300</td>
</tr>
<tr>
<td>Russia</td>
<td>1,300</td>
<td>1,250</td>
<td>1,250</td>
</tr>
<tr>
<td>Rest of CIS</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Middle East</td>
<td>80</td>
<td>90</td>
<td>90</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>800</td>
<td>850</td>
<td>900</td>
</tr>
<tr>
<td>Europe</td>
<td>800</td>
<td>750</td>
<td>720</td>
</tr>
<tr>
<td>Africa</td>
<td>400</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td>Latin America</td>
<td>1,200</td>
<td>1,250</td>
<td>1,250</td>
</tr>
</tbody>
</table>

LNG Market

In 2017, the LNG market grew by 29.9 mmt, or 11% year-on-year (the highest growth rate since 2011) to reach a record high of 296.7 mmt, and largely driven by the improved demand in Asia-Pacific (up 12% year-on-year to 216 mmt) and Europe (up 22% year-on-year to 46.9 mmt). LNG demand in Japan, a major global LNG importer, was up 0.9% year-on-year to 84.5 mmt.

The growth was largely attributable to new LNG trains commissioned in 2017 at existing plants and new LNG projects coming online in: Australia, increasing exports by 11.6 mmt to 55.8 mmt to provide 39% of the global export growth.

Absolute and Relative Increase in LNG Exports and Imports by Country, 2017 y-o-y, mmt

<table>
<thead>
<tr>
<th>Country</th>
<th>Export</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>+16%</td>
<td>-11%</td>
</tr>
<tr>
<td>USA</td>
<td>+1%</td>
<td>+54%</td>
</tr>
<tr>
<td>Russia</td>
<td>+1%</td>
<td>+46%</td>
</tr>
<tr>
<td>Qatar</td>
<td>+1%</td>
<td>-37%</td>
</tr>
<tr>
<td>Norway</td>
<td>+1%</td>
<td>-48%</td>
</tr>
<tr>
<td>Other</td>
<td>+1%</td>
<td>+48%</td>
</tr>
</tbody>
</table>

Long-Term Forecast for Hydrocarbon Demand

Top global energy agencies expect that the weight of hydrocarbons in the global energy mix will remain largely unchanged until 2040. While oil will continue dominating other resources in global energy consumption, its share, as with coal's, will decline in favor of gas, nuclear energy, and renewables. Under IEA's baseline forecast, global oil demand will reach 104.9 mmb per day by 2040. The bulk of this growth will be attributable to Asia-Pacific, which will account for approximately 37% of global oil demand (39.2 mmb per day) in North America, oil demand will decline to 18.0 mmb per day in 2040, and in Europe, to 8.7 mmb per day, and these regions will provide 17% and 8% of global oil demand in 2040, respectively.
Global Energy Consumption by Fuel Type in 2040, IEA’s baseline scenario, %

27.5% Oil
24.8% Gas
22.3% Coal
5.7% Nuclear
3.0% Hydro
10.3% Biomass (biomass)
6.5% Other renewables

Global Energy Consumption by Fuel Type in 2016, %
Source: IEA’s forecast of November 2016.

31.9% Oil
21.9% Gas
27.5% Coal
4.9% Nuclear
2.5% Hydro
9.8% Biomass (biomass)
1.7% Other renewables

Russian Oil Industry

Oil and gas condensate production in Russia amounted to 548.8 mmt in 2017, down by 0.1% year-on-year. The decline results from Russia’s participation in an agreement with OPEC countries and other oil producers to cut production in 2017 and 2018.

The Northwestern Federal District was the main contributor to the reduction (down 5.1% year-on-year to 320.0 mmt – 5.9% of Russia’s total production), including the 7.2% year-on-year production decrease to 14.0 mmt in the Komi Republic (2.8% of Russia’s total production), and by 3.2% year-on-year to 17.3 mmt in the Nenets Autonomous Area (3.2%). Production in the Ural Federal District declined by 0.4% year-on-year to 302.8 mmt (55.4% of Russia’s total production), including a 1.6% year-on-year decline to 235.2 mmt in the Khanty-Mansi Autonomous Area (43%)

By 2040, global gas demand will reach 5.30 bcm, with gas consumption expected to grow across the board. The share of gas in global energy consumption will grow from 21.9% in 2016 to 24.8% in 2040, whereas coal will decline from 27.3% in 2016 to 22.3% in 2040.

In 2017, Russian oil and gas condensate refining volumes decreased by 0.8% year-on-year to 380 mmt, while oil exports increased by 1.1% year-on-year to 257 mmt, causing the export share in total oil and gas condensate production to rise to 47%, reaching its highest level since 2011.

Oil and gas condensate exports to countries outside the CIS increased by 1.2% year-on-year to 238.9 mmt, causing an overall rise in exports. Almost 66% (approximately 157.2 mmt) of export volumes outside the CIS were transported by sea, including 18.4% via Primorsky and 13.3% via the Kozmino oil port. Meanwhile, oil and gas condensate exports to CIS countries decreased by 0.4% year-on-year to 18.1 mmt in 2017.

The “big tax maneuver” in the Russian oil industry resulted in a 3.8% increase in oil production in 2017 compared with 2014.

Exports grew by 16.0%, while oil refining volumes decreased by 3.1%.
Russian Gas Industry

In 2017, natural and associated gas production in Russia increased by 7.9% year-on-year, reaching 691.1 bcm. Rosneft produced 67.6 bcm of gas, constituting approximately 10% of the country’s total production.

Gas produced in Russia is both sold on the domestic market, and exported.

Rosneft supplies gas to industrial consumers, as well as to households and municipal utilities. Rosneft’s selling prices of gas are based on agreements with customers, and are not regulated by the Government. The wholesale prices of gas produced by Gazprom and its affiliates and sold to domestic consumers are used as a benchmark. The prices are fixed by orders of the Federal Anti-Monopoly Service of the Russian Federation ("regulated gas prices").

Regulated gas prices differ by region, generally depending on the distance from the gas production hub in the Yamalo-Nenets Autonomous District.

Actual Growth in Regulated Gas Prices in Russia, %

Indexation of Regulated Prices (Tariffs) for Infrastructure Sector Products (Services) in 2018–2020, %

Current wholesale prices of gas produced by Gazprom and its affiliates, for all categories of Russian consumers (excluding households) were set by Order No. 776/17 of the Federal Anti-Monopoly Service dated 13 June 2017, and the wholesale gas prices for households were set by Order No. 1870/16 of the Federal Anti-Monopoly Service dated 26 December 2016. Pursuant to the above Orders, regulated gas prices for household consumers were indexed by 3.9% as of 1 July 2017.
Independent gas producers use the Gazprom-owned Unified Gas Supply System for gas supplies to consumers, and transportation charges are set by the FAS Russia (previously by the FTS). Gas transportation service prices are based on a tariff consisting of two fees, one for the use of gas pipelines and the other for gas pumping. The pipeline usage fee depends on the distance between the "inlet" and the "outlet" points, while the pumping fee depends on Gazprom’s handling and transportation costs.

Current tariffs were approved by Order No. 216e/1 of the FTS dated 8 June 2015, and were not revised in 2016 or 2017.

Gazprom also offers underground gas storage (UGS) services to independent gas producers, and 25 underground gas storage facilities are currently located in the main gas consumption regions. Fees for UGS usage are not regulated and are set by Gazprom on a case-by-case basis for each UGS facility. Rosneft uses UGS facilities to offset seasonal and other fluctuations in gas consumption by end-users.

In recent years, the domestic gas market has been characterized by increased competition for consumers and a gradually expanding share of independent producers in the total volume of domestic gas sales.

The St. Petersburg International Mercantile Exchange was launched on 24 October 2014 pursuant to the order of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Safety. In 2017, it continued to develop organized trade in natural gas, amounting to 20 bcm in trade volume. Since its launch, the Exchange has organized the sale of close to 45 bcm of gas.

Overview of Key Taxation Changes in the Russian Federation With the Largest Impact on the Company’s Financial and Business Operations

"BIG TAX MANEUVER"

Another phase of the “big tax maneuver” initiative was completed in 2017. From 1 January 2017 the base rate of the mineral extraction tax (MET) on oil was raised from RUB 857 per tonne to RUB 919 per tonne. The K coefficient in the formula for calculating the total export duty rate for 2017 was set at 30% (42% in 2016) if the average Urals crude oil price (Coil) on global markets exceeds USD 182.5 per tonne. The Rate (total) = K * (Coil – 182.5) + 29.2.

At the same time, pursuant to Federal Law No. 401-FZ dated 30 November 2016 (as amended by Federal Law No. 254-FZ dated 29 July 2017), an additional component (Kk) will be included in the MET rate for oil for the period from 2017 through to 2020. The additional component amounted to RUB 306 per tonne in 2017.

INCREASE IN THE RATES OF EXCISE ON PETROLEUM PRODUCTS

The Rates of Excise on Individual Petroleum Products were Raised in 2017, RUB per tonne

<table>
<thead>
<tr>
<th>Types of Excisable Goods</th>
<th>Previous Target Excise Rates for 2017</th>
<th>Actual Excise Rates in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Federal Law No. 34-FZ dated 29 February 2016)</td>
<td>(Federal Law No. 401-FZ dated 30 November 2016)</td>
</tr>
<tr>
<td>Motor gasoline</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-compliant with Euro 5</td>
<td>12,300</td>
<td>13,100</td>
</tr>
<tr>
<td>Euro 5 compliant</td>
<td>7,430</td>
<td>10,130</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>5,093</td>
<td>6,800</td>
</tr>
<tr>
<td>Motor oil</td>
<td>5,400</td>
<td>5,400</td>
</tr>
<tr>
<td>Straight-run gasoline</td>
<td>12,300</td>
<td>13,100</td>
</tr>
<tr>
<td>Benzene, paraxylene, orthoxylene</td>
<td>2,800</td>
<td>2,800</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>2,800</td>
<td>2,800</td>
</tr>
<tr>
<td>Middle distillates</td>
<td>5,093</td>
<td>7,800</td>
</tr>
</tbody>
</table>

*FTS – Federal Tariff Service of Russia was re-established by Presidential Decree No. 373 dated 21 July 2015, with the FAS Russia appointed as its successor.*
CHANGES TO THE INCOME TAX CALCULATION AND PAYMENT PROCEDURE

Pursuant to Federal Law No. 401-FZ dated 30 November 2016, special rules were introduced in 2017 concerning loss recognition for the purpose of the corporate income tax. From 2017 to 2020, taxpayers may reduce the tax base in the current reporting (tax) period by excluding prior-period losses in the amount of up to 50% of the tax base in the current tax period, with no limit on the amount of losses excluded after 2020.

As of 2017, the procedure for calculating the tax base of consolidated taxpayer groups was changed and a limit was introduced on reducing the profit generated by some members of consolidated taxpayer groups during the given reporting (tax) period by the amount of losses incurred by other members of the consolidated taxpayer group (up to 50% of the profit generated by profitable members of the consolidated group of taxpayers).

The previous limit of 10 years on carrying loss forward was additionally lifted from all taxpayer categories, including the consolidated group of taxpayers.

Pursuant to Federal Law No. 401-FZ dated 30 November 2016 during the period from 2017 through to 2020, part of the income tax payments toward the regional budget amounting to 1% percentage point of the tax rate will be redistributed to the federal budget (now 3% in place of the previous 2%), thereby reducing payments to the regional budget.

FURTHER CHANGES IN TAX LEGISLATION

As of 1 January 2018, the companies producing oil from license areas located completely within the boundaries of the Nizhnevartovsk District of the Khanty-Mansi Autonomous Area – Yugra with initial recoverable reserves of 450 mmt or more each as at 1 January 2016, will be eligible for a MET deduction in the amount of RUB 2,917 bln for the tax period (calendar month) until 31 December 2027 inclusive. License areas in the Samotlor field with subsoil use rights owned by the Company meet these criteria.

As of 2018, a new taxation procedure will apply to the property tax on movable property and energy-efficient property, whereby regional authorities of the Russian Federation will be authorized to exempt these categories of property from taxation. A transition period is provided for movable property, and in 2018 the tax rate for the movable property taxation will not exceed 1.1%.

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1.7. COMPETITIVE ANALYSIS

Hydrocarbon Exploration and Production

Rosneft is the largest oil and gas company in Russia, and among public oil and gas companies. It is the world’s largest holder of hydrocarbon reserves and producer of hydrocarbon liquids maintaining a steady growth of economically recoverable hydrocarbon reserves. This is achieved through consistent efforts to increase production from brown fields and launch new fields and prospects, as well as through successful implementation of the exploration program. Rosneft places a special focus on exploration and steady reserves growth at existing license areas, including new regions and the Arctic shelf, as well as resource base integration and expansion across new assets and license areas. According to the audit performed by DeGolyer & MacNaughton under the SEC (U.S. Securities and Exchange Commission) life-of-field classification, Rosneft’s proved hydrocarbon reserves totaled 39,907 mmboe (5,395 mmtoe) as of 31 December 2017. Hydrocarbon reserves grew by 2,135 mmboe (284 mmtoe), or 5%, year-on-year, Rosneft’s organic SEC-proved reserve replacement ratio stood at 184% \(^1\) and its SEC-proved reserve life amounted to 20 years. For several years, Rosneft has been a prominent leader among major public international oil companies in proved reserve life and proved reserve replacement ratio, as well as in exploration and development costs.

As at 31 December 2017, the Company’s reserves under the PRMS (Petroleum Resources Management System) classification comprised 46,520 mmboe (6,303 mmtoe) of 1P reserves, 83,858 mmboe (11,357 mmtoe) of 2P reserves, and 120,853 mmboe (16,386 mmtoe) of 3P reserves. 1P reserves grew by 1%, 2P reserves grew by 2%, and total 3P reserves grew by 4% in 2017.

Rosneft is the leader among major Russian and international public oil and gas companies in both volume and cost of organic reserve additions due to its traditionally high efficiency in exploration.

Reserve Replacement and Upstream Costs\(^2\)

\(^1\) Reserve replacement ratio is calculated in tonnes of oil equivalent. Rosneft’s reserve replacement ratio in barrels of oil equivalent was estimated at 185%.

\(^2\) Including affiliates. Rosneft and PetroChina – excluding affiliates. ExxonMobil and Petrobras are not shown in the chart as they demonstrated negative additions.
The Company’s share in the total oil production of Russia is 41%, and approximately 6% in global oil production.

For years, Rosneft has steadily maintained high levels of its reserve replacement ratio, and intends to replace at least 100% of its hydrocarbon production in 2018–2022 (reserve replacement cost in 2015–2017 was USD 0.2 per boe). The Company also plans to fast-track development of new reserves with shorter project preparation timelines, accelerate resource transfers to reserves based on viability, and improve exploration drilling success rates within the Russian Federation.

Given Russia’s commitment under the OPEC+ production cut deal, the Company’s average daily liquid hydrocarbons production grew 0.04% (on a pro-forma basis) in 2017 year-on-year (including Bashneft assets from the beginning of 2016). Consolidating production from new assets at the date of acquisition, Rosneft’s daily hydrocarbon production grew by 7.6% in 2017, ranking higher than most publicly traded oil and gas companies worldwide.

Long-term production growth is ensured by the Company’s optimal portfolio of new major upstream projects and the use of advanced production technologies at its existing fields. In 2017, Rosneft commissioned the Kondinskoye field (Khanty-Mansi Autonomous Area) and the Severo-Tyamkinsky, Kosunkhinskoye, the Severo-Tamanginskoye field of the Uvat group of fields (Tyumen Region), and the Kuzovatkinskoye field (Khanty-Mansi Autonomous Area). The Company also began comprehensive technological testing of the Yurusvchenskoye-Tokhomskoye field in the Krasnoyarsk Territory. While developing these fields, the Company utilizes new drilling technologies (including horizontal well drilling) that have proved to be efficient at the Company’s existing fields, enabling development of significant oil and gas reserves, including hard-to-recover reserves. In the medium term, the Company’s higher production volumes through organic growth will be ensured by enhancing production from mature fields and developing new high-potential oil and gas projects, including the Vankor cluster, the Erginsky cluster, the Russkoye, Kharampur and North Komsomolskoye fields, Rospan, and the Kynsko-Chaselskoye group of fields.

Against the backdrop of the increasing global production and use of gas as the cleanest fossil fuel, Rosneft continues to expand upon its gas production, keeping its share in total hydrocarbon production volumes at 20% following integration of new, mostly oil, assets. The Company was a leader among independent Russian gas producers in terms of daily average gas production in 2017.

### Gas Production in Russia, bcm per day

<table>
<thead>
<tr>
<th>Company</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rosneft</td>
<td>186.3</td>
<td>173.2</td>
<td></td>
</tr>
<tr>
<td>NOVATEK</td>
<td>91.5</td>
<td>58.0</td>
<td></td>
</tr>
<tr>
<td>Gazpromneft</td>
<td></td>
<td>27.3</td>
<td>26.0</td>
</tr>
<tr>
<td>Surgutnefteg</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tatneft</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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1. Rosneft’s data for 2015 and 2016 is shown in the pro-forma including Bashneft, since 1 January 2015.
2. Including affiliates. Data for PetroChina does not include affiliate.
3. Gas production including gas used for LH production.
While expanding its resource base and ensuring a stable gas production growth within the Russian Federation, the Company puts a strong focus on developing its gas business, improving production technologies, building the gas value chain, and implementing natural gas monetization strategies effectively, including LNG production projects, the program on NGV fuel market development in the Russian Federation, building a portfolio of long-term contracts for gas supplies to the domestic market, and capturing gas export opportunities.

Development of the Zohr field, one of the largest gas assets, in partnership with world majors and Rosneft’s strategic partners, Eni (60%) and BP (10%), will expand the Company’s expertise in joint development of offshore gas fields and sharpen its competitive edge in new, major international exploration and production projects. Through participating in the development of this unique production asset, Rosneft will rapidly increase its gas production abroad and enter the Egyptian gas market, thereby providing opportunities for the Company to further expand its presence in the country and region.

**Downstream (Refining and Commerce)**

Rosneft is the largest oil and gas refining company in the Russian Federation. In recent years, the Company’s oil refining operations have been focused on meeting the market demand for high-quality petroleum products. Rosneft has been consistently implementing a refinery upgrade program for several years, including renovation of the Komsomol’sk Refinery, upgrade of the Tuapse Refinery, and renovation and upgrades of the Achinsk Refinery, Angarsk Petrochemical Company, and Samara group refineries, thereby increasing the quality and competitiveness of Rosneft products. Rosneft’s refinery upgrade program is the most ambitious of its kind in the Russian oil industry; one of its aims is to fulfill the Company’s obligations under a quadripartite agreement.

Within the program, the Company fully transitioned its motor fuels production for the Russian domestic market in 2015 to Euro 5 compliant motor fuels, as required by the Technical Regulations of the Russian Federation. In 2016, the Company constructed and commissioned catalytic cracking and MTBE production facilities at the Kuibyshev Refinery, a catalyst regeneration unit was put into operation at the Novokuibyshevsk Catalyzers Plant, and a rapid cycle pressure swing adsorption (RCPSA) unit was launched at the Syzran Refinery. In 2017, the bitumen production unit at the Ryazan Refinery was fitted with a new oxidation feedstock preparation component, and the production of bitumens with improved consumer properties was launched. The Angarsk Refinery installed core large-capacity process equipment for the ongoing construction of its diesel fuel hydrotreater. As part of its import substitution program, the Company transitioned the Achinsk Refinery’s kerosene hydrotreaters and the Ryazan Oil Refining Company’s catalytic reformers to catalysts produced by the Angarsk Catalyzers and Organic Synthesis Plant in 2016, and the gasoline reforming units of the Kuibyshev and Saratov Refineries were transitioned in 2017.

Rosneft is an active player in the oil and petroleum products market in Russia and abroad. Rosneft is the largest oil exporter in the Russian Federation; its crude oil is exported to European, Asia-Pacific, and CIS countries, sold in the international market, and supplied for refining to the Company’s own refineries in Russia and abroad.

Amid growing competition in the oil market, the Company pays close attention to boosting its export volumes under long-term contracts, including oil supplies under contracts with CNPC and supplies to Europe under direct contracts. Developing cooperation with key partners in oil supply is essential to enhancing the Company’s competitive advantage in the international oil market. In Q4 2016, contracts were signed to supply a total 10.2 mmt of oil to Belarus and 7.3 mmt to Germany in 2017.

Furthermore, an additional agreement was signed to increase oil supplies to China via Kazakhstan by 3 mmt per year to 10 mmt, and the contract was extended to 2019–2023, resulting in up to 56 mmt of oil to be additionally supplied via this route by 2023. The Company is consolidating its competitive position in the European market through refining of oil at European refineries. As of 1 January 2017, following the restructuring of the ROG joint

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1 Rosneft’s financial statements.

2 Rosneft data for 2015 and 2016 is shown in the pro-forma including Bashneft, since 1 January 2015.
venture with BP Plc, Rosneft’s indirect interest increased to a 25% stake in the Bayernoil Refinery from 12.5%; a 24% stake in the MRD Refinery from 12%; and a 54.17% stake in the PCK Refinery (Schwedt) from 35.42%. The Gelsenkirchen Refinery is now fully controlled by BP Plc.

Rosneft is consistently implementing plans for diversification in the Asia-Pacific markets. Rosneft successfully closed a strategic deal to acquire a 49% in Essar Oil Limited in August 2017. The acquisition of a stake in a best-in-class asset with significant development potential enabled the Company to enter the Indian oil refining market, one of the world’s fastest growing markets. Rosneft has already begun supplying oil from its contract portfolio to the Vadinar Refinery. The Company’s entry into the new growth markets in Asia-Pacific will considerably strengthen its position in the Turkish market, and will be able to supply an additional 11.3% of imported diesel fuel, making up about 6% of all diesel fuel consumed in the country. Furthermore, Rosneft and BA Gas Energy Sanayi ve Ticaret A.S. entered into a cooperative agreement to arrange the supply of up to 6 mmt of petroleum products per year, including those produced by Rosneft, to end consumers in Turkey.

The Company’s main competitors in domestic sales of petroleum products are Russian vertically integrated companies such as LUKOIL, Surgutneftegas, and Gazprom Neft. The Company’s competitive advantage is its ability to maintain stable relations with foreign partners, and in particular, expand and renew oil product supply contracts. In Q4 2016, Rosneft signed a new contract with JX Nippon Oil & Energy Corporation for the delivery of up to 1.1 mmt of stable natural gasoline during 2017. To promote existing partnership relations between Petrocos Energy (Rosneft Group Subsidiary) and Motor Oil Hellas (Greece), in Q4 2017, Rosneft, Petrocos Energy, and Motor Oil Hellas Corinth Refineries signed a trilateral agreement of intent for crude oil and petroleum products supply in the next five years, which includes the option to increase supply volumes by 7.5 mmt per year.

Expanding the geographical distribution of its petroleum products is a crucial priority for the Company. In Q1 2017, Rosneft and Turkish Demiroren Group Companies signed an agreement on petroleum products supply in 2018–2020. The agreement determines the intention of the parties to sign an additional contract for the supply of up to 4.6 mmt of petroleum products by 2020, including 3.8 mmt of diesel fuel with a low sulfur content of 10 ppm as well as 1.0 mmt of liquified petroleum gas. Following the contract’s signing, Rosneft will considerably strengthen its position in the Turkish market, and will be able to supply an additional 11.3% of imported diesel fuel, making up about 6% of all diesel fuel consumed in the country. Furthermore, Rosneft and BA Gas Energy Sanayi ve Ticaret A.S. entered into a cooperative agreement to arrange the supply of up to 6 mmt of petroleum products per year, including those produced by Rosneft, to end consumers in Turkey.

As with oil, the Company’s petroleum products are exported to European, Asia Pacific, and CIS countries. The Company’s competitive advantage is its ability to maintain stable relations with foreign partners, and in particular, expand and renew oil product supply contracts. In Q4 2016, Rosneft signed a new contract with JX Nippon Oil & Energy Corporation for the delivery of up to 1.1 mmt of stable natural gasoline during 2017. To promote existing partnership relations between Petrocos Energy (Rosneft Group Subsidiary) and Motor Oil Hellas (Greece), in Q4 2017, Rosneft, Petrocos Energy, and Motor Oil Hellas Corinth Refineries signed a trilateral agreement of intent for crude oil and petroleum products supply in the next five years, which includes the option to increase supply volumes by 7.5 mmt per year.

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Operational and Financial Performance

High cost efficiency and smart allocation of upstream capex in 2017 helped the Company maintain well-balanced production levels both by launching new projects and enhancing production at mature fields with the lowest unit upstream capex in the industry among public oil and gas companies.

Unit Upstream CAPEX, USD per boe

In 2017, Rosneft retained its leading position in the oil industry among public oil and gas companies in terms of unit lifting costs while integrating new assets with high hydrocarbon lifting costs.

Unit Lifting Costs, USD per boe

While most of its competitors demonstrate highly volatile performance going into negative territory in periods following investment project launches and sale or acquisition of assets, Rosneft has been consistently generating a positive free cash flow (FCF) for many years. Amid the ongoing integration of new assets and capital expenses growing considerably from the construction and launch of new projects in 2017, Rosneft managed to overcome negative effects from changes in the working capital by Q4 2017, maintaining a positive cash flow for the full year.

2015–2017 FCF: Benchmarking to Majors, USD per boe

*Per boe of produced hydrocarbons, including affiliates.*
02
STRATEGY
OF THE COMPANY
2.1. NEW ROSNEFT-2022 STRATEGY

**1. INCREASE PROFITABILITY AND IMPROVE EXISTING ASSET PERFORMANCE**

Quantum changes in the Company’s business by:
- accelerating the technological breakthrough
- adopting new forms of management and business organization
- increasing margin across the value chain
- consistently focusing on cutting costs.

**2. COMPLETE KEY PROJECTS ON TIME AND ON BUDGET, ACHIEVE TARGET SYNERGIES**

**3. TRANSFORM CULTURE AND TECHNOLOGICAL CAPABILITY TO FURTHER STRENGTHEN ROSNEFT’S COMPETITIVE POSITION**

**NEW PERSPECTIVE**

- **BECOME A TOP 25% GLOBAL OIL AND GAS COMPANY IN HEALTH, SAFETY, AND ENVIRONMENT**
  - Ensure organic growth in liquid hydrocarbons production
  - Strong operational efficiency – the lowest lifting costs per barrel among peers.
  - Achieve gas production of over 100 BCM
  - Develop petrochemical and gas chemical businesses

- **ROSNEFT 2022**
  - Enhance expertise and technological competence in oilfield service business
  - Strengthen the on time / on budget investment and project management process
  - Accelerate the technological breakthrough and digitize the entire business

**Strategic Initiatives**

- Increase profitability and improve existing asset performance
- Complete key projects on time and on budget, achieve target synergies
- Transform culture and technological capability to further strengthen Rosneft’s competitive position
- New perspective quantum changes in the company’s business by:
  - Accelerating the technological breakthrough
  - Adopting new forms of management and business organization
  - Increasing margin across the value chain
  - Consistently focusing on cutting costs.
### Upstream

**STRATEGIC OBJECTIVES AND PRIORITIES**

**100% LIQUID HYDROCARBONS RESERVE REPLACEMENT RATIO AND ORGANIC GROWTH**
- Increase the success rate of exploration drilling onshore Russia
- Fast-track the development of new reserves based on viability
- Optimize Russian onshore field development (increase the share of new horizontal wells)
- Commission large-scale projects on time and on budget
- Reduce declines in base production

**MORE EFFICIENT SERVICE**
- Decrease non-productive time
- Reduce well drilling time by 10%
- Increase the rig utilization rate (by 20%–30%)
- Optimize capex (by 10% for similar well construction, by 10% for linear objects)
- Optimize opex (by 2%–3% per year on a comparable basis)
- Engage in partnerships for capital intensive and high risk projects

**TECHNOLOGY AND DIGITALIZATION**
- Digital field, remote drilling and production control centers, IIoT, Big Data
- Enhanced in-house technology capabilities, cable-free seismic systems, advanced MSHF techniques, establishment of a tech park to test technologies

**ACHIEVEMENTS**
- Exploration drilling success rate reached 86%, with a 404 mmt increase in reserves driven by exploration.
- Production drilling increased by 29.5% year-on-year.
- Share of commissioned horizontal wells increased to 38%, while the number of new horizontal wells drilled using multi-stage hydraulic fracturing grew by 67%.
- Share of in-house drilling crews within the Company’s total drilling footage was at 80%.
- Comprehensive technological testing of oil treatment and transportation facilities started at the Yurubcheno-Tokhomskoye field.
- Start-up complex commissioned at the Erginsky cluster (including the Kondinskoye field) in Q4 2017.

**LONG-TERM GOALS**

- **Total LH Production**, mmt
  - 2017: 225
  - 2022: 250
  - +30 MMT year-on-year
  - >2% annual production growth

- **Production from Hard-to-Recover Reserves**, mmt
  - 2017: 16.3
  - 2022: 33
  - x2 hard-to-recover reserves production growth

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### Gas

**STRATEGIC OBJECTIVES AND PRIORITIES**

**COMMISSIONING PROJECTS ON TIME AND ON BUDGET**
- Produce over 100 bcm
- Develop major gas production projects including Rospan and Kharapam

**IMPROVING THE COST EFFICIENCY OF GAS SALES IN RUSSIA**
- Create a favorable regulatory environment such as equal access to infrastructure and consumers

**INCREASING TECHNOLOGICAL EDGE**
- Develop Turonian deposits
- Increase APG utilization including through the development of captive power generation and petrochemicals

**IN THE FUTURE**
- Monetize gas reserves within Eastern Siberia and the Far East, including through gas-to-chemicals development
- Develop LPG and NGL production

**LONG-TERM GOALS**

- **Gas Production**, bcm
  - 2017: 68
  - 2022: >100
  - >x3 gas EBITDA growth

**ACHIEVEMENTS**
- Gas production grew by 2.0% year-on-year, making Rosneft the leader among independent Russian gas producers by daily production.
- Recoverable A/B + C2+C3 gas reserves rose by 4% year-on-year, reaching 7.9 tcm.
- Rosneft began gas production as an international consortium member as part of developing the Zohr field offshore Egypt.
Oil Refining and Petrochemicals

STRATEGIC OBJECTIVES AND PRIORITIES

Complete ongoing refinery development projects in Russia to substantially increase profitability.

Debottleneck to unlock potential.

Improve performance and optimize opex.

Construct modern complexes for converting fuel oil into light products in Russia.

Expand on the fast-growing Asian markets (including new construction projects for refining and petrochemical complexes).

Construct major petrochemical greenfield projects in three clusters in Russia (subject to project financing availability).

Complete ongoing refinery development projects in Russia to substantially increase profitability.

Debottleneck to unlock potential.

Improve performance and optimize opex.

Construct modern complexes for converting fuel oil into light products in Russia.

Expand on the fast-growing Asian markets (including new construction projects for refining and petrochemical complexes).

Construct major petrochemical greenfield projects in three clusters in Russia (subject to project financing availability).

Digital Plant

Automation, including use of robots.

Global asset performance management system to extend functional operation times between refinery facility repairs.

Improved accounting systems to reduce losses and fuel consumption for own operational needs.

x2–3

EBITDA growth

+55%

Motor fuels production growth

1 Motor fuels compliant with the Technical Regulations are Euro 5 motor gasoline and diesel fuel, and jet fuel.

ACHIEVEMENTS

Output of motor gasolines and Euro 5 compliant diesel fuels increased by 23% to 38.3 mmt.

Segment investment portfolio ranked to prioritize and fast-track the most efficient projects.

Operational performance improvement program implemented.

Import substitution enhanced, new products developed and launched.

Commerce, Logistics, and Retail

STRATEGIC OBJECTIVES AND PRIORITIES

Improve the cost efficiency of sales and increase access to end consumers (domestic/ export sales).

Expand and diversify sales channels (jet fuel, marine fuel, and lubricants).

Adjust the product mix to market trends by marketing new products (bitumen, marine fuels).

Promote strong brands and high service standards at filling stations.

Expand non-fuel business [introduce new categories of goods and open new cafes].

Adjust the product mix to market trends by marketing new products (bitumen, marine fuels).

Develop the customer service package at filling stations (loyalty program and branded fuel).

Expand small-scale wholesale through differentiated sales channels.

Digitization of supply chain programs

Automation, including use of robots.

Start Digital Filling Station and Digital Supply Chain programs.

Adopt a holding management structure, launch a pilot in retail business.

Automation, including use of robots.

Start Digital Filling Station and Digital Supply Chain programs.

Existing logistics channels optimized, including the expansion of existing petroleum product shipment channels in the Far East (the Vanino and Ust-Luga ports).

Growing Share of Related Goods and Services in Gross Margin of Retail Business, %

x1.5–2
growth by 2022

2017
2022
2018
2022

9
16
20

Oil supplies to Eastern countries grew by 10.7% in 2017.

New effective logistics channels established to support petroleum product sales (by river from Bashneft’s refineries).

Existing logistics channels optimized, including the expansion of existing petroleum product shipment channels in the Far East (the Vanino and Ust-Luga ports).

Oil supplies to Eastern countries grew by 10.7% in 2017.

New effective logistics channels established to support petroleum product sales (by river from Bashneft’s refineries).
Industrial Safety and Environmental Protection

STRATEGIC OBJECTIVES AND PRIORITIES

Become a global leader which provides safe operation, protects the health and safety of its employees and the local residents in regions of its operation, and minimizes its environmental footprint.

Achieve leadership and constantly improve injury, integrity, environmental protection, reporting transparency, and road traffic accident KPIs.

The Long-Term Development Program to 2030 was originally established in 2014 pursuant to Instruction No. Pr-3086 of the President of the Russian Federation Vladimir Putin dated 27 December 2013 and approved by the Board of Directors of Rosneft on 9 December 2014 (Minutes No. 12).

The Program is designed to drive strategic objectives for key businesses detailed in the Strategy and in the Long-Term Development Program (Section 2.5 The Investment Program in 2017).

The Company has completed the 2017 action plan under the Long-Term Development Program for its key businesses and functions. The 2017 progress under the Long-Term Development Program is described in Section 4. Operating Results.

The Long-Term Development Program provides a reserve replacement ratio of at least 100%, effective brownfield operations, production growth through launching new projects in Eastern Russia, development of hard-to-recover reserves, robust offshore development, gas production growth on the back of a high-performing long-term sales portfolio, and higher margins across the entire value chain.

Key priorities, KPIs, and actions taken under the current Innovative Development Program (Section 3.8 Research, Design, and Innovation), the Import Substitution and Equipment Localization Program (Section 3.6 Localization and Industrial Cluster Development), and the Energy Saving Program (Section 3.5 Energy Saving and Efficiency) have been developed to incorporate the provisions of Rosneft’s Long-Term Development Program and are fully integrated within the current version of the Innovative Development Program.

The list of KPIs also includes an integrated KPI for innovations. Rosneft’s Investment Program is designed to drive strategic objectives for key businesses detailed in the Strategy and in the Long-Term Development Program (Section 2.6 The Investment Program in 2017).

The Company’s independent auditor, Ernst & Young LLC, audited Rosneft’s progress against its Long-Term Development Program. Following the independent audit, the auditor issued an opinion on whether the Long-Term Development Program Progress Report fairly presents the Company’s progress thereunder for 2017, and on the fairness of reasons given therein for deviations of actual results from the Company’s performance targets for 2017.

The auditor’s opinion was received on 25 April 2018.

The Company’s Program efforts are guided by cost-effectiveness and KPI targets for all key initiatives.

Rosneft puts a strong focus on securing occupational health and safety of its employees.
2.3. BUSINESS MODEL

- First-class assets
- Low reserve replacement costs
- Long-term resource potential based on new major projects, exploration projects, hard-to-recover reserves, offshore, and international projects
- Leadership in operating performance and resilience to changes in the environment
- Higher competitive edge through development and application of advanced technology, advancing oilfield services, establishing strategic partnerships
- Steady gas production growth driven by the portfolio of long-term contracts
- Adding value through vertical integration
- Geographically diversified portfolio
- Extensive upgrade program
- Abundant feedstock for petrochemicals
- Continuous improvement of existing assets performance
- Strong service standards at filling stations
- Wide geography

### Reserve Replacement with Liquid Hydrocarbons, %

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>140</td>
<td>184</td>
</tr>
</tbody>
</table>

### LH Production, mmt

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>210.3</td>
<td>225.5</td>
</tr>
</tbody>
</table>

### Gas Production, bcm

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.7</td>
<td>62.4</td>
</tr>
</tbody>
</table>

### Production of Motor Fuels Complying with the Technical Regulations, mmt

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>34.2</td>
<td>41.6</td>
</tr>
</tbody>
</table>

### Retail Sales of Petroleum Products in Russia, mmt

<table>
<thead>
<tr>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.9</td>
<td>11.7</td>
</tr>
</tbody>
</table>

---

1. Production at subsidiaries and proportionally consolidated companies.
2. Gas purchases from associates and third parties.
3. Oil and gas SEC reserve growth in metric units. 2016 pro-forma data.
4. Excluding intra-group supplies.
5. Including production of associates and joint ventures.
6. Technical/Regulations compliant motor fuels are Euro 5 motor gasoline and diesel fuel, and jet fuel.
The Company has been delivering strong performance by using its KPI-based employee incentive system. The principles and procedure regarding annual bonus payments are identical for all manager categories in the Company’s Administration and Group Subsidiaries; they are formalized in the Regulations on Annual Bonus Payments (approved by the Board of Directors on 28 December 2011, Minutes No. 9) and the Regulations on the Company’s KPI System (approved by the Board of Directors on 9 December 2014, Minutes No. 12). The Company’s KPI system is aimed primarily at segmenting the Company’s Development Strategy and its Long-Term Development Program into specific KPIs and cascading them to all management levels of the Company, evaluating progress against target, and creating incentives for efficient management decision-making.

The Company’s KPI System includes:
- Corporate KPIs which are identified based on key financial, economic, and industry-specific indicators of the Company’s consolidated business plan and business plans of its businesses
- Individual KPIs which are identified based on strategic goals set individually for each manager of the Company. KPI lists and targets for Rosneft’s senior managers are established by its Board of Directors following a preliminary discussion by relevant committees on an annual basis. 2017 KPIs for Rosneft’s senior managers were based on the business plan approved in December 2016, and were established by the Board of Directors on 15 March 2017, Minutes No. 23

The 2017 list of corporate KPIs and individual KPIs of Rosneft’s Chief Executive Officer includes:
- return on average capital employed (ROACE), total shareholder return (TSR), financial leverage (Net. Debt / EBITDA), cost reduction, and industry-specific KPIs (hydrocarbon production rate, reserve replacement, light product yield, an integrated KPI for innovations, etc.).

The Company’s KPI System ensures:
- focus on implementing the Company’s Strategy and meeting the targets set in the Company’s Long-Term Development Program
- focus on consistently improving the Company’s financial and operating (industry-specific) results
- compliance with directives and instructions of federal executive authorities, including annual cost-cutting targets
- well-balanced integrated indicators motivating employees to achieve the Company’s primary goals
- transparency, measurability, minimum levels, and consistency of KPIs
- top-down approach to cascading and breaking down KPIs.

The Company’s KPIs include: financial and economic, such as operating profit before depreciation and amortization (EBITDA), return on average capital employed (ROACE), total shareholder return (TSR), financial leverage (Net. Debt / EBITDA), cost reduction, and industry-specific KPIs (hydrocarbon production rate, reserve replacement, light product yield, an integrated KPI for innovations, etc.).
2.5. KEY OPERATING AND FINANCIAL RESULTS

Key Operating Results

<table>
<thead>
<tr>
<th>Metric</th>
<th>2017</th>
<th>2016</th>
<th>Change</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proved reserves of hydrocarbons under SEC standards (mmboe)</td>
<td>39,907</td>
<td>37,772</td>
<td>6%</td>
<td>34,465</td>
</tr>
<tr>
<td>Proved reserves of hydrocarbons under PRMS standards (mmboe)</td>
<td>46,520</td>
<td>46,075</td>
<td>1%</td>
<td>42,917</td>
</tr>
<tr>
<td>Proved marketable gas reserves under SEC standards (bcm)</td>
<td>1,949</td>
<td>1,714</td>
<td>14%</td>
<td>1,609</td>
</tr>
<tr>
<td>Proved marketable gas reserves under PRMS standards ( bcm)</td>
<td>2,309</td>
<td>2,273</td>
<td>2%</td>
<td>2,161</td>
</tr>
<tr>
<td>Hydrocarbon reserve life under PRMS standards (years)</td>
<td>23</td>
<td>24</td>
<td>23</td>
<td></td>
</tr>
<tr>
<td>LH production (mmt)</td>
<td>225.5</td>
<td>210.0</td>
<td>7%</td>
<td>202.8</td>
</tr>
<tr>
<td>Gas production (bcm)</td>
<td>68.4</td>
<td>67.1</td>
<td>2%</td>
<td>62.5</td>
</tr>
<tr>
<td>Oil sales abroad (mmt)</td>
<td>121.8</td>
<td>114.9</td>
<td>6%</td>
<td>109.1</td>
</tr>
<tr>
<td>Oil refining (mmt)</td>
<td>112.8</td>
<td>100.3</td>
<td>11%</td>
<td>95.4</td>
</tr>
<tr>
<td>Petroleum product and petrochemical output (mmt)</td>
<td>109.1</td>
<td>98.2</td>
<td>7%</td>
<td>95.4</td>
</tr>
<tr>
<td>Petroleum product sales abroad (mmt)</td>
<td>71.9</td>
<td>67.4</td>
<td>7%</td>
<td>65.8</td>
</tr>
<tr>
<td>Retail sales of petroleum products in Russia (mmt)</td>
<td>11.7</td>
<td>10.9</td>
<td>7%</td>
<td>10.9</td>
</tr>
</tbody>
</table>

Key Financial Results

<table>
<thead>
<tr>
<th>Metric</th>
<th>2017</th>
<th>2016</th>
<th>Change</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales revenue and income from associates and joint ventures (RUB bln)</td>
<td>6,014</td>
<td>4,988</td>
<td>21%</td>
<td>5,150</td>
</tr>
<tr>
<td>EBITDA (RUB bln)</td>
<td>1,403</td>
<td>1,278</td>
<td>10%</td>
<td>1,245</td>
</tr>
<tr>
<td>EBITDA margi</td>
<td>22.6%</td>
<td>25.0%</td>
<td>-2.4 p.p.</td>
<td>23.8%</td>
</tr>
<tr>
<td>Taxes (RUB bln)</td>
<td>2.6</td>
<td>2.0</td>
<td>30%</td>
<td>2.3</td>
</tr>
<tr>
<td>Net profit (RUB bln)</td>
<td>297</td>
<td>192</td>
<td>55%</td>
<td>356</td>
</tr>
<tr>
<td>Net profit margi</td>
<td>4.9%</td>
<td>3.8%</td>
<td>1.1 p.p.</td>
<td>6.9%</td>
</tr>
<tr>
<td>ROACE</td>
<td>11.6%</td>
<td>13.9%</td>
<td>-2.3 p.p.</td>
<td>13.4%</td>
</tr>
<tr>
<td>ROAE</td>
<td>5.6%</td>
<td>5.2%</td>
<td>0.4 p.p.</td>
<td>12.2%</td>
</tr>
<tr>
<td>CAPEX (RUB bln)</td>
<td>323</td>
<td>703</td>
<td>55%</td>
<td>349</td>
</tr>
<tr>
<td>Unit upstream CAPEX (USD/boe)</td>
<td>7.1</td>
<td>5.0</td>
<td>42%</td>
<td>4.3</td>
</tr>
<tr>
<td>Unit production OPEX (USD/boe)</td>
<td>3.2</td>
<td>2.5</td>
<td>28%</td>
<td>2.6</td>
</tr>
<tr>
<td>Free cash flow (RUB bln)</td>
<td>245</td>
<td>439</td>
<td>-44%</td>
<td>802</td>
</tr>
<tr>
<td>Dividend per share (RUB)</td>
<td>10.48</td>
<td>5.98</td>
<td>75%</td>
<td>11.75</td>
</tr>
<tr>
<td>Total accrued dividends (RUB bln)</td>
<td>111.1</td>
<td>63.4</td>
<td>75%</td>
<td>124.5</td>
</tr>
</tbody>
</table>

KPI Progress

To calculate annual bonus payments for managers and employees, the Company analyzes progress against KPIs following the annual performance analysis performed based on management accounts and audited public financial statements.

The Company’s Internal Audit Service conducts annual audit of performance against each annual corporate and individual KPI set for the purposes of calculating annual bonus payments due to the management of the Company and Group Subsidiaries. KPI progress audit results for top managers are discussed by relevant committees.

Top manager progress is discussed by the HR and Remuneration Committee of the Board of Directors. Annual bonus payments to management and their size for the reporting period depend on top managers’ progress against target KPIs and are approved by Rosneft’s Board of Directors.

Target KPIs are normalized to reflect the drivers beyond management’s control, such as FX rates and global market prices, in accordance with the Company’s Regulations on the Procedure for KPI Normalization as Related to Review and Assessment of the Company’s Management Performance in the Reporting Period for the Purposes of Annual Bonus Payments (approved by the Board of Directors on 6 April 2016, Minutes No. 27) and the Company’s Guidelines for KPI Normalization as Related to Business Plan Performance Analysis (approved by Order No. 218 of Rosneft dated 18 May 2016).

**Actual Progress Against KPI Targets**

<table>
<thead>
<tr>
<th>KPI</th>
<th>2017 Progress</th>
<th>2016 Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hydrocarbon production rate, mmt</td>
<td>Above target</td>
<td>Above target</td>
</tr>
<tr>
<td>EBITDA, RUB bln</td>
<td>1,403</td>
<td>1,278</td>
</tr>
<tr>
<td>ROACE, %</td>
<td>11.6</td>
<td>13.9</td>
</tr>
<tr>
<td>Net debt / EBITDA</td>
<td>2.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Ratio of Rosneft’s total shareholder return (TSR), equal to, or exceeding the Russian industry average, %</td>
<td>Not below the Russian industry average</td>
<td>11.2</td>
</tr>
</tbody>
</table>

Integrated KPI for innovations, %

<table>
<thead>
<tr>
<th>2017 Progress</th>
<th>2016 Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

1. In USD.
2. Based on the Company’s management reports.
3. Including fuel gas.
4. Calculated using the average monthly exchange rate of the Bank of Russia.
5. Including the dividend for 1H 2017 and the dividend recommended by the Board of Directors for approval at the General Shareholders’ Meeting in June 2018.
The Company’s liquid hydrocarbons production increased by 7.3% year-on-year in 2017. The growth was mainly due to the Bashneft assets acquired in Q4 2016, enhancing recovery at mature fields, active development of new projects, and Rosneft raising its stake in Petromonasas JV, Venezuela, in late 2017. Key drivers of organic growth were accelerated production and liquid hydrocarbons production growth at RN-Yuganskneftegaz driven by ramped-up production drilling using advanced well survey technologies, development of new projects – the Suanskoye, Yurubcheno-Tokhomskoye, and East Messoyakha fields, as well as enhanced production at a number of mature fields.

The Company is in full compliance with the overall oil output cuts agreed earlier by OPEC and non-OPEC major oil producers.

In 2017, production amounted to 68.41 bcm, up 2.0% year-on-year. The growth was driven by the Bashneft assets acquired in Q4 2016, new well start-ups by Vanyganneftegaz in 2017, and higher gas deliveries through the Tyumen compressor station following its renovation, as well as new well start-ups and optimization of the existing well operations at Sibneftegaz.

Organic growth of expenses was mainly due to increased costs of electricity, infrastructure facilities, and oilfield equipment maintenance services, with relevant increase in materials and transportation service costs.

In 2017, unit OPEX per tonne of refined oil at the Company’s Russian refineries was up 26.2% year-on-year due to growing tariffs of natural monopolies and salary indexation, as well as the acquisition of Bashneft’s assets, which were characterized by more complex technological refining processes such as the production of oils and aromatic hydrocarbons, therefore generating higher unit costs.

The considerable improvement in full-year EBITDA was achieved through the successful realization of synergies from new asset integration and involvement in international projects, as well as close control of current operating costs.

The growth in net profit was partly due to the recognition of an income of RUB 100 bln following the out-of-court settlement with Sistema. Under the out-of-court agreement reached by the parties to the dispute in late 2017, the defendants (PJSFC Sistema and JSC Sistema-Invest) undertook to indemnify Bashneft for RUB 100 bln of losses. The net impact on net profit for 2017 was RUB 80 bln, including RUB 48 bln attributable to the Company’s shareholders.

EBITDA increased 9.9% in RUB terms for full year 2017 to RUB 1,403 bln (USD 24.0 bln, up 24.4%). The considerable improvement in full-year EBITDA was achieved through the successful realization of synergies from new asset integration and involvement in international projects, as well as close control of current operating costs.
2.6. THE INVESTMENT PROGRAM IN 2017

Rosneft’s 2017+ investment program was approved as part of the Business Plan for 2017–2018 at the Board of Directors meeting held on 23 December 2016 (Minutes No. 17 dated 26 December 2016). Rosneft’s 2018+ investment program was approved as part of the Business Plan for 2018–2019 at the Board of Directors meeting held on 18 December 2017 (Minutes No. 8 dated 21 December 2017).

The Company’s investment program reflects the continuity of our strategic priorities, macroeconomic developments, and integration of our Russian and international acquisitions.

Key investment program goals:
- Achievement of the Company’s key strategic objectives, including the increase of hydrocarbon production while maintaining a balanced financial structure and optimal leverage
- Implementation of high value-added projects by ranking the Company’s investment portfolio by cost efficiency and taking into account the importance and quality-at-entry of each project
- Establishment of partnerships to share risk, provide joint financing, and share technology to maximize R&D efficiency

Projects are selected against eligibility criteria to ensure performance under the investment program:
- Conservative macroeconomic planning
- Projects ranked strictly by investment efficiency
- Quality-at-entry checked
- Available financing options

In 2017, Rosneft’s capex totaled RUB 922 bln. Approximately 80% of the capex amount was invested into projects developing segments in Upstream, including Gas Projects, and Downstream. In total, 87% of the Company’s capex in 2017 was attributable to Upstream (including Gas Projects).

In 2017, the Company’s capital investments grew 30% year-on-year. Rosneft is increasing its capex as scheduled by investing in the highest value-added segments, optimizing less efficient and lower-margin projects, and closely observing macroeconomic and fiscal developments.

The Company increased its investments in:
- developing new and large-scale long-term oil and gas production projects in Russia
- expanding its drilling program to maintain hydrocarbon output at a steady level
- integrating new assets (the Erginsky cluster).

Despite its extensive investment program in 2017, the Company remained an undisputed leader in terms of return on capital investments in Upstream (USD 7.1 per boe) compared to key Russian and international players with unit capex in the USD 8–20 per boe range.

Rosneft’s investment program is a balanced portfolio of efficient investment projects streamlined across all business segments.

### Unit Capex in Upstream, USD per boe

<table>
<thead>
<tr>
<th>Company</th>
<th>Unit Capex</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rosneft</td>
<td>7.1</td>
</tr>
<tr>
<td>Gazprom Neft</td>
<td>8.2</td>
</tr>
<tr>
<td>LUKOIL</td>
<td>9.5</td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>11.8</td>
</tr>
<tr>
<td>Petrobras</td>
<td>12.4</td>
</tr>
<tr>
<td>Shell</td>
<td>12.8</td>
</tr>
<tr>
<td>Chevron</td>
<td>13.9</td>
</tr>
<tr>
<td>Statoil</td>
<td>14.2</td>
</tr>
<tr>
<td>PetroChina</td>
<td>16.6</td>
</tr>
<tr>
<td>BP</td>
<td>17.4</td>
</tr>
</tbody>
</table>

**7.1 USD PER BOE**
Rosneft is a leader by return on capital investments in Upstream
**Mature Fields**

Mature fields are the main source of Rosneft’s current oil production, generating stable positive cash flow for the Company and contributing over 90% of its oil production. To maintain this share, the Company is investing in mature fields while continuously monitoring its investment efficiency.

During 2017, Rosneft invested approximately RUB 480 bln in mature upstream assets, over half of its annual capex.

In the medium term, the Company is planning to keep its capex at the current level of RUB 450–500 bln per year to maintain stable production by drilling new wells while continuing to make highly efficient investments in mature assets, which account for over 60% of upstream capex, including over 70% in development projects designed to maximize return on employed capital.

Rosneft’s Board of Directors approved (Minutes No. 8 dated 21 December 2017) the key parameters of its extended development program for the Samotlorskoye field, taking into account investment incentives for Samotlor in the form of annual MET reductions of RUB 35 bln over ten years.

**Greenfields**

The Company is implementing a number of major and new oil upstream projects currently in the active phase of development to increase and replace production at mature fields with cost-effective barrels and remain an industry leader by return on capital investments.

In 2017, the Company allocated approximately RUB 200 bln to large-scale and new projects, including over RUB 100 bln to projects in Eastern Siberia and the Far East, and close to RUB 55 bln in Western Siberia. Rosneft’s capital investments in major and new oil production projects grew by about 50% year-on-year.

Extensive development continues at the Suzunskoye and East Messoyakha fields following their commencement in Q3 2016, and comprehensive pilot operations of oil treatment and transportation facilities commenced at the Yurubcheno-Tokhomskoye field in Q3 2017.

In Autumn 2017, the Company launched start-up complex at Erginsky, a new large-scale oil and gas cluster in Western Siberia. The cluster was set up by integrating the infrastructures of the Erginsky license area, acquired at an auction in September 2017, and the previously consolidated Kondinskoye group of fields.

The Company also plans to commission the Russkoye, Tagulskskoye, Lodochnoye, Kuyumbinskoye, and Srednebotuobinskoye (phase two) fields in the near future.

**Projects Offshore Russia**

The Company implements offshore production and exploration projects in Russia to both replace and grow its resource base, with capex of over RUB 17 bln in 2017.

Development of the Sakhalin-1 project is continuing, including extensive development of the Odoptu and Chaivo fields. Production drilling was launched at the Odoptu field using Krechet, a unique onshore drilling rig. A well with a total length of 15 thousand meters was successfully drilled at the Chaivo field from the Orlan platform in the Sea of Okhotsk, surpassing the previous world record.

As the Company’s offshore exploration projects are being implemented in a sanctions environment, Rosneft commissions Russian and foreign subcontractors and partners who are able to provide their services under the circumstances.

Based on the drilling results from the Central Olginskaya-1 well, the first offshore appraisal well in the Eastern Arctic, Russia’s State Committee for Mineral Reserves confirmed the discovery of the Centralno-Olginskoye field in October 2017. The field lies within the Khvalynsky license area in the Laptev Sea and contains over 80 mmt of recoverable C1+C2 oil reserves.
Gas Projects

Capex for gas projects in 2017 was RUB 36 bln. The Company’s strategic objective is to bring production to exceed 100 bcm per year, supported primarily by the full scale development of the Novo- Urengovsky and Vostochno-Urengovsky license areas of Rospan International, the Kharampur project, production maintenance projects at existing fields and the Beregovoye field’s lower horizon development by Sibneftegaz.

In addition, Rosneft is involved in promising international projects. In October 2017, Rosneft closed a deal to acquire from ENI a 30% stake in the Zohr gas field concession, one of the largest in the Mediterranean, located offshore Egypt.

Oil Refining and Petrochemicals

Rosneft’s investment in Downstream entities totaled RUB 87 bln in 2017, including ~ RUB 56 bln of capex toward upgrading its Russian refineries.

The main areas of development in the medium term include continued refinery upgrades, highly efficient debottlenecking projects, improvements upon base oil and bitumen production, existing facility maintenance initiatives, and continued import substitution activities.

2017 highlights:
- One of the world’s largest biological wastewater treatment plants at the Bashneft-Ufaneftekhim Refinery was commissioned, an addition to the framework within the Year of the Environment 2017 action plan approved by Decree of the Government of the Russian Federation No. 1082r dated 2 June 2016
- The Yaroslavl Refinery launched production of high-purity Group III base oils to supply feedstock for the manufacture of advanced synthetic and semi-synthetic oils
- The Ryazan Refinery refitted the feedstock blending unit at its bitumen production unit and launched higher value-added bitumen production that complies with intergovernmental standards
- The Angarsk Petrochemical Company completed installing core large-capacity equipment for the diesel fuel hydrotreater currently under construction

In-House Service Development

In 2017, Rosneft invested over RUB 38 bln in the development of in-house oilfield services, as the Company continues to implement its strategy of promoting in-house oilfield services to improve upstream performance despite a challenging macroeconomic environment, while maintaining balanced internal and external supplies and robust competition in technological competence, prices, and quality of oilfield services. Among Russian companies, Rosneft’s drilling services are among the most advanced in the Russian market, with at least 60% of its drilling rigs in service for less than 10 years. The Company’s in-house services provide a testing and rollout platform for new, advanced technologies and best practices.

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Investment Process

A key objective in the Rosneft Strategy consists of building and improving investment management processes to increase value for both shareholders and the Company. Key investment process objectives:
- Consistent improvement of Rosneft’s performance and maximizing the return on employed capital across all areas of its business by thoroughly identifying its investment requirements, building upon the knowledge and expertise of Company personnel involved in investment management, and providing efficient management, monitoring, and follow-up of projects
- Robust business growth through attracting investments to the Company’s competitive and high value-added projects, increasing investment returns, consistently optimizing the project portfolio, and mitigating investment risks

Commerce and Logistics

Rosneft’s investments in commerce and logistics amounted to RUB 22 bln in 2017, with a strong focus on maintaining and upgrading retail assets, oil depot facilities, marine terminals, and refueling facilities to match its competition. In 2017, Rosneft also rebranded its filling stations in the Moscow, Tula, Kaluga, and Ryazan regions, continued its compressed liquefied gas (CLG) sales program, and launched the construction of five Aframax tankers at the Zvezda Shipyard to transport oil and petroleum products.
Delegating: Investment Bodies and Limits of Authority

<table>
<thead>
<tr>
<th>Limits of Authority</th>
<th>Investment Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 1,500 USD MLN</td>
<td>10% of total 1% of requests</td>
</tr>
<tr>
<td>500–1,500 USD MLN</td>
<td>7% of total 2% of requests</td>
</tr>
<tr>
<td>200–500 USD MLN</td>
<td>36% of total 4% of requests</td>
</tr>
<tr>
<td>0–200 USD MLN</td>
<td>47% of total 95% of requests</td>
</tr>
</tbody>
</table>

Rosneft’s investment management is guided by best global practices, its improvement, continuing throughout 2017 from a focus on higher investment maturity and maintaining a disciplined investment strategy.

- Business projects are approved through delegating the decision-making process within the authorized investment limits as per investment mandate following a regulated comprehensive due diligence.
- The investment process is integrated into related processes of business planning, budgeting, management reporting, financial control, project management, and corporate governance.

In preparing its investment program, the Company relies on a balanced and flexible portfolio of efficient investment projects that enables a rapid response to macroeconomic developments based on a comprehensive project ranking and rating framework while optimizing or realocating investments where necessary.

Rosneft implements a process for post-project monitoring of development projects and acquisitions of core assets to assess performance against projected economics and other project objectives established during the project planning and approval phase by Authorized Investment Bodies of the Company.

Each project’s performance forms the Company’s basis for identifying its lessons learned in preparation for future projects and developing best practices in project planning, assessment, and management, including designing initiatives aimed at asset development.

The Company consistently improves its processes and increases accountability to ensure that project delivery is on time, within budget, of appropriate quality, and meeting efficiency targets, while increasing focus on the financial performance of prospective projects, improving project management skills, and building a KPI framework for project managers.

In 2017, the Company introduced an automated multi-level solution designed to check for approved investment decisions, along with checking the business plan budget when making financial commitments, at more than 150 subsidiaries with a combined share of over 80% of the Company’s capex.

- Rosneft has developed a company-wide WBS-based capex classification with breakdowns by facility and investment project for subsequent registration of planned, forecasted, and actual data on project execution. A pilot was launched.
- Rosneft is actively improving its reporting formats and visualization to promote timely decision-making and transparent management reporting, primarily for its most ambitious and crucial projects.
- Regular training sessions are held for the Company’s employees to improve their investment management skills and discipline.

Project Portfolio Management

A strategic management system maximizing business benefits through the selection, optimization, and implementation of investment projects in line with Rosneft’s goals.
03
ENVIRONMENTAL CARE, OCCUPATIONAL SAFETY, AND SUSTAINABILITY DEVELOPMENT
3.1. HEALTH, SAFETY, AND ENVIRONMENT

Safety is a key priority across all Rosneft business segments. The Company pays close attention to matters of health, safety, and environment protection at the top management level and is committed to providing safe operation and workspaces, protects the health and safety of its employees and the local residents in regions of its operation as well as to mitigating its environmental impact.

Rosneft is the leader of the Russian oil and gas industry and a key global fuel and energy sector player having a major impact on the development of regions where it operates, including the social protection of its employees.

The Company is committed to protecting the health and safety of its employees, partners, and the local residents in regions of its operation, and makes every effort to prevent workplace accidents, emergencies, and fires where possible or mitigate their negative effects.

Rosneft’s high standards of industrial and fire safety, occupational safety and health, and environment protection are mandatory for all its employees and form part of its partner relations including contractors.

The Company’s key HSE principles:
- Sustainable use of natural resources in the Company’s operations, and efforts to protect, restore, and rehabilitate affected areas
- Reducing the negative environmental impact from the Company’s operations
- Efforts to conserve ecosystems and biodiversity, including during the implementation of offshore projects in environmentally sensitive locations

As part of the Rosneft 2022 Strategy, the Company updated its strategic targets for injury rates, environmental protection, integrity, road traffic accidents, and transparency of reporting by targeting the following HSE development priorities: occupational safety, safety culture, and environmental leadership, HSE risk assessment and production asset integrity, HSE management system, capabilities, reporting and performance assessment, monitoring compliance with the established HSE requirements.

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- Absolute priority of the lives, health, and safety of people over the Company’s performance
- Prioritizing preventative measures over measures to contain and respond to emergencies
- Sustainable use of natural resources in the Company’s operations, and efforts to protect, restore, and rehabilitate affected areas
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Key HSE initiatives in 2017:

1. Rosneft’s Health, Safety, and Environment Committee was established for decision-making on strategic HSE matters such as HSE risk management, and the development and implementation of HSE improvement plans, with the Company’s top business and functional managers appointed as members of the Committee.

2. To share experience and incorporate HSE best practices:
   - Rosneft’s employees visited BP’s production facilities in Rotterdam and Baku.
   - A number of joint workshops, meetings, and evaluation initiatives were held in Moscow and the Company’s regions of operation, including a Global Leadership in Industrial Safety joint workshop attended by top managers from Rosneft and BP.
   - A Leadership in Industrial Safety Day was held, attended by representatives of Group Subsidiaries and BP.

3. A series of road safety initiatives were implemented, including to establish compliance with, and the implementation status of, the Company-wide Golden Rules of Safety.

4. The internal corporate courses, Leadership in Health and Safety, Incident Investigation, and HSE Risk Assessment and Management, were organized.

5. HSE performance indicators were updated.

6. A differential approach was developed for penalizing employees from contractors and subcontractors for violations of HSE regulations, or breaches of labor or operational discipline.

7. Requirements were approved for competitive procurement of accident- or injury-prone work and services to be performed in Russia at Rosneft or Group Subsidiaries sites or for their benefit, capping injury rates for bidders.

8. An inventory of worn-out tanks with multiple service life extensions was taken, followed by the development of strategies to improve tank farms at some Group Subsidiaries, including the replacement, overhaul, renovation, and upgrades of tanks that are past their service life.

9. Fire safety has been ensured in the living quarters at production facilities of the Company and its contractors (including workers’ wagon and other camps), and these areas are continuously monitored for fire safety, which helped avoid accidents caused by fires and fire outbreaks. The Company provided an early response to all reported fire accidents with no financial losses incurred.

10. A program was developed to ensure that fire safety requirements are met at Rosneft’s oil refining facilities, following the results of independent fire safety audits conducted throughout the year.

11. Targets were developed and introduced across the Company’s facilities for the key fire safety areas to improve fire response times, reduce fire damage, and prevent casualties in case of fire.

> 20 THSD EMPLOYEES at Group Subsidiaries had internal Rosneft’s HSE trainings.

One of the Company’s strategic goals is to become a global HSE leader.
Environmental Protection

Environmental care is an integral part of Rosneft’s corporate culture and social responsibility. The Company regularly carries out extensive activities focused on environmental safety and natural resource conservation and restoration.

The Company placed special emphasis on environmental protection in 2017 as it was declared the Year of the Environment by the Russian Presidential Decree.

In 2017, the Company was engaged in eight priority environmental projects covered by the Framework Action Plan for the Year of the Environment, approved by the Russian Government. One of such projects involved the renovation of the integrated biological wastewater treatment facilities at Bashneft and Bashneft-Ufaneftekhim, which enables to bring the standards of wastewater treatment in line with regulatory requirements, and increase water recycling, thus significantly reducing the adverse impact of Bashneft’s industrial wastewater on the Belaya River.

As part of the Year of the Environment, Rosneft implemented multiple initiatives, including themed festivals, contests, cleanup campaigns in national reserves, and voluntary cleanups of watersides, parks and woodlands throughout Russia. Ecology lessons were held across the country as part of the Rosneft Classes program, involving environmental specialists from the Group Subsidiaries.

HSE Sections were opened at six cluster R&D conferences and at the Inter-Regional Research and Development Conference of young specialists.

The culmination point of the Year of the Environment was Rosneft’s 4th Ecologists’ Day where reports on environmental protection priorities, best practices, and innovative environmental solutions were presented, along with Group Subsidiaries’ preliminary performance results and discussions of environmental challenges and solutions, as well as the proposed development of the integrated HSE Management System. The event was attended by environmental protection managers and specialists from over 120 of Group Subsidiaries.

As a leader of the Russian oil and gas industry, Rosneft incorporates environmental efficiency and environmental impact mitigation into its strategic goals and objectives. The Company understands the urgency of climate change issues and seeks to bring its environmental safety standards in line with global industry benchmarks.

The Company is running a number of programs to mitigate its environmental impact:
- A gas investment program
- A refining facility upgrade program covering the construction and renovation of both production facilities and environmental protection infrastructures
- The Energy Saving Program
- A program to improve environmental efficiency by 2025

The Company supports unique social and environmental projects – Evenki Reindeer and Sakhalin Taimen – aimed at preserving the species’ populations.

The Company’s environmental activities in 2017 were highly commended by both supervisory authorities and the environmental community.

During the 5th All-Russian Congress of Environmental Protection Rosneft received the Proactive Environmental Policy during the Year of the Environment award for active involvement in the Year of the Environment events and implementing environmental projects.


In its drive to become an environmental safety leader among oil and gas companies, Rosneft is never complacent, maintaining its focus on corporate programs for environmental impact mitigation.

RUB 29.7 bln were allocated to implement the eight priority environmental projects in 2017, with the total planned investments exceeding RUB 100 bln.
In 2017, scientific and methodological research was conducted across Rosneft’s license areas in the Russian Arctic as part of the Program for Marine Ecosystem Biodiversity Conservation, including:

- processing of data from the camera traps installed in places where female polar bears might mate and build their maternity dens, as well as walrus haulout sites on Wrangel Island, Bennett Island, and Greater Oran Islands to study polar bears and walruses
- desk studies of bio samples obtained during the 2016 expedition
- development of the procedure for on-the-way observations and mitigation of adverse environmental impacts on marine mammals during marine G&G studies
- development of bioindicator species for sustainable marine ecosystems in the Company’s license areas in the Russian Arctic, and publication of a brochure on the Arctic’s biodiversity conservation
- baseline environmental monitoring at three license areas in the Barents, East Siberian, and Laptev seas, marine mammals observations at twenty one license areas in the Barents, Pechora, Kara, East Siberian, Chukchi, and Laptev seas.

Publications issued in 2017 included the Ecological Atlas of the Laptev Sea and the Marine Mammals Atlas of the Russian Arctic and Far East which describe key findings of polar bear and walrus research and marine birds observations performed by the Company.

### 3.2. PERSONNEL AND SOCIAL PROGRAMS

The Company’s leading asset is its highly-qualified professionals who are focused on efficiency.

Throughout 2017, the average headcount of Rosneft Group Subsidiaries totaled 302.1 thousand, increasing by 48.9 thousand year-on-year. The increase was primarily due to new asset acquisitions (Targin Group of 17 thousand employees), the personnel of Bashneft Group subsidiaries recorded for the whole of 2017, and taking on personnel from third-party service contractors.

The average age of the Company’s personnel did not deviate strongly from previous years, sitting at 40.1 years (39.9 years as at the end of 2016). Executive positions were held by 37.3 thousand employees (32 thousand in 2016), with no significant change in the percentage of executive employees employed by the Company in 2017, at 12.3% (12.6% in 2016).

**Average Headcount in 2017**

**Average Headcount as at 31 December 2017**

<table>
<thead>
<tr>
<th>Category</th>
<th>THSD Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upstream, including gas</td>
<td>27%</td>
</tr>
<tr>
<td>In-house service (fielded services)</td>
<td>20%</td>
</tr>
<tr>
<td>Oil refining and petrochemicals</td>
<td>17%</td>
</tr>
<tr>
<td>Commerce and logistics</td>
<td>15%</td>
</tr>
<tr>
<td>Corporate services</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Research</td>
<td>3%</td>
</tr>
<tr>
<td>Head Office (Rosneft)</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>302.1</strong></td>
</tr>
</tbody>
</table>

**Average Headcount as at 31 December 2017**

<table>
<thead>
<tr>
<th>Category</th>
<th>THSD Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upstream, including gas</td>
<td>28%</td>
</tr>
<tr>
<td>In-house service (fielded services)</td>
<td>19%</td>
</tr>
<tr>
<td>Oil refining and petrochemicals</td>
<td>17%</td>
</tr>
<tr>
<td>Commerce and logistics</td>
<td>15%</td>
</tr>
<tr>
<td>Corporate services</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Research</td>
<td>3%</td>
</tr>
<tr>
<td>Head Office (Rosneft)</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>318.0</strong></td>
</tr>
</tbody>
</table>

1 Preliminary data.
2 As per the Business Plan, employees totaled 318 thousand persons as at 31 December 2017.
Workforce Productivity and Organizational Effectiveness

As workforce productivity remains a key priority for the Company, internal methods calculating workforce productivity were updated for the entire Company, its major businesses, and the Group Subsidiaries within major businesses in 2017. The target for workforce productivity across the entire Company was met as of the end of 2017 on a comparable basis, and a list of procedures aimed at the improvement of Rosneft’s workforce productivity has been developed.

Each item on the list was incorporated into the Company’s Long-Term Development Program, which is reported annually. Workforce productivity for the Group Subsidiaries within the Company’s major businesses are taken into consideration as part of the annual business planning procedure when target headcounts are being discussed.

In 2017, corporate structures of Group Subsidiaries were being aligned with the Company’s Regulations on the Procedure for Development and Approval of Group Subsidiaries’ Reorganization, to increase organizational effectiveness within Rosneft, in particular, by bringing the statuses of their business units in line with the pre-approved criteria. Given the Company scale, this work will continue in 2018.

Talent Pool Management

Rosneft’s talent pool was managed in 2017 through HR committee meetings held under the chairmanship of the Company’s top managers, in which a talent pool was approved for target first-level management positions.

The process of automating the Company’s talent pool continued throughout the year, whereby the talent pool data maintenance was introduced to enterprise information systems. The process of automating the Company’s talent pool continued throughout the year, whereby the talent pool data maintenance was introduced to enterprise information systems. Each item on the list was incorporated into the Company’s Long-Term Development Program, which is reported annually. Workforce productivity for the Group Subsidiaries within the Company’s major businesses are taken into consideration as part of the annual business planning procedure when target headcounts are being discussed.

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Personnel Training and Development System

The Company-wide training system covers all focus areas and personnel categories within Rosneft, generating efficient skills through the incorporation of governmental requirements, corporate policies and procedures, and best Russian and international practices.

The training involves teachers from Russian and foreign universities, as well as leading domestic and international training and consulting companies. Training programs are adjusted to the Company’s business requirements.

Version 3.0 of the Rosneft Standard, Employee Training Management, was approved and implemented in 2017 as part of unifying Rosneft’s corporate training methodology. The Standard is an essential document regulating the unified requirements of Rosneft and the Group Subsidiaries for employee training management procedures, it strengthens corporate vocational training prerequisites and has a predominant focus on quality, occupational safety assurance, as well as the prevention and control of accidents and emergencies.

533.3 thousand compulsory vocational, and managerial training man-courses were taught in 2017, exceeding the year’s plan by 24%.

The training programs lay a particular focus on training personnel in line with the Company’s long-term strategy priorities, including programs such as management training, corporate training in Upstream, Oil Refining and Petrochemicals, Sales, and safety culture improvement, as well as informed leadership in HSE, energy efficiency, supply system, and compliance.

CORPORATE TRAINING PROGRAMS IN UPSTREAM

Throughout 2017, 33 corporate training programs in Upstream were implemented and over 868 man-courses were taught.

The Young Engineers Comprehensive Program was continued, involving career planning and development of young engineers in the upstream business. Approximately 100 specialists involved in Rosneft’s offshore projects were trained in innovative programs relating to offshore project management, offshore oil and gas field development, engineering surveys for oil and gas field facility construction, and offshore drilling at both the Gubkin Russian State University of Oil and Gas, and Lomonosov Moscow State University.
CORPORATE TRAINING PROGRAMS IN DOWNSTREAM

In 2017, 19 corporate training programs were implemented based on the following Gubkin Russian State University of Oil and Gas programs: Oil Refining and Petrochemicals, Modern Refining Process Technology, Process Preparation, Securing Accident Free and Reliable Operation of All Types of Process Unit Equipment, and Production Planning and Economy at Refining and Petrochemical Facilities.

Under the Company’s retail development strategy, training in corporate service standards is currently in progress for filling stations, marketing, and associated product sales.

Rosneft helped the university’s Department of Supply System Management in the Oil and Gas Sector organize a professional retraining program for supply management, logistics, and procurement systems in the oil and gas industry.

287 Oil Refining and Petrochemicals man-courses were taught in 2017.

Rosneft participates in WorldSkills, a global movement promoting vocational skills, providing preparation of its team members for two categories in the national WorldSkills championship. A member of the Company’s team won a prize in the Laboratory Chemical Analysis category. The second corporate championship was held at the Novokuybyshevsk Refinery.

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Rosneft engaged its foreign partners in discussions regarding personnel training for involvement in future joint projects and business projects in the fuel and energy sector.

In 2017, Rosneft continued its joint educational projects with both Cuba Petróleo, Petroleos de Venezuela S.A. (PDVSA) (Bolivarian Republic of Venezuela), and the Mongolian Ministry of Education, Culture and Science. Short-term advanced training courses were arranged for 39 joint venture employees of Rosneft and PDVSA in Venezuela, with the involvement of lecturers from the Gubkin Russian State University of Oil and Gas. Rosneft continued organizing on-the-job training for KazMunayGaz employees at Rosneft’s facilities in Kazakhstan, and cooperated with its foreign partners, ONGC Videsh Ltd. (Republic of India), Pertamina (Indonesia), and major Chinese oil and gas corporations regarding the preparation of joint educational projects.

During top-level negotiations held in Sochi in May 2017, international cooperative agreements were signed between Rosneft, the Polytechnic University of Turin (Italy), the MGIMO University of the Russian Ministry of Foreign Affairs, and the Gubkin Russian State University of Oil and Gas. As detailed in the agreements, the University of Turin provided the first training module from the Practical Engineering and Technologies of Petroleum Production retraining program, titled Renewables, at the Gubkin Russian State University of Oil and Gas in December 2017.

INCENTIVES

48% of training is provided internally through corporate training centers with in-house coaches, experts, and workplace mentors.

Sixty effective training centers were incorporated into the Group Subsidiaries or established at educational institutions in regions of the Company’s operation. The centers are equipped with testing areas and practical training sites, and offer Rosneft employees advanced, vocational, and requisite training.

The Rosneft Corporate Training and Development Center was established at MGIMO University (Odintsovo Branch) alongside the Company’s Technical Skills Center at the Gubkin Russian State University of Oil and Gas.

The Company is developing an internal training system involving in-house coaches, experts, and mentors to retain and share expertise within the Company.

In 2017, Rosneft’s in-house coaches who are full-time employees at the Head Office and Group Subsidiaries trained over 200 thousand Company employees. A total 386 internal Company-wide training courses were developed and taught to 7,838 employees, and over 67 thousand distance learning man-courses were conducted.

In 2017, the Company continued to introduce professional standards.

According to the last monitoring, the Company applies approximately 250 out of over one thousand approved national professional standards, with 30 standards being qualification prerequisites (depending on a subsidiary’s business). The standards apply to over 36 thousand employees, of whom 90% have an educational background meeting the national standard requirements.

Since 2015, Rosneft and other oil companies have been participating in the National Council for Professional Qualifications in the Oil and Gas Industry. Pursuant to the Council’s Action Plan, Rosneft has developed five industry standards with the involvement of its Professional Expertise Center, Nefteyugansk Corporate Institute, in 2017.
Skills Assessment Framework

Rosneft’s comprehensive personnel assessment framework sets unified knowledge and skill standards for employees across all segments of the Company’s business, including the Administration and Group Subsidiaries.

Employee assessments are carried out as part of the planning process for skills training sessions, during formation of the Company’s talent pool and expert communities, and upon employment or transfer of personnel.

The assessments examine the managerial, corporate, professional, and technical skills of each employee, covering all personnel categories: senior managers, specialists, and on-site workers.

The Company’s skills assessment framework identifies gaps in knowledge, determines priority areas of personnel development, optimizes training costs, and bolsters the knowledge and skillset of employees, as well as their performance.

A project unifying the Company’s corporate information system was further implemented in 2017 in order to accumulate personnel assessment results and integrate them with the shared HR database of Rosneft Group Subsidiaries, Administration, and training resources.

The project is being implemented with assistance from specialized universities such as the Gubkin Russian State University of Oil and Gas (for Oil Refining and Procurement projects), Tomsk Polytechnic University (for Oil and Gas Production and Offshore projects), as well as leading Russian and foreign consulting companies.

Development will continue throughout 2018 by Corporate Research Energy and Design Institutes for the following business units: Procurement, Energy Efficiency Improvement, Economics, Finance, Accounting and Tax Accounting, Gas Projects, Oil Refining and Gas Processing, Oil and Gas Chemistry, and Energy.

The project is being implemented in response to a government policy on developing the national qualifications system, its outcomes forming the professional standards of the Ministry of Labor and Social Protection of the Russian Federation (Mintrud).

Over 13 thousand people underwent professional and technical skills assessments in 2017.

In 2017, corporate skills requirements for 14 key blue-collar positions were developed in Oil Refining, Oil and Gas Chemistry, and Upstream.

Youth Policy

Rosneft’s youth policy ensures a steady influx of young, qualified specialists selected from among the top graduates of educational institutions, and as quick and effective an onboarding process as possible.

In line with its youth policy, Rosneft is also actively working on building an external talent pool in its regions of operation, and the Company’s youth training system covers three target audiences: students in Rosneft classes (grade 10 and 11 engineering students), students at specialized universities, and young Company specialists.

Rosneft also implements its youth policy through its corporate higher education program, School – University – Enterprise.

PRE-UNIVERSITY TRAINING

The first step of the Company’s higher education program includes pre-university training for school students, providing specialized Rosneft classes at top-ranking schools, lyceums, and gymnasiums in regions where the Company operates.

The formation of class programs is supported by Rosneft Group Subsidiaries, based on a demand for young professionals and the Company’s objective to further build upon its development and capacity.

Rosneft classes are tailored to provide school students with a high-quality secondary education and opportunities to continue their engineering studies at universities, while ensuring that graduates are employed at the Company following a relevant education.

With the Company’s support, 2,615 students attended 111 Rosneft classes that operated successfully in 2017 at a total 58 educational institutions located in 52 cities and settlements of the Russian Federation (25 regions).

The number of Rosneft pre-university training programs for school students is consistently expanding, with more new Rosneft classes opening each year.

In 2017, two Rosneft classes were opened in Miny, Sakha Republic in Yakutia, and in Bolshoy Kamen in the Primorye Territory. The Rosneft class in Bolshoy Kamen focuses on training specialists in shipbuilding, in response to the rapidly growing shipbuilding cluster in the Russian Far East.

The Pre-University Training project makes a strong positive impact on the Company’s reputation across regions and helps maintain Rosneft’s image of a socially responsible partner of the public education system. Graduates of Rosneft classes who have received relevant higher education are employed at the Company, reflecting the effectiveness of the project.
COOPERATION WITH UNIVERSITIES

Rosneft’s university partnerships are being systematically developed to achieve the following strategic objectives:
- Ensuring a prerequisite level of qualifications and continuous development of personnel to meet current business needs
- Building the Company’s external talent pool of young professionals
- Ensuring a strong talent pipeline for the Company in the long term
- Building the Company’s external talent pool of young professionals
- The national education policy

The Company is taking the following steps in line with cooperative agreements with universities:
- Implementation of projects to develop the educational and research infrastructure of universities, ensuring Rosneft’s business needs are met with higher quality specialist training
- The establishment of 20 specialized Company departments, which are currently functioning.
- In 2017, 57 Company employees were involved in teaching
- Revision and update of specialist training and higher vocational programs for the Company’s employees
- Organization of career guidance and publicity events such as Rosneft Days and career fairs, as well as allocation of graduates to positions within the Company
- Organization of internships and work placements. In 2017, 6,597 students did an internship at Rosneft enterprises. In 2017, the Company’s Head Office organized long-term internship positions (up to two years) for 79 Master’s students of Rosneft’s partner universities.
- In 2017, the Company organized the Future of Rosneft festival in Krasnoyarsk and Moscow, in which 170 graduates from Rosneft classes took part.

SUPPORT FOR EDUCATIONAL INSTITUTIONS

Rosneft provides charitable assistance to educational institutions of varying levels to fulfill its obligations to those involved in the Company’s corporate continuing education framework, as well as to attract young specialists to the Company, thereby building an external talent pool and providing the Company with a long-term talent pipeline. The assistance is aimed at supporting the education program syllabuses and organizing additional education in the disciplines relevant to Rosneft classes, including provision of equipment for specialized classrooms, as well as organizing the professional development of teachers, team-building events, and career guidance events for students.

The Company also promotes cooperation with universities and vocational institutions in the collaborative development of educational programs and infrastructure, including the improvement and expansion of facilities, equipment and teaching materials, supporting specialized departments and Master’s courses at partner universities to meet the Company’s strategic project needs, supporting talented teachers and gifted students who aim for professional development within the Company, providing RUB 870.3 mln in educational assistance.

In its consistent efforts to build an external talent pool, Rosneft’s enterprises employ over one thousand university graduates every year. Each graduate has received full-time education and the status of “young specialist”.

IN SUPPORT OF THE NATIONAL POLICY ON EDUCATION, THE COMPANY ACCOMPLISHED THE FOLLOWING IN 2017:

- Participation of Rosneft representatives in Boards of Trustees and Supervisory Boards of 10 partner universities, the National Intellectual Development Foundation (NIDF), the University gymnasium of Lomonosov Moscow State University, the Security Council of the Russian Federation (for training engineers in shipbuilding and ship repair enterprises), and the Russian Academy of Education

- Comprehensive cooperation with 58 partner universities and specialized regional universities; cooperative agreements signed with Saransk State Technical University and M.V. Lomonosov Northern (Arctic) Federal University in 2017

- Preparation of cooperative proposals with the Ministry of Defence of the Russian Federation

- Support of the Case-In International Engineering Championship at 10 partner universities and specialized regional universities
WORK WITH YOUNG SPECIALISTS

A total of 4,161 young specialists were employed at 108 Rosneft Group Subsidiaries in 2017. New terms within the Company’s Regulations on Organizing Work with Young Specialists was approved in 2017, with updated requirements and a unified approach to organization and collaboration with young specialists, covering:

- onboarding
- training and development
- recognition and development of potential leaders Progress assessments
- financial support and social protection

The following measures were taken in 2017 to develop the skills of young specialists:

- A total of 3,847 man-courses were conducted under professional, technical, and managerial skills development programs.
- Organization of 2,072 young specialists participating in regional and cluster R&D conferences. The Inter-Regional Research and Development Conference was attended by 301 young specialists, 88 of which were prize-winners, and 66 projects were recommended for implementation.

In efforts to build up a strategic young talent pool, 349 young specialists from 70 Rosneft Group Subsidiaries underwent performance assessments in the form of competitive business evaluation games from June to September 2017. Based on the game results, 119 young specialists from 49 Group Subsidiaries were selected for possessing a high level of corporate and managerial skills. The selected specialists were recommended for consideration in the Company’s young strategic talent pool and listed as potential candidates for further training as part of the target education program, Three Steps, which is aimed at developing young specialists.

In 2017, 62 young specialists were selected based on the results of the competitive business evaluation games that were held the year prior – 55 of them were recommended for the Group Subsidiaries’ strategic talent pool.

Aimed at increasing the efficacy of young professionals councils, the Annual Council Conference for Young Specialists was held in December 2017, attended by 59 participants.

Social Partnership and Social Benefits

More than 15 clarifications and additions were made throughout 2017 in the continued development of the Standard Collective Agreement of Rosneft Group Subsidiaries, improving the benefits, guarantees, and compensations provided to personnel.

A direct result of the Company’s consistent efforts in protecting the health of its employees is the compensation of the lost wage between short-term disability payments and the Group Subsidiaries employees’ average salary, the most significant benefit provided.

Annual meetings were held in 2017 between the Company’s HR and social service representatives with leaders of labor union organizations affiliated with ITUO Rosneft. The meeting held in Moscow in November 2017 covered major concerns of the personnel of Group Subsidiaries, such as providing employees with high-quality seasonal workwear in a timely manner, rehabilitation and healthcare treatment, salaries, and incentives.

The Company has made a leap forward in fostering industrial social partnerships, having established links with the Russian Association of Oil and Gas Employers and signing cooperative agreements aimed at facilitating the inclusion of Rosneft Group Subsidiaries into the Industry Agreement, on the Companies of the Oil and Gas Industry and the Construction of the Oil and Gas Industry Facilities.

Social Programs

Rosneft is one of the most socially responsible employers in Russia. In 2017, the Company allocated RUB 28.1 bln to creating optimal working conditions, promoting healthy lifestyles, and providing employees with healthcare and social guarantees.

For many years, Rosneft’s management has been committed to meeting high social security standards for its employees.
CORPORATE PENSIONS AND SOCIAL SUPPORT FOR VETERANS

The corporate pension program is an integral part of the Company’s HR and social policy, aimed at improving the terms and conditions of private pension schemes for employees.

Pension contributions made by Rosneft Group Subsidiaries under such schemes totaled RUB 6.84 bln, while RUB 462.86 mln in social support was provided to veterans.

The Company’s corporate pension program was implemented at Bashneft Group Subsidiaries in 2017. The Company allocated more than RUB 1 bln in pension contributions under signed contracts of the Non-State Pension Fund (NPF) NEFTEGARANT, providing the employees of Bashneft Group Subsidiaries with additional social security in the form of corporate pension since the beginning of 2017.

The Company’s veteran support program has been providing monthly corporate pension payments via NPF NEFTEGARANT for over 10 years. In the reporting year, corporate pensions under signed veteran contracts were indexed at 5%, and the average corporate pension provided to veterans is over RUB 1,500 per month. The Company also continues to provide financial assistance to retirees on holidays and subsidize resort treatments, or grant a one-off bonus payment.

The Company intends to maintain a strong focus on the development of its corporate pension program, as it not only helps address social issues, but also provides the Company with a competitive advantage by attracting and retaining the best talent in the industry.

CORPORATE HOUSING PROGRAMS

For over 12 years, the Company has been implementing a comprehensive housing program, a crucial form of incentive as part of the corporate social policy. The initiative enables the Company to attract and retain highly qualified and valuable specialists for the long term by providing housing through particular arrangements:
- Mortgage lending
- Provision of corporate apartments
- Housing construction.

The living conditions of 829 families were improved through long-term mortgages provided by Rosneft in 2017.

Relocated specialists are provided with corporate apartments, the total number of which in the Company’s regions of operation exceeds 1.3 thousand.

Rosneft aims to improve its operations and adopt new technologies by attracting highly qualified specialists from various cities and encouraging them to relocate to its regions of operation. The Company compensates rental payments for apartments leased from the housing market to provide employees with comfortable apartments in new locations. In some cases, housing is built for employees performing Rosneft’s strategic or pilot projects.

WORKING CONDITIONS AND RECREATION

Rosneft continued an integrated program aimed at creating favorable working conditions for its employees in 2017. The program’s key focus is the construction and development of 95 employee housing complexes. Rosneft’s living quarters accommodated for close to 22 thousand employees of the Company and its contractors in 2017.

Standard corporate technical solutions for designing employee housing and supporting facilities were employed throughout the year for the Company’s teams and at its sites and workshops. In 2017, the Company’s expenditure on the development and construction of employee housing, supporting facilities, sites, and workshops totaled RUB 6.5 bln. 

Field camps at Vankor

The Company’s veteran support program has been running for over 10 years
HEALTHCARE AND PERSONAL INSURANCE

Rosneft consistently provides a range of healthcare and personal insurance initiatives to its employees with the primary objective to preserve and bolster health, prevent diseases, promote a healthy lifestyle, and improve quality of life.

The major initiatives include:

- Provision of emergency and planned medical aid at the Company’s production facilities, including at remote and inaccessible residential employee complexes
- Voluntary health insurance that provides Rosneft employees access to high-quality healthcare services at the finest Russian medical institutions in addition to the standard government services
- Provision of resort and rehabilitation treatment for employees
- Disease prevention through the provision of vaccinations against the flu, tick-borne encephalitis, and cardiovascular diseases
- Organizing and conducting sporting and recreational events for the Company’s employees
- Program promoting a healthy lifestyle
- Reimbursement for membership costs at therapeutic groups and sporting clubs

The Company has adopted uniform standards for on-site medical treatment and emergency aid, as well as for the evacuation of injured or sick persons from its production facilities.

All Rosneft’s health centers have been supplied with modern medical equipment in accordance with its health and safety standards. The Company actively improves the professional qualifications of its on-site medical staff, and has an annual training program aimed at developing and exercising the practical skills of its employees in medical emergencies, including when the use of air medical services is necessary. Resort treatment and rehabilitation, aimed at extending employee careers and preventing diseases, is an integral part of the social security provided to the Company’s employees, their families, and retirees (veterans of labor). In 2017, Rosneft provided health resort treatment to a total of 70 thousand employees, their families, and retirees both in the Company’s own health resorts and those of third parties.

In 2017, the Company launched its Corporate Program for the Prevention of Cardiovascular Diseases, aimed at exposing and correcting the risk factors of cardiovascular diseases, and continues to implement its Live Longer! program, which provides medical screening of employees’ health while promoting sporting initiatives and involving the Company’s employees in an active lifestyle.

In the reporting year, Rosneft’s voluntary health insurance covered over 274 thousand employees of Group Subsidiaries and the Rosneft Administration. When organizing voluntary health insurance for its employees, the Company focuses primarily on improving the quality of services provided to insured persons, and expanding the accessibility of healthcare services equipped with state-of-the-art medical technology for the treatment of serious diseases.

Rosneft has arranged insurance against occupational fatalities and total or partial disability resulting from an accident for 295 thousand employees of Group Subsidiaries. The insurance covers the territory of the Russian Federation as well as other countries, and is valid both during and outside working hours.

The insurance policy provides employees injured on site with substantial compensations, which are provided to the families of the affected in case of disability or death. The Company’s contractors also continue to adopt similar approaches to organizing voluntary workplace accident insurance for their employees.

The Company implements socio-economic initiatives under individual charitable projects and agreements with regional authorities and uses a systematic approach to social investments and impactful socio-economic initiatives, to reduce social risk and achieve its key social objectives:

- Promoting social and economic development in the Company’s regions of operation
- Developing partnerships with the Company’s regions of operation
- Supporting the national education policy
- Supporting government programs for the development of healthcare, physical education and sports, science and technology, environmental protection, etc.

In accordance with Federal Law No. 135-FZ On Charitable Activity and Charitable Organizations dated 11 August 1995, the Company provides charitable support toward

- social infrastructure expansion
- veterans, disabled people, and the Company’s retired and active employees and their families
- the indigenous small-numbered peoples of the North, Siberia, and the Far East
- healthcare and disease prevention, as well as promoting healthy lifestyles and improving the moral and psychological wellbeing of individuals
- schools, vocational schools, and universities, as well as the Company’s corporate training centers as part of its corporate continuing education program, School-University-Enterprise

Charity Expenses in 2017, %

<table>
<thead>
<tr>
<th>Type of Support</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sports</td>
<td>38.7%</td>
</tr>
<tr>
<td>Infrastructure development in regions, districts, and municipalities</td>
<td>34.6%</td>
</tr>
<tr>
<td>Education and science</td>
<td>9.9%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>7.1%</td>
</tr>
<tr>
<td>Culture</td>
<td>2.7%</td>
</tr>
<tr>
<td>Support for veterans, the disabled, and people in need</td>
<td>2.2%</td>
</tr>
<tr>
<td>Chechen, NGOs, humanitarian aid</td>
<td>2.1%</td>
</tr>
<tr>
<td>Cultural heritage</td>
<td>1.0%</td>
</tr>
<tr>
<td>Support for indigenous peoples of the North</td>
<td>0.5%</td>
</tr>
<tr>
<td>Orphanages</td>
<td>0.4%</td>
</tr>
<tr>
<td>Kindergartens</td>
<td>0.4%</td>
</tr>
<tr>
<td>Other support (pensioner support, low-income families, youth organizations, municipal events, social facilities and amenities, and agricultural enterprises)</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

When determining organizations and events for charitable support, the Company aims at social and infrastructural projects that would most strongly benefit the lives of the local residents and employees in the Company’s regions of operation.
Rosneft provides extensive support to indigenous peoples of the North

- assistance in education, science, culture, arts, patriotic education, and individual spiritual development.
- environmental protection and animal protection.
- initiatives in physical training and mass sports.

In implementing its 2017 charitable projects, the Company traditionally prioritized developing the social infrastructure in regions of its operation, as is outlined in cooperative agreements with regional administrations. Rosneft helps to develop the infrastructure of municipal districts, towns, and settlements by financing the improvement of streets, roads, and territories, such as the repair of utility and transport systems, energy and heat supply facilities, and equipment replacement, as well as initiatives ensuring fire safety and the protection of residents and territories during emergencies.

The Company has financed over 50 projects in healthcare and medical development, including the construction, overhauls, and renovation of healthcare facilities (civil and military hospitals and polyclinics), as well as upgrading their material and technical resources with advanced medical equipment, diagnostic equipment, and disposables.

Rosneft allocated more than RUB 40 mln to support indigenous communities in the Tyumen Region, Krasnoyarsk Territory, Krasnoyarsk Region, Sakhalin Region, the Khanty-Mansi Autonomous Area – Yugra, and the Yamal-Nenets Autonomous Area, among other areas. The support is aimed at preserving distinctive cultures and traditional activities, providing quality education and health improvement programs for indigenous peoples. Different sport and ethno-cultural activities are organized, including traditional national sporting competitions and trade fairs of indigenous peoples.

In 2017, the Company focused on supporting education and science, arts and culture, the revival of cultural heritage, environmental protection, as well as the development and promotion of local and children’s sports, physical education, and healthy lifestyles. Support of orphanages, shelters, kindergartens, disabled people, and war and labor veterans, as well as celebratory events held for the Victory in the Great Patriotic War remain a permanent part of the Company’s charitable initiatives.

Rosneft provides extensive support to indigenous peoples.

**Financing of Charity in 2017, RUB mln**

- 8,273
- 6,668 Social financing under signed agreements
- 1,605 Individual charitable projects

The Company is strongly committed to supporting war and labor veterans, including through holding events to celebrate the Victory in the Great Patriotic War.
3.4. COMPANY SPONSORSHIP ACTIVITIES

Rosneft traditionally adheres to high standards of social responsibility and strongly contributes to the social and economic development of the Russian Federation by supporting ambitious projects to revive spiritual and national values while driving scientific development, culture, industry, education, and both professional and amateur sports.

In 2017, the Company’s actual sponsorship expenses totaled RUB 1.216 bln.

Sponsorship activity of the Company and Group Subsidiaries helps strengthen Rosneft’s reputation as a socially responsible business while promoting, publicizing, and maintaining a positive image of the Company across high-profile venues in Russia and abroad, and during major industry events.

In 2017 Rosneft sponsored 12 business exhibitions and conferences in Russia and abroad. The Company is a long-term title partner of events participated by the President of the Russian Federation, such as the Eastern Economic Forum, the St. Petersburg International Economic Forum, the Arctic: Territory of Dialogue International Arctic Forum, and the Russian Energy Week International Forum.

The Company is a strong supporter of professional and amateur sports. It finances the CSKA Moscow Hockey Club and is a sponsor of the Arsenal Tula Football Club. Rosneft provides financing both to the International SAMBO Federation and the organization of motor rallies, in which the LADA SPORT ROSNEFT team participates.

Rosneft is reviving and building the tradition of a partnership held between business and culture, sponsoring and bolstering its partnership in 2017 with the D.D. Shostakovich St. Petersburg Academic Philharmonia, which held the Arts Square and Musical Collection Festivals featuring Russian and foreign performers, and organized the St. Petersburg Philharmonic Orchestra tour across the USA and seven European countries. Rosneft also sponsored a tour of the St. Petersburg Eifman Ballet across five Russian cities: Krasnodar, Khabarovsk, Vladivostok, Krasnoyarsk, and Surgut.

In 2017, Rosneft became a partner of the new Rosneft in KidZania Project. In the City for Kids, a miniature Rosneft-branded drilling rig, refinery, and gas station will be installed in the largest edutainment park in Europe. The space provides children an educational play area in which they can learn the inner workings of an oil refinery and the transformational processes involved in oil’s journey from the earth to a fuel tank. The initiative helps to cultivate young children’s interest in the oil industry while fostering trust in the Rosneft brand.

Rosneft strongly contributes and gives high priority to environmental safety and protection, laying emphasis on protecting endangered species. Rosneft focuses particularly on the protection of endangered species native to the Arctic region, and continued its comprehensive program in 2017 to protect polar bears living in Russian zoos.
3.5. ENERGY EFFICIENCY AND ENERGY SAVING

Fuel and Energy Consumption

Rosneft is a major consumer of fuel and energy resources in the Russian Federation, accounting for more than 4% of the country's energy mix. In 2017, the Company’s fuel and energy resources consumption totalled 25,322 thousand tonnes of coal equivalent (tce).

Energy Consumption by Business Segment in 2017

<table>
<thead>
<tr>
<th>Segment</th>
<th>Fuel and Energy Consumption</th>
<th>In thsd tce</th>
<th>Share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>electricity, thsd kWh</td>
<td>heat, thsd Gcal</td>
<td>fuel, thsd tonnes</td>
</tr>
<tr>
<td>Oil and gas production</td>
<td>36,937,553</td>
<td>2,834</td>
<td>1,652</td>
</tr>
<tr>
<td>Oil refining</td>
<td>4,096,125</td>
<td>13,543</td>
<td>3,036</td>
</tr>
<tr>
<td>Petrochemicals and gas processing</td>
<td>1,787,791</td>
<td>6,062</td>
<td>249</td>
</tr>
<tr>
<td>Gas production and distribution</td>
<td>53,074</td>
<td>99</td>
<td>-</td>
</tr>
<tr>
<td>Marketing and distribution</td>
<td>321,402</td>
<td>68</td>
<td>-</td>
</tr>
<tr>
<td>Services</td>
<td>566,197</td>
<td>390</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>43,762,143</td>
<td>22,946</td>
<td>4,937</td>
</tr>
</tbody>
</table>

The Energy Saving Program

In 2017, the Company launched its 2017–2021 Energy Saving Program approved by the Board of Directors in December 2016; it is aimed at more efficient use of electricity and heat, as well as boiler and furnace fuel across key business lines.

Actual Fuel and Energy Savings in 2017

<table>
<thead>
<tr>
<th>Segment</th>
<th>Savings in 2017</th>
<th>In thsd tce</th>
<th>Share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>electricity, thsd kWh</td>
<td>heat, thsd Gcal</td>
<td>fuel, tce</td>
</tr>
<tr>
<td>Oil and gas production</td>
<td>1,707,600</td>
<td>18</td>
<td>22,793</td>
</tr>
<tr>
<td>Oil refining</td>
<td>134,598</td>
<td>1,117</td>
<td>322,200</td>
</tr>
<tr>
<td>Petrochemicals and gas processing</td>
<td>17,156</td>
<td>144</td>
<td>11,273</td>
</tr>
<tr>
<td>Gas production and distribution</td>
<td>100</td>
<td>5.5</td>
<td>141</td>
</tr>
<tr>
<td>Marketing and distribution</td>
<td>17,434</td>
<td>4</td>
<td>753</td>
</tr>
<tr>
<td>Services</td>
<td>2,063</td>
<td>1.0</td>
<td>878</td>
</tr>
<tr>
<td>Total</td>
<td>1,878,951</td>
<td>1,290</td>
<td>358,039</td>
</tr>
</tbody>
</table>

Rosneft’s 2018–2022 Energy Saving Program was developed and approved by the Board of Directors in 2017 within efforts to update the Energy Conservation Program. Over five years, the Company’s total fuel and energy savings under the Program will amount to 5,822 thousand tce, or RUB 42,899 mln.
Energy Efficiency and Energy Saving Policy

In accordance with the Company’s Energy Efficiency and Energy Saving Policy and the Company’s Standard, “Energy Management System. Requirements and Use Guidance,” the following steps were taken in 2017:

- The acquired Bashneft assets were incorporated in Rosneft’s consolidated 2018–2022 Energy Saving Program, comprising three oil production enterprises, four oil refining, gas processing, and petrochemical enterprises, and one marketing and distribution enterprise.
- Amendments were made to the job descriptions of Group Subsidiaries personnel having direct or indirect influence on energy efficiency, totaling 5,659 employees – 4,013 of which are shop floor personnel.
- Competence requirements were developed for technical personnel in oil production, oil refining, marketing, and distribution, along with competence assessment methods based on tests containing close to 2.5 thousand questions.
- The ISO 50001 international standard was incorporated into the Energy Management System, and certification of Bashneft’s energy-intensive facilities has been included in the plan for 2018–2019.

Power Generation Development

Major power generating facilities were built and commissioned within projects to meet the projected demand at oil and gas producing Group Subsidiaries:

- 110/35/6 kV 2x40 MVA substation, Cluster Pumping Station in the Prirazlomnoye field’s south-east (RN-Yuganskneftegaz);
- 10/35/110 kV 2x63 MVA Center substation (Taas-Yuryakh Neftegazodobyche);
- 110/35/10 kV 2x40 MVA North substation (Taas-Yuryakh Neftegazodobyche).

The projected localization level of foreign equipment manufacturing in Russia is 70% by 2025.

3.6. Localization and Development of Industrial Clusters

Import Substitution and Equipment Localization Program

In efforts to reduce dependence on imports and develop the industrial and engineering potential of Russia, Rosneft developed the Import Substitution and Equipment Localization Program in the Russian Federation for the medium- and long-term, effective since May 2015.

The Program aims at maximizing the share of products, works, and services procured on the Russian market through the development and localization of existing Russian production and maintenance services supporting high-potential projects and the Company’s current operations.

Scheduled to continue through to 2025, the program includes the following key stages:

- Seeking existing Russian analogues of imported equipment and providing rationale for their use, thereby encouraging higher manufacturing standards and product quality, as well as promoting import substitution.
- Establishment of partnerships and joint ventures with the world’s leading equipment manufacturers to produce equipment within the Russian Federation.
- Gradual localization of foreign equipment manufacturing in Russia through established partnerships, from assembly to local production, to achieve a localization level of no less than 70% by 2025.

Transformer capacity in the 110 kV voltage class was increased by 288 MVA.

In meeting the projected heat demand at the FEY Zvezda shipbuilding plant, phase one construction of boiler house No. 1, with installed heat capacity of 30 Gcal/h, was completed.
Cooperation in Equipment Localization

In 2017, Rosneft concluded a number of important agreements with world-leading companies such as General Electric, Gaztransport & Technigaz, Hyundai Heavy Industries, Samsung Heavy Industries, DSEC, and Lamor regarding the localization of equipment and other products not currently produced in the Russian Federation.

**COOPERATION WITH GENERAL ELECTRIC**

Within the shipbuilding projects and construction under way at the Zvezda Shipyard, a steerable thrusters production plant was launched in Bolshoy Kamen. At the 2017 St. Petersburg International Economic Forum, Rosneft and General Electric signed a research and development agreement regarding a new steerable thruster design for large-capacity vessels.

**The production program is projected to consist of 178 vessels and marine equipment items by 2035.**

The Zvezda product line will comprise high-tech large-capacity vessels, offshore drilling, exploration and production platforms, and both service fleet and ice class vessels. Special tankers and liquefied gas tankers for hydrocarbon transportation will be essential elements of the production program, their construction will require the Russian shipbuilding industry to develop unique pioneering technical solutions.

The shipyard’s main technological advantage is high production efficiency. The project ensures the commissioning of the most modern Russian shipyard, with a metal working capacity of 330 ktpa.

**COOPERATION WITH GAZTRANSPORT & TECHNIGAZ (GTT)**

In June 2017, a Memorandum of Understanding was signed on the design and construction of Cargo Containment Systems and LNG carriers in the Russian Federation. The Memorandum includes preparing the Zvezda Shipbuilding Complex for LNG carrier construction. An agreement was signed at the Eastern Economic Forum for technical evaluation of the shipbuilding complex’ capabilities for building membrane LNG containment systems necessary for the subsequent purchase of GTT’s license to build LNG carriers. The Zvezda Shipbuilding Complex has passed GTT’s initial audit.

**COOPERATION WITH HYUNDAI HEAVY INDUSTRIES (HHI)**

During the St. Petersburg International Economic Forum and the Eastern Economic Forum, Rosneft and Hyundai Heavy Industries signed several documents enabling the continued cooperation to build Aframax class of tankers through the Zvezda-Hyundai joint venture, including technical support in designing, engineering, building, and technical documents development for building Aframax class vessels.

The cooperation will provide the Zvezda Shipbuilding Complex with documentation allowing the construction of a series of Aframax tankers for transporting oil between Baltic Sea ports. The vessel’s technical documentation is to be developed by the Lazurit Central Design Bureau under the HHI’s design supervision.
COOPERATION WITH SAMSUNG HEAVY INDUSTRIES (SHI)

In September 2017, Heads of Agreement were signed by the Zvezda Shipbuilding Complex and Samsung Heavy Industries at the Eastern Economic Forum, establishing a joint venture to manage shuttle tanker construction projects. Cooperation with Samsung Heavy Industries enables shuttle tanker construction to be launched at the Zvezda Shipbuilding Complex, as well as procurement of a set of materials and shipboard equipment with the prospect of future localization.

COOPERATION WITH DSEC

Following the Memorandum of Understanding dated 2 September 2016 at the Eastern Economic Forum, a subsidiary of JSC FESRC, LLC Far Eastern Design Institute Vostokproektverf, and Korean DSEC Co., Ltd signed an agreement to establish a joint venture specializing in shipyard construction design, engineering, procurement, management, and supervision.

COOPERATION WITH LAMOR

At the Eastern Economic Forum, the Company signed an agreement with Lamor to establish a joint venture in manufacturing oil spill response equipment at the JSC 82 Ship Repair Plant. The required legal documentation for the joint venture is currently being prepared by Rosneft and its Finnish partners.

CONSTRUCTION OF A COASTAL SUPPORT BASE FOR OFFSHORE PROJECTS

Rosneft is continuing to build a supporting infrastructure for oil and gas projects on the Russian Arctic shelf at Ship Repair Plant 82 in the residential area of Roslyakovo in Murmansk. Along with conserving and upgrading the plant’s ship repair facilities, Rosneft’s investment targets the construction of a coastal support facility to procure and manufacture long-lead components for the project. The project was driven by the need to reduce dependence on foreign manufacturers, cut production costs, and localize the production of high-tech components.
3.7. Supplier and Contractor Relationships

Rosneft is the largest consumer of goods, works, and services among Russian private and state-owned companies. Annual procurement of goods, works, and services by the Company (Rosneft and Group Subsidiaries) from external counterparties totaled RUB 6.4 trln – up 137% year-on-year.

The procurement process is designed to meet the demand of Rosneft business units for goods, works, and services on time and in full, while ensuring maximum efficiency and a high standard of quality.

Key Procurement Achievements in 2017

1. As a vertically integrated holding company, Rosneft performs the consolidated procurement of goods, works, and services for Group Subsidiaries, an approach consistent with the recommendations of federal executive bodies. Rosneft’s procurement is centralized at 72%, including 59% of procurement handled by the Head Office, and 13% sourced regionally.

2. In an initiative to improve procurement efficiency, the Company transitioned to signing long-term contracts, which provide discounts on bulk purchases.

3. The Company is committed to establishing long-standing relationships with suppliers, its local regulations stipulate long-term (18-month) accreditation, thereby considerably reducing costs incurred by potential suppliers participating in procurement procedures. In 2017, a total 7,214 suppliers of goods, works, and services had valid accreditation to participate in procurement procedures, with small- and medium-sized enterprises accounting for over 72% of the total number of accredited suppliers.

4. Rosneft and Group Subsidiaries apply the Company’s uniform Regulations on the Procurement of Goods, Works, and Services to standardize procurement principles and approaches, and ensure maximum transparency through publishing its procurement plans, information on procurement procedures and their outcomes, and on the signing and execution of contracts. Information on over 99% of the Company’s procurement is made publicly available on the Internet.

5. To increase procurement transparency via the electronic trading platform, CJSC TEK - Torg (in Rosneft’s section), the Company and Group Subsidiaries initiated 25,861 procurement procedures with a total initial (maximum) value of RUB 1.931 trln and registered 26,621 suppliers in 2017.

6. The Company is committed to promoting cooperation with small- and medium-sized enterprises (SMEs). To provide SMEs with easier access to procurement procedures, the Company implements measures stipulated by the regulations of the Russian Government on an ongoing basis. In line with the Resolution of the Russian Government, No. 1352 dated 11 December 2014, targets for the share of procurement from small- and medium-sized enterprises were met. The total value of contracts signed by Rosneft with SMEs (including those signed by Group Companies on behalf of Rosneft) amounted to RUB 97.9 bln, with RUB 25.2 bln worth of contracts signed as a result of direct procurement from SMEs.

7. SMEs account for over 72% of the total number of suppliers with valid accreditation in Rosneft.

8. The Company is implementing a comprehensive program to automate its procurement processes. In 2017, core tasks were completed across key IT projects and business areas:

   • The frequency of supplier contract refusals post their award was minimized through the introduction of new procedures requiring bidders to provide a cash performance bond
   • An IT solution to enable the signing of contracts using a qualified electronic signature was implemented, thereby shortening the time required to sign contracts
3.8. RESEARCH, DESIGN, AND INNOVATIONS

The program is focused on the Company’s strategic goals and is based on its strategic priorities, such as efficiency, sustainable growth, transparency, social responsibility, and innovations.

The program provides for a range of activities with a focus on:
- development and deployment of new technologies
- development, production, and launch of new, world-class innovative products and services
- assistance in the Company’s modernization and technological development through significant improvements of key performance indicators for operating processes
- increasing the Company’s capitalization and competitive advantages in the global market.

R&D costs for full year 2017 totaled RUB 29.9 bln (to be confirmed).

All activities scheduled for 2017 were fully implemented.

UPSTREAM INNOVATIONS

A pilot free water knock-out unit with a capacity of 5 thousand cu. m per day was built, tested and commissioned on the site cluster pumping station B at RN-Purneftegaz’s Barsukovskoye field.

A set of research and testing techniques was developed to support research into the Berezovskaya suite deposits. A regional conceptual model with lithofacies characteristics was built for Upper Cretaceous deposits in Western Siberia, along with a sketch map of the area’s generation potential. For the Kharanpurskoye field, well logging interpretation methodology was developed and two 1D mechanical earth models were built to evaluate hydraulic fracturing design.

On a series of wells at the Priobskoye field, high-speed hydraulic fracturing technology was tested based on proprietary designs for testing development technologies for argillaceous and siliceous low-permeability rocks in Upper Jurassic deposits. The tests demonstrated that accident-free use of this hydraulic fracturing technology was technologically possible.

A program module was developed for detecting cavernous fractured reservoirs through seismic scattered wave separation in Gaussian beam-based survey systems (2D).

Pilot testing was completed at Samaraneftegaz on the borehole version of a unique Russian electromagnetic probe for high-resolution logging of oil and gas wells under certain conditions such as strong reservoir compartmentalization and anisotropy of geological properties. Field calibration equipment was designed and manufactured, along with a system of electromagnetic probe data processing and interpretation, and the engineering documentation was finalized.

Modules for the corporate software suite RN-KIM – Hydrodynamics, Intermode, and REXLab – were designed and tested to support hydrodynamic modeling of formation systems.

The development of Current Recoverable Reserve Ranking software module was completed for the RN-KIN petroleum engineering toolkit. The module was successfully tested at LLC Tyumen Oil Scientific Center and LLC RN-UfaNIPIneft.

The development of version 1.00 of the corporate RN-GRID hydraulic fracture simulator was successfully completed. The new simulator is now piloted at Group Subsidiaries.

The Company developed the catalyst composition and synthesis method for obtaining synthetic hydrocarbons with high isoalkane content, as well as a method to obtain synthetic crude using the catalysts.

Draft specifications were finalized for synthetic crude and high isoalkane content synthetic crude that meets requirements for trunk oil pipeline transport and compatibility with oil refining technologies.

Target Innovative Projects

Over the reporting year, special attention was paid to the implementation of R&D results and registering intellectual property rights. As a result of target innovative projects implemented by the Company in 2017, 49 intellectual property applications were submitted.
INNOVATIVE RESEARCH ON THE ARCTIC SHELF

- Winter ice and metocean studies were conducted in the Khatanga Gulf and the adjoining area of the Laptev Sea (Khatanga-Winter 2017 expedition). The studies established the morphometric parameters of the ice cover and the internal structure of pressure ridges and stamukhi (grounded ice hummocks). Ice-shear dynamics, the physical and mechanical properties of ice, as well as weather profile and water mass conditions were investigated.

- The Kara-Summer 2017 research expedition was organized and conducted in the Kara and Barents Seas. The expedition carried out a range of activities, most notably:
  - Maintenance services were provided for the recently installed infrastructure in the Kara Sea.
  - Field experiments were conducted in diverting icebergs. A total of 18 iceberg towing experiments were conducted, including under harsh weather conditions and in sea ice with various ice consolidation ratios.
  - Methods for detecting dangerous bodies of ice were tested.
  - Provisional local specifications were developed for the East Prinovozemelsky license areas in the Kara Sea based on the baseline data obtained through field and desk studies conducted between 2012 and 2016.

- Within efforts to develop conceptual design solutions for extending the operating season for the Arctic shelf facilities, a conceptual design was developed for the ice protection of the jack-up rig riser. The impact of the proposed solutions in terms of extending the jack-up rig drilling season under ice conditions was also estimated.

CORPORATE RESEARCH AND DESIGN COMPLEX:

Rosneft includes 27 corporate research and design Institutes employing over 11 thousand scientists out of which 583 hold PhD, and 45 - doctoral degrees.

In 2017, the key achievements of the Corporate Research and Design Complex were as follows:

- Over 12 thousand linear km of 2D and 10 thousand sq. km of 3D seismic data processed.
- Over 117 thousand linear km of 2D and 14 thousand sq. km of 3D onshore and offshore seismic data interpreted.
- 31 fields and 162 new deposits discovered with a total 233 mmtoe of AB1C1+AB2C2 reserves.
- 100% of Rosneft’s oil and gas production projects supported (approvals secured for 378 project design documents from the Central Development Commission of Rosneft (Russia’s Subsoil Agency)).
- Real-time geological support provided for drilling of 499 horizontal wells (30% of the total).
- Positive opinions from Russia’s Main Directorate of State Expert Review (GlavgosExpertiza) obtained for 673 capital construction projects (approvals secured for 378 project design documents from the Central Development Commission of Rosneft).
- Positive opinions from Russia’s Main Directorate of State Expert Review (GlavgosExpertiza) obtained for 673 capital construction projects planned by the Company.

INNOVATIONS IN REFINING AND PETROCHEMICALS

The Company used its own refinery feedstocks to successfully run independent comparative tests of IDZ-OABRN isodewaxing and HG-O17RN hydrofinishing catalysts produced by JSC Angarsk Catalyzers and Organic Synthesis Plant in the process of Arctic and winter diesel fuels production. Based on the positive test results, the Company is currently implementing a program to shift the flow at G-24/1 facility of Bashneft’s Bashneft-Ufaneftekhim Refinery to diesel fuel isodewaxing.

The Company finalized initial design data for:

- A 500 tpa dearomatized liquid paraffins facility leveraging modern hydrocatalytic processes. The facility is planned to be constructed at JSC Angarsk Catalyzers and Organic Synthesis Plant’s production site.

- A 15 tpa waxy oil base facility to offer a range of Arctic lubricants, including hydraulic oils, motor oils, and plastic lubricants. The technology is planned to be deployed for one of the flows at G-24 facility of JSC Angarsk Petrochemical Company’s Oils Plant.

Laboratory-scale technology was developed for manufacturing OMTI (Thermal Engineering Institute’s fire-resistant oil), designed for turbine lubrication and control systems at Russian nuclear facilities. Russia currently lacks facilities to produce such oils domestically due to the loss of the resource and production base. The oils are imported.

The Company demonstrated that the potential of using esters, polyalphaolefins, and synthesized mono cycloalkanes as base components for synthetic oils used in the aerospace industry. The proposed methods of sample synthesis for synthetic base components of oils were laboratory tested.

The additive package (formulation) was developed for all-season energy efficient hydraulic oils compliant with DIN 51524–3 (HVLP level). The adoption of the Russian-made thickening agent to the additive package will enable substitution for imported packages and additives currently used by the Company, as well as provide it with the competitive advantage of producing own energy-efficient HVLP hydraulic oils for industrial and mobile equipment.
Adaptation and Adoption of Advanced Technologies in 2017

As part of its efforts to adopt promising efficient technologies developed by Russian and foreign companies, the Company organized testing, adaptation, and adoption of new technologies as part of pilot test projects in 2017. During the tests, the key features of the technologies were evaluated, and feasibility studies were conducted to assess the case for, and effectiveness of, their use in the geological and technical conditions of the Company’s upstream subsidiaries. A total of 684 tests was conducted as part of pilot test projects in 2017, and 178 thousand tonnes of incremental oil production were recovered as a result.

Following the pilot test projects, 109 technologies were tested at 16 subsidiaries in 2017. The Company and relevant business units reviewed the results and assess the economic viability of implementing the proposed new technologies, as well as prepare plans for their roll-out and implementation.

As part of the implementation program, in 2017, the Company implemented and rolled out 118 new technologies that had been previously tested as part of pilot tests and of which the economic viability had been confirmed. The scope of implementation and roll-out amounted to 6.6 thousand items, with funding totaling RUB 10,002 mln.

As part of the efforts to implement the results of Target Innovative Projects, 18 license agreements worth a total of RUB 80.7 mln were signed for the transfer of software solutions (RN-KIN, RN-KIM, and seismic modules), including to provide training to students in industry-related programs at leading Russian universities.

In 2017, the combined proven economic benefit from the results of Targeted Innovative Projects implemented over the last three years exceeded RUB 3 bln.

Implementation of Projects to Test New Technologies

<table>
<thead>
<tr>
<th>Year</th>
<th>Projects</th>
<th>Costs, RUB mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>1,943</td>
<td>152</td>
</tr>
<tr>
<td>2016</td>
<td>3,239</td>
<td>225</td>
</tr>
<tr>
<td>2017</td>
<td>2,156</td>
<td>285</td>
</tr>
</tbody>
</table>

684 tests conducted as part of pilot test projects

178 THSD tonnes of incremental oil production recovered through pilot test projects in 2017

Rosneft’s refineries manufacture advanced oils, lubricants, and additives

The Company successfully tested the functional properties of RN-AT1.003 multifunctional additive in the composition of commercial gasoline produced at the Syzran Refinery. The test results showed the following:

- Using the CEC F05-A93 method with 400 ppm content, the level of detergency achieved met the requirements of the Worldwide Fuel Charter (WFC) and was at par with the imported multifunctional additive used in the gasolines produced by the Company’s refineries.

- With a content above 200 ppm, anti-corrosion activity was shown in commercial gasolines and gasolines with oxygenate additives (TAME, MTBE, or ethanol).

- There is no adverse effect on the physicochemical properties or performance of gasoline, nor any increase in CH, CO, or NOx emissions as compared to additive-free gasoline.

PolymERIC MATERIALS

- A new laboratory method was developed for producing ultra-lightweight polymeric proppant (microspheres) based on polydicyclopentadiene (PDCPD), and adjusted for industrial process conditions and equipment.

- The laboratory process was upscaled, and a production process was developed for PDCPD-based ultra-lightweight polymeric proppant (microspheres). The Company optimized the method for producing polymeric proppant precursor including the polymerization phase preceded by generation of monodisperse monomer droplets. The method increases the yield of PDCPD spherical granules of the desired fraction to 76% during the polymerization phase.
4.1. ROSNEFT’S EXPLORATION AND RESERVE REPLACEMENT

The Company achieved a record high exploration success rate of 86% in 2017, conducting exploration in all subsoil use regions within the Russian Federation, including the Far East, Eastern and Western Siberia, Central Russia, Timan-Pechora, and Southern Russia.

4.1.1. ROSNEFT’S RESOURCE BASE

INFORMATION ON RESERVES DETAILED BELOW IS PROVIDED ACCORDING TO THE RUSSIAN RESOURCE CLASSIFICATION SYSTEM (AB1C1+B2C2 RESERVES)

- Oil assets, crude oil, gas condensate and liquid hydrocarbons production
- Gas projects, gas production
- Exploration assets
- Offshore

ROSNEFT’S KEY ACHIEVEMENTS IN RESERVE REPLACEMENT

- 142 bboe of AB1C1+B2C2 hydrocarbon reserves in 2017
- 184% hydrocarbon reserve replacement ratio in the Russian Federation, as according to the Russian resource classification system
- 31 fields and 162 new deposits with total reserves of 233 mmtoe discovered through successful exploration activities
- 1,112 licenses in the Russian Federation, including 55 offshore licenses, 31 subsoil areas acquired from open acreage in 2017, and 26 licenses obtained by the end of 2017.
- A 100% stake was also acquired in the Kondaneft project (four subsoil licenses for hydrocarbon fields)

ROSNEFT’S EXPLORATION AND RESERVE REPLACEMENT

- 12.7 BLN TONNES total oil and gas condensate reserves in Russia
- 7.9 TCM total gas reserves in Russia
- 8.0 TCM onshore gas resources
- 2.1 BLN TONNES onshore oil and gas condensate resources
- 1.0 TCM onshore gas resources
- 22.1 BLN TONNES offshore oil and gas condensate resources
- 21.4 TCM offshore gas resources
Onshore Exploration

The Company’s top priorities are unlocking the resource potential and sustainable use of mineral resources, exercising strict compliance with environmental safety standards, and an extensive application of advanced technologies. The Company has continued its phased deployment of advanced seismic data processing and interpretation technologies to improve its exploration drilling success rate. In particular, the Company deployed advanced near-surface anomaly detection practices in an effort to minimize errors during structural modelling. Finite difference wave field simulations are used to identify optimum parameters for seismic surveys during the design stage.

In 2017, 155 onshore exploration wells were completed and tested in Russia – almost twice as many as in 2016. The Company has achieved a record high exploration success rate of 86% for the first time in its history. Furthermore, 2D seismic surveys totaled 7,030 linear km, while 3D seismic surveys totaled 10,000 sq. km, marking a 2.5- and 1.3-fold increase respectively.

Successful exploration led to the discovery of 30 fields and 162 new deposits with a total 148 mmtoe in reserves.

KEY ONSHORE ACHIEVEMENTS WITHIN RUSSIA

- 155 exploration wells completed and tested – twice as many as in 2016
- 86% – a record high exploration drilling success rate
- 30 fields and 162 new deposits discovered with a total 148 mmtoe in reserves

RESERVE REPLACEMENT BY REGION

Western Siberia

Rosneft’s reserve increases in Western Siberia and the Far East amounted to 155.8 mmt of oil and gas condensate and 127.1 bcm of gas. 55 exploration wells were completed and tested with a success rate of 91%. 2D seismic surveys totaled over 2,000 linear km, while 3D seismic surveys totaled over 3,000 sq. km. Five fields and 38 new deposits were discovered with a total 87.6 mmtoe in AB1C1+B2C2 reserves.

During 2017, a new oil and gas cluster with reserves of 103 mmt was built in Western Siberia by integrating Kondaneft’s assets with the Erginsky license area acquired from auction. The Erginsky cluster comprises the Prorobskoye field situated within the Erginsky license area, as well as the Zapadno-Erginskoye, Kondinskoye, Chapaevskoye, and Novo-Endyrskoye fields. As at 1 January 2018, recoverable reserves (AB1C1+B2C2) amounted to 256 mmtoe of oil, and the total size of license areas was over 5,000 sq. km. The Company conducts exploration in all license areas in order to unlock their full resource potential. In 2017, three wells were completed and tested, and 3D seismic surveys totaled 720 sq. km.

In actively developing its gas business, Rosneft carried out 2D seismic surveys of 2,134 thousand linear km and 3D seismic surveys of 675 sq. km at its gas assets in 2017, as well as completed and tested four wells. The Company performed a regional study of the Gydan Peninsula to allow the preparation of a geological and geophysical basis for identifying priority exploration areas. In 2017, Rosneft’s gas reserves in Western Siberia grew by 127.1 bcm.

Breakdown of Proven Hydrocarbon Reserves (Oil, Gas Condensate, LH) under PRMS Standards, mmt

<table>
<thead>
<tr>
<th>Region</th>
<th>Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Siberia</td>
<td>3,091</td>
</tr>
<tr>
<td>Central Russia</td>
<td>725.4</td>
</tr>
<tr>
<td>Eastern Siberia</td>
<td>422.7</td>
</tr>
<tr>
<td>Timan-Pechora</td>
<td>56.0</td>
</tr>
<tr>
<td>Timan-Pechora</td>
<td>53.5</td>
</tr>
<tr>
<td>Foreign assets</td>
<td>24.3</td>
</tr>
<tr>
<td>Southern Russia</td>
<td>22.8</td>
</tr>
<tr>
<td>Offshore</td>
<td>7.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>4,404</td>
</tr>
</tbody>
</table>

Breakdown of Proven Marketable Gas Reserves under PRMS Standards, bcm

<table>
<thead>
<tr>
<th>Region</th>
<th>Reserve</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Siberia</td>
<td>1,948.7</td>
</tr>
<tr>
<td>Eastern Siberia</td>
<td>161.3</td>
</tr>
<tr>
<td>Central Russia</td>
<td>68.9</td>
</tr>
<tr>
<td>Timan-Pechora</td>
<td>43.5</td>
</tr>
<tr>
<td>Southern Russia</td>
<td>40.6</td>
</tr>
<tr>
<td>Offshore</td>
<td>40.6</td>
</tr>
<tr>
<td>Foreign assets</td>
<td>2.0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2,309</td>
</tr>
</tbody>
</table>

Rosneft’s reserves in Western Siberia and the Far East increased to 155.8 mmtoe of oil and gas condensate and 127.1 bcm of gas.

The Prirazlomnnoye field of RN-Yuganskneftegaz
Eastern Siberia and the Far East

Eleven exploration wells were completed with a success rate of 82%. 2D seismic surveys totaled 4.5 thousand linear km, while 3D seismic surveys totaled 1.5 thousand sq. km. Five new deposits were discovered with a total 15.7 mmtoe in AB1C1-B2C2 reserves. In 2017, total reserve additions in Eastern Siberia and the Far East were 36 mmtoe of oil and gas condensate and 24 bcm of gas.

Independent International Audit of Reserves

According to the audit performed by DeGolyer & MacNaughton under the SEC (U.S. Securities and Exchange Commission) life-of-field classification, Rosneft’s proved hydrocarbon reserves totaled 39,907 mmboe (5,395 mmtoe) as at 31 December 2017. Hydrocarbon reserves grew by 2,135 mmboe (284 mmtoe), or 6% year-on-year. In 2017, Rosneft’s organic SEC-proved reserve replacement ratio stood at 184%, and its SEC-proved reserve life amounted to approximately 20 years.

For several years, Rosneft has been a leader among major public international oil companies in proved reserve life and proved reserve replacement ratio, as well as in exploration and development costs.

As at 31 December 2017, the Company’s reserves under the PRMS (Petroleum Resources Management System) standards totaled 46,520 mmboe (6,303 mmtoe) of 1P reserves, 83,838 mmboe (11,357 mmtoe) of 2P reserves, and 120,853 mmboe (16,386 mmtoe) of 3P reserves. 1P reserves grew by 1%, 2P reserves grew by 2%, and total 3P reserves grew by 4% in 2017.

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Central Russia, Timan-Pechora, and Southern Russia

In 2017, reserves in the Volga-Urals region, Timan-Pechora, and Southern Russia increased by a total of 77.1 mmt of oil and gas condensate and 12 bcm of gas. 89 wells were completed and tested, with a success rate of 83%, and 3D seismic surveys totaled over 5 thousand sq. km. 25 fields and 119 new deposits were discovered with a total 45 mmtoe in AB1C1-B2C2 reserves.

Four new fields and 48 new deposits were discovered in 2017 across Bashneft’s assets in the Volga-Urals region, with AB1C1-B2C2 reserves of 6.6 mmtoe. A set of measures in preparing geological rationales for selecting exploration targets allowed a significant improvement in success rate, from 65% to 82%. The sharp growth results from developing stronger cases for successful drilling locations upon structures mapped by 3D seismic data, while ceasing the practice of drilling on structures mapped by 2D seismic data. 3D seismic imaging aids the preparation of reliable structural maps for productive horizons and identification of anomalies in near-surface formations causing an adverse effect on seismic forecasting.

Two exploration wells with 100% success rates were constructed on Bashneft’s assets in the Nenets Autonomous Area, including the Titov and Trebs fields. Following exploration drilling at the fields, B1C1 reserves increased by 0.8 mmtoe, while production drilling added another 4.3 mmtoe. Two new deposits were discovered with a total 1.7 mmtoe in AB1C1-B2C2.

The Company continues its consistent exploration in Southern Russia to replace reserves in the region, carrying out the first 2D ultra-dense seismic surveys of 200 linear km and 3D seismic surveys of 110 thousand sq. km in 2017.

Hydrocarbon Reserves under International Standards, mmboe

Eastern Siberia and the Far East

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4.2. PRODUCTION OF LIQUID HYDROCARBONS

Rosneft’s hydrocarbon production volumes in 2017 grew 6.2% year-on-year to 281.7 mmt (5.72 mbpd per day).

In 2017, the Company produced 225.5 mmt of liquid hydrocarbons (4.58 mbpd per day), an average daily production increase of 7.6%. Whether excluding Bashneft’s operating results or including them as from January 2016, the Company demonstrated strong production growth in 2017 despite the external limitations applied in October 2016.

In 2017, the Company set new record highs in drilling and well workover activities. Production and exploration drilling grew 29.5% and 79% respectively year-on-year, and total drilling reached a record high of over 12.4 mln m. The Company set a sidetracking record for the third consecutive year in 2017, the previous record being surpassed by 10% and totaling now almost 1.3 thousand of completed sidetracks. The share of in-house drilling crews within the Company’s total drilling footage remained steady at around 60%.

At the end of 2016, the Russian Federation entered a production cut deal with OPEC countries and a number of major independent oil producing states. To ensure Russia’s compliance with the deal, Rosneft has cut its output proportional to its share of total Russian production. The reduced production has caused many assets to perform below potential, although production cuts do not extend delivery timelines scheduled for new assets.

**KEY ACHIEVEMENTS**

- **In 2017, Rosneft’s average daily liquid hydrocarbons production grew by 7.6% year-on-year.**
  - An absolute record was set in production drilling, which exceeded 12 mln m.
- **The number of new wells brought into operation increased by 28% to 3.4 thousand of wells.**
  - The share of horizontal wells brought into operation within a year grew to 36%, and the number of new horizontal wells drilled using multi-stage hydraulic fracturing (MSHF) grew by 67% year-on-year.
- **4.5% accelerated growth in oil production by RN-Yuganskneftegaz – over 65.5 mmt in incremental production as a result of using advanced well drilling and completion technologies, as well as enhanced oil recovery techniques.**
- **Daily production was increased at RN-Nyaganneftegaz (by 1.8%), Voryoganneftegaz (by 0.7%), and Samaraneftegaz (by 1.4%).**
- **Investment incentives for the Samotlor field in the form of annual MET reductions of RUB 35 bln over 10 years enabled the Company to reaffirm its commitment to drill more than 2.4 thousand of wells in 2018 – 2027, which are projected to contribute over 50 mmt in incremental production.**

Production started at several major development projects: the start-up complex at the Erginsky cluster was commissioned. Comprehensive technological testing of the oil treatment unit (OTU-1) commenced at the Yundzheno-Tokhomskoye field.

Active development of major projects: Suxun and Mesygyakhareftegaz. The Company’s production share in 2017 stood at 5.7 mmt of oil. Production drilling was continued, and Phase 2 of the oil treatment unit at the Suxunskoye field is nearing completion; expansion of the central production facility’s oil treatment capacity at the East Messoyakha field is underway.

The Company launched commercial production at three Uvat project fields: the Severo-Tyamkinskoye field, the Severo-Tamarginskoye field, and the Kosukhinskoye field. As at 1 January 2018, the fields’ combined AB 1C1+B2C2 reserves totaled approximately 54 mmt of oil.

**KEY ACHIEVEMENTS (continued)**

**Production drilling, thsd meters**

- **2017**
  - 6,931
  - 9,331
  - 12,083

- **2016**
  - 1,839
  - 6,931
  - 9,331

- **2015**
  - 2,625
  - 6,931
  - 9,331

**Commissioning of New Wells by Type, wells**

- **2017**
  - Directional: 2,162
  - Horizontal: 719 (including MSHF)

- **2016**
  - Directional: 1,204
  - Horizontal: 828 (including MSHF)

- **2015**
  - Directional: 107
  - Horizontal: 53

**Other Interventions, mmt**

- **2017**
  - Production from new wells: 19.5
  - Well interventions at production wells: 3
  - Sidetracking: 3.4
  - Recompletion and commingling: 1.4
  - Other: 0.9

**Incremental Production from New Wells and Well Interventions, mmt**

- **2017**
  - 28.2

**Oil, Gas Condensate, and Liquid Hydrocarbons Production, mmt**

- **2017**
  - 225.5

**Commissioning of New Wells by Type, wells**

- **2017**
  - Directional: 2,162
  - Horizontal: 719 (including MSHF)

- **2016**
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  - Horizontal: 828 (including MSHF)

- **2015**
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  - 2,625
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4.3. OVERVIEW OF PRODUCTION IN REGIONS OF OPERATION

Western Siberia

Western Siberia is Rosneft’s key oil-producing region. In 2017, Western Siberian assets accounted for 58% of the Company’s oil and gas condensate production. The Company’s key producing assets in Western Siberia include RN-Yuganskneftegaz, which makes up 30% of the Company’s oil and gas condensate production; Samotlorneftegaz (9% of total production) in the Khanty-Mansi Autonomous Area; and RN-Uvatneftegaz (4% of total production) in the Tyumen Region’s south.

The Company is expanding its operations in the region, acquiring a 100% stake in the Kondaneft project in April to develop four license areas, as well as the Enginsky license area from auction. The Company’s license areas within the Khanty-Mansi Autonomous Area hold significant hydrocarbon reserves and are in close vicinity to the Próbiskoye field – one of its most resource-rich fields with a well-developed infrastructure. Integrated development of the Kondinskoye group of fields and the Enginsky license area will generate considerable synergies, accelerating development of their resource potential and taking advantage of the existing infrastructure.

Western Siberia is also a major gas-producing region. In 2017, the Company’s gas production grew by 2.1% to 48.5 bcm.

**RN-Yuganskneftegaz**

RN-Yuganskneftegaz operates 34 licenses with Rosneft as the subsoil user. The bulk of proved reserves (80%) are concentrated in the Próbiskoye, Mamontovskoye, Malobalykskoye, and Prinnazmanyoye fields. In 2017, it was a milestone and record high year for RN-Yuganskneftegaz.

RN-Yuganskneftegaz demonstrated accelerated oil production growth in 2017 and broke its 30-year record for average daily oil and gas condensate production in December with a rate of 191 thousand tonnes per day, marking a 10% year-on-year growth. Annual production grew by 4.5% year-on-year, achieving more than 66.5 mmt.

The record-breaking results were achieved by the accelerated drilling, construction, and commissioning of new wells and horizontal wells, implementing a range of effective well interventions, as well as deploying cutting-edge technologies.

In August 2017, another new record was set by RN-Yuganskneftegaz, achieving a 606,439 m in monthly distance drilled, exceeding that of any Russian or Soviet production company in history.

RN-Yuganskneftegaz hit a new record-high of 1.7 thousand new wells commissioned in 2017 following their production drilling, surpassing the previous records of 1.4 thousand commissioned wells in 2016 and 1.3 thousand wells in 1986. The record-breaking drilling and commissioning achievements were supported by extensive capital construction of field infrastructure across most of RN-Yuganskneftegaz’s production sites, which are located up to 300 km from one another, from the western-most part of the Próbiskoye field to the most distant site in the Kinyaminskoye field’s south-east. In 2017, drilling operations were carried out at 72% of RN-Yuganskneftegaz’s fields, including the mature Ust-Balykskoye and Pravdinskoye fields. In July 2017, the new Kuzovatkinskoye field was commissioned at the Chupalsky license area, its annual production amounting to 0.4 mmt.

Deploying advanced technologies such as real-time geosteering, geomechanical modeling, and MSHF for drilling horizontal wells to construct and develop new production wells at RN-Yuganskneftegaz fields allowed a significant production increase from newly drilled wells. Over 200 new horizontal wells drilled using MSHF were commissioned in 2017, 42% of which were drilled using B- to 10-stage fracturing compared to just 3% in 2016.

In 2017, RN-Yuganskneftegaz commissioned 7 wells with increased horizontal sections over 1.5 thousand m, one of which is the company’s largest, with a horizontal section of 2.075 m and drilled using 10-stage fracturing. The initial flow rate from the well was 425 tonnes per day, more than double the rate of wells with a standard horizontal section of one thousand m.

Production from the geological-complex Tyumen suite deposits at RN-Yuganskneftegaz fields increased to 12 thousand tonnes per day, a 35% increase year-on-year. The sharp growth is an indication of the extensive research, testing, and subsequent effective drilling and production that took place at the company’s 15 fields.

The enhanced oil recovery and production from RN-Yuganskneftegaz fields was driven through the implementation of an extensive well intervention program across producing and idle wells.

In 2017, RN-Yuganskneftegaz drilled close to 400 sidetracks, including 200 horizontal completions. Horizontal sidetracks are actively introduced at mature fields, some of which have wells with initial flow rates exceeding 200–300 tonnes per day, such as the Yuzhno-Balykskoye and Mamontovskoye fields. Furthermore, horizontal sidetracks drilled using MSHF are being introduced at low-permeability
deposits. The company implemented the most ambitious sidetracking program in its history in 2017, surpassing its highest well efficiency achieved in the last five years. The excellent performance across sidetracking programs implemented in 2017 has enabled the company to exceed its targets by a large margin.

The Company’s strategic goal is to ensure stable production and subsequent growth of production from RN - Yuganskneftegaz assets in the medium term.

Samotlorneftegaz

Samotlorneftegaz operates 11 licenses (including 10 licenses as the subsoil user). Hydrocarbon production totaled approximately 24.3 mmt in 2017, with liquid hydrocarbons production exceeding 19.5 mmt (including Yuganskneftegaz Corporation’s production).

Over 98% of Samotlorneftegaz’s proved reserves are concentrated within the Samotlorskoye field, one of the largest in the world. Commercial production at the Samotlorskoye field began in 1969 and peaked at over 150 mmt per year in the 1980s.

Due to the natural depletion of residual reserves and a high water cut, today the field produces oil with a considerable amount of formation water, with about 24 tonnes for every tonne of oil. In 2017, the average water cut amounted to 86.0%.

Samotlorneftegaz completed the construction of three wells with a unique trajectory for the Samotlorskoye field in 2017, allowing up to 1.7 thousand m deep reservoir. The wells are the first of such complexity in undeveloped marginal areas that were drilled using a Russian stationary drilling rig with top drive and rotary steerable system for drilling horizontal sections. The average well length was 4,740 m with an average initial flow rate of 199 tonnes per day. The tested technology will allow a significant improvement in the coverage of hard - to - reach marginal areas of fields, as well as areas where infrastructure facility construction is not possible.

Due to the considerable costs involved in maintaining existing wells and infrastructure for pumping and treating products containing a high water cut, Samotlorneftegaz requires additional fiscal incentives to maintain oil production at the current level.

For more efficient development, of the field, in 2016 - 2017, Rosneft and the Government of the Russian Federation agreed on investment incentives.


Rosneft’s Board of Directors has reaffirmed the Company’s commitment to drill over 2.4 thousand wells between 2018 and 2027, with projections of over 30 mmt of additional oil production. The new tax incentives will enable the Company to fully tap the Samotlorskoye field’s resource potential by boosting on - site operations, with the added bonus of contributing to job creation in the region.

RN-Uvatneftegaz

Around 70% of proved reserves are currently concentrated in the Ust-Tegusskoye, West-Epasskoye, and Limenskoye fields, which are being developed as part of the Eastern Development Center.

RN-Uvatneftegaz operates 20 licenses (including 19 licenses as the subsoil user) in the Tyumen Region, Omsk Region, and the Khanty-Mansi Autonomous Area.

Hydrocarbon production at the Uvat project fields totaled 9.8 mmt in 2017, with liquid hydrocarbons production of 9.6 mmt and following a near - tenfold increase in annual production from 1.2 mmt in 2004 to 1.16 mmt in 2016. The slight decline in 2017 was due to compliance with the terms of the OPEC+ production cut deal.

Despite external limitations, the company continues to deploy advanced drilling and well construction solutions, as well as implement a range of effective well interventions.

In 2017, RN-Uvatneftegaz launched commercial production at three new fields: the Severo-Tamarginskoye, Severo-Tamarginskoye, and Kosukhinskoye fields, with a combined 54 mmt of recoverable AB1C1 + B2C2 oil reserves as at 1 January 2018 – bringing the total number of commercially producing Uvat project oil fields to 14. The reserves in these new fields are hard - to - recover, their extraction requiring advanced drilling and completion technologies. For example, the Kosukhinskoye field’s development is carried out by drilling horizontal wells using MSHF, allowing a boost in well productivity compared to directional wells drilled with hydraulic fracturing. In 2017, over 60% of production at the Uvat project was derived from fields with hard - to - recover reserves.
Eastern Siberia and the Far East (Onshore)

Eastern Siberia and the Far East are home to the Company’s major upstream assets. In 2017, production at the Vankor cluster and the Verkhnechonskoye field was 30.4 MMT. These regions will be the main source of production growth in the medium term, driven by the development of the new Yurubcheno-Tokhomskoye, Srednebotuobinskoye and Kuyumbinskoye fields within the Vankor cluster.

Verkhnechonskneftegaz

Verkhnechonskneftegaz explores and develops the Verkhnechonskoye oil and gas condensate field. Located in the Irkutsk Region, the field is the second largest in Eastern Siberia. Verkhnechonskneftegaz also operates 12 Rosneft licenses throughout the Irkutsk Region and the Krasnoyarsk Territory.

The Verkhnechonskoye field is being developed using advanced technologies such as hydraulic fracturing and multi-stage hydraulic fracturing (MSHF). There are also ongoing initiatives to optimize well construction and completion practices, monitor pay-zone performance, and optimize operation of infrastructure facilities.

Verkhnechonskneftegaz carried out pilot batch drilling operations for four new wells in an effort to meet its strategic goal of reducing the time and cost of well construction cycle, resulting in drilling cycle time being cut by 10% and costs by 5%.

The Vankor Cluster

RN-Vankor operates the development project for the Vankor cluster fields, including the Vankor field, which is the largest discovery in the last 20 years. The cluster also contains the Suzunskoye, Tagulsukoye, and Lodochnoye fields located in the Turukhanskoye and Tasmynsky municipal districts in the Krasnoyarsk Territory’s north.

Since the beginning of commercial production at the Vankor field in August 2009, cumulative oil and gas condensate production from the entire Vankor cluster has exceeded 159 MMT.

RN-Vankor successfully implemented a well interventions program across existing wells, continued drilling new wells, and implemented production enhancement initiatives across its new assets. However, due to Rosneft’s compliance with the OPEC+ production cut deal, total production at the Vankor cluster in 2017 was capped at the 2016 level.

The company continues to drill production wells, as well as build top-priority facilities and infrastructure facilities across the Vankor cluster fields, which are developed using horizontal wells to improve production efficiency.

Oil production since development launch at the Yurubcheno-Tokhomskoye field

East Siberian Oil and Gas Company (Vostsibneftegaz)

East Siberian Oil and Gas Company operates five licenses (including two licenses as the subsoil user) in the Krasnoyarsk Territory. Vostsibneftegaz is currently conducting a project to develop an expanded first-stage area of the Yurubchenskokhomskoye field, located in the Evenk District of the Krasnoyarsk Territory.

The project is developed using unconventional solutions and advanced oil and gas production techniques due to its complex geology. Advanced technologies are deployed to ensure the project’s high economic efficiency, and its process and environmental safety.

In 2017, comprehensive technological testing of the oil treatment unit (OTU-1) commenced at the Yurubcheno-Tokhomskoye field.

Construction and installation at Phase 1 facilities is almost complete, and further development of production and related infrastructure is in progress. In 2017, East Siberian Oil and Gas Company produced over 700 thousand tonnes of oil. Since development launch at the Yurubcheno-Tokhomskoye field, one of the largest in the Krasnoyarsk Territory, the site’s cumulative production has amounted to around 1.7 MMT.

During construction of multilateral wells at the project, a new pressure-controlled drilling technology and nitrogen injection are used, boosting production to full capacity while minimizing circulation loss and increasing initial flow rates. Innovative technologies are being actively deployed within the project, allowing an increase in productive deposit coverage to achieve higher oil recovery rates. The optimization methods successfully tried and tested at...
Central Russia

In 2017, the Company’s oil and gas condensate production in the region amounted to 4.8 mmt - 2% of Rosneft’s total production.

Gas production in the region totaled about 3 bcm in 2017, produced mostly at the fields operated by Orenburgneft, Samarneftegaz, and Bashneft-Dobycha.

Orenburgneft

Orenburgneft operates 130 licenses (including 128 licenses as the subsoil user) in the Orenburg, Saratov, and Samara Regions. More than half of all proved reserves are concentrated in 10 major fields, including the Rostashinskoye, Sorochinskoye, Nikolskoye, Garshinskoye, and Pokrovskoye fields.

Hydrocarbon production totaled 17.1 mmt in 2017, with liquid hydrocarbons production of 15.7 mmt - a slight decline compared to 2016 due to compliance with the OPEC+ production cut deal.

In maintaining hydrocarbon production, the main objectives of Orenburgneft are the application of advanced well intervention techniques and the optimization of both well operations and reservoir pressure maintenance systems.

Since the launch of the company’s operations in 1936, its cumulative oil production has exceeded 1.2 bln tonnes.

Bashneft-Dobycha

Bashneft-Dobycha operates 251 licenses (with Bashneft as the subsoil user) located in the Republics of Bashkortostan and Tatarstan, the Orenburg Region, and the Khanty-Mansi Autonomous Area. More than half of all proved reserves are concentrated within six major fields, including the Arinskoye, Yagomashokovsky, and Tuimazinsky fields.

Southern Russia

RN-Krasnodarneftegaz

RN-Krasnodarneftegaz operates (with Rosneft as the subsoil user) 30 licenses in the Krasnodar Territory, the oldest oil production region in European Russia.

80% of RN-Krasnodarneftegaz’s proved reserves are concentrated in the Anastasievsko-Trotskooye field.

In 2017, hydrocarbon production totaled 2.8 mmt, while liquid hydrocarbons production amounted to 1.8 mmt.

Sustainable development

The company has successfully tested and implemented multilateral technology for productive formations with complex geology.
Timan–Pechora Province

RN-Severnaya Neft

Rosneft’s key upstream enterprise in Timan–Pechora, RN-Severnaya Neft, operates (with Rosneft as the subsoil user) 18 licenses within the Komi Republic and the Nenets Autonomous Area. Over 70% of RN-Severnaya Neft’s proved reserves are concentrated in five fields: Labaganskoye, Naulskoye, Kharymskoye, Srednemakarikhinskoye, and Cherpanyuskoye.

Hydrocarbon production amounted to 3.4 mmt in 2017, while liquid hydrocarbons production exceeded 3.2 mmt and cumulative oil production reached a milestone 65 mmt since RN-Severnaya Neft’s commencement of operations in 1994. The achievement was made possible through implementing a range of geological and technical solutions, effective drilling and oil production technologies, and a program for well workovers by sidetracking. Additionally, hydrocarbon production takes place at over 400 wells.

The development of the resource base and three fields within the Nenets Autonomous Area – Osyoreyskoye, Labaganskoye, and Naulskoye – is a promising focus area for RN-Severnaya Neft’s business.

Bashneft-Polyus conducts a development project for the Trebs and Titov fields located in the Nenets Autonomous Area, totalling 5 mmt of liquid hydrocarbons production in 2017.

Development of Hard-to-Recover Reserves

The Company makes consistent efforts in bringing hard-to-recover oil reserves into active development. Production of hard-to-recover reserves subsidized by the Government in accordance with applicable laws increased to 16.3 mmt in 2017, more than doubling the 2014 level. In 2017, over 900 wells were drilled for hard-to-recover reserves.

Today the Company’s portfolio of assets with hard-to-recover reserves consists of more than 140 fields holding a total of over 2.5 bln tonnes of oil in recoverable reserves (АВ1С1+В2С2).

The Company’s largest hard-to-recover reserves asset is RN-Yuganskneftegaz, with over 1 bln tonnes of hard-to-recover reserves. A significant amount of hard-to-recover reserves is also recorded on the books of RN-Nyaganneftegaz, Verkhnechonskneftegaz, and RN-Uvatneftegaz. These enterprises and RN-Yuganskneftegaz currently account for approximately 50% of the Company’s resource base of hard-to-recover reserves.

The Company’s recoverable reserves of high-viscosity oil within the Russian Federation total more than 550 mmt, primarily concentrated in the Russkoye field, unique for its size, and where the drilling program was further implemented in 2017: 83 horizontal wells were drilled, including eight multilateral horizontal wells.

In 2017, the Company’s portfolio of assets with hard-to-recover reserves was expanded through the formation of the Erginsky cluster that comprises the Kondinskoe group of fields, where hard-to-recover reserves exceed 150 mmt and the Erginsky License Area, the reserves of which amount to 103 mmt.

The expansion of the Company’s resource base of hard-to-recover reserves in 2017 was also made possible through implementing an extensive exploration program on formations containing hard-to-recover reserves, which has enabled the company to define formations with low-permeability reservoirs and additionally increase the estimated volume of the Company’s hard-to-recover reserves by over 170 mmt. These efforts will allow the Company to meet the Minerals Extraction Tax (MET) credit conditions for hard-to-recover reserves, thereby providing an extra incentive to step up development of these projects.

The bulk of subsidized production from hard-to-recover and high-viscosity reserves is concentrated in Western Siberian fields which contain low-permeability formations of the Tyumen suite, the Achimov deposits, and formations containing high-viscosity oil. The post-2026 forecast of hard-to-recover reserves development strongly depends on alleviating geological and technological uncertainties, for which the Company actively seeks optimal technical and economic solutions. The Company considers possibilities of further expanding its hard-to-recover resource base through unlocking the full potential of high-viscosity reserves, as well as unconventional oil reserves from the Bashenov, Abalak, Khadum, and Domanik suites. Achieving additional potential is possible through successful pilot development in joint-project frameworks in collaboration with global partners.

Apart from joint projects to identify, test, and deploy technologies for hard-to-recover reserves development, the Company has its own program of exploration and pilot projects aimed at developing low-permeability formations, high-viscosity oil deposits, and the Bashenov suite within the framework of target innovative projects. The program includes development of the following technologies:

- developing silty sand deposits (ultra-low permeability, high heterogeneity) with a geologically adaptive development system and enhanced completion technologies
- bringing Bashenov suite deposits into production based on specific core research, localization of prospects for drilling, and completion technologies
- thermal recovery methods for ultra-high-viscosity oil fields in the Sarnara Region
- developing the high-viscosity oil reserves contained within palynological complex formations in Western Siberia, the technology for which may also be applicable in developing the Russkoye and North Komsomolskoye fields, as well as the Messyakhkoye project fields.
In 2017, exploration and development projects on hard-to-recover reserves delivered further positive results.

The Company continued implementing its innovative projects to improve exploration technologies and modelling of low-permeability formations at RN-Yuganskneftegaz fields. Pilot projects to re-orient hydraulic fractures were conducted – mechanical geological models were built and three horizontal wells were drilled with multi-stage hydraulic fracturing and transversal pointing of fractures relative to the well.

Constructing wells with an increased length of horizontal sections is currently being carried out, and horizontal wells with a horizontal section length of up to 2 thousand m have been drilled and developed through 10-stage hydraulic fracturing.

The Company continues pilot development of producing deposits of the Bazhenov suite. In 2017, eight directional and four horizontal wells were drilled in RN-Yuganskneftegaz fields, standard hydraulic fracturing was also carried out, as well as hydraulic fracturing with a high rate of fluid flow and low-viscosity fluids. In 2018, multi-stage hydraulic fracturing at the Bazhenov suite will be continued.

Progress on the Program to Increase APG Utilization Rates

Following the implementation of the gas program, APG utilization rate reached 90.7% in 2017, excluding fields at early stages of development. Including the new fields and fields at early stages of development, APG utilization amounted to 89.2%.

In 2017, 36 APG utilization facilities were completed. The key projects of the 2017 program are ones that build and renovate the following ground infrastructure facilities:

- Compressor stations (CSs): RN-Vankor’s PWDOU - North low-pressure gas compression station, and the PWDOU 1 and PWDOU 3 compressor stations of the Tomskneft VNK Sovetskoye field
- Gas transportation infrastructure: gas pipelines 'Alatorka Gas Processing Plant – Ilyino Modular Pump Station’ and ‘Ilyino PWDOU – Iskra Block Modular Power Plant of Bashneft-Dobycha’;
- The RN-Krasnodarneftegaz gas pipeline from Kluchevaya CS to Smolenskaya CS; petroleum gas pipelines of the RN-Yuganskneftegaz Phrazlomnoye field; and the gas pipeline at Varyoganneftegaz’s Van-Eganskoye field
- Power generation facilities: 5 MW gas engine power plant (GEPP) of Tomskneft VNK’s Gerasimovskoye field
- Captive gas utilization facilities of Samaraneftegaz, Bashneft-Dobycha, Taas-Yuryakh Neftegazodobycha, and Sorovskneft

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1 Pursuant to Resolution of the Russian Government No. 1148 dated 8 November 2012 On the Aspects of Calculating Charges for Pollutants Produced by Flaring and/or Venting Associated Petroleum Gas.
4.4. GREENFIELD DEVELOPMENT PROJECTS

**ERGINSKY CLUSTER – A NEW STRATEGIC ASSET**

The new strategic cluster was formed through integrating the Erginsky license area and Kondinskoye fields’ infrastructure with that of the largest oilfield in Russia, the Priobskoye field operated by RN-Yuganskneftegaz. Shared use of the integrated oil transportation system and the shared power supply system of the new cluster are being planned.

**COMMENCEMENT OF THE ERGINSKY CLUSTER FIELDS PRODUCTION WAS PERFORMED IN SEVERAL STAGES:**

In autumn 2017, the Kondinskoye field was commissioned with the delivery of marketable products into the JSC Transneft Siberia’s oil pipeline system, and construction of the first start-up complex facilities was finished, including infrastructure facilities and 132 wells.

The Kondinskoye field development includes completion of a gas turbine power plant and the field support base (Phase 2 construction).

In the period 2019-2021, the sequential commissioning of the Erginsky, Zapadno- Erginskoye, Chaprovskoye and Novo-Endyrskoye fields will be ensured, where exploration and additional field appraisal is currently underway.

The Erginsky cluster consists of five fields purchased by Rosneft in 2017 and is located in the Khanty-Mansi Autonomous Area in Western Siberia. It consists of the largest Erginsky license area containing a part of the Priobskoye field, which is operated by RN-Yuganskneftegaz, with Rosneft as the subsoil user; the Kondinskoye, Chaprovskoye, Zapadno- Erginskoye fields, with Kondaneft as the subsoil user; and the Novo-Endyrskoye field, with RN-Endyrneftegaz as the subsoil user.

**A large portion of recoverable reserves of the Erginsky cluster fields (АВ1С1+В2С2) as at 1 January 2018**

**License areas construction will be carried out to a standardized design which is aligned with the Company’s overall plan for the cluster development. Implementation of new technologies and approaches that are being developed to utilize associated petroleum gas (APG) will allow its rational, efficient utilization to reach a rate of 95% in the future. The license area facilities will be powered by gas turbine power plants located at the fields and connected to the JSC Tyumenenergo grid by 2020. Diesel power facilities have also been installed for uninterrupted power supply.**
Development of an Expanded High-Priority Area of the Yurubchensko-Tokhomskoye Field

The Yurubchensko-Tokhomskoye field was discovered in 1982. Oil production began in 1987, with the produced oil being used for Rosneft’s own operational needs and sold to utility companies in the Evenki District. The field contains 82 producing wells and its oil production reached approximately 1.7 mmt as at 1 January 2018. The Yurubchenskoye deposit is the largest and most development-ready within the Yurubchensky license area.

The field development plan comprises three main phases. Phase 1 includes comprehensive technological testing of the oil treatment unit (OUT-1) with a design capacity of 2.5 million tonnes per year, and an oil pipeline connecting a metering station and the junction of OPS-2. Construction and installation at Phase 1 facilities is almost complete, and further development of production and related infrastructure is in progress. Following the completion of Phase 1, decisions will be made whether to continue the project development (Phases 2 and 3).

Phase 2 assumes the development of the entire Yurubchenskoye deposit. Phase 3 will bring into development all deposits at the Yurubchensko-Tokhomskoye field within the Yurubchensky and Tersko-Kamovsky (southern section) license areas.

In January 2018, the second multilateral well was completed at the Yurubchensko-Tokhomskoye field. The hydrodynamic surveys showed oil flow rates as high as 289 tonnes per day, which is over two times as high as the flow rates at neighboring wells. During construction of the multilateral well at the Yurubchensko-Tokhomskoye field, nitrogen injection and a new pressure-controlled drilling technology were used, boosting production to full capacity while minimizing circulation loss and increasing initial flow rates. Innovative technologies are being actively deployed within the project, allowing an increase in productive deposit coverage to achieve higher oil recovery rates.

East Messoyakha Field Development

Messoyakhaneftegaz is currently implementing a development project for the East Messoyakha and West Messoyakha license areas. The project participants include Rosneft (50%) and PJSC Gazprom Neft (50%), which manages day-to-day operations.

The project has been granted MET tax credits and export customs duty relief. Oil production at the East Messoyakha field in 2017 was 3.2 mmt (100% of the project), while the Company’s share totaled 1.6 mmt. The full-scale development of the East Messoyakha field began with the commissioning of key infrastructure facilities on 21 September 2016, and the volume of its oil output eligible for export customs duty relief is regulated by the Decree of the Government of the Russian Federation.

To meet the resultant growing production volumes, oil treatment facilities were expanded in 2017, and their construction, installation, and pre-commissioning operations have been completed. In June 2017, a modular cluster pumping station and a basic start-up complex for a first-stage gas separator were commissioned.

Suzunskoye Field Development

The Suzunskoye field, operated by RN-Vankor is located in the Tamyr Autonomous Area of the Krasnoyarsk Territory, 150 km southwest of Dudinka. Suzun holds the license for the use of Suzunskoye field outoil.

The project has been granted MET tax credits.

The project development comprises two phases:
- Phase 1 – in September 2016, comprehensive technological testing of hydrocarbon production, treatment, and transportation facilities was launched at the field: five well pads and the first start-up complex of the oil treatment unit were constructed, oil transportation was ensured, and small-scale generating facilities were commissioned.
- Phase 2 – implementation of the gas program to ensure gas transportation to the Vankor field starting from 2018, followed by the commissioning of external power supply facilities and auxiliary facilities.

In 2016, the Company launched comprehensive testing of the field.

The project’s objective is to establish the Vankor cluster, a major oil production hub in the Krasnoyarsk Territory.
Srednebotuobinskoye Field Development (Phase 2)

Taas-Yuryakh Neftegazodobycha holds the subsoil use license for the Central Block of the Srednebotuobinskoye field and the Kurunsky license area, and operates eight licenses with Rosneft as the subsoil user.

The asset is 50.1% controlled by Rosneft, 20% by BP Russian Investments Limited, and 29.9% by TASS INDIA PTE. LTD.

The project has been granted MET tax credits and export customs duty relief.

In 2017, five multilateral wells were completed, including those drilled using the Fishbones Stimulation Technology, with a total of 18 thousand meters drilled. Rosneft obtained confirmations on the technical feasibility of drilling multilateral wells in the Srednebotuobinskoye field conditions to increase well productivity and optimize development.

The technology is planned to be rolled out in 2018 following assessments on the efficiency of multilateral well drilling in the field. As scheduled for 2018, infrastructure facilities will continue to be commissioned as part of the field’s Phase 2 construction and the necessary exploration and production drilling programs will be carried out.

Russkoye Field Development

The Russkoye field, developed by Tyumenneftegaz, was discovered in 1968 and is located in the Yamal-Nenets Autonomous Area within the Arctic Circle.

The project has been granted MET tax credits. The bulk of the Russkoye field’s oil reserves is concentrated in the Cenomanian deposits and contains heavy, high-viscosity, sweet, low-paraffin oil. The highly marketable oil is suitable for mixing with gas condensate to conform with Transneft’s technical specifications for oil delivery to the pipeline system. The gas reserves are located in the PK construction of key production, auxiliary, and other field facilities are underway in preparation for the commissioning of production facilities under Phase 1 field development in 2018. Additionally, an APG-fired power plant has been commissioned.
Tagulskoje Field Development

The Tagulskoje field operated by RN-Vankor is located within the Turukhansk District of the Krasnoyarsk Territory. LLC Tagulskoje holds the license for the use of subsoil.

Phase 1 of the pilot program assessing the production potential of layers and determining an optimal field development system was completed from 2010 to 2012, and the program entered its current second stage in 2015. The project has been granted MET tax credits.

Its objective is commissioning the Tagulskoje field as part of the efforts to establish the Vankor cluster, a major oil production hub in the Krasnoyarsk Territory. The project’s development benefits from synergies with the operational Vankor field by sharing power supply, oil transport (via the Vankor–Purpe pipeline and further to Transneft’s pipeline system), and gas monetization arrangements (gas is supplied through the Vankor field to Gazprom’s gas transportation system).

Construction and installation operations on key infrastructure facilities are underway in preparation for commencing full-scale development of the Tagulskoje field scheduled for 2018. The existing oil well stock was 26 wells as at 31 December 2017, and production for the year amounted to 0.3 mln tonnes of oil.

Lodochnoye Field Development

The Lodochnoye field operated by RN-Vankor is in the Krasnoyarsk Territory, 140 km west of the Igarka River and bordering the Vankor license area to the north and the Tagulsky license area to the south. The project’s objective is to commission the Lodochnoye field and further establish the Vankor cluster, a major oil production hub in the Krasnoyarsk Territory. Samotlorneftegaz holds the subsoil use license for the area.

The Lodochnoye field is a multipay field, large in recoverable reserves, and complex in terms of geology. The project has been granted MET tax credits. Production drilling at the field was started in autumn 2016; during 2017, three production wells were drilled and developed. To assess the production potential of core assets in the most promising areas, pilot production was started at the field in 2017. Process start-up stage was completed for the CP No. 1–CP No. 103 of the Vankor Field inter-field oil pipeline. Produced hydrocarbons are delivered to PAVGU - South free water knock-out unit and then to the oil trunk pipeline system. As part of preparations for commercial production start-up, production drilling will be continued at the field, along with the construction of infrastructure facilities (oil treatment unit, gas compressor station, high-voltage power lines, etc.), and a research program will be carried out.
In 2017, sustainable development of the in-house oilfield services business continued, and the acquired Targin-Burenie providing required capabilities to Bashneft was integrated into the drilling holding company. Burenie Servis Tekhnologii drilling company that owns eleven new drilling rigs with a load capacity of 320 tonnes was also acquired. The unit carries out production drilling at the sites operated by Kandalneft, Rosneft’s oil producing subsidiary, in the Khanty-Mansi Autonomous Area, and drilled a total of 471 thousand m in 2017. Resulting from the acquired assets integration, the RN-Burenie Ufa and Khanty-Mansiysk branches were established, with the total number of branches reaching 12.

Under the continued equipment upgrade program, a contract was signed for the delivery of eleven new drilling rigs (produced in China) to the Volga-Urals region. In addition, two Chinese-built mobile drilling rigs have been commissioned in the region.

As of December 2017, the number of active well servicing crews totaled 702.

Well Workover and Servicing

In 2017, Rosneft performed 39,407 well workover and servicing operations, which constitutes 16,717 well workover operations and 22,690 servicing operations, and amounts to 34.6 well workover crew operations (including development and abandonment of wells) and 109.8 well servicing crew operations per annum.

In implementing efficient in-house services, Targin KRS was integrated into the Company’s structure, RN-Service’s Olef service branch was created, and RN-Service reorganization was initiated by its merger with Targin KRS.

Under the Strategic Partnership Agreement signed between Rosneft and KAMAZ, 218 APR-60/80 workover rig vehicles were delivered to RN-Service in 2017 for well workover crews.

Hydraulic Fracturing

In 2017, the total number of in-house hydraulic fracturing operations reached 3,931.

The oilfield service price benchmarking performed in 2017 demonstrated that the in-house (RN-GRP) service prices are lower than those quoted by external service providers for most Group Subsidiaries (from –5 to –14%).

As of 2017, the share of RN-GRP in the total Rosneft hydraulic fracturing and coiled tubing operations amounts to:
- 26% – hydraulic fracturing
- 12% – coiled tubing operations.

Oilfield Equipment Repair

In January 2017, a specialized drilling and oilfield equipment repair holding company was established through a merger of seven RN-Service subsidiaries with LLC RN-Remont NPO and a transfer of two service companies (CJSC KNS-Mashinoobrot and LLC Samarskiy TC) under the management agreement.

In 2017, LLC Targin-Mekhanservice, a Targin Group asset acquired on 30 December 2016 and currently servicing Bashneft, was integrated into Rosneft’s structure and put under the operational control of LLC RN-Remont NPO as part of its newly-established Ufa branch.

LLC RN-Remont NPO provides oilfield equipment maintenance services in the amount of 1,574,081 days and 645,065 items of equipment, repairing 607,069 items of oilfield equipment and tubing, and manufacturing 316,626 spare parts and other products.

As at December 2017, the number of active well workover and servicing crews totaled 702.
4.6. OFFSHORE PROJECTS OF THE COMPANY

Rosneft sees hydrocarbon resource development on the continental shelf as a key strategic direction for its growth.

Hydrocarbon resources of the continental shelf of the Russian Federation, primarily the Arctic, are considered by specialists as a main reserve for the development of the oil and gas industry in the long term. The Russian continental shelf is the world’s largest in terms of area covered – over 6 mln sq. km, and Rosneft holds the biggest pool of licenses in the continental shelf. For the Company, development of the oil and gas potential of the continental shelf is an important state task in terms of supporting the modernization of industry and organizing the production of high-tech equipment, updating the coastal and transport infrastructure, and developing human resources. The Company is carrying out offshore projects in the water area of the Arctic, Far Eastern and Southern seas of Russia, taking into account the current price situation on the world oil and gas market.

Rosneft’s portfolio contains 55 licenses on the Russian continental shelf, representing an aggregate resource potential of 39.5 bln toe as at 31 December 2017. Out of them, 19 license areas are situated in the waters of the Western Arctic (the Pechora, Barents and Kara seas), nine licenses are in the Eastern Arctic (the Laptev, Chukchi and East Siberian seas), 20 – offshore the Far East (the Sea of Okhotsk and the Sea of Japan), and seven license areas lie in the waters of southern seas (the Black, Caspian and Azov seas).

Of the 55 license areas, 26 partnerships were established in 2017 with industry majors such as ExxonMobil, ENI, Statoil, LUKOIL, Sodeco, ONGC, and Sinopec.

39.5 BLN TOE
recoverable oil and gas resources owned by the Company in offshore Russia
Results of Offshore Exploration in Russia

In 2017, in line with its license commitments, Rosneft continued exploration and prospecting for oil and gas in offshore areas in the Russian Arctic, Far East and southern seas.

2D SEISMIC SURVEYS

During the 2017 field season, Rosneft carried out 2D seismic surveys on an unprecedented scale ahead of the schedules stipulated by its license obligations. Across a total of 11 license areas, 46,348 linear km of 2D seismic surveys were completed, including 36,598 linear km on 10 licenses on the Arctic shelf and 9,750 linear km in offshore areas in the Far East. To gather data, streamers and hydrophones were used equipped with technology tailored for Arctic sea applications. 2D seismic surveys in offshore areas of the Russian Far East were accompanied with exploration activities such as gravity, magnetic, and bathymetric surveys.

3D SEISMIC SURVEYS

To detail the geology of prospects and support planning for exploration drilling on selected prospects, 5,882 sq. km of 3D seismic data were acquired in 2017 for eight offshore license areas in the Arctic and the Far East, including 3,671 sq. km on the Arctic shelf, and 2,151 sq. km on offshore areas in the Sea of Okhotsk and the Sea of Japan.

The gathered seismic data will enable optimal decision making on further exploration of license areas.

 FIELD GEOLOGY EXPEDITIONS

Three field geology expeditions were organized at the Company’s offshore license areas in the Far East and the Arctic, aimed at minimizing the geological risks related to certain elements of petroleum systems such as source rocks for oil and gas, reservoir rocks, and cap rocks. Representative rock samples were collected for laboratory analysis, the results of which will be used to update the geological model of the region and survey areas.

SOIL SURVEYS

Soil surveys were completed on four prospects within license areas. The results of comprehensive marine surveys provided full sets of data for well design and construction in the license area, including for engineering and environmental protection. Detailed data on soil composition in the area will allow experts to predict geological and geological engineering processes, as well as address the risks that might arise at the drilling phase.

ENVIRONMENTAL MONITORING

In 2017, Rosneft completed its environmental monitoring program and mapping of fisheries for environmental purposes at the following license areas: Gusozemelsky (the Barents Sea), Phtamarnysky (the Laptev Sea), Vostochno-Sibirsky-1 (the East Siberian Sea), Central-Tatarsky (Sea of Japan, Strait of Tartary). The scope of environmental baseline assessment of the marine ecosystems status included metocean, hydrologic, hydrochemical, hydrobiological, and ichthyological studies and surveys; sampling of seabed sediments and sea water; and marine mammal and bird observations. The field surveys were followed by laboratory analysis of samples and data collected at the field phase.

In accordance with license commitments, environmental monitoring was part of technical condition diagnostics of wellheads of previously drilled wells in the Pechora, Barents, and Kara seas, the Sea of Okhotsk, and the Laptev Sea.

On 3 April 2017, Rosneft began drilling the Central Olginskaya-1 well in the Khatangsky license area in the Laptev Sea—the first exploration well on the Russian Western Arctic shelf. The Company completed the pre-drilling phase in record time, successfully carrying out a most complex logistics project of bringing a drilling rig, and necessary materials and equipment to the drilling site. Based on the drilling results from the Central Olginskaya-1 well, the northernmost appraisal well in the Western Arctic, Russia’s State Reserves Committee confirmed in October 2017 the discovery of the Central-Olginskoye field within the Khatangsky license area in the Laptev Sea containing recoverable reserves (C1+C2) of over 80 mmt of crude.

The Central-Olginskoye field within the Khatangsky license area in the Laptev Sea
Offshore Oil and Gas Production in Russia

SAKHALIN-1 PROJECT

The Sakhalin-1 project involves the development of three offshore fields: Chaivo, Odoptu, and Arkutun-Dagi, located in the Sea of Okhotsk on Sakhalin Island’s north-eastern continental shelf.

State-of-the-art technologies and project management methods are used to develop the fields. At the Odoptu field, oil is extracted from an onshore site using vertical wells with record-length boreholes, while the Arkutun-Dagi field is developed using a unique drilling platform, Berkut.

The oil from the Sakhalin-1 project fields is delivered to the Chaivo onshore oil treatment facility on Sakhalin Island, and then transported by pipeline to the De-Kastri oil export terminal in the Khabarovsk Territory.

In 2017, Rosneft, acting as part of the Sakhalin-1 consortium, successfully completed drilling of the world’s longest well from the Orlan platform at the Chaivo field in the Sea of Okhotsk. The length of the well including a horizontal completion is 15 thousand meters, a current world record. The well is classified as a supercomplex well, with DDI (directional drilling index) of 8.0 and a step-out of 14,129 m.

In 2017, we started Phase 2 development of the Odoptu-Sea field by drilling a production well from a new onshore drilling rig called Krechet.

The Krechet rig was specifically designed to drill extended reach wells. The rig was uniquely designed to operate in challenging climatic conditions (at temperatures below -40 °C and in seismic zones).

The design of the Krechet drilling rig is much similar to that of the Yastreb rig, which was used in the Sakhalin-1 project and was responsible for drilling some of the world's longest wells. Unlike Yastreb, the Krechet rig offers enhanced mobility which provides for its wider use in development drilling at the Odoptu-Sea field.

Project Stakes, %

- Rosneft (Russia) 20%
- EXXONMOBIL (USA) 30%
- SODECO (Japan) 30%
- ONGC VIDESH LTD (India) 20%

In April 2017, Rosneft achieved a milestone of 5 mmt of crude oil pumped out at the Chaivo field’s northern tip since development of the field began.

NORTHERN TIP OF THE CHAIVO FIELD

Under the license obtained by Rosneft, the company has been developing the northern tip of the Chaivo field situated in shallow waters off the north-eastern coast of Sakhalin Island, since September 2014. The Company commissioned and put into operation permanent oil gathering and metering systems ahead of the schedule for construction of onshore production facilities.

In 2017, actual oil production was 1.4 mmt, with gas supplies to consumers totalling 0.2 bcm.

THE LEBEDINSKOYE FIELD

The Lebedinskoye field (in the Sea of Okhotsk) began oil production in 2014 and is operated by LLC RN-Sakhalinmorneftegaz. Four production wells are used to pump the oil. The oil extracted at the Lebedinskoye field has a quality grade similar to Sokol crude.

In 2017, the Company carried out a project to further delineate the boundaries of the Lebedinskoye field, which expanded its area and the field’s resource base. In addition, the Lebedinskoye Field – Odoptu-Sea Field pipeline was launched to improve operational reliability.

In 2017, actual production from the field was 332 thousand tonnes of oil and approximately 25 mmcm of natural gas.

ODOPTU-SEA FIELD (NORTHERN DOME)

The Odoptu-Sea field (the Northern Dome) is Russia’s first offshore field, flowing oil since 1998. LLC RN-Sakhalinmorneftegaz is the field operator producing oil and gas at the Odoptu-Sea.

Oil is produced from horizontal wells operated from the shore of the island. A total 40 extended reach production wells with lengths of 5–6 km have been drilled. As at 1 January 2018, 28 oil production wells and seven injection wells were in operation. Actual production in 2017 was 371 thousand tonnes of oil and 128 mmcm of natural gas.

Oil and gas gathering and treatment facilities, reservoir pressure maintenance system, outboard pipelines to transport oil, gas, and water, and power generation facilities were constructed as part of the field setup.
4.7. GAS BUSINESS

Rosneft's strategic goal in gas business development involves a consistent increase in the Company's shareholder value through higher gas production, supported by a highly efficient long-term sales portfolio.

In 2017, Rosneft maintained its leadership position in daily production among independent Russian gas producers. The Company is developing vast gas reserves in Western and Eastern Siberia, holding a unique license portfolio for hydrocarbon resource development on the Russian continental shelf.

Rosneft produces gas using the resources of more than thirty subsidiaries and joint companies in Western and Eastern Siberia, Central Russia, the south of European Russia, the Far East, as well as in Vietnam, Venezuela, Egypt, and Canada.

AB1C1+B2C2 recoverable gas reserves as at 1 January 2018 reached 7.9 tcvm, representing a 4% year-on-year growth. The greatest gas reserve increase under the Russian classification was secured by updating the Oskobin suite deposits structure in the Yurubcheno-Tokhomskoye field upon completion of the exploration program.

Implementing Russian gas projects, entering foreign gas markets, and becoming a global player on the international LNG market is one of Rosneft's major objectives.

AB1C1+B2C2 recoverable gas reserves rose by 4% year-on-year, reaching 7.9 tcvm.

Rosneft's leadership position in daily production among independent Russian gas producers.

In 2017, Rosneft maintained its leadership position in daily production among independent Russian gas producers.

Gas production grew by 2.0% compared to 2016.

Rosneft is continuing its program for increasing APG utilization rates, which remained high in 2017 at 89.2%, while a number of subsidiaries reached 93–97%.

As part of the Zohr field development offshore Egypt, Rosneft began gas production as an international consortium member in December 2017. A project of this scale in cooperation with foreign partners will further increase Rosneft's expertise in offshore field development and reinforce its position in the strategic Egyptian market.

In December 2017, Rosneft was granted a production license for the Patao and Mejillones offshore fields, as per the directive signed by the Venezuelan Oil Minister, Manuel Quevedo, in the presence of the President of the Bolivarian Republic of Venezuela, Nicolas Maduro.

Meeting the strategic gas business objectives will increase Rosneft's free cash flow between 2018 and 2022, grant a 20% share in the Russian gas market, and secure long-term growth of the Company's shareholder value.
Gas Production

In 2017, Rosneft’s gas production both in Russia and abroad totaled 68.41 bcm, including 31.58 bcm of natural gas and 36.83 bcm of associated petroleum gas. 0.79 bcm of total gas production and 0.66 bcm of natural gas are produced by the Company’s foreign projects in Vietnam, Venezuela, Egypt, and Canada, while its Russian production is responsible for 67.82 bcm. A part of the Company’s gas produced in Russia is used for liquid hydrocarbons production. In 2017, the Company’s production in Russia, including liquid hydrocarbons production, totaled 68.01 bcm.

Rosneft maintained its leadership position in daily production among independent Russian gas producers. In meeting its strategic objectives, the Company focuses on the long-term proactive growth of its gas business.

Rospan

The full-scale development of the fields operated by Rospan International is generally the largest contributor to the Company’s increased production of both gas and hydrocarbons until 2020. Upon reaching the design capacity, the annual gas production is projected to exceed 19 bcm with gas condensate, oil production at close to 5 mmta, a condensate butane and propane mixture production of up to 1.3 mmta. Active construction operations continued on key infrastructure facilities throughout 2017, such as the gas and condensate treatment unit at the Vostochno-Urengoy gas license area, the condensate stabilization unit and methane removal system for propane-butan, the Vostochno-Urengoy Gas Turbine Power Plant, the Khanty-Mansiysk station’s loading railroad terminal, as well as trunk pipelines, infield pipelines, and power supply facilities. Phased facilities start-up is to commence from late 2018 and continue into 2019.

Sibneftegaz

The Company’s largest gas producing asset, Sibneftegaz, produced 12.6 bcm over the year. Production maintenance projects at existing fields and the Beregovoye field’s lower horizon development are to facilitate a production increase of up to 15.5 bcm by 2020, with a further increase to 17 bcm.

Kharapurm

Operations at the Kharapunskoye field project are a vital step toward Rosneft’s gas business development. The project is planned to develop the Cenomanian deposit’s conventional gas reserves and launch pilot production, with subsequent transition to the full-scale field development of the Turonian deposit’s hard-to-recover reserves. The Company has the expertise and experience necessary for such complex projects to be implemented efficiently. In the medium term, the project’s production is expected to plateau at 11 bcm per year, with a growth potential of up to 24 bcm per year.

Field development has been planned for the long term in the Kynsko-Chaiostskiy license area with a designed capacity of approximately 11 bcm per year and a growth potential of up to 16 bcm per year. Throughout 2017, development and the involvement of strategic partners continued at new gas production centers based out of Rosneft fields in Eastern Siberia and the Republic of Sakha (Yakutia).

In particular, Rosneft and Beijing Enterprises Group Company Limited successfully closed a deal to acquire 20% of shares in Vorkhovenskotegaz, which is currently developing the Vorkhovenskoye gas condensate field in the Irkutsk Region with potential for a major gas project development. Strategic partnerships open up new prospects for monetizing Eastern Russian gas reserves.

Rosneft is jointly continuing the Srednebotuobinskoye oil and gas condensate field development in the Republic of Sakha (Yakutia) with the consortium of India’s OIL India Limited, Indian Oil Corporation Limited, and Bharat Petroleum Limited.

Achievements in Gas Production in 2017

- Russia’s gas production grew by 1.5 bcm – 2.9% compared to 2016. The following factors predominantly contributed to the growth:
  - higher production of associated petroleum gases (APG) and natural gas in 2017 due to new well start-ups by Varyagpetrokom, and higher gas deliveries through the Tyumen compressor station following its renovation
  - acquisition of Bashneft assets in Q1 2016
  - higher natural gas production due to new well start-ups and optimizations in existing well operations at Sibneftegaz

10% share in Russia’s total gas production

Gas Production in Key Regions of Operation in Russia and Abroad, bcm

2017 Gas Production by Region

- Rosneft’s largest gas producing region resides in Western Siberia, where its gas production increased by 2.1% year-on-year to 48.5 bcm, with natural gas production amounting to 26.57 bcm. Natural gas was primarily produced at the fields operated by Sibneftegaz, Rospan International, and RN-Purneftegaz. Associated petroleum gas production amounted to 21.93 bcm, primarily produced at the Samotlorneftegaz, RN-Yuganskneftegaz, RN-Purneftegaz, and PJSC Varyagpetrokom fields.

- In Southern Russia, RN-Krasnodarneftegaz is the main gas-producing asset that produces both natural and associated petroleum gas; the region’s production amounting to 2.85 bcm in 2017.

- In Eastern Siberia, gas is produced at the Vankor field, which is the largest in the region and where associated petroleum gas (APG) production amounted to 7.05 bcm in 2017, while natural gas production totaled 1.58 bcm.

- In the Far East, Rosneft primarily produces associated petroleum gas and natural gas at offshore fields and onshore Sakhalin Island, where RN-Shelf-Dalny Vostochno-Vostochno-Vostochno produced the bulk of the 4.63 bcm of total gas production in 2017.

International Gas Business Development

The Company’s involvement in international gas projects ensures a significant and cost-effective increase in its gas reserves and a balanced risk profile of its asset portfolio.

- Egypt: A 30% stake in a unique Zohr field development project implemented together with ENI and BP.
- Venezuela: A 100% stake in the Mejillones and Pataco field projects. Operator with rights to exploit the produced gas.
- Brazil: A 100% stake in the Solimões Basin blocks where exploration is currently underway. Operator.
- Mozambique: In 2015, a consortium comprising Rosneft and ExxonMobil was awarded three offshore gas blocks (AS-3, 25-5, and 25-3) where Rosneft has a 20% stake.
- Vietnam: A 35% stake in the gas and condensate production project at Block 66.1 (Operator). A 30.67% stake in the Nam Con Son gas pipeline.

For more details on implemented projects see Section 4.8.
In 2017, production increased by 12.58 bcm.

The Company's largest gas-producing asset in Southern Russia, producing both natural and associated petroleum gas.

**Rosneft**

Rosneft is the Company’s key hub for long-term hydrocarbon production growth through to 2020. In 2017, natural gas production amounted to 6.43 bcm.

The target annual production is over 18 bcm of natural gas and approximately 5 mmt of gas condensate and oil, while the target production of industrial propane/butane mixture amounts to 1.3 mmt, with potential for further production growth. As of 1 January 2018, the total recoverable AB1C1 + B2C2 reserves were commissioned, while the rate of APG utilization – a 2.9 percentage points increase from 2016. The results are in line with the Company’s continued program to increase its APG utilization rates, for which gas transportation infrastructure facilities were built, such as the pipelines “Altaika Gas Processing Plant – Tyto Modular Pump Station” and “Tyto-PWOU – Issa Block Modular Power Plant”, among a number of other facilities.

**Vankor Group**

Total production of 8.4 bcm.

The high gas production level was achieved by reactivating the Barsukovskoye field well pads. Production of natural gas liquids (NGL)1 from APG increased by 39% compared to 2016, amounting to 97 thousand tonnes through the Tarasovskaya gas condensate treatment plant.

**Samotlorneftegaz**

Total production of 5.82 bcm.

The APG utilization rate at the Samotlor field was maintained at a level above 97%.

**RN-Yuganskneftegaz**

Total production of 4.64 bcm.

The Djuplinsky license area and the Moskovtsev and Kuzovatkinskoye fields were commissioned, while the rate of APG utilization has been maintained at 98%.

**Varyogantneftegaz**

Total production of 3.97 bcm.

Gas production increased by 16.6% compared to 2016, due to the commissioning of new gas wells at the Severo-Varyoganskoye field and higher gas delivery through the Tyumenskaya compressor station following its revamping.

The enterprise has significant free gas and gas cap reserves.

**Krasnodarneftegaz**

Total production of 2.47 bcm.

Krasnodarneftegaz is the key gas-producing asset in Southern Russia, producing both natural and associated petroleum gas.

**RN-Yuganskagazpererabotka**

The subsidiary LLC RN-YuganskGazPererabotka was established to carry out the construction project of the Mayak gas processing complex, where design activities and surveys have begun.

**Pechora LNG**

A joint venture with ALTECH Group.

**AR Eastern LNG (part of the Sakhalin-1 project)**

Field surveys were completed near the De-Kastri settlement and the Nefelovskoye Street during the 2017 season, and optimization projects aimed at reducing investment costs while increasing the efficiency of the plant’s construction were carried out.

**Kharapmur**

One of Rosneft's most crucial active gas business development projects.

**Nizhnevartovsk Oil and Gas Producing Company and Severo-Varyoganskoye.**

**ROSNEFT STRATEGY OF THE COMPANY**

About the Company

Operating results

Corporate governance

Information for shareholders and investors

**Sustainable development**

Rosneft’s key gas supply regions

Gas production

Promising gas production projects

LNG production projects

GPPs

* NGL – natural gas liquids.

1 Including ADC Yuganskneft Corporation.

2 Nizhnevartovsk Oil and Gas Producing Company and Severo-Varyoganskoye.
4.8. DEVELOPMENT OF INTERNATIONAL PROJECTS IN PROMISING OIL AND GAS REGIONS

Rosneft is a global energy company with a diversified portfolio of international assets. The Company’s mid-term strategic objectives in international expansion include managing its current asset portfolio effectively and engaging partners. Over the longer term, the Company seeks to expand its international presence in the world’s most promising oil and gas regions, grow its resource base, and improve overall performance.

Our main goal is building a sustainable and profitable international presence is the creation of additional value for our shareholders while acquiring new knowledge and expertise for more effective project development both in Russia and abroad. Operating in regions such as South America, North and East Africa, the Middle East, and the Asia-Pacific Region, the Company actively develops local partnerships that are aimed at mutually beneficial implementation of development projects.

**KEY ACHIEVEMENTS**

In October 2017, Rosneft ceased its stake in the Zohr gas field offshore Egypt, beginning joint gas production under the project as part of an international consortium with the Italian ENI and British BP in December 2017.

In December 2017, Rosneft granted a production license for the Petrovictoria JV at the Mejillones field offshore Venezuela with rights to export the produced gas over 30 years.

Rosneft and the Government of Iraq’s autonomous Kurdistan Region signed a production sharing agreement for five production blocks in the Kurdistan region.

Operations were launched by the joint venture Perforosven, S.A. (51% Rosneft, 49% PDVSA Services Petroleos, S.A.) as part of a project to develop oil and gas fields offshore Venezuela with rights to export the produced gas over 30 years.

**VENEZUELA**

Rosneft is one of the largest international investors in the Bolivarian Republic of Venezuela (BRAV). The Company continues to consistently expand its cooperation in oil and gas production with Petróleos de Venezuela, S.A. (PDVSA), Venezuela’s state oil company. Rosneft is successfully implementing five joint exploration and production projects with PDVSA – Petromonagas (Rosneft’s stake 40%), Petromiranda (32%), and Petromiranda (40%). Oil production from the Company’s projects in Venezuela was 8.06 MMT in 2017, with 3.14 MMT attributable to Rosneft, a 17.6% increase year-on-year. The production growth was driven by Rosneft raising its stake in Petromonagas J.V. in May 2016, increased production at Petromiranda J.V., and startup of pilot production at the Carabobo 2/4 project (Petrovictoria J.V.).

Higher production volumes were achieved at mature fields in Venezuela. The average well construction time at Petromonagas J.V. was reduced by 13% year-on-year. Drilling efficiency for placing horizontal wells into targeted producing layers was increased to 90% geology-wise. Pilot testing was successfully completed for the application of chemical additives to reduce diluent consumption, with up to 30%–40% reduction targeted.

Petromiranda joint venture was established in 2010 for the development of the Junin-6 project, located in the heavy oil belt of the Orinoco Basin. Phase 1 is currently in progress. It involves further exploration and infrastructure engineering. Pilot development of a priority area is being carried out at the block to characterize the pay zone.

Petrovictoria J.V. was incorporated in 2014 to implement the Carabobo 2/4 project. Production drilling was started at the early production site of the Carabobo 2/4 project in 2017. As part of a further exploration program, platforms were constructed and the first drilling rig has been mobilized to begin drilling wells. Permanent infrastructure engineering and temporary infrastructure construction are currently underway.

Research for the Junin-6 and Carabobo 2/4 projects was carried out to optimize the overall crude oil upgrading scenarios, and the most attractive options were selected for further pre-project activities. The expected synergies between the projects operated by Petromonagas J.V. and Petrovictoria J.V. are projected to optimize the Carabobo 2/4 project’s timeframe and the amount of required capex, while improving the project’s overall economics.

Rosneft is actively involved in implementing drilling plans of its joint ventures. The Company engaged its subsidiary, Precision Drilling de Venezuela, to provide drilling services for projects operated by its joint ventures, thereby improving the efficiency of drilling vertical, directional, and horizontal wells. Cycles time for well construction performed by Precision Drilling de Venezuela are much shorter than for other contractors providing drilling services to Rosneft’s joint ventures.

On 16 December 2017, during a visit to Venezuela by Rosneft Chief Executive Officer, Igor Sechin, the Venezuelan Oil Minister signed a resolution granting the Company a production license, published by Venezuela’s Official Gazette on 18 December 2017, for the exploration and extraction of free natural gas in the Mejillones and Petalza fields, part of the Maniscal Sucre project. Through its subsidiary, the Company owns a 100% stake in the project, with the option to export the entire gas output, subject to royalty payments in kind. The project’s next phase involves developing concept and basic engineering designs, after which a final investment decision is expected in 2020 on Rosneft’s involvement at the two fields.

In December 2017, a social project to construct the President Hugo Chavez Legacy Institute in Sabaneta was completed with the Company’s involvement. The project passed the acceptance process and was passed on to the city council. Rosneft is strongly focused on providing systematic workforce training and educational opportunities for Venezuelan students, signing several documents regarding academic research and education with PDVSA and the Gubkin Russian State University of Oil and Gas (National Research University) between 2014 and 2017.

On 20 July 2017, Rosneft, PDVSA, and the Gubkin Russian State University of Oil and Gas signed a tripartite agreement providing for fee-based training services for 3D Venezuelan nationals to be trained in three Master’s programs in the fields of exploration and production, refining, processing, and oil upgrading; and transport and logistics. The students are also scheduled to take a preparatory Russian language course during the first 2017/2018 academic year.

To improve project performance, Rosneft and PDVSA established Perforosven, a joint venture focused on oilfield services (Rosneft 51%, PDVSA 49%), which launched operations in 2017.

Rosneft’s oil production share in Venezuela in 2017, a 17.6% increase year-on-year.

Junin-6 and Carabobo 2/4 are the Company’s largest projects in terms of reserve volume.

The Company plans further bidding in licensing rounds for new exploration blocks.
Rosneft participates in exploration projects and a joint gas and condensate production project at Block 06.1 in the Socialist Republic of Vietnam (Rosneft Vietnam B.V. 35%, ONGC 45%, and PetroVietnam 20%).

The Company signed a production sharing agreement for the development of Block 05.3/11 in 2013 – the project is currently at the exploration stage. Rosneft also participates in the offshore Nam Con Son pipeline project, which involves the transportation and treatment of gas and gas condensate produced at offshore blocks in the Nam Con Son Basin (Rosneft Vietnam Pipelines B.V. 32.7%, Perenco 16.3%, and PetroVietnam 51%).

Block 06.1

Production in 2017 (100% of the project) totaled 2.99 bcm of gas and 0.07 mmt of gas condensate (Rosneft’s share: 0.6 bcm of gas and 14.7 thousand tonnes of gas condensate). An estimated 3.4 bcm of in-place commercial gas reserves was discovered at the PLD prospect of Block 06.1 through drilling, which can be tied back to existing infrastructure of Block 06.1. Mobilization of a semi-submersible rig is planned for April 2018 to reactivate the PLD-1X well by sidetracking.

3D marine seismic surveys were conducted on Block 06.1 in 2018 to map deep-lying prospects for the support of future organic growth. 3D seismic processing and interpretation carried out in 2017 identified a number of potential prospects for exploration in the near-term.

Block 05.3/11

License obligations on seismic surveys at the Block have been fully met, and drilling of the first exploration well was completed in 2016. The Company made efforts in securing the extension of its prospecting program, and confirmation was obtained from PetroVietnam indicating that Vietnam’s Ministry of Industry and Trade approved the extension of Phase 1 exploration until the end of 2018. Drilling of the second exploration well on Block 05.3/11 is scheduled for the second half of 2018.

The Nam Con Son pipeline has a capacity of 7.7 bcm per year, carrying approximately 6.03 bcm of gas in 2017, including the gas produced from Block 06.1 and other operators in the Nam Con Son Basin. In 2017, the Governments of Vietnam and Indonesia signed a memorandum on potential hydrocarbon supplies from Indonesian fields to Vietnam. The infrastructure of Block 06.1 and Nam Con Son pipeline can be used to support the performance of this agreement, which will provide an additional revenue stream for the Company from its Vietnamese projects.

Production in Vietnam in 2017 (100% of the project) totaled 2.99 bcm of gas and 0.07 mmt of gas condensate (Rosneft’s share: 0.6 bcm of gas and 14.7 thousand tonnes of gas condensate).

In 2017, the Company’s subsidiary, Rosneft Vietnam B.V., was named Operator of the Year 2016 by Vietnam’s Ministry of Industry and Trade.

The Zohr field was discovered by ENI in 2015 and covers an area of 231 sq. km, with sea depths ranging from 1.2 thousand m to 1.7 thousand m and a gas deposit located at a water depth of 3.4 km to 4 km. Zohr is one of the largest offshore fields in the Mediterranean Sea, with estimated in-place gas reserves exceeding 850 bcm.

Gas production at the Zohr field began in December 2017, and the entire volume of produced gas will be supplied into Egypt’s national gas grid.

Joint development of the unique production asset with global majors and strategic partners enables the Company to:
- participate in the development of one of the largest discoveries made in recent years (containing over 30% of Egypt’s total gas reserves) and boost gas production from foreign assets in the near future
- enter the Egyptian gas market with potential for further expansion both in the country and region as a whole
- build up expertise in joint offshore field development
- acquire experience in the development of carbonate reservoirs to utilize in its projects in the Black Sea.

Through its subsidiary, Rosneft Brasil E&P, Rosneft is implementing a hydrocarbon exploration and development project at license areas in the Solimões River basin gas play in the State of Amazonas, Brazil, holding a 100% stake and operatorship in these licenses.

An exploration well was drilled in the southern section of the oil and gas basin in 2017, which helped detail the resource potential of the targeted license areas and identify further development needs. Drilling of the second exploration well began on one of the prospects following 3D seismic surveys which began in Q4 2017.
IRAQ

The Rosneft subsidiary, Bashneft International B.V, successfully drilled the Salman-1 exploration well at Block 12 in southwestern Iraq during 2017. The well was constructed on time and on budget, with zero incidents.

Resource formations were penetrated during the drilling process, indicating the area’s high potential.

Bashneft International B.V. is the project operator and owns a 100% stake in the hydrocarbon exploration and production agreement for Block 12.

IRAQ (KURDISTAN)


In October 2017, the Company and the Government of Iraq’s autonomous Kurdistan Region signed binding documents to effect Production Sharing Agreements (PSAs) for the five production blocks in the Kurdish Autonomous Region with a conservative estimate of 670 mn barrels of total recoverable oil reserves. The heads of agreements and the basic principles of product sharing are similar to the PSAs signed in Iraqi Kurdistan by other international oil and gas companies.

Rosneft holds an 80% stake in the PSAs and has operatorship of the project.

80% the Company’s share in the PSAs in Iraqi Kurdistan

MYANMAR

During 2017, seismic surveys were conducted on Block EP-4 onshore Myanmar, and the first exploration well will be spudded upon the results of their analysis.

The Company is the project operator, holding a 90% stake in the production sharing agreement.

20% the Company’s stake in the Rosneft–ExxonMobil consortium

PROJECTS OFFSHORE MOZAMBIQUE

Within efforts to expand strategic cooperation, Rosneft and ExxonMobil formed a consortium to bid for exploration licenses in deep-water areas offshore Mozambique for geological study and estimation of the resource potential of the blocks. Following a tender in October 2015, the Government of Mozambique awarded three blocks (A5B, Z5-C, and Z5-D) to the Rosneft–ExxonMobil consortium, in which the Company’s stake is 20%. Joint development of the project will help Rosneft share its costs and optimize its risk capital. The consortium is in the final stage of negotiations with the upstream regulator, Mozambique’s National Petroleum Institute (INP), on the terms of the Exploration and Production Agreement and Joint Operating Agreement.

PROJECTS OFFSHORE NORWAY

Rosneft considers the Norwegian shelf with high prospects for taking part in its development, and actively participates in licensing rounds for areas on the continental shelf of the Barents Sea through its subsidiary RN Nordic Oil AS (RNN0).
4.9. DOWNSTREAM

The Company’s Oil Refining and Petrochemicals Business comprised 13 major refineries located in key regions of Russia, as well as three petrochemical plants, four gas processing plants, two catalyst production plants, and one service company.

58% OF MOTOR FUELS
produced at the Company’s plants in Russia are sold in the domestic market.

Key Performance Metrics of the Group’s Russian Oil and Gas Condensate Refineries

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</thead>
<tbody>
<tr>
<td>Crude oil distillation capacity, mmt per year</td>
<td>95.1</td>
<td>100.9</td>
<td>118.4*</td>
<td>17.3%</td>
</tr>
<tr>
<td>Oil refined, mmt per year</td>
<td>84.7</td>
<td>87.5</td>
<td>100.6</td>
<td>15.0%</td>
</tr>
<tr>
<td>Refinery utilization rate, %</td>
<td>89.1</td>
<td>86.7</td>
<td>85.0</td>
<td>-1.7 p.p.</td>
</tr>
<tr>
<td>Petroleum product and petrochemical output</td>
<td>82.9</td>
<td>84.8</td>
<td>96.9</td>
<td>14.3%</td>
</tr>
<tr>
<td>Refining depth, %</td>
<td>66.5</td>
<td>72.0</td>
<td>75.2</td>
<td>3.2 p.p.</td>
</tr>
<tr>
<td>Light product yield, %</td>
<td>55.3</td>
<td>56.6</td>
<td>58.4</td>
<td>1.8 p.p.</td>
</tr>
</tbody>
</table>

* Including effect from Bashneft purchase in October 2016.
* As at 1 January 2016, excluding non-operational capacities undergoing overhauls, including mini-refineries.
* Counted from non-rounded data.

Russian Oil Refining and Petrochemicals Business Product Mix

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<tr>
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</thead>
<tbody>
<tr>
<td>Diesel fuel†</td>
<td>26.3</td>
<td>27.5</td>
<td>33.0</td>
<td>20.0%</td>
</tr>
<tr>
<td>Motor gasolines</td>
<td>11.3</td>
<td>12.6</td>
<td>15.3</td>
<td>21.1%</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>26.6</td>
<td>22.7</td>
<td>23.0</td>
<td>1.7%</td>
</tr>
<tr>
<td>Naphtha</td>
<td>5.6</td>
<td>6.0</td>
<td>6.2</td>
<td>4.2%</td>
</tr>
<tr>
<td>Kerosene</td>
<td>3.1</td>
<td>3.1</td>
<td>3.3</td>
<td>6.2%</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>1.0</td>
<td>0.9</td>
<td>1.5</td>
<td>68.9%</td>
</tr>
<tr>
<td>Other</td>
<td>9.1</td>
<td>12.0</td>
<td>14.5</td>
<td>20.6%</td>
</tr>
<tr>
<td>Total in Russia</td>
<td>82.9</td>
<td>84.8</td>
<td>96.9</td>
<td>14.3%</td>
</tr>
</tbody>
</table>

* Including marine fuel.
Oil Refining

KEY ACHIEVEMENTS IN OIL REFINING

- The Company’s continued refinery upgrade programs in Russia included:
  - Completion of a major overhaul and retrofitting of the atmospheric distillation unit AT -6 at the Ryazan Refinery.
  - Commencement of high-purity Group II base oils production to supply feedstock for manufacturing advanced synthetic and semi-synthetic oils at the Yaroslavl Refinery.

- The delivery of large-capacity equipment for the hydrocracking complex and the methyldiethanolamine (MDEA) regeneration unit at the Novokuibyshevsk Refinery.

- Installation of large-capacity equipment for the ongoing construction of the diesel fuel hydrotreating unit at the Angarsk Refinery.

- Continued effective integration of Bashneft’s refining assets with the Company’s unified plant production chain.

- Ongoing efforts to improve performance across the Company’s plants and reduce operating costs.

KEY STRATEGIC PRIORITIES:

- Safety (High Health, Safety, and Environmental standards)
- Long-term competitiveness (achieved through excellent refinery configuration, high margins, and technology leadership)
- Performance (operational excellence, production, and cost optimization, reduction of fuel consumption and losses, and digital transformation)

Oil Refining in Russia

In 2017, the Company successfully implemented a comprehensive plan to integrate and develop Bashneft’s business assets. For the refining business, the plan is focused on integrating production operations management, business planning, development and capital construction management, technical assessment and procurement processes, quality management and continuous improvement systems, and operational efficiency improvement process.

Preliminary estimates show that the synergistic action plan’s implementation granted savings of approximately 1.1 billion RUB in 2017 through the following initiatives:

- Directing high-octane components produced by Bashneft to the Company’s refineries to produce additional volumes of high-margin products.
- Implementing Rosneft’s continuous improvement system across all integrated Bashneft refineries.

Cost savings were achieved by optimizing the product mix and implementing initiatives to save energy and reduce general and administrative expenses, as well as developing an active program to reduce fuel consumption and losses.

OUTCOMES OF INTEGRATING BASHNEFT’S REFINING ASSETS

In 2017, the Company successfully implemented a comprehensive plan to integrate and develop Bashneft’s business assets. For the refining business, the plan is focused on integrating production operations management, business planning, development and capital construction management, technical assessment and procurement processes, quality management and continuous improvement systems, and operational efficiency improvement process.

Preliminary estimates show that the synergistic action plan’s implementation granted savings of approximately 1.1 billion RUB in 2017 through the following initiatives:

- Directing high-octane components produced by Bashneft to the Company’s refineries to produce additional volumes of high-margin products
- Implementing Rosneft’s continuous improvement system across all integrated Bashneft refineries.

Cost savings were achieved by optimizing the product mix and implementing initiatives to save energy and reduce general and administrative expenses, as well as developing an active program to reduce fuel consumption and losses.

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Preliminary estimates show that the synergistic action plan’s implementation granted savings of approximately 1.1 billion RUB in 2017 through the following initiatives:

- Directing high-octane components produced by Bashneft to the Company’s refineries to produce additional volumes of high-margin products.
- Implementing Rosneft’s continuous improvement system across all integrated Bashneft refineries.

Cost savings were achieved by optimizing the product mix and implementing initiatives to save energy and reduce general and administrative expenses, as well as developing an active program to reduce fuel consumption and losses.

In 2017, the Company successfully implemented a comprehensive plan to integrate and develop Bashneft’s business assets. For the refining business, the plan is focused on integrating production operations management, business planning, development and capital construction management, technical assessment and procurement processes, quality management and continuous improvement systems, and operational efficiency improvement process.

Preliminary estimates show that the synergistic action plan’s implementation granted savings of approximately 1.1 billion RUB in 2017 through the following initiatives:

- Directing high-octane components produced by Bashneft to the Company’s refineries to produce additional volumes of high-margin products.
- Implementing Rosneft’s continuous improvement system across all integrated Bashneft refineries.

Cost savings were achieved by optimizing the product mix and implementing initiatives to save energy and reduce general and administrative expenses, as well as developing an active program to reduce fuel consumption and losses.

In 2017, the Company successfully implemented a comprehensive plan to integrate and develop Bashneft’s business assets. For the refining business, the plan is focused on integrating production operations management, business planning, development and capital construction management, technical assessment and procurement processes, quality management and continuous improvement systems, and operational efficiency improvement process.

Preliminary estimates show that the synergistic action plan’s implementation granted savings of approximately 1.1 billion RUB in 2017 through the following initiatives:

- Directing high-octane components produced by Bashneft to the Company’s refineries to produce additional volumes of high-margin products.
- Implementing Rosneft’s continuous improvement system across all integrated Bashneft refineries.

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THE REFINERY UPGRADE PROGRAM IN RUSSIA

In 2017, Rosneft continued implementing refinery upgrade program in Russia to:
- further improve refining depth and light product yields
- increase clean motor fuels output, complying with requirements of the Technical Regulations of the Customs Union to meet the market demand for high-quality petroleum products
- improve the product mix, competitive position, and profitability of the Company’s refineries in Russia

In 2017:
- Production launch of high-purity Group III base oils, used to produce advanced synthetic and semi-synthetic lubricants at the Yaroslavl Refinery, cutting costs by utilizing own Group III base oils and expanding the range of products sold
- Installation of the new oxidation feedstock preparation package at the bitumen production unit and launching improved bitumen production, complying with intergovernmental standards at the Ryazan Refinery
- Installation of core large-capacity equipment for the ongoing construction of the diesel fuel hydrocracking unit at the Angarsk Refinery

In 2018:
- Construction completed Construction to be completed in 2018 or later
- Renovation completed Renovation to be completed in 2018 or later
- FRS funding for refinery upgrade projects implemented by the Company’s Oil Refining and Petrochemicals Business amounted to RUB 31.4 bln in 2017.

The Company’s refineries perform multi-stage Quality Control testing on its feedstock and marketable products, including on incoming feedstock, chemicals, and additives supplied to the plants, as well as at various stages of the production cycle, from delivery to enterprise, and to product sales.

The Company’s refineries have high-quality petroleum products throughout their entire production cycle, from delivery to enterprise, and to product sales. The testing laboratories at the refineries are equipped with state-of-the-art equipment, ensuring that test results are highly accurate and reliable.

Product compliance is confirmed through certifications, with the assistance of accredited testing laboratories and leading research institutes.

A project for monitoring marketable product quality giveaway gaps implemented at the Company’s refineries – it has helped to improve the efficiency of hydrocarbon processing by reducing unreasonable quality giveaway gaps.

An expansion upon the range of additives that increase the performance characteristics of motor fuels continued throughout 2017. Tests performed on the additives reduced purchase costs by increasing the number of available alternatives.

As part of the import substitution program, the Company’s refineries have completed their shift to using additive-produced by Company-owned facilities in Russia. A number of the Company’s refineries also utilize the Russian VES-4100 pour point depressant additive produced by the Angarsk Plant for Catalysts and Organic Synthesis.

The Company’s oil refining operations are focused primarily on the high-quality petroleum products to the Russian domestic market, including remote Russian regions such as Eastern Siberia and the Far East.
REFINERY MAINTENANCE PROGRAM IN RUSSIA

In the reporting year, the Company continued to pursue projects rectifying violations and complying with instructions issued by the regulatory authorities by replacing worn-out equipment and implementing the following target programs at the Company’s refineries in Russia:

- Preparation and approval of a program to comply with instructions issued by the Federal Environmental, Industrial, and Nuclear Supervision Service of Russia (Rostechnadzor), following inspections of the Bashneft-Ufaneftekhim branch in 2016–2017
- Successful construction of a central laboratory at the Kukuyshnev Refinery
- Implementation of a pilot project to develop an automated process control system for the oil treatment unit (OTU-2) in shop No.2, using Rosatom equipment.

One of the world’s largest biological wastewater treatment plants at the Bashneft-Ufaneftekhim Refinery was renovated, an addition to the framework within the Year of the Environment 2017 action plan approved by Decree of the Government of the Russian Federation No. 1082r dated 2 June 2016.

- Continued operational excellence initiatives and made optimization decisions to improved performance across key Solomon Index indicators:
  - Exploitation readiness of 92.8% – 0.1% above target
  - Energy intensity index grew by 2.9 points to 124.8

Main Areas of Focus and Activities for the Operational Efficiency Improvement Program in 2017

<table>
<thead>
<tr>
<th>Focus</th>
<th>Activities</th>
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<tbody>
<tr>
<td>Capacity and product yield optimization</td>
<td>- Overhaul of refineries’ product utilization schemes</td>
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<tr>
<td></td>
<td>- Refitting of product shipment systems</td>
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<tr>
<td></td>
<td>- Optimizing oil and petroleum product loading/unloading rack operations</td>
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<td></td>
<td>- Implementation of optimized process control systems at refineries</td>
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<td>Energy consumption reduction</td>
<td>- Overhauling steam and heat exchanger networks at facilities</td>
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<td>- Improving the efficiency of waste heat boilers</td>
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<td>- Improving furnace efficiency</td>
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<td></td>
<td>- Improving the efficiency of heat exchangers</td>
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<tr>
<td>Reliability and mechanical availability</td>
<td>- Optimizing overhauls of refinery facilities and processing operation times without workload reduction</td>
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<td>- Procedures extending the functional operation times between refinery facility repairs</td>
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<td></td>
<td>- Optimizing repairs and turnaround schedules following assessments of equipment condition</td>
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<tr>
<td>Reduction in oil and petroleum product losses</td>
<td>- Increasing hydrogen-rich gas refined by PSA - unit 2</td>
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<tr>
<td></td>
<td>- Reducing raw APG flaring</td>
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<tr>
<td></td>
<td>- Equipping petroleum product tanks with floating roofs</td>
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</table>

In 2017, the Company implemented the previously approved Oil Refining and Petrochemicals Business Energy Savings Directive. The actual effect was 53.4 tce, exceeding the targeted 50.3 tce.

In 2017, Rosneft continued the successful redistribution of component flows between the Group’s refineries.

- MTBE produced at the Kukuyshnev Refinery was introduced into the process flow
- Processing of the butane-butylene fraction produced at the Kukuyshnev Refinery was launched at Bashneft’s refineries, and Rosneft’s refineries began processing gasoline components produced at the Integrated Refining Complex in Ufa, as part of the ongoing process to integrate Bashneft’s refining assets with the Company’s unified plant production chain. This allowed a redistribution of loads between units at the refineries and an increased fuel output.
- Bashneft’s refineries began full-scale use of anti-wear additives for diesel fuels and a partial use of poor pour point depressant additives produced by Rosneft’s plants.

The successful initiatives enabled an improved performance across the Company’s plants while reducing operating costs.

**RETAIL'S IMPROVED OPERATIONAL PERFORMANCE OF REFINERIES**

Rosneft consistently improves the operational performance across the Group’s refining assets.

In 2017, the Company:

- Optimized hydrocracking unit operations to allow the use of a wider variety of feedstocks and the utilization of refined gas oil to increase diesel fuel output.
- Implemented scheduled and supplementary measures under the Operational Efficiency Improvement Program to obtain an economic benefit of 55.7 RUB BLN.
- Implemented an economic benefit of 22.6 RUB BLN.

In 2017, Rosneft successfully ensured the timely delivery of fuel under the state defense order, the preparation and approval of a program to comply with instructions issued by the Federal Environmental, Industrial, and Nuclear Supervision Service of Russia (Rostechnadzor), following inspections of the Bashneft-Ufaneftekhim branch in 2016–2017.

- Continued improvements in operational performance across the Group’s refining assets through the following target programs:
  - Bashneft-Ufaneftekhim Refinery was launched at Bashneft’s refineries.
  - Kukuyshnev Refinery was launched at Bashneft’s refineries.
  - The Butane-Butylene Fraction produced at the Kukuyshnev Refinery was introduced into the process flow.
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**IMPORT SUBSTITUTION, DEVELOPMENT AND LAUNCH OF NEW PRODUCTS, AND PRODUCT APPROVAL PROCESSES**

As part of the import substitution program, the Company’s refineries continued their shift to using anti-wear additives produced by Company-owned facilities in Russia.

- Production launch of RT-Jet fuel at the Novokuibyshev Refinery and T5-1 jet fuel at the Ryzan Refinery using alternative anti-wear additives, as well as the launch of improved motor fuels at the Kazanmash and Achinsk Refineries.

- To ensure the timely delivery of fuel under the state defense order, the Company obtained approvals for the use of improved motor fuels made at the Angarsk, Achinsk, Novokuibyshev, Bashneft-Ufaneftekhim, and Ryzan Refineries for weaponry, military equipment, and special equipment.

- In 2017, Rosneft successfully ensured the timely delivery of fuel under the state defense order.

**REDISTRIBUTION OF COMPONENT FLOWS BETWEEN THE GROUP’S REFINERIES**

In 2017, Rosneft continued the successful redistribution of component flows between the Group’s refineries.

- Bashneft’s refineries began full-scale use of anti-wear additives for diesel fuels and a partial use of poor pour point depressant additives produced by Rosneft’s plants.

The successful initiatives enabled an improved performance across the Company’s plants while reducing operating costs.
Refineries in the Russian Federation

**NOVOKUIBYSHEVSK REFINERY**

**Petroleum Product and Petrochemical Output, mmt**

- **7.2** MMT

- **1.397** Motor gasolines
- **2.603** Diesel fuel
- **0.348** Kerosenes
- **0.018** Naphtha
- **1.943** Fuel oil
- **0.859** Other

**Key Focus Areas in 2017**
- Large-capacity equipment delivered for hydrocracking facility (nine columns)
- Facility maintenance, hydrocracking and hydrotreating complex construction including offshore facilities
- Initiatives boosting operational efficiency, and the implementation of other investment projects for the refinery’s upgrade
- Euro 5 fuel output increased by 0.6 mmt

**Refineries in the Russian Federation**

- Capacity, mmt
- Refinery throughput, mmt

**73.9%** refining depth

**55.1%** light product yield

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**SYZRAN REFINERY**

**Petroleum Product and Petrochemical Output, mmt**

- **5.6** MMT

- **1.81** Motor gasolines
- **2.054** Diesel fuel
- **0.175** Naphtha
- **1.339** Fuel oil
- **0.972** Other

**Key Focus Areas in 2017**
- Manufacture and shipment of the new BND-100/130 oil road bitumen
- Synergies achieved with the Ryazan Refinery and Bashneft refineries to receive high-octane components (alkylate)
- Comprehensive refinery upgrade program carried out, including construction of a catalytic cracking complex with offshore facilities, a diesel fuel hydrotreating complex, and an MTBE production unit
- Facility maintenance
- Operational efficiency improvement projects
- Refining depth increased by 3.4 percentage points.

**KUIBYSHEV REFINERY**

**Petroleum Product and Petrochemical Output, mmt**

- **4.8** MMT

- **0.789** Motor gasolines
- **1.618** Diesel fuel
- **0.491** Kerosenes
- **1.693** Naphtha
- **1.225** Fuel oil
  
**Key Focus Areas in 2017**
- Catalytic cracking complex construction continued (FFCC unit offshore facilities, vacuum gas oil hydrotreaters, and hydrogen and sulfur production units)
- Facility maintenance and operational efficiency improvement projects
- Refining depth increased by 5.3 percentage points

**Refineries in the Russian Federation**

- Capacity, mmt
- Refinery throughput, mmt

**65.4%** refining depth

**58.1%** light product yield

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**RYAZAN REFINERY**

**Petroleum Product and Petrochemical Output, mmt**

- **12.9** MMT

- **3.033** Motor gasolines
- **3.381** Diesel fuel
- **0.957** Naphtha
- **0.250** Kerosenes
- **3.821** Fuel oil
- **1.444** Other

**Key Focus Areas in 2017**
- Facility maintenance
- Comprehensive enterprise development program continued
- Large-scale repair and upgrade program completed on the AT-6 atmospheric distillation unit, the gas fractionation unit (with a dry gas desulfurizer) upgraded, the LPG tank farm re-equipped, and the bitumen production unit provided with a new oxidation feedstock preparation component

**Refineries in the Russian Federation**

- Capacity, mmt
- Refinery throughput, mmt

**70.7%** refining depth

**57.8%** light product yield

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*As at 1 January 2018, excluding non-operational capacities undergoing overhauls.*
Key Focus Areas in 2017
- Large-scale refinery upgrade
- Construction of hydrocracking and hydrotreating complexes with associated offsite facilities
- Construction of the second start-up complex, commissioning of ready-to-use offsite facilities

Petroleum Product and Petrochemical Output, mmt

**SARATOV REFINERY**
- **Motor gasolines**: 0.945
- **Diesel fuel**: 1.786
- **Fuel oil**: 0.116
- **Naphtha**: 1.176
- **Other**: 1.529

**Key Focus Areas in 2017**
- Facility maintenance
- Operational efficiency improvement
- Expansion upon highly efficient projects to de bottleneck the refinery configuration
- FEED phase of the vacuum gas oil hydrotreatment complex

**TUAPSE REFINERY**
- **Motor gasolines**: 0.977
- **Diesel fuel**: 2.212
- **Naphtha**: 0.182
- **Kerosenes**: 1.751
- **Fuel oil**: 0.839

**Key Focus Areas in 2017**
- Refinery overhaul
- Refining depth increased by 0.6 percentage points
- In 2017, Euro 5 motor fuel manufacture increased by 0.9% of processed feedstock year-on-year
- High-octane MTBE additive content in Al-92 Grade 5 gasoline reduced by 0.5% due to employing oxygenated antiknock additive KAD PRO-0.7 manufactured by the Angarsk Refinery, and TAME additives manufactured by Novokuibyshevsk Petrochemical Company (NPCC) under a tolling arrangement
- Employment of an MTBE octane booster from the Ufa Refinery began at the Achinsk Refinery as part of a synergistic plan with Bashneft
- Comprehensive refinery upgrade program enacted, including hydrocracking complex construction with offsite facilities and a petroleum coke complex
- Operational efficiency improvement projects and facility maintenance, including renovation of the gas fractionation section of its LK-6Us unit

**ACHINSK REFINERY**
- **Motor gasolines**: 0.977
- **Diesel fuel**: 2.212
- **Naphtha**: 0.182
- **Kerosenes**: 1.751
- **Fuel oil**: 0.839

**Key Focus Areas in 2017**
- Refining depth increased by 4.8 percentage points
- Euro 5 fuels production increased by 0.3 mmt year-on-year
- Large-capacity processing equipment installed for the new diesel fuel hydrotreater, and all processing and administrative buildings completed. Production and administrative facilities were completed. Utilities such as process pipelines and electrical equipment are being installed
- Comprehensive refinery upgrade program enacted, including sulfolane acid alkylation units, catalytic cracking gasoline hydrotreaters, and a diesel fuel hydrotreating complex with associated offsite facilities
- Facility maintenance and operational efficiency improvement projects

**ANGARSK REFINERY**
- **Motor gasolines**: 1.369
- **Diesel fuel**: 3.340
- **Kerosenes**: 0.594
- **Naphtha**: 0.110
- **Fuel oil**: 1.541

**Key Focus Areas in 2017**
- Refining depth increased by 4.0 percentage points
- Euro 5 fuels production increased by 0.3 mmt year-on-year
- Large-capacity processing equipment installed for the new diesel fuel hydrotreater, and all processing and administrative buildings completed. Production and administrative facilities were completed. Utilities such as process pipelines and electrical equipment are being installed
- Comprehensive refinery upgrade program enacted, including sulfolane acid alkylation units, catalytic cracking gasoline hydrotreaters, and a diesel fuel hydrotreating complex with associated offsite facilities
- Facility maintenance and operational efficiency improvement projects

79.4% refining depth
50.8% light product yield

70.4% refining depth
56.0% light product yield

67.4% refining depth
50.5% light product yield

81.3% refining depth
63.3% light product yield
**Key Focus Areas in 2017**
- High-octane MTBE additive content in Al-92 Class S gasoline reduced by optimizing the catalytic cracking unit’s operation
- Comprehensive refinery upgrade program enacted, including hydrocracking and hydrotreating complex construction
- Facility maintenance and operational efficiency improvement projects
- Refining depth increased by 9.4 percentage points year-on-year

**Key Focus Areas in 2017**
- New assets integrated with the operational scope of the Company
- Facility maintenance, assets brought into compliance with corporate standards and regulations, and continued implementation of a comprehensive enterprise development program
- One of the world’s largest biological wastewater treatment (WWT) plants launched, as part of the investment program

**Rosneft Deutschland GmbH** successfully transitioned from operating through the ROG joint venture to independent operation in 2017. Over 12 mmt of oil was refined, reliable and safe operation of three refineries ensured, and initiatives to improve operational performance of refineries implemented for Rosneft Deutschland GmbH.

*OIL REFINING ASSETS IN GERMANY*

Rosneft Deutschland GmbH successfully transitioned from operating through the ROG joint venture to independent operation in 2017. Over 12 mmt of oil was refined, reliable and safe operation of three refineries ensured, and initiatives to improve operational performance of refineries implemented for Rosneft Deutschland GmbH.

**Petroleum Product and Petrochemical Output, mmt**
- **TOTAL**
  - 6.3 mmt
  - **Motor gasolines** 2.592
  - **Diesel fuel** 0.548
  - **Kerosenes** 0.298
  - **Naphtha** 0.562
  - **Fuel oil** 0.656
  - **Other** 1.543

**Refining depth** 89.2%
**Light product yield** 64.0%
OIL REFINING ASSETS IN THE REPUBLIC OF BELARUS

In Belarus, the Company indirectly owns a 21% stake in JSC Mozyr Refinery through PJSC NGK Slavneft. Rosneft’s share in the throughput of the Mozyr Refinery totaled 2.1 mmt in 2017, including 0.25 mmt from tolling arrangements under a processing agreement. During the year, the Company supplied a total 5.1 mmt of oil to the Refinery, and is continuing its investment project for the construction of a heavy residue hydrocracking unit, slated to be launched in 2019.

OIL REFINING ASSETS IN INDIA

In 2017, Rosneft closed the deal to acquire 49.13% in Indian Essar Oil Limited (EOL), one of the most advanced Asian-Pacific oil refineries in Vadinar, and with an annual crude throughput of approximately 20 mmt.

While the EOL Refinery in Vadinar is India’s second largest by throughput, it is also among the world’s top ten refineries in terms of technology and process sophistication, with a Nelson Index of 11.8. The highly-flexible Vadinar refinery can use both heavy and extra-heavy crude oils, accounting for over 90% of its annual throughput, and has achieved the highest operational efficiency for its assets: 17 of its 28 Solomon benchmarks are in the top 1st quartile.

EOL owns a deep-water port that can accommodate VLCC supertankers, while its power stations independently provide ample power supply.

FAR EASTERN PETROCHEMICAL COMPANY (FEPCO)

The FEPCO project provides for creating the largest refining and petrochemical complex in the Far Eastern Federal District.

Angarsk Petrochemical Company.

Novokuibyshevsk Petrochemical Company (NPCC)

Navolokubyshev Petrochemical Company (NPCC)

Ufaorgsintez (UOS)

Ufaorgsintez (UOS)

The project was supported by the President of the Russian Federation (Instruction No. Pr-2579 dated 29 December 2016), the Prime Minister of the Russian Federation Dmitry Medvedev (Instruction No. OM-PN-9-705p dated 31 January 2014), and regional authorities.

In 2015, the FEPCO project was being implemented pursuant to resolutions of Rosneft’s Board of Directors on the project and the project road map approved by Decree of the Russian Government No. 2602-p dated 17 December 2015.

Petrochemicals

Petrochemicals form a crucial part of Rosneft’s production complex. A high product quality and continuous production process improvements enable the Company to compete successfully with Russian and foreign producers on the Russian market. Rosneft’s petrochemical complex comprises:

- Angarsk Polymer Plant (APP)
- Novokuibyshevsk Petrochemical Company (NPCC)
- Ufaorgsintez (UOS)

Rosneft’s petrochemical production facilities also include the aromatic hydrocarbon production complex at Bashneft-Ufaneftekhim and the methanol, butyl alcohol, and amine production capacities at the Angarsk Petrochemical Company.

ANGARSK POLYMER PLANT

The bulk of the Company’s petrochemical products is manufactured at Angarsk Polymer Plant (APP) in Eastern Siberia.

Its main products include ethylene, high-density polyethylene, propylene, benzene, the butylene-divinyl fraction, styrene, and polyvinyl, among others.

Currently, Angarsk Polymer Plant is the only business in Eastern Siberia producing polyvinyl and high-density polyethylene. The plant’s annual output includes over 200 thousand tonnes of ethylene, over 100 thousand tonnes of propylene, and 60 thousand tonnes of benzene. Ethylene is partially supplied to Sayanskhimplast as feedstock, while the remainder is used for producing high-density polyethylene, and other petrochemicals. Feedstock used by the plant includes straight-run gasoline and hydrocarbon gases produced primarily by the Angarsk Petrochemical Company.

In 2017, the Angarsk Polymer Plant processed 715,300 tonnes of feedstock and produced 555,460 tonnes of high-value-added commercial products.

The EOL’s business includes a vast network of over 4.1 thousand filling stations operating across India under the Essar brand.

The plant’s annual output includes over 4.1 thousand filling stations operating across India under the Essar brand.

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NOVOKUIBYSHEVSK PETROCHEMICAL COMPANY

Novokuibyshevsk Petrochemical Company is one of the largest producers of gas processing, petrochemical, and organic synthesis products in Russia and Eastern Europe. Its product mix comprises over 50 items, including tert-amyl methyl ether (TAME), industrial synthetic phenol, industrial synthetic ethyl alcohol, industrial acetone, liquefied petroleum gases, and para-tertiary butylphenol.

The company also operates facilities producing 300 thousand tonnes per year of high-octane additives for TAME motor fuels — its para-tertiary butylphenol (PTBP) production facilities are unrivalled in Russia and CIS countries, and the only synthetic ethanol production plant in the country. In 2017, the company processed 1.0 mmt of feedstock, while its commercial product output totaled 0.9 mmt.

In 2017, Novokuibyshevsk Petrochemical Company conducted an enterprise-wide operational efficiency improvement program comprising 67 initiatives. The company launched a pilot plant construction project for the production of synthetic high-index polyalphaolefin (PAO) base oils, as a PAO oil production facility does not exist currently in Russia.

> 50 products are manufactured by Novokuibyshevsk Petrochemical Company, which is also the only synthetic ethanol production plant in the country.

UFAORGSSINTEZ

Ufaorgsintez is one of Russia’s largest petrochemical enterprises, focusing on the production of phenol, acetone, high-density polyethylene, polypropylene and its copolymers, synthetic rubber, and other organic synthesis products. The plant produces over 30% of Russia’s total phenol output and is a leading producer of acetone. Ufaorgsintez accounts for over 10% of the country’s polypropylene output and over 15% of its low-density polyethylene output, exceeding 850 thousand tonnes of petrochemical product output per year.

The company’s products are widely used in the manufacture of PMMA, phenol formaldehyde resins, alkylphenols, plastic films, products for industrial and agricultural applications, industrial rubber products, as well as in sectors such as mechanical engineering, soft goods, healthcare, electronics, and electrical engineering.

Ufaorgsintez offers a number of unique organic synthesis products unrivalled in Russia. The company’s EPDM rubber produced is utilized in the manufacture of various industrial rubber products, including those used in the defense industry, as well as for wire and cable insulation in electrical appliances.

In 2017, the company processed 643 thousand tonnes of feedstocks, and manufactured over 520 thousand tonnes of commercial products.

Gas Processing

The company’s gas processing assets process the associated petroleum gas produced at Rosneft’s oil and gas production enterprises, and their output is mainly utilized as feedstock for Rosneft’s petrochemical entities.

OTRADNENSKY GAS PROCESSING PLANT

In 2017, the Otradensky Gas Processing Plant processed 2.73 mmcm of associated petroleum gas produced from the oil and gas fields of Samaraneftegaz and Orenburgneft. Its main products include dry stripped gas, natural gas liquids (NGLs), ethane fraction, and industrial sulfur.

The plant is continuing a comprehensive program involving the refitting and replacement of worn-out and obsolete equipment with advanced modular units that will improve operational efficiency and increase automation.

NEFTEGORSKY GAS PROCESSING PLANT

In 2017, the Neftegorsky Gas Processing Plant processed 3.76 mmcm of associated petroleum gas derived from the oil and gas fields of Samaraneftegaz and Orenburgneft. Its main products include dry stripped gas, natural gas liquids (NGLs), ethane fraction, and industrial sulfur.

The plant is continuing a comprehensive program for the refitting and replacement of obsolete equipment. The renovation of a section of the NGL pipeline to Novokuibyshevsk Petrochemical Company is close to completion. The investment will support pipeline transportation of NGLs produced by the Neftegorsky and Otradensky gas processing plants. Upon completion, the project will eliminate the risk of rail delays in NGL feedstock supply and enhance the synergistic effects of integrating Novokuibyshevsk Petrochemical Company with gas processing plants.

ROSNEFT’S GAS PROCESSING ASSETS INCLUDE:

- Otradensky Gas Processing Plant (OGPP)
- Neftegorsky Gas Processing Plant (NGPP)
- Tyumenskoye Gas Processing Plant (TGPP)
- Shikavskoye Gas Processing Plant (SGPP)
- RN-Buzulukskoye Gas Processing Plant (BGPP)
TUYMAZINSKOE GAS PROCESSING PLANT

A part of Bashneft, the Tuymazinskoye Gas Processing Plant has been integrated with Rosneft’s operations since October 2016. In 2017, the plant processed 29 mmcm of associated petroleum gas from the oil and gas assets of Bashneft - Dobycha (Oil and Gas Production Board [OGPB] Tuymazaneft), and 81 thousand tonnes of NGLs using both its own products and those purchased from other producers. Its main products include liquefied gases such as industrial propane/butane mixture, isobutane fraction, and normal butane fraction, as well as stable natural gasoline and industrial sulfur.

SHKAPOVSKOE GAS PROCESSING PLANT

A part of Bashneft, the Shkapovskoye Gas Processing Plant has been integrated with Rosneft’s operations since October 2016. In 2017, the plant processed 63 mmcm of associated petroleum gas derived from the oil and gas assets of Bashneft - Dobycha (OGPB Ishimbanyeft and OGPB Ufaneft), and 72 thousand tonnes of NGLs using both its own products and those purchased from other producers. Its main products include liquefied gases such as industrial propane/butane mixture, isobutane fraction, and normal butane fraction, as well as stable natural gasoline.

BUZULUJSKOE GAS PROCESSING PLANT

The Buzulukskoye plant was established on 1 September 2017 by spinning off the Zaykinskoye Gas Processing Plant from Orenburgneft. The plant includes two standalone production facilities, the Pokrovskaya Gas Treatment Unit and the Zaykinskoye GPP. In 2017, the plant processed 1,583 mmcm of associated petroleum gas and unstable gas condensate derived from the oil and gas assets of Orenburgneft. Its main products include combustible natural dry stripped gas, liquefied gases such as industrial propane/butane mixture, industrial propane, and industrial butane, as well as stable natural gasoline and industrial sulfur.

Production of Catalysts and Organic Synthesis Products

NOVOGUIBYSHEVSK CATALYZERS PLANT

In 2017, an “outside the reactor” catalyst regeneration unit was put into operation at the plant in December 2016 under license from Porocel (US). The new unit regenerated more than 1.3 thousand tonnes of hydrocracking catalysts for the Company’s oil refineries in 2017, and about 300 tonnes for third parties.

ANGARSK CATALYZERS AND ORGANIC SYNTHESIS PLANT

Since 2017, the Kuibyshev and Saratov Refineries have been utilizing gasoline reforming catalysts produced at the Angarsk Catalyzers and Organic Synthesis Plant (ACOSP) as part of a program to substitute imported catalysts and additives. As a result, the share of ACOSP’s reforming catalysts used by the Company’s refineries exceeded 60%.

The plant continues supplying its anti-wear additives to the Angarsk Petrochemical Company, the Komsomolsk and Achinsk Refineries, and pour point depressant additives to the Syzran Refinery, the Saratov Refinery, and Bashneft-UNPZ.
**Commerce and Logistics**

**CRUDE OIL SALES**

Rosneft pursues a policy aimed at ensuring a balanced mix of oil monetization channels, including sales under long-term contracts, through tender-based spot transactions, and domestic market sales, as well as refining at its own facilities in Russia, Germany, and India.

The Company continuously monitors the cost efficiency of its oil monetization channels to maximize the share of high-margin channels in its overall sales structure.

In the reporting year, the Company supplied about 100.5 mmt of oil to Russian refineries, a 15% growth year-on-year (including supplies to Bashneft’s refineries since October 2016). The sharp increase in shipments was mainly driven by the Bashneft assets acquired in Q4 2016.

In addition, the Company supplied 2.1 mmt of oil to Northwestern, Central, and Eastern Europe, the Mediterranean, and other destinations outside the CIS, while exports to the CIS totaled 8.4 mmt.

The total sales of crude oil shipped to third parties in 2017 totaled 128.7 mmt, including 8.9 mmt of oil sold domestically.

**Breakdown of Exports, %**

- **121.8** MMT oil exports to FSU and non-FSU countries
- **100.5** MMT oil supplies to the Company’s Russian refineries in 2017
- **128.7** MMT oil sales to third parties in 2017

**Oil Exports to FSU and Non-FSU Countries**

In the reporting year, Rosneft’s FSU and non-FSU oil exports totaled 121.8 mmt. Economically, eastbound exports such as pipeline supplies to China and sales via the Kozmino and De-Kastri ports are the most attractive oil export destinations for the Company. In 2017, supplies to eastern countries were 47.7 mmt, 10.7% up year-on-year.

In addition, the Company exported 65.7 mmt of oil to Northwestern, Central, and Eastern Europe, the Mediterranean, and other destinations outside the CIS, while exports to the CIS totaled 8.4 mmt.

The bulk of the Company’s crude oil exports are transported via the Transneft system, including the trunk pipeline network and ports. In the reporting year, the Company primarily exported crude oil via the following:

- Pipeline: approximately 103.1 mmt, accounting for 84.7% of total oil exports, including a further 48.4 mmt via ports and about 54.7 mmt via pipeline to China, Belarus, and Central and Eastern Europe.
- Transportation by rail and mixed transport: 2.2 mmt, accounting for 1.8% of total exports, excluding the impact of acquired assets. These exports were mainly supplies via the Caspian Pipeline Consortium (CPC) and by rail to China via Mongolia.

In addition to the above routes, 4.9 mmt of the Company’s oil was shipped via the De-Kastri and Varandey export terminals in 2017, and about 1.16 mmt of third-party oil was exported outside the CIS via the Company’s trading entities. In 2017, the Company supplied 2.1 mmt of oil and gas condensate via the Caspian Pipeline Consortium, which runs from the Tengiz oil field in Western Kazakhstan to the port of Novorossiysk.

**Oil Supplies under Long-Term Contracts**

In 2017, the Company continued supplying oil under Urals oil supply contracts on a prepayment basis to Glencore, Vitol, and Trafigura via the ports of Novorossiysk, Primorsk, and Ust-Luga. A stable long-term oil supply channel is provided by the contracts, under which the selling prices are in line with those obtained by the Company at regular tenders.

During 2017, supplies under these contracts totaled 13.7 mmt, including:

- Glencore: 7.1 mmt.
- Vitol: 4.7 mmt.
- Trafigura: 1.8 mmt.

Rosneft has been participating in the CPC project since 1996 through the Rosneft Shell Caspian Ventures Ltd. joint venture (with a 7.5% stake in the project), owning a 51% in the joint venture, and Shell 49%.
An additional agreement signed between Rosneft and China National Petroleum Corporation (CNPC) became effective in 2017, entailing the increase of oil supplies to China via Kazakhstan and an extension of the existing contract between the parties, effective since 2013, until the end of 2023. Under the Agreement, supplies to China will reach 91 mmt over 10 years, further supporting scheduled supplies to Rosneft’s strategic market. Supplies to CNPC totaled 30.0 mmt in 2017, including 10 mmt via Kazakhstan.

Expanding Cooperation on the Trading of Oil and Petroleum Products

The Company continued its focus on end consumers during 2017, with exports amounting to 65 mmt, flat year-on-year.

Within efforts to strengthen relations with end consumers, the Company renewed its contracts with Shell and ENI for oil supply via the Druzhba oil pipeline to Germany in 2017. During the year, Rosneft also supplied close to 217 thousand tonnes of crude and base oils to Cubametales, the authorized Cuban company under an intergovernmental agreement between the Russian Federation and the Republic of Cuba. During further negotiations, the parties agreed to continue Rosneft’s supply of oil and petroleum products, signing a relevant agreement.

PETROLEUM PRODUCT SALES

Export Sales of Petroleum Products

In 2017, the Company substantially increased its petroleum product exports to 70.2 mmt, 8% up year-on-year.

During the year, the Company continued expanding its transportation of petroleum products by river. Bashneft’s refineries made first shipments of low-viscosity marine fuel to the Black Sea region and fuel oil to destinations in the Volga-Baltic Waterway during the summer navigation season. The new routes serve to optimize the Company’s transportation costs and expand logistics capabilities.

In order to supply its transshipment facilities and promote petroleum product trading, the Company continued shipping stable natural gasoline from the Khabarovsk Refinery to the port of Nakhodka under existing export contracts.

Domestic Sales of Petroleum Products

Rosneft is the largest motor fuel seller in Russia trading on the exchange, totaling 39.4 mmt in domestic sales of petroleum products in 2017, up 17% year-on-year. The Company traded extensively in petroleum products on the exchange – in 2017, its share (including the Ufa group of refineries) in the total exchange trading volume was:

- 48% for motor gasoline
- 40% for diesel fuel
- 47% for fuel oil.

The Company exceeded the sales volume targets on the exchange approved by a joint order of the Russian Federal Antimonopoly Service and the Russian Ministry of Energy dated 30 April 2014. In 2017, 25% of total motor gasoline output, 10% of diesel fuel, 15.4% of kerosene, and 3.5% of fuel oil from Rosneft’s refineries (including the Ufa group of refineries) were sold on the exchange, with the targets set at 10%, 5%, 10%, and 2%, respectively.

Sales of Petroleum Products to FSU Countries

In 2017, Rosneft continued its stable and uninterrupted tanker supplies of petroleum products to Armenia, meeting 70% of the country’s demand and supplying 164.3 thousand tonnes of high-quality gasoline and diesel fuel to the market from the Company’s Russian refineries.

Rosneft also supplies gasoline and diesel fuel to its sales subsidiary in the Kyrgyz Republic.

Rosneft’s marine terminal in Nakhodka

Meeting the petroleum products demand of federal clients is a priority business area of the Company under Rosneft’s Policy. In 2017, the Company fully met the demand from Russian military units deployed in the Central and Eastern Military Districts, as well as units of EMERCOM of Russia and the Investigative Committee of Russia. As part of expanding its relations with federal clients, the Company and its specialized marketing and distribution companies were appointed as the sole suppliers of motor fuels to the Russian Ministry of Internal Affairs and Federal National Guard Service under relevant decrees of the Russian Government. Relations with other federal clients will be continued in 2018.
GAS SALES

Rosneft supplies natural gas, dry stripped gas, and associated petroleum gas to consumers in the Russian Federation. Associated petroleum gas is processed at the company's own processing plants, as well as by the third parties, Sibur Holding and Surgutneftegaz.

Through Gazprom's gas transportation system under a gas transportation contract, the company's natural and dry stripped gas is supplied to both end users and regional partners in almost 40 regions.

Rosneft maximizes gas monetization by developing a commodity transport flow optimization system used for calculating the operational gas balance.

In 2017, the volume of gas sold by Rosneft on the domestic market amounted to 63.2 bcm, including 24.0 bcm in Western Siberia and the Unil Federal District, 2.40 bcm in Southern Russia, 0.85 bcm in the Far East, and 23.84 bcm in European Russia and other regions. Gas sales revenue increased by 1.2% compared to 2016, amounting to RUB 210 bln and accompanied by the average selling price increase of 2.8% due to gas price indexing of 3.9% in the domestic market for all consumer groups, effective from 1 July 2017.

The Sverdlovsk Region remains Rosneft's leading region of gas sales, where the company covered approximately 90% of gas demand in 2017, ensuring supply to both industrial facilities and residents.

During 2017, the company continued its participation in natural gas trading at the St. Petersburg International Mercantile Exchange, launched in October 2014, selling 5.5% of its total exchange trading volume at 1.1 bcm of gas.

Rosneft is one of the most widely recognized both in the Russian Federation and abroad.

In 2017, Rosneft continued to supply petroleum products to the retail network in Georgia, totaling 76.7 thousand tonnes, as well as to European customers, including Motor Oil Hellas (Greece), Demirazer Group (Turkey), and Mabantaft GmbH (Germany), totaling 679.2 thousand tonnes of diesel fuel. In 2017, the company's joint venture, Petrocas, acquired a refueling facility at the airport of Tbilisi.

As at the end of 2017, Rosneft supplies natural gas, dry stripped gas, and associated petroleum gas to consumers in the Russian Federation.

As the largest retail network in the Russian Federation, Rosneft's retail business covered 66 regions of Russia in 2017. The company possesses the widest geographical coverage and holds a leading position in most of its regions of operation. The company also has retail networks in Abkhazia, Belarus, and Kyrgyzstan. Rosneft's brand of filling stations is one of the most widely recognized both in name and fuel quality within Russia.

As at 31 December 2017, the company’s existing network of filling stations comprised 2,966 stations, including 65 filling stations in Abkhazia, Kyrgyzstan, and the Republic of Belarus, and 1,899 shops and 1,128 cafes. As at 31 December 2017, the company had 137 oil depots with a combined capacity of 1.2 mln tons and approximately a thousand gasoline tanker trucks in operation.

As at 31 December 2017, Rosneft’s retail network consisted of 2,966 stations, including 65 filling stations in Abkhazia, Kyrgyzstan, and the Republic of Belarus. Rosneft’s filling stations have 1,899 shops and 1,128 cafes in Russia, and 65 filling stations abroad.

The company’s retail offers on social media include a contactless payment system at all Rosneft, TNK, BP, and Bashneft filling stations for an improved customer experience. Consistent promotion of the company’s retail offers on social media networks.

In 2017, Rosneft’s retail networks in Abkhazia, Kyrgyzstan, and the Republic of Belarus.

As at the end of 2017, 5.4 million customers were enrolled in the program. Starting from 21 June 2017, 1.1 million customers started using the Android Pay contactless payment system at all Rosneft, TNK, BP, and Bashneft filling stations for an improved customer experience.

Chart: Gas Sales, bcm

Rosneft’s long-term development strategy is aimed at becoming a leading independent gas supplier on the domestic market of the Russian Federation.
customers were enrolled in the BP Club loyalty program across the regions in which BP’s multifunctional filling stations operate.

- Running of a total 88 local fuel marketing campaigns,
- 66 loyalty program campaigns, and 338 related product promotion campaigns.
- The expanded range of food offered at filling stations helped sell approximately 33 million cups of coffee, a 10% year-on-year growth. The growth followed the installation of 198 coffee machines and 263 hot dog rollers at 42 marketing and distribution subsidiaries of the Company.

Retail sales and small-scale wholesale distribution of petroleum products at regional oil depots totaled 6.5 mmt in 2017, up 17% compared to 2016. The positive results were achieved by developing small-scale wholesale distribution on regional markets, including:

- active customer attraction policies
- increasing corporate sales volumes via fuel cards, as well as small-scale wholesale distribution to major government agencies: by decrees of the Government of the Russian Federation, Rosneft Group Subsidiaries were appointed as the sole suppliers to the Ministry of Defense of the Russian Federation, the Investigative Committee of Russia, the EMERCOM of the Russian Federation, the Russian Federation Committee of the Russian Federation, Rosneft Group Subsidiaries were appointed as the sole suppliers to the Ministry of Defense of the Russian Federation, the Investigative Committee of Russia, the EMERCOM of the Russian Federation, the Russian Federation Committee of the Russian Federation, and the National Guard Services of Russia.
- development of a long-term contracting program in 18 regions of the Russian Federation.

Improvements in Retail Business Efficiency

Initiatives were undertaken to improve the Company’s retail business efficiency, including optimizing operating costs of filling stations and oil depots, and administrative costs. As a result, in spite of inflation, retail business costs remained flat year-on-year. In 2017, operating costs decreased by 4% vs. 2016 on a comparable basis.

Within efforts to improve the efficiency of its oil depot facilities in 2017, the Company closed poorly performing oil depots that were not up to technical and operational standards. The Company has also reduced its operating costs through optimizing the logistics of direct petroleum product supplies by utilizing gasoline tanker trucks from refineries for direct supplies and upgrading its tanker fleets, with direct supply volumes in 2017 increasing by 7% year-on-year.

A predominant focus throughout 2017 was the complete step-by-step measurement automation for all material flows, as well as procedural controls in oil depot accounting systems and the introduction of electronically metered fuel delivery systems on gasoline tanker trucks to establish quality and quantity of delivered petroleum products.

Automated loading/unloading systems and automated petroleum product weighing systems were installed in 2017 in 13 oil depots. Fuel consumption for own operational needs was reduced by 9% vs. 2016.

The key priorities in maintaining steady demand and top customer loyalty for the Company’s retail and small-scale wholesale distribution network include the implementation of a risk-based fuel quality management system across the entire supply chain, from refinery to consumer, and consistent efforts to prevent sales by deceptive players on the fuel market.

18.4 MMT were sold via the filling station network and as small-scale wholesale.

B2B

Aircraft Refueling Business

Jet fuel is sold through 26 refueling facilities controlled by Rosneft and 23 third-party refueling facilities.

The Company’s main customers in 2017 included Aeroflot, Turkish Airlines, S7, Ural Airlines, Pegas Group, Utair Group, Yakutia, Deutsche Lufthansa, Ellinair, and ALROSA Airline.

As part of its project to enter the international jet fuel supply market, the Company signed a jet fuel supply contract with Kyrgyzstan in 2017, and signed contracts with new counterparties (JSC Aircompany SCAT and JSC KooKontakt Trade) in the Republic of Kazakhstan.

Due to increased purchasing power and the consequent transportation volume increase within the Russian Federation, Rosneft’s jet fuel sales in 2017 increased by 10% year-on-year to 3.3 mmt.

Bunkering Business

Rosneft’s bunkering business covers all major Russian sea and river bunkering ports and a number of foreign destinations. Bunker fuel sales in 2017 increased by 47% year-on-year to 2.8 mmt, driven by the sales of cracked fuel oil in the Russian Far East.

In 2017, a number of initiatives were implemented to maintain and expand the Company’s presence in the bunkering market, including:

- The Company signed its first long-term contract with the world’s leading cruise company, Carnival Corporation & plc, for bunkering services to passenger ships in the St. Petersburg port.
- In expanding its bunker fuel product range, the Company started production and launched the RAKG380 III residual marine fuel at Ryazan Oil Refinery Company. The project was carried out as part of the action plan for launching production of marine fuels.

Rosneft’s customers include major air carriers based in Russia and abroad.

B2B

About the Company
Strategy of the Company
Sustainable development
Operating results
Corporate governance
Information for shareholders and investors
The Komsomolsk Refinery and Angarsk Petrochemical Company have transitioned from straight-run fuel oil to cracked fuel oil, raising Rosneft’s competitiveness in the market and increasing sales to world-leading consumers such as ocean container lines in the Primorsky Territory.

The Company exported marine fuel to vessels in the Barents Sea and the Kara Sea in 2017, sales of bitumen materials increased by 29% year-on-year to 2.5 mmt due to the effective development of the Company’s sales platform and the acquisition of Bashneft in October 2016.

Domestic sales accounted for 96% of the Company’s total sales volume during the reporting period. In 2017, the Company’s sales of lubricants totaled 1,080 thousand tonnes, up 36% year-on-year, partially due to the acquisition of Bashneft in October 2016. Domestic sales accounted for 63% of the total sales volume, totaling 679 thousand tonnes.

In the reporting period, premium lubricant sales amounted to 70 thousand tonnes, up 17% from 2016.

Rosneft is developing the production and sales of an innovative polymer-modified bitumen (PMB), which substantially improves road surface quality. In 2017, PMB sales increased by 70% year-on-year to 41 thousand tonnes.

The Company’s refineries and third-party processing facilities have begun production of bitumen emulsion and new bitumen grades: GOST 33133, PNST-85, and PMB.

A range of initiatives expanded the Company’s presence in the lubricant market throughout 2017, including the following:

- New lubricant ranges for passenger and commercial vehicles produced and launched in redesigned canisters
- Agreements were signed and efforts are underway to substitute imported lubricants with the Company’s products at large enterprises in the Russian Federation
- Improving the efficiency of production programs at refineries and reducing the Company’s costs
- Development and implementation of a motor fuel stockpiling program to provide consumers with gasoline during periods of increased demand
- Development and organization of new efficient logistics schemes
- Effective contracting of the fleet for transportation of the Company’s petroleum products by river during the 2018 navigation season
- Development of a program for petrochemical shipments in tank containers, in response to restrictions on specialized rolling stock
- In efforts to promote lubricants in the retail channel for passenger vehicles, the Company now has a presence in 12,849 outlets
- As part of Rosneft’s strategy to boost sales to key clients, the Company signed contracts with key clients KAMAZ, providing for sales of transmission fluids for the factory-fight of KAMAZ vehicles and quenching oils for production needs

Sales of Bitumen Products

In 2017, sales of bitumen materials increased by 29% year-on-year to 2.5 mmt due to the effective development of the Company’s sales platform and the acquisition of Bashneft in October 2016. Domestic sales accounted for 96% of the Company’s total sales volume during the reporting period.

Sales of Lubricants

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In the reporting period, premium lubricant sales amounted to 70 thousand tonnes, up 17% from 2016.
**RN-MORSKOY TERMINAL TUAPSE**

**Supply sources**
1. Rosneft refineries:
   - Tuapse Refinery
   - Achinsk Refinery
   - Kuibyshev Refinery
   - Novokuibyshevsk Refinery
   - Saratov Refinery
   - Nuhnevartovsk Oil Refining Association
2. Third-party suppliers

**Product flows**
- Petroleum product exports

**Principal destinations**
- Europe:
  - Malta, Greece, Italy, Romania, Bulgaria, Spain, Slovenia, France, Germany, the Netherlands, Belgium, Croatia, Cyprus, Israel, Georgia
  - Asia:
  - Singapore, Turkey, China, South Korea

**Port Facility Modernization**
- Implementation of a production asset renovation program to ensure compliance with new industrial, environmental, and fire safety requirements
- Facility construction projects completed in 2017: process pipelines at the berths of oil piers (full construction), heating networks (Phases 2 and 3) – 2 stages; systems for automatic petroleum product metering and quality control
- Further construction of wastewater treatment facilities; refitting jet fuel tanks (floating roofs installation)

**Key Achievements in 2017, in numbers**
- 1.1 MMT transshipment of third-party products
- 10.5 MMT transshipment via the terminal’s own berth
- 1.4 MMT oil transshipped for the Tuapse Refinery in addition to petroleum product transshipment

**RN-MORSKOY TERMINAL NAKHODKA**

**Supply sources**
1. Rosneft refineries:
   - Komsomolsk Refinery
   - Achinsk Refinery
   - Angarsk Petrochemical Company
2. Third-party suppliers

**Product flows**
- Transshipment on the domestic market
- Bunkering on the domestic and export markets

**Principal destinations**
- Asia:
  - Taiwan (China), South Korea, Singapore, China, Japan
  - North America:
    - the USA
  - The Magadan Region, Kamchatka, Sakhalin Island

**Port Facility Modernization**
- Implementation of a production asset renovation program to ensure compliance with new industrial, environmental, and fire safety requirements
- Continued program to renovate the tank farm, oil pier, process pipelines, and utility networks
- Transshipment technology modernization planned for 2018–2021, allowing the Terminal to add jet fuels and export heavy fuel oil to the range of transshipped petroleum products

**Key Achievements in 2017, in numbers**
- 0.7 MMT transshipment on the domestic market
- 1.4 MMT transshipment of petroleum products for bunkering
- 0.3 MMT transshipment of third-party products

**RN-ARKHANGELSK-NEFTEPRODUKT**

**Supply sources**
1. Rosneft refineries:
   - YANGS
   - Ryazan Refinery
2. Third-party suppliers

**Product flows**
- Transshipment on the domestic market
- Bunkering on the domestic and export markets

**Principal destinations**
- Europe:
  - the Netherlands, Latvia, Germany, Belgium, the UK
- Supply to Northern Russia

**Port Facility Modernization**
- Implementation of a production asset renovation program to ensure compliance with new industrial, environmental, and fire safety requirements

**Key Achievements in 2017, in numbers**
- 0.2 MMT transshipment of third-party products
05

CORPORATE GOVERNANCE
5.1. KEY PRINCIPLES AND IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM

Corporate governance is a sophisticated and rapidly developing framework coordinating shareholders, the Board of Directors, the Company’s executive bodies, and other stakeholders. It needs to closely follow changes in corporate law, recommendations of national and global regulators, as well as market operator requirements.

Rosneft is one of the world’s largest publicly traded petroleum company. Its securities have been included in the First (Top) Tier Quotation List of the Russian securities market and are also traded on foreign markets.

Given its public status, the Company has to comply with requirements of the national regulator (the Bank of Russia) and of the Moscow Exchange Listing Rules for issuers of publicly traded securities. In addition, it has an obligation to investors to comply with international best practices in corporate governance since the quality of corporate governance is a strong driver of investment decisions.

Strong corporate governance is designed to maintain high levels of confidence from shareholders, investors, and counterparties, and should cultivate:

- higher investment appeal
- effective risk assessment methods
- efficient use and safeguarding of shareholder (investor) funds
- transparency of the Company’s operations and high-quality disclosures
- higher market value of the Company and lower cost of capital.

The Code is designed to provide additional guarantees and ensure the exercise of shareholder rights to:

1. govern the Company
2. receive dividend income
3. be provided with reliable and effective means of recording their rights to shares, and be able to freely dispose of their shares without any hindrance.

The Code defines the rules of efficient management of the Company by the Board of Directors:

- Board of Directors membership and independence criteria
- Proceeding of, and providing information to, the Board of Directors
- Performance assessment of the Board of Directors and its members
- Remuneration of members of the Board of Directors and the Company’s executive governing bodies

The Code stipulates the Company’s obligations to comply with rules for taking material actions (such as major transactions, reorganization, increase or decrease of the charter capital).

The Code describes key principles of communication between the Company and its stakeholders: investors, suppliers, customers, and employees.

The Code details the principles of an efficient risk management and internal control system providing reasonable assurance that the Company will achieve its goals.

The Code defines the principles of an efficient strategic management of the Company by the Board of Directors:

- Providing reasonable assurance that the Company’s operations with social responsibility standards and create jobs
- Building an efficient internal control and risk management system providing reasonable assurance that the Company will achieve its goals

1 In particular, the Code relies on the principles of the Organization for Economic Co-operation and Development, the confederation of European shareholder associations, and standard corporate practices of the European Bank for Reconstruction and Development.
Key Corporate Governance Achievements in 2017:

Rosneft considers enhancement of its corporate governance to be part of its overall objective of improving the Company’s performance and an ongoing focus for Rosneft’s Board of Directors and executive bodies. The Bank of Russia’s Corporate Governance Code serves as a key benchmark for the activities of Rosneft’s Board of Directors in implementing corporate governance. The Company’s Board of Directors is committed to improving its corporate governance framework by implementing the Bank of Russia’s Corporate Governance Code in Russian law.

1. To maintain the right balance between the interests of the Company’s shareholders and public interests, and ensure appropriate time commitment of directors considering the scale of growth of the Company’s business, a new Board of Directors was elected by the Extraordinary General Shareholders Meeting of Rosneft on September 29, 2017. The new Board of Directors has 11 seats, of which 4 are taken by independent directors. Independent Director Gerhard Schroeder was elected Chairman of the Board of Directors of Rosneft.

2. The Board of Directors of Rosneft determined the procedure for managing conflicts of interest in Rosneft and Group Subsidiaries by approving Regulations on Conflicts of Interest in Rosneft and Group Subsidiaries.

3. Actions envisaged by the Roadmap for Incorporating Key Provisions of the Bank of Russia’s Code in Rosneft’s Operations approved by the Board of Directors of Rosneft (Road Map) were carried out. The Board of Directors approved:
   - Regulations on Operation of the Board of Directors of Rosneft’s Group Subsidiaries, Shares of, and Equity Stakes in, Group Subsidiaries, which document the rules and principles of the operation of the Board of Directors of the Company’s Group Subsidiaries.
   - Regulations on Evaluation of the Board of Directors Performance of Rosneft.
   - Rosneft Information Policy, documenting, in particular, a list of information which the Company commits to disclose to supplement its statutory disclosures in accordance with the Roadmap, the Code, and the Regulations on Evaluation of Rosneft’s Board of Directors Performance.

The Board of Directors of Rosneft considers enhancement of its corporate governance to be part of its overall objective of improving the Company’s performance and an ongoing focus for Rosneft’s Board of Directors and executive bodies. The Bank of Russia’s Corporate Governance Code serves as a key benchmark for the activities of Rosneft’s Board of Directors in implementing corporate governance. The Company’s Board of Directors is committed to improving its corporate governance framework by implementing the Bank of Russia’s Corporate Governance Code in Russian law.

2018 Priorities

For 2018, we plan to continue our focus on the activities stipulated by the Roadmap for Implementation of Key Bank of Russia’s Code recommendations.

We will continue developing an Information system to automate corporate governance processes, designed initially to cover shareholder relations and providing them with protected remote access to information on General Shareholders Meetings, accrued dividends, exercise of shareholder rights arising from ownership of Rosneft’s securities, and other information.

In 2018, Rosneft’s Board of Directors is expected to approve a major high-level local regulations – the Policy on Anti-Corruption and Prevention of Corporate Fraud. The plans also include updating the Company’s Regulations on Insider Information.

Every year, the Company implements an action plan to improve corporate governance, which will also be done in 2018. The 2018 action plan includes:

- Performance assessment of the Board of Directors; development, approval, and execution of a plan of actions arising from the assessment;
- Performance audit of the corporate governance framework.

As a result of our efforts taken in 2017 to improve corporate governance, an assessment of compliance with the recommendations of the Bank of Russia’s Code based on the guidelines of the Federal Agency for State Property Management (Rosimushchestvo) showed that Rosneft complied with almost all recommendations of the Bank of Russia applicable to the Company. Rosneft’s corporate governance framework complies with 92.4% of recommendations of the Bank of Russia’s Code, which is higher than the 2016 indicator by 2.7 percentage points and significantly higher than the minimum threshold (65%) recommended by Rosimushchestvo for the results of integration of the Bank of Russia’s Code into Rosneft’s operations (see Appendix 3 to this Annual Report). The Company is committed to further developing its corporate governance framework in a consistent and methodical manner and in line with the highest national and global standards.
Corporate Governance and Control Structure

**GENERAL SHAREHOLDERS MEETING**
Rosneft’s supreme governing body responsible for decision-making on key matters of the Company’s business.

**BOARD OF DIRECTORS**
Rosneft’s Board of Directors provides strategic management of the Company’s activities; it is accountable to the General Shareholders’ Meeting and acts on behalf and for the benefit of all Rosneft shareholders within the limits prescribed by the Rosneft’s Charter. It is guided by resolutions of the General Shareholders’ Meeting and by the principles of inadmissibility of restricting shareholders’ rights, and the achievement of balance between the interests of different shareholder groups to maximize objectivity in decision making for the benefit of all shareholders of the Company.

**EXECUTIVE BODIES**
(Chief Executive Officer and Management Board)
Manage the day-to-day operations for the benefit of the Company, and are accountable to the General Shareholders’ Meeting and the Board of Directors.

**CHIEF EXECUTIVE OFFICE**
Rosneft’s sole executive body.

**MANAGEMENT BOARD**
Rosneft’s collective executive body.

**EXECUTIVE BODIES**
(Chief Executive Officer and Management Board)
Manage the day-to-day operations for the benefit of the Company, and are accountable to the General Shareholders’ Meeting and the Board of Directors.

**INTERNAL AUDIT SERVICE**
Assesses the robustness and effectiveness of the Company’s business processes, identifying internal potential for improving the Company’s financial and business performance, including that of Group Subsidiaries.

**EXTERNAL AUDITOR**
A commercial organization selected through procurement process and approved by the General Shareholders’ Meeting of Rosneft upon recommendation of the Board of Directors based on assessment by the Audit Committee of the Board of Directors.

**CORPORATE SECRETARY**
Ensures the effective implementation of Rosneft’s corporate policies and arrangements for effective communications between shareholders, the governing and supervisory bodies, and the Company.

**COMMITTEES OF THE BOARD OF DIRECTORS**
- **Audit Committee**
  Assists the Board of Directors by reviewing the Company’s accounting (financial) statements and other reports for completeness, accuracy, and reliability; monitoring the reliability and effectiveness of internal control and risk management systems, compliance, and corporate governance; and safeguarding the independence and objectivity of the internal and external audit functions.
- **HR and Remuneration Committee**
  Assists the Board of Directors by assessing the effectiveness of the Company’s HR and succession policies, and the appointment and remuneration system; setting criteria for the selection and preliminary assessment of Board and management candidates; reviewing independence of independent directors; and conducting performance assessments of the Board of Directors, the executive bodies, and top managers of the Company.
- **Strategic Planning Committee**
  Assists the Board of Directors by supervising the Company’s strategic development; assessing the Company’s long-term performance; providing strategic and business planning; defining the Company’s business priorities and growth targets; and reviewing strategic initiatives by Rosneft’s top managers.

The Head of Internal Audit is in direct contact with the Committee.
5.2. GENERAL SHAREHOLDERS MEETING

The General Shareholders Meeting is Rosneft’s supreme governing body. In the reporting year, two General Shareholders Meetings were held – one Annual and one Extraordinary Meeting.

Annual General Shareholders Meeting

On 22 June 2017, Rosneft’s Annual General Shareholders Meeting was held in Sochi, attended by holders of 92.0% of the Company shares.

The Annual General Shareholders Meeting approved the Annual Report, the Company’s Annual Accounting (Financial) Statements, and Net Profit Distribution of Rosneft for the fiscal year 2016. The Meeting also elected the Board of Directors and the Audit Commission, determined their remuneration, and approved the External Auditor of the Company.

It was resolved to distribute RUB 63.4 bln as dividend on Rosneft shares (RUB 5.98 per outstanding share).

The Annual General Shareholders Meeting approved amendments to the Charter, driven by enhanced joint-stock company operations on behalf and for the benefit of all Rosneft shareholders, and in compliance with Russian legislation, the Charter, the Regulations on the Board of Directors, and other Rosneft’s internal documents.

Extraordinary General Shareholders Meeting

On 29 September 2017, Rosneft’s Extraordinary General Shareholders Meeting was held in St. Petersburg, attended by holders of 91.78% of the Company shares.

The Extraordinary General Shareholders Meeting approved amendments to the Charter, increasing the number of the Board members from 9 to 11. The new Board of Directors was elected.

The Extraordinary General Shareholders Meeting also resolved to distribute RUB 40.6 bln as interim dividend on Rosneft shares (RUB 3.83 per outstanding share), based on 1H 2016 results. This resolution complies with the amendments to the Rosneft Dividend Policy approved in 2017.

As at 31 December 2017, the resolutions adopted by the Extraordinary General Shareholders Meeting were fully complied with.

5.3. ROSNEFT’S BOARD OF DIRECTORS

Rosneft’s Board of Directors is responsible for strategic management of the Company’s operations on behalf and for the benefit of all Rosneft shareholders, and in compliance with Russian legislation, the Charter, the Regulations on the Board of Directors, and other Rosneft’s internal documents.

The membership of the Board of Directors is determined by the General Shareholders Meeting of Rosneft. Directors are elected via a transparent procedure stipulated by the Charter and the Regulations on the Board of Directors of Rosneft.

As part of preparing the General Shareholders Meeting, shareholders are provided with all necessary information about nominees to the Board of Directors, as described in the Bank of Russia’s Code.

Rosneft’s obligation to provide shareholders with information on nominees sufficient to judge on their personal and professional skills, including independent status for nominees proposed for independent director positions, is detailed in the Regulations on the General Shareholders Meeting, and in the Corporate Governance Code of Rosneft.

The Chairman and Deputy Chairman of Rosneft’s Board of Directors are elected at the first meeting following the election of the Board of Directors by the General Shareholders Meeting, and have powers established by the Regulations on the Board of Directors.

For each agenda item considered directors determine whether they may have a potential conflict of interest and refrain from voting on, and (where necessary) discussing, any matter that, in their opinion, result in such a conflicts of interest.

Taking into account the high level of responsibility of the Board of Directors and the executive bodies, with due regard to the scope of implemented projects and materiality of transactions made, Rosneft insures the liability of the Company’s directors and management at its own expense.
Membership of Rosneft’s Board of Directors
(as at 31 December 2017)

Members of Rosneft’s Board of Directors have considerable experience in strategic management and competencies sufficient to make well-informed and unbiased decisions for the benefit of the Company and its shareholders.

From the beginning of the reporting year and until Rosneft’s Annual General Shareholders Meeting held on 22 June 2017, the Board of Directors comprised: Andrey Akimov, Andrey Belousov, Matthias Warnig, Oleg Viyugin, Roberts Dudley, Guillermo Quintero, Alexander Novak, Igor Sechin, and Donald Humphreys.

On 29 September 2017, the Annual General Shareholders Meeting elected a new Board of Directors: Faisal Alsuwaidi, Andrey Belousov, Matthias Warnig, Oleg Viyugin, Ivan Glasenberg, Robert Dudley, Guillermo Quintero, Igor Sechin, Donald Humphreys.

In line with amendments to Rosneft’s Charter approved by the General Shareholders’ Meeting on 29 September 2017, the number of directors was raised from 9 to 11, as required by the needs of Rosneft having drastically scaled up its business and strategic projects implemented together with foreign partners.

On 29 September 2017, the Extraordinary General Shareholders Meeting elected a new Board of Directors of Rosneft.

GERHARD SCHROEDER
Chairman of the Board of Directors, Independent Director

Born in 1944.
Graduated from the University of Goettingen, the Department of Law, in 1976.
Foreign fellow of the Russian Academy of Sciences.
Member of Rosneft’s Board of Directors since September 2017.
Chairman of the Board of Directors at Nord Stream 2 AG (Switzerland), Chairman of the Shareholders’ Committee of Nord Stream AG (Switzerland), Chairman of the Supervisory Board at Hannover 96 GmbH&Co. KG (Germany), Deputy Chairman of the Supervisory Board at Herrenknecht AG (Germany).
Holds no shares of Rosneft.

IGOR SECHIN
Deputy Chairman of the Board of Directors, Chief Executive Officer, Chairman of the Management Board of Rosneft

Born in 1960.
Graduated from Leningrad State University in 1984. PhD in Economics.
2004 – 2008: Deputy Head of the Executive Office of the President of the Russian Federation – Aide to the President of the Russian Federation.
2012 – present: Chief Executive Officer, Chairman of the Management Board of Rosneft.
Member of Rosneft’s Board of Directors since 2004 and Chairman of Rosneft’s Board of Directors from 2004 to June 2011. Re-elected to Rosneft’s Board of Directors in November 2012. Deputy Chairman of Rosneft’s Board of Directors since June 2013.
Chairman of boards of directors of JSC ROSNEFTGAS, LLC National Oil Consortium, and PJSC Inter RAO.
Chairman of the Supervisory Board of LLC CSKA Professional Hockey Club.
Holds 13,489,350 shares of Rosneft (0.1273% of the Company’s charter capital).

MATTHIAS WARNIG
Deputy Chairman of the Board of Directors, Independent Director, Chairman of the HR and Remuneration Committee, Member of the Audit Committee of the Board of Directors

Born in 1955.
Graduated from the Bruno Leuschner Higher School of Economics (Berlin) in 1981.
2006 – 2016: Managing Director of Nord Stream AG (Switzerland).
2008 – present: Director of Interatis AG (Switzerland).
2015 – present: Executive Officer of Nord Stream 2 AG (Switzerland).
Member of Rosneft’s Board of Directors since June 2011. Deputy Chairman of Rosneft’s Board of Directors since June 2014.
Member of the Supervisory Board at VTB Bank (PJSC), member of the Administrative Board at GAZPROM Schweiz AG (Switzerland), member of the Board of Directors at PJSC Transneft, Chairman of the Board of Directors at United Company RUSAL Plc (Jersey), Chairman of the administrative board at Gas Project Development Central Asia AG (Switzerland), and Interatis Consulting AG (Switzerland).
Holds 92,633 shares of Rosneft (0.0009% of the Company’s charter capital).
FAISAL ALSUWAIDI
Member of the Strategic Planning Committee of the Board of Directors

2007–2012: Senior Advisor for Russia and the CIS to LLC Morgan Stanley Bank (under civil contract).
2013–2015: Senior Advisor to the President of the Russian Federation.
2018–present: Aide to the First Deputy Prime Minister of the Russian Federation.
Member of Rosneft’s Board of Directors since June 2015.
Chairman of the board of directors at NAUFOR and PJSC SAFMAR Financial Investments, Deputy Chairman of the Supervisory Board of the National Settlement Depository, member of the board at the Center for Strategic Developments Foundation and the AGATE Foundation for Young Entrepreneurs, member of the board of trustees at the European University at St. Petersburg Endowment Fund, New Economic School Endowment Fund, and Non-Commercial Foundation Forum Analytical Center, member of the Presidium at the Non-Commercial Partnership National Council on Corporate Governance, member of boards of directors of LLC Skolkovo – Venture Investments and PJSC Unipro, member of the Supervisory Council at PJSC Moscow Exchange.
Holds no shares of Rosneft.

ANDREY BELOUSOV
Member of the Strategic Planning Committee of the Board of Directors

2012–2018: President of Research and Development at Qatar Foundation.
2016–present: Representative of Qatar Investments Authority.
Member of Rosneft’s Board of Directors since June 2017.
Holds no shares of Rosneft.

OLEG VIYUGIN
Independent director, member of the Strategic Planning Committee of the Board of Directors, member of the Audit Committee of the Board of Directors

2007–present: Professor at the School of Finance of the Department of Economic Sciences of the National Research University Higher School of Economics.
2013–2015: Senior Advisor for Russia and the CIS to LLC Morgan Stanley Bank (under civil contract).
Member of Rosneft’s Board of Directors since June 2015.
Chairman of the board of directors at NAUFOR and PJSC SAFMAR Financial Investments, Deputy Chairman of the Supervisory Board of the National Settlement Depository, member of the board at the Center for Strategic Developments Foundation and the AGATE Foundation for Young Entrepreneurs, member of the board of trustees at the European University at St. Petersburg Endowment Fund, New Economic School Endowment Fund, and Non-Commercial Foundation Forum Analytical Center, member of the Presidium at the Non-Commercial Partnership National Council on Corporate Governance, member of boards of directors of LLC Skolkovo – Venture Investments and PJSC Unipro, member of the Supervisory Council at PJSC Moscow Exchange.
Holds no shares of Rosneft.

IVAN GLASENBERG
Member of the Strategic Planning Committee of the Board of Directors

2002–present: Chief Executive Officer of Glencore International AG.
2011–present: Chief Executive Officer of Glencore plc.
Member of Rosneft’s Board of Directors since September 2017.
Member of the Board of Directors, Non-Executive Director at United Company RUSAL PLC (Jersey).
Holds no shares of Rosneft.
ALEXANDER NOVAK  
Deputy Chairman of the Strategic Planning Committee of the Board of Directors

Born in 1971.  
Graduated from Norilsk Industrial Institute in 1993 and from Lomonosov Moscow State University in 2009.  
Member of Rosneft's Board of Directors.

ROBERT DUDLEY  
Chairman of the Strategic Planning Committee of the Board of Directors

Born in 1955.  
Graduated from the University of Illinois in 1977, Thunderbird School of Global Management and Southern Methodist University (Dallas, Texas, USA) in 1979.  
2009 – present: Managing Director and member of the Board of Directors at BP p.l.c.  
2010 – present: President of BP group  
Member of Rosneft’s Board of Directors since June 2013.  
Member of the Supervisory Board at the Non-Government Organization Russian Geographical Society.  
Holds no shares of Rosneft.

DONALD HUMPHREYS  
Independent director, Chairman of the Audit Committee of the Board of Directors, member of the HR and Remuneration Committee of the Board of Directors

Born in 1948.  
Graduated from Oklahoma State University in 1971 and the Wharton School, University of Pennsylvania in 1976.  
2011 – 2013: Senior Vice President, Chief Financial Officer; member of the Management Committee of ExxonMobil Corporation.  
Member of Rosneft’s Board of Directors since June 2013.  
Member of the board of directors at the Perot Museum of Nature and Science (NPO), Literacy Achieves Learning Center (NPO), Crested Butte Colorado Music Festival (NPO), and Adaptive Sports Center – Colorado (NPO); member of the Board of Trustees at the Georgia O’Keeffe Museum of Art (NPO).  
Holds 220 thousand global depositary receipts representing interests in Rosneft ordinary shares (0.0021% of the Company’s charter capital).

GUILLERMO QUINTERO  
Member of the HR and Remuneration Committee of the Board of Directors

Born in 1957.  
Graduated from the University of Southern California in 1979.  
2010 – 2015: Regional President, Brazil, Uruguay, Venezuela and Colombia, at BP Energy do Brasil Ltda and President and Director at BP Brasil Ltda.  
2011 – 2016: Director of BP Petroleo y Gas S.A.  
2014 – 2016: President of BP Exploracion de Venezuela S.A.  
2016 – present: Director of GQO Consultants Ltd.  
Member of Rosneft’s Board of Directors since June 2015.  
Member of the Board of Directors at Petrocor AG.  
Holds no shares of Rosneft.

ROBERT DUDLEY  
Chairman of the Strategic Planning Committee of the Board of Directors

Born in 1955.  
Graduated from the University of Illinois in 1977, Thunderbird School of Global Management and Southern Methodist University (Dallas, Texas, USA) in 1979.  
2009 – present: Managing Director and member of the Board of Directors at BP p.l.c.  
2010 – present: President of BP group  
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Member of the Supervisory Board at the Non-Government Organization Russian Geographical Society.  
Holds no shares of Rosneft.

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2011 – 2016: Director of BP Petroleo y Gas S.A.  
2014 – 2016: President of BP Exploracion de Venezuela S.A.  
2016 – present: Director of GQO Consultants Ltd.  
Member of Rosneft’s Board of Directors since June 2015.  
Member of the Board of Directors at Petrocor AG.  
Holds no shares of Rosneft.

ALEXANDER NOVAK  
Deputy Chairman of the Strategic Planning Committee of the Board of Directors

Born in 1971.  
Graduated from Norilsk Industrial Institute in 1993 and from Lomonosov Moscow State University in 2009.  
Member of Rosneft’s Board of Directors.
Performance of the Board of Directors in 2017

In 2017, the Board of Directors held 26 meetings (5 meetings in person and 23 meetings by absentee voting) addressing various matters of the Company’s business, including the following key resolutions:

- **On approval of the Rosneft–2022 Strategy** aimed at quantum changes in the Company’s business by introducing advanced management approaches and new technologies, and on increasing returns on the Company’s existing assets
- **On updating Rosneft’s Long-Term Development Program** to reflect new strategic guidelines, and on reviewing its progress in 2016
- **On approval of Rosneft’s business plan**, and on reviewing its performance and normalization results in 2016
- **On developing new mechanisms and approaches for different areas of Rosneft’s activity**, including the following:
  - **Carrying out instructions given by the President of the Russian Federation and the Government of the Russian Federation** concerning:
    - developing and implementing initiatives to reduce operating expenses and enhance import substitution and procurement;
    - disposing of non-core assets, and reviewing the progress reports on Rosneft’s Non-Core Assets Disposal Program on a quarterly basis (Q1 – Q3 2017);
    - introducing professional standards in the Company’s operations;
  - **On implementing business projects** to develop and expand large fields;
  - **On Rosneft’s director compliance with the independence criteria described in the Moscow Exchange Listing Rules** (in 2017, the independence of Gerhard Schroeder, Matthias Warmig, Oleg Vuyugin, and Donald Humphreys was determined);
  - **As part of introducing the Bank of Russia’s Code provisions**, on:
    - the progress against the Roadmap for Incorporating Key Provisions of the Bank of Russia’s Code in Rosneft’s Operations;
    - the annual self-assessment of Rosneft’s Board of Directors’ performance in the 2016–2017 corporate year;
    - performance reports of the Committees of Rosneft’s Board of Directors in the 2016–2017 corporate year;
  - **Improving Rosneft’s corporate governance**:
    - amendments and additions to Rosneft’s Code of Conduct;
    - amendments and additions to Rosneft’s Code of Internal Control;
    - amendments and additions to Rosneft’s Code of Directors’ Conduct;
    - amendments and additions to Rosneft’s Code of Corporate Governance;
    - amendments and additions to Rosneft’s Code of Executive Directors’ Conduct;
    - amendments and additions to Rosneft’s Code of Independent Directors’ Conduct;
    - amendments and additions to Rosneft’s Code of Supervisors’ Conduct;
    - amendments and additions to Rosneft’s Code of Conduct of Related Parties;
    - amendments and additions to Rosneft’s Code of Conduct of Directors of Subsidiaries and Joint Ventures;
    - amendments and additions to Rosneft’s Code of Conduct of Executives of Subsidiaries and Joint Ventures;
    - amendments and additions to Rosneft’s Code of Conduct of Supervisors of Subsidiaries and Joint Ventures;
    - amendments and additions to Rosneft’s Code of Conduct of External Auditors;
    - amendments and additions to Rosneft’s Code of Conduct of Consultants;
    - amendments and additions to Rosneft’s Code of Conduct of Media;
    - amendments and additions to Rosneft’s Code of Conduct of Employees;
    - amendments and additions to Rosneft’s Code of Conduct of Shareholders;
    - amendments and additions to Rosneft’s Code of Conduct of Shareholders with Voting Rights;
    - amendments and additions to Rosneft’s Code of Conduct of Shareholders without Voting Rights;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Board of Directors;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Management Board;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Supervisory Board;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the Chairman of the Board of Directors;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the Chairman of the Management Board;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the Chairman of the Supervisory Board;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the President of the Board of Directors;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the President of the Management Board;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the President of the Supervisory Board;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the President of the Office of the Chairman of the Board of Directors;
    - amendments and additions to Rosneft’s Code of Conduct of Members of the Office of the President of the Office of the Chairman of the Management Board;
    - amendments and additions to Rose...
The Board of Directors annually/semi-annually considers the following key matters:

Rosneft’s Long-Term Development Program audit results and annual approval of the updated Long-Term Development Program (taking into account changes in strategic guidelines, objectives and measures related to the development of the Company’s business segments, the independent auditor’s recommendations based on the implementation audit results, and directives of the Government of the Russian Federation).

Approval of the Company’s business plans, review of their results, and normalization of approved targets.

Progress reports on the innovative development and energy saving programs for the reporting year, and program approvals for the next year.

Action plans of the Board of Directors’ Committees are approved based on the meeting schedule of the Board of Directors. Matters that require preliminary assessment by a dedicated committee are decided by the Board of Directors taking into account the recommendation of the respective committee.

Committees of Rosneft’s Board of Directors

In order to enable a preliminary review of the most important matters within the authority of Rosneft’s Board of Directors, three standing committees of the Board of Directors have been set up.

The Committees have been formed with due regard for recommendations of the Bank of Russia’s Corporate Governance Code and relevant professional experience and expertise of members of the Board of Directors, which allows the Committees to efficiently achieve their tasks.

The Audit Committee of the Board of Directors is comprised solely of independent directors; the majority of members of the HR and Remuneration Committee are independent directors.

AUDIT COMMITTEE

- monitors completeness and reliability of the Company’s accounting (financial) statements and other reports
- ensures independence, unbiased, and efficient internal and external audit, and communication with the Audit Commission
- monitors reliability and efficiency of the internal control and risk management system
- monitors the Company’s corporate governance practice, develops recommendations for enhancement of the Company’s corporate governance framework
- monitors the efficiency of this system for reporting potential wrongdoings by the Company’s employees (including misuse of insider/confidential information) and third parties, as well as other violations in the Company’s operations.

THE HR AND REMUNERATION COMMITTEE

- assesses the performance of the governing bodies, in particular through developing an assessment methodology and assessing the performance of the Board of Directors, executive bodies, and top managers of the Company
- involves best talent in Company management and creates incentives to drive their performance, in particular through evaluating nominees to the Board of Directors against the established eligibility criteria, assessing independent director compliance with independence criteria, and developing recommendations for shareholders on nominees to the Board of Directors
- monitors information disclosure on the remuneration policy and practices as well as on holding of the Company shares by members of the Board of Directors, the Chief Executive Officer, members of the Management Board, and other top managers.

STRATEGIC PLANNING COMMITTEE

- assists the Board of Directors in setting the Company’s strategic goals and guidelines, and assessing the Company’s performance in the long term
- contributes to determining the Company’s business priorities, in particular through reviewing proposals on the Company’s strategy, business projects, and investment programs, as well as major stake/share acquisitions and disposals, and establishing joint ventures
- is involved in monitoring the performance of the Company’s business plans
- assesses the efficiency of Rosneft’s communications with investors and shareholders.

Membership of the Audit Committee and the HR and Remuneration Committee has not changed in the reporting year.

Donald Humphreys
Chairman, Independent Director
Matthias Warnig
Independent Director
Oleg Viyugin
Independent Director

Matthias Warnig
Chairman, Independent Director
Donald Humphreys
Independent Director
Guillermo Quintero

Robert Dudley
Chairman (since 29 September 2017, member of the Committee in the reporting year)
Alexander Novak
Deputy Chairman
Oleg Viyugin
Independent Director (Chairman until 29 September 2017)
Faisal Alsuwaidi (since 22 June 2017)
Andrey Belousov (since 29 September 2017)
Ivan Glashenberg (since 22 June 2017)
Performance of the Board Committees in 2017

In 2017, the Audit Committee held 14 meetings, during which the Committee:
- as part of reviewing the completeness, accuracy, and reliability of the Company’s accounting (financial) statements and safeguarding the objectivity and independence of the external audit function:
  - on a quarterly basis, reviewed the Company’s consolidated financial results and financial statements, as well as their audit results (prior to submission for review by the Audit Committee, the draft financial statements and information prepared by the auditor had been discussed at conference calls attended by Committee members, Rosneft management, and representatives of the external auditor)
  - reviewed the audit results, the audit report on the accounting (financial) statements, and confirmed there were no potential indicators of non-independence of the auditor at the time of audit of the 2016 accounting (financial) statements prepared in accordance with Russian Accounting Standards
- as part of ensuring an efficient internal control and risk management system:
  - reviewed reports on corporate risks for 2018 and approved the holistic development plan for the risk management and internal control system for 2017-2018
  - recommended for approval by the Board of Directors amendments to the Company’s Financial Control Policy, to maintain the efficiency of financial control through aligning financial control management with the Company’s Policy on Risk Management and Internal Control System

In 2017, the Strategic Planning Committee held 11 meetings, during which the Committee:
- as part of its contribution to determining the Company’s business priorities, recommended to the Board of Directors:
  - to approve the Company’s long-term strategic guidelines until 2030, the updated Long-Term Development Program of Rosneft, and the Rosneft-2022 Strategy, as well as the Company’s business plan for 2018-2019
  - to approve key targets and investment for the Company’s business projects to develop and expand fields
  - to approve the 002R Rosneft Exchange-Traded Bonds Program, the Exchange-Traded Bond Prospectus for the bonds placed thereunder, and to approve Rosneft’s exchange-traded bond placements
  - to approve the progress report on the Company’s Innovative Development Program for 2016
- as part of involvement in monitoring the performance of the Company’s business plans:
  - recommended that the Board of Directors take into account the information on the results of performance and KPI normalization of Rosneft’s business plans for 2016 and 2017
  - as part of investor and shareholder relations recommended to approve Rosneft’s Information Policy.

The Strategic Planning Committee also recommended the Board of Directors to approve the Register of the Company’s non-core and inefficient assets.

In 2017, the HR and Remuneration Committee held 14 meetings, during which the Committee:
- as part of involving best talent in Rosneft management and creating incentives to drive their performance:
  - recommended top manager candidates for appointment to the Management Board of Rosneft
  - reviewed the proposed remuneration of members of the Board of Directors and the Audit Commission for the 2016-2017 corporate year, and compensation of expenses they incurred when discharging their duties
  - reviewed and recommended for approval by the Board of Directors of Rosneft the Regulations on Holding Members of Rosneft’s Board of Directors of Rosneft, Shares, Shares of, and Equity Stakes in, Group Subsidiaries
- as part of assessing the performance of the Company’s governing bodies:
  - reviewed the 2017 KPIs for Rosneft’s top managers, normalized the criteria for achievement of the top manager KPIs for 2016 and the progress against the KPIs for the purposes of the 2016 annual bonus program
  - reviewed and recommended for approval by the Board of Directors the Regulations on Evaluation of the Board of Directors Performance.
5.4. ROSNEFT’S EXECUTIVE BODIES

ROSNEFT’S EXECUTIVE BODIES RESPONSIBLE FOR THE MANAGEMENT OF THE COMPANY’S DAY-TO-DAY OPERATIONS

MANAGEMENT BOARD
The collective executive body

CHIEF EXECUTIVE OFFICER
The sole executive body

Management Board of Rosneft

The Management Board acts for the benefit of the Company on the basis of the Russian legislation, Rosneft’s Charter, Regulations on the Collective Executive Body (Management Board), and other internal documents of the Company.

The term of office of a Management Board member is determined by the Charter as three years. The procedure for Management Board formation, the rights, duties and liability of Management Board members, proceedings of the Management Board are governed by the Regulations on the Collective Executive Body (the Management Board) of Rosneft.

Changes to the membership of Rosneft’s Management Board in 2017 were as follows:

- On 5 April 2017, Rosneft’s Vice President and Chief of Staff Yuri Kurilin was appointed to the Management Board for a three-year period (Minutes of the Board of Directors No. 2 dated 7 April 2017).

In July 2017, the Board of Directors made a resolution to reappoint for three years the following Management Board members whose terms of office were to expire in 2017: Yuri Kalinin (Deputy Chairman of the Management Board), Eric Maurice Liron, Didier Casimiro, Peter Lazarev, and Zeljko Runje (Minutes of the Board of Directors No. 2 dated 14 July 2017).

The size of the Company’s Management Board was not changed in the reporting year and totals 11 members. Rosneft’s Management Board includes the heads of key business lines, operation service and support function segments of the Company.

Membership of Rosneft’s Management Board (as at 31 December 2017)

Born in 1960.

Graduated from Leningrad State University in 1984. PhD in Economics.

Holder of government and ministerial awards.

2004–2008: Deputy Head of the Executive Office of the President of the Russian Federation – Aide to the President of the Russian Federation.
2012 – present: Chief Executive Officer, Chairman of the Management Board of Rosneft.

Member of Rosneft’s Board of Directors since 2004 and Chairman of Rosneft’s Board of Directors from 2004 to June 2011. Re-elected to Rosneft’s Board of Directors in November 2012. Deputy Chairman of Rosneft’s Board of Directors since June 2013.

Chairman of the board of directors at JSC ROSNEFTGAZ, LLC National Oil Consortium, and PJSC Inter RAO, Chairman of the Supervisory Board at LLC CSKA Professional Hockey Club.

Holds 13,489,350 shares of Rosneft (0.1273% of the Company’s charter capital).

IGOR SECHIN
Chairman of the Management Board, Chief Executive Officer of Rosneft
Born in 1946.

Graduated from the Saratov Institute of Law in 1979.

Holder of government and ministerial awards.


2004–2009: Director of the Federal Penitentiary Service (FPS) of Russia.


Since October 2012: Vice President of Rosneft, since March 2013: Vice President for HR and Social Policy of Rosneft.

Appointed to the Management Board of Rosneft in February 2013: Deputy Chairman of the Management Board of Rosneft; since October 2014:

Board member of JSC Neftegarant Non-State Pension Fund, member of boards of directors of LLC RN-Upstream, LLC RN-Commerce, LLC RN-Resource, LLC RN-Refining.

Holds 203,916 shares of Rosneft (0.0019% of the Company’s charter capital).

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**ERIC MAURICE LIRON**

First Vice President of Rosneft

Born in 1954.


2000–2005: Manager of Complex Projects in Russia, managing the oilfield services project for Sibneft at Schlumberger Oilfield Services (Russia).

2006–2013: held various executive positions at TNK-BP Management, was Vice President of the Wells Division.

Since April 2013: Vice President of Rosneft for Drilling, Development, and Services. Since July 2013: First Vice President of Rosneft overseeing the production business.

Member of Rosneft’s Management Board since September 2013.

Chairman of the board of directors at JSC Verkhnechonsknftegaz and LLC RN-Upstream, member of the board of directors at OJSC NIK Slavneft, LLC National Petroleum Consortium, LLC RN-OAZ, LLC RN-Resource, and LLC RN-Foreign Projects.

Holds 543,804 shares of Rosneft (0.0051% of the Company’s charter capital).

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**YURI KALININ**

Deputy Chairman of the Management Board, Vice President for HR and Social Policy of Rosneft

Born in 1947.

Graduated from Ufa State Oil Technical University in 1971, PhD in Economics.

Holder of government and ministerial awards.


2004–2012: Assistant to the Prime Minister of the Russian Federation.

2012–2013: Advisor to the President of the Republic of Bashkortostan.

Advisor to the President of Rosneft since 2013. Since March 2013: Head of Internal Audit of Rosneft; since June 2016: Vice President, Head of Internal Audit of Rosneft.

Member of Rosneft’s Management Board since July 2016 [not authorized to participate in voting on matters within the Management Board’s competence related to the Company’s operations, which may potentially be objects of audit / managerial decisions with regard to audited entities.]

General Director, member of the Board of Directors at JSC ROSNEFTGAZ, member of the Management Board at Autonomous Non-Profit Organization Hockey Club Salavat Yulaev.

Holds no shares of Rosneft.

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**DIDIER CASIMIRO**

Vice President for Refining, Petrochemical, Commerce and Logistics of Rosneft

Born in 1966.

Graduated with distinction from Ghent University, Belgium, in 1991, and from Ghent University, Belgium/Lisbon University, Portugal, in 1992.

1996–2005: held executive positions at BP.

2005–2012: held executive positions at TNK-BP.

Since May 2012: Vice President of Rosneft, since March 2013: Vice President of Rosneft for Commerce and Logistics, since January 2015: Vice President of Rosneft for Refining, Petrochemical, Commerce and Logistics.

Member of Rosneft’s Management Board since June 2012.

Chairman of the board of directors at PJSC Saratov Refinery, Rosneft – MP Nefteprodukt, CJSC Rosneft-Armenia, LLC RN-Yerevan, Rosneft Trading S.A., LLC RN-Commerce, LLC RN-Refining, Chairman of the Supervisory Board at PRJSC LINIK, member of the board of directors at CJSC NIK Slavneft, CJSC NIK Slavneft - YANDO, Rosneft Global Trade S.A., JSC OPMEX, Rosneft Techno S.A., PJSC Bashneft, LLC RN-Foreign Projects, member of the Board of Directors at SIA ITERA Latvia.

Holds 457,298 shares of Rosneft (0.0043% of the Company’s charter capital).

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**ERIC MAURICE LIRON**

First Vice President of Rosneft

Born in 1966.

Graduated with distinction from Ghent University, Belgium, in 1991, and from Ghent University, Belgium/Lisbon University, Portugal, in 1992.

1996–2005: held executive positions at BP.

2005–2012: held executive positions at TNK-BP.

Since May 2012: Vice President of Rosneft, since March 2013: Vice President of Rosneft for Commerce and Logistics, since January 2015: Vice President of Rosneft for Refining, Petrochemical, Commerce and Logistics.

Member of Rosneft’s Management Board since June 2012.

Chairman of the board of directors at PJSC Saratov Refinery, Rosneft – MP Nefteprodukt, CJSC Rosneft-Armenia, LLC RN-Yerevan, Rosneft Trading S.A., LLC RN-Commerce, LLC RN-Refining, Chairman of the Supervisory Board at PRJSC LINIK, member of the board of directors at CJSC NIK Slavneft, CJSC NIK Slavneft - YANDO, Rosneft Global Trade S.A., JSC OPMEX, Rosneft Techno S.A., PJSC Bashneft, LLC RN-Foreign Projects, member of the Board of Directors at SIA ITERA Latvia.

Holds 457,298 shares of Rosneft (0.0043% of the Company’s charter capital).

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**YURI KALININ**

Deputy Chairman of the Management Board, Vice President for HR and Social Policy of Rosneft

Born in 1946.

Graduated from the Saratov Institute of Law in 1979.

Holder of government and ministerial awards.


2004–2009: Director of the Federal Penitentiary Service (FPS) of Russia.


Since October 2012: Vice President of Rosneft, since March 2013: Vice President for HR and Social Policy of Rosneft.

Appointed to the Management Board of Rosneft in February 2013: Deputy Chairman of the Management Board of Rosneft; since October 2014:

Board member of JSC Neftegarant Non-State Pension Fund, member of boards of directors of LLC RN-Upstream, LLC RN-Commerce, LLC RN-Resource, LLC RN-Refining.

Holds 203,916 shares of Rosneft (0.0019% of the Company’s charter capital).
Born in 1967.
Graduated from Lomonosov Moscow State University in 1994, graduated from California State University, Hayward, with an MBA degree in 1998.

2003–2008: Head of Administration of the Office of the President and Chief Executive Officer; Head of the Office of the President at TNK-BP Management.
2011–2014: worked at BP America (USA), Houston (in procurement performance planning and management).
2014–2017: Director for Corporate Affairs and Interaction with Business Partners at BP Exploration Operating Company Ltd.
Since March 2017: Vice President, Chief of Staff of Rosneft.
Member of Rosneft’s Management Board since April 2017.
Member of the Supervisory Board at RRDB Bank (JSC), member of the board of directors at LLC RN- Gaz, LLC RN-Upstream.
Holds no shares of Rosneft.

YURI KURILIN
Vice President, Chief of Staff of Rosneft

PETER LAZAREV
Financial Director of Rosneft

Born in 1967.
Graduated from the Plekhanov Moscow Institute of National Economy in 1990.

2000–2004: Head of the Promissary Note and Investment Programs in the Finance Department of Rosneft, Deputy Departmental Director; Head of Securities in the Finance Department.
2004–2012: Head of Treasury at Rosneft.
Financial Director of Rosneft since February 2012.
Member of Rosneft’s Management Board since June 2011.
Chairman of the Board at NEFTEGARANT Non-State Pension Fund, Chairman of the board of directors at JSC NEFTEGARANT Non-State Pension Fund and LLC RN- Resource, member of the board of directors at Rosneft – MP Nefteprodukt, JSC FESRC, JSC DSRC, CJSC TEK-Torg, LLC RN-Upstream, LLC RN-Commerce, LLC RN- Assets, and LLC RN- Foreign Projects; General Director of LLC RN- Foreign Projects and JSC RN Holdco, Executive Financial Director of JSC RN Management.
Holds 448,066 shares of Rosneft (0.0042% of the Company’s charter capital).

Born in 1968.
Graduated from Ivanovo-Frankivsk Oil and Gas Institute in 1992.
Holder of ministerial awards.

2006–2014: General Director of LLC RN- Drilling.
Vice President for Drilling, Completion and Services of Rosneft since June 2014. Vice President for In-House Services of Rosneft since March 2015.
Member of Rosneft’s Management Board since April 2015.
Chairman of the board of directors at LLC RN- Service, PJSC Purnefteotdacha, and LLC RN- Assets, member of the board of directors at Precision Drilling de Venezuela, C.A., LLC RN-Upstream, LLC RN- Gaz, and LLC RN-Resource.
Holds 8,899 shares of Rosneft (0.00006% of the Company’s charter capital).

ZELJKO RUNJE
Vice President for Offshore Projects of Rosneft

Born in 1954.
Graduated with honors from the University of Alaska in 1979.
Holder of government awards.

1997–2012: held various executive positions in the Sakhalin-1 project in his capacity as Vice President of ExxonMobil Russia Inc.
Since October 2012: Vice President of Rosneft, since March 2013: Vice President of Rosneft for Offshore Projects.
Member of Rosneft’s Management Board since November 2012.
Chairman of the Supervisory Board at PJSC Rosneft-Sakhalin, Chairman of the board of directors at LLC RN- Foreign Projects and JSC RN-Shelf-Far East, member of the board of directors at RN Nordic DAI AS, LLC Arctic Research Center; CJSC Rosshelf, JSC FESRC, LLC RN- Gaz, and LLC RN-Commerce.
Holds 377,318 shares of Rosneft (0.0036% of the Company’s charter capital).

YURY NARUSHEVICH
Vice President for In-House Services of Rosneft

Born in 1972.
Graduated from Lomonosov Moscow State University in 1994, graduated from California State University, Hayward, with an MBA degree in 1998.

2003–2008: Head of Administration of the Office of the President and Chief Executive Officer; Head of the Office of the President at TNK-BP Management.
2011–2014: worked at BP America (USA), Houston (in procurement performance planning and management).
2014–2017: Director for Corporate Affairs and Interaction with Business Partners at BP Exploration Operating Company Ltd.
Since March 2017: Vice President, Chief of Staff of Rosneft.
Member of Rosneft’s Management Board since April 2017.
Member of the Supervisory Board at RRDB Bank (JSC), member of the board of directors at LLC RN- Gaz, LLC RN-Upstream.
Holds no shares of Rosneft.

Yuri Kurilin
Vice President, Chief of Staff of Rosneft

Peter Lazarev
Financial Director of Rosneft

Zeljko Runje
Vice President for Offshore Projects of Rosneft

Yury Narushevich
Vice President for In-House Services of Rosneft
Performance of the Management Board in 2017

The Management Board is guided by, and is bound to comply with, resolutions of the General Shareholders Meeting and the Board of Directors. The Management Board reports to the Board of Directors and the General Shareholders Meeting.

In 2017, the Management Board held 53 meetings and reviewed over 160 agenda items within the scope of its authority described in Article 12 of Rosneft’s Charter. In particular, the Management Board did the following:

- approved the Company’s Gas Business Development Strategy
- resolved to set up the Health, Safety and Environment Committee of Rosneft and approved its Regulations
- approved the updated Single Action Plan for Liquidation/Reorganization/Disposal of the Company’s Non-Core and Non-Performing Assets
- passed a number of resolutions on:
  - the implementation by the Company of business projects for field development and construction, reserves development, conducting geological surveys, exploration and production of hydrocarbons at license areas, completion / abandonment of wells, field development and construction, geological surveys, exploration and production of hydrocarbons, etc.
  - developing the Company’s talent pool system
  - improving the Company’s operating and financial capabilities
  - developing the Company’s corporate structure, operating and financial capabilities
  - acquisition / disposal of (direct or indirect) interest in commercial or non-profit organizations by Rosneft

- approved the Company’s internal documents, including new versions of internal documents on:
  - offshore asset and project management
  - coordination of the Company’s licensing activities related to subsoil use, and management of subsoil licenses
  - procedure for managing the reclamation of disturbed and contaminated land
  - waste management
  - emergency response and prevention
  - personnel training
  - developing the Company’s talent pool system
  - charitable activities of Rosneft and Group Subsidiaries, etc.

- approved normalized KPIs for heads of Rosneft’s independent business units and sole executive bodies of Key Group Subsidiaries, to assess their achievement of targets as part of the 2016 annual bonus program, reviewed their performance in 2016 and approved the annual remuneration; approved KPIs for 2017

- approved lists of nominees to boards of directors of Key Group Subsidiaries, and approved candidates for executive roles at Key Group Subsidiaries

The format of a Management Board meeting is determined by the Chairman of Rosneft’s Management Board.
The planning of the Management Board’s work is carried out on a quarterly basis. The Management Board’s action plans focus on matters that fall within the competence of the Management Board as detailed in Rosneft’s Charter and are proposed by members of the Management Board and top managers of the Company, including: implementation of the Company’s business projects and investment programs, completion / review of the terms of transactions, including transactions with non-core assets and real estate, acquisition / disposal of interest in commercial or non-profit organizations by Rosneft, liquidation and reorganization of Group Subsidiaries, termination of powers and appointment of governing bodies of Key Group Subsidiaries.

Chief Executive Officer, Chairman of the Management Board of Rosneft

Rosneft’s sole executive body is the Chief Executive Officer accountable to the Board of Directors and the General Shareholders Meeting of Rosneft.

The Chief Executive Officer acts pursuant to the Charter and the Regulations on the Sole Executive Body of Rosneft and manages the Company’s day-to-day operations as per resolutions of the Board of Directors and the General Shareholders Meeting. The Chief Executive Officer acts on behalf of the Company without a power of attorney and represents the Company’s interests.

In 2017, the Chief Executive Officer passed resolutions on matters within his competence detailed in Article 11 of Rosneft’s Charter, such as: ensuring development of the Company’s business plans, annual accounting (financial) statements, as well as reports on the distribution of the Company’s profit and payout (declaration) of dividends, to be submitted for approval by the Board of Directors, making proposals to the Board of Directors on nominees to the Management Board of Rosneft, implementing internal controls, making transactions and implementing the Company’s business projects with prices capped by the Charter of Rosneft, approving lists on candidates to governing bodies of Group Subsidiaries which are not Key Group Subsidiaries, determining the Company’s stance on Group Subsidiaries, profit distribution, business plan approvals, approval of a list of candidates to the Audit Commission, determining the Company’s stance on Non-Key Group Subsidiaries, appointment of members of collective executive bodies and sole executive bodies, approval of KPIs and annual bonuses for sole executive bodies.

As from 24 May 2012, Igor Sechin has been acting as the sole executive body of Rosneft. By virtue of the resolution of Rosneft’s Board of Directors, on 30 April 2015 Igor Sechin was re-appointed the sole executive body of Rosneft for another five-year term (Minutes No. 32 dated 30 April 2015).

Corporate Secretary

The Corporate Secretary is an officer of Rosneft whose primary responsibility is to ensure efficient implementation of the Company’s corporate policy and efficient communication among Rosneft’s shareholders, governing and supervisory bodies, and the Company.

The Corporate Secretary ensures Rosneft’s compliance with the applicable laws, the Company’s Charter and internal documents, which guarantee protection of the rights and legitimate interests of Rosneft’s shareholders; strong shareholder relations; support of the Board of Directors’ efficient performance; enhancement of Rosneft’s corporate governance practice in line with the interests of its shareholders and other stakeholders.

The Corporate Secretary reports to the Board of Directors, is appointed and dismissed by the Chief Executive Officer based on the resolution of the Board of Directors.

The Corporate Secretary’s activities are governed by Rosneft’s Regulations on the Corporate Secretary that comply with all requirements of the Moscow Exchange and recommendations of the Bank of Russia’s Code as regards the Corporate Secretary.

Key functions of the Corporate Secretary are to:

- contribute to enhancement of Rosneft’s corporate governance framework and practice
- help organize preparations for, and conduct of, the issuer’s general shareholders meetings
- support activities of the Board of Directors and its Committees
- support communication between the issuer and its shareholders and participation in the prevention of corporate conflicts
- ensure the implementation of procedures prescribed by legislation and the issuer’s internal documents, which guarantee exercising of the rights and legitimate interests of shareholders, and monitor compliance
- support the implementation of the issuer’s information disclosure policy and ensure safekeeping of the issuer’s corporate documents.

Under the resolution of Rosneft’s Board of Directors (Minutes No. 34 dated 5 May 2014), the functions of the Corporate Secretary are vested in the Director of Rosneft’s Corporate Governance Department Svetlana Gritskевич.

Svetlana Gritskевич

Born in 1974. Graduated from the Institute of Modern Knowledge, Belarus State University (Minsk), in 1996 and the Russian Presidential Academy of Public Administration in 2011. Has an MBA degree from MIRBIS (Moscow International Business School, 2011). Has strong experience in corporate governance (since 1998) and expertise in fuel and energy sector companies’ business (since 1996), as well as management experience (since 2003), which enable high and effective performance of the Company’s Corporate Secretary duties.

Rosneft’s Department Director for Corporate Governance since 2013. Member of the Moscow Exchange Share Issuers Committee. Holds 393 shares of Rosneft (0.000004% of the Company’s charter capital).
5.5. REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Rosneft’s existing remuneration system for members of its Board of Directors is based on compliance with legislative provisions and the Company’s internal documents developed in line with recommendations of the Bank of Russia and best practices for developing an incentive system for members of governing bodies.

Remuneration of members of the Company’s Board of Directors is covered by the Regulations on Payment of Remuneration and Compensation of Expenses of Members of the Board of Directors listing all types and terms of payments to directors, which ensures transparent remuneration payment and criteria.

The Regulations set the fixed remuneration of a member of the Board of Directors (for discharging functions of a Board member) at USD 50,000 for a corporate year, on par with global director remuneration practices in major oil companies. Additional remuneration may be paid for discharging the functions of the Chairman of the Board of Directors (USD 100,000 for a corporate year), a member of Committees of the Board of Directors (USD 50,000 to the Chairman of the Board of Directors’ Committee for a corporate year and USD 30,000 to a member of the Board of Directors’ Committee for a corporate year).

The total remuneration is calculated pro-rata to the time served by the relevant member on the Board (acting as Chairman of the Board of Directors / member of a Committee / Chairman of a Committee). At the same time, remuneration is not be paid to a Board member who has attended less than 2/3 of the meetings held, which ensures fair calculation of remuneration.

To promote alignment between the interests of directors, the Company’s long-term goals, and financial interests of its shareholders, the Regulations provide for share-based remuneration and compensation for directors in the form of share-based remuneration and remuneration and compensation for the company’s Board of Directors determined the list of expenses to be compensated to members of the Board of Directors, and their compensation procedure.

In accordance with Russian laws and pursuant to the restrictions imposed by the Regulations, no remuneration for the corporate year 2016–2017 was paid to the Chairman of the Board of Directors Andrey Akimov (who is a government official), to the Deputy Chairman of the Board of Directors, Chief Executive Officer of the Company Igor Sechin, and to the member of the Board of Directors Alexander Novak (who holds public office as Minister of Energy of the Russian Federation).

Furthermore, based on statements received from Robert Dudley and Guillermo Quintero, members of the Board of Directors who represent BP (Rosneft shareholder), no remuneration was paid to these directors.

The total remuneration to members of the Board of Directors for the 2016–2017 corporate year amounted to USD 2.27 mln.

On 22 June 2017, the Annual General Shareholders Meeting (minutes w/n dated 27 June 2017) resolved to pay the following remuneration amounts to members of the Company’s Board of Directors pro-rata to the time served:

- Andrey Akimov: USD 545,000 (USD 500,000 as fixed remuneration, USD 30,000 as remuneration for discharging the functions of a member of the Strategic Planning Committee, and USD 15,000 as remuneration for discharging the functions of member of the Remuneration Committee (pro-rata to the time spent discharging these functions in the corporate year [15 June to 23 December 2016]).
- Matthias Warnig: USD 580,000 (USD 500,000 as fixed remuneration, USD 30,000 as remuneration for discharging the functions of the Chairman of the Audit Committee, and USD 50,000 as remuneration for discharging the functions of a member of the Remuneration Committee, and USD 30,000 as remuneration for discharging the functions of a member of the Audit Committee).
- Oleg Viyugin: USD 580,000 (USD 500,000 as fixed remuneration, USD 50,000 as remuneration for discharging the functions of the Chairman of the HR and Remuneration Committee, and USD 30,000 as remuneration for discharging the functions of a member of the Audit Committee).
- Donald Humphreys: USD 565,000 (USD 500,000 as fixed remuneration, USD 50,000 as remuneration for discharging the functions of member of the HR and Remuneration Committee, and USD 15,000 as remuneration for discharging the functions of a member of the Audit Committee).
5.6. REMUNERATION OF THE MANAGEMENT

KPI setting and progress assessment process includes:

- determination of KPIs based on the Company Strategy, Long-Term Development Program, instructions of the President of the Russian Federation and the Government of the Russian Federation, the Company Business Plan and goals in the reporting year;
- approving team KPIs for the Company and its businesses, as well as individual KPIs for top managers by the Board of Directors;
- evaluating the performance against collective and individual KPIs based on the audited consolidated accounting statements and management accounts for the reporting period;
- assessment by the HR and Remuneration Committee and by the Board of Directors of the approved KPIs delivery and approval of top manager bonuses.

The KPI framework and its correlation with the Company Strategy and the Long-Term Development Program is detailed in Section 2.4. Company KPIs of this Report.

Key remuneration provisions for Rosneft’s top management are described in Rosneft’s Standard on Payments and Compensations to Top Managers which determines the procedure, conditions, and the list of possible payments to Rosneft’s Chief Executive Officer, Vice Presidents, and officers holding Vice President positions.

In 2017, the total remuneration, benefits and/or reimbursement of expenses of Rosneft’s collective executive body (Management Board) amounted to RUB 3.9 bn.¹

The total remuneration of Rosneft’s Management Board for Q4 2017 was half that for Q4 2016. Taking into account the membership of the Management Board as at the year-end, the average monthly remuneration per member was reduced by 4%.

5.7. MANAGING POSSIBLE CONFLICTS OF INTEREST OF GOVERNING BODIES

The Board of Directors is responsible for managing any conflicts of interest in the Company. The General Shareholders Meeting and the Board of Directors have approved the Company’s internal documents establishing the procedure for managing conflicts of interest.

When considering agenda items, members of the Board of Directors assess a potential conflict between their interests and those of the Company (including any conflict related to their participation in governing bodies of other companies). With respect of any interest that may, in the opinion of a member of the Board of Directors, result in such a conflict of interest, the director shall not participate in voting and, where necessary, in the discussion of such issue. Any actual/potential conflict of interest and its causes are communicated by directors to the Board of Directors through the Chairman of the Board of Directors and/or the Corporate Secretary.

Members of the Management Board and the Chief Executive Officer:

- should refrain from any actions that may cause a conflict of interest, and should such conflict arise – should immediately notify the Chairman of the Management Board/to the Chairman of the Board of Directors and/or the Corporate Secretary;
- while in office, may not hold and/or control 20 or more percent of voting shares (interests or stakes) in any entity competing with the Company or having any business interest in maintaining relations with the Company;
- may not accept any gifts from persons interested in resolutions passed as part of their duties or otherwise directly or indirectly benefit from such persons.

For the avoidance of any potential conflicts among its shareholders, the Company provides equal opportunities for exercising shareholder rights established by the applicable laws.

The Corporate Secretary is responsible for shareholder relations of the Company, and for prevention of any corporate conflicts.

The Corporate Secretary has to promptly notify the Board of Directors of any threatened violation of the applicable laws, shareholder rights or any corporate conflicts and/or conflicts of interest.

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¹ Information on remuneration and reimbursement of expenses of the collective executive body (the Management Board) for 2017 was published on 8 February, 2018 in accordance with the requirements of the Russian legislation for disclosure of information by issuers of issue-grade securities as part of the Quarterly Report of Rosneft for Q4 2017.

² Including annual bonuses for the previous year, one-time bonuses for major projects, described in the issuer’s quarterly report for three months of 2017.
5.8. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM, ENHANCED COMPLIANCE, AND INTERNAL AUDIT

The goals and objectives of the Risk Management and Internal Control System (RM&ICS) are set out in the Company’s Policy on the Risk Management and Internal Control System9 developed based on recommendations of international firms specializing in risk management, internal control, and audit services. They are designed to provide reasonable assurance that the Company will achieve its goals, including:

- strategic goals contributing to the accomplishment of the Company’s mission
- operational goals related to the Company’s financial and business performance, and asset integrity
- goals of compliance with the applicable laws and local regulations
- goals of timely preparation of reliable financial statements or non-financial reports, internal and/or external reports.

Consistent development and enhancement of the Company’s RM&ICS enables to promptly and adequately respond to changes in the external and internal environment, improve operational efficiency and effectiveness, maintain and add value.

**KEY RM&ICS STAKEHOLDERS AND THEIR RESPONSIBILITIES**

- **Key RM&ICS Stakeholders are:**
  - Board of Directors
  - Audit Committee of the Board of Directors
  - Chief Executive Officer
  - Management Board
  - Risk Management Committee
  - Company’s management
  - Audit Commission
  - Internal Audit Service
  - Security Service
  - Risks and Internal Control Department
  - Risk and internal control experts
  - Rosneft’s employees

RM&ICS focus areas are detailed in the Long-Term Development Program approved by Rosneft’s Board of Directors on 15 November 2017 (Minutes No. 6 dated 15 November 2017).

In furtherance of the Long-Term Development Program the Chief Executive Officer approved the RM&ICS holistic development plan for the short and medium terms. The RM&ICS holistic development plan sets goals, objectives, and key initiatives contributing to the achievement of the Company’s strategic goals for the RM&ICS.

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**In 2017, following the decision of the Chief Executive Officer on migration to a centralized RM&ICS, the coordination of RM&ICS processes was consolidated within the Risks and Internal Control Department.**

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**Key RM&ICS Stakeholders**

**GOAL-SETTING AND CONTROL**

**THE BOARD OF DIRECTORS AND THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

- approve RM&ICS focus areas
- approve corporate risk reports
- approve risk appetite
- monitor the RM&ICS reliability and performance

**RISK MANAGEMENT AND EXECUTION OF RESOLUTIONS**

**CHIEF EXECUTIVE OFFICER**

- validates RM&ICS focus areas
- validates RM&ICS reports
- validates risk appetite.

**RISK MANAGEMENT COMMITTEE**

- pre-approves RM&ICS focus areas
- pre-approves risk reports
- pre-approves risk appetite
- resolves RM&ICS operational disputes.

**MANAGEMENT**

- allocates responsibilities among employees
- manages risks within the scope of its authority
- includes risk management roles and responsibilities in employee job descriptions.

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**GUIDELINES AND INDEPENDENT ASSESSMENT**

**RISKS AND INTERNAL CONTROL DEPARTMENT**

- plans RM&ICS focus areas
- develops, implements, and updates Company-wide RM&ICS guidelines
- prepares reports on risks and internal controls
- coordinates the RM&ICS rollout and operation across Rosneft’s businesses and Group Subsidiaries
- develops, implements, and supports insurance programs
- insures the Company’s risks in Russian and international insurance markets
- settles insurance claims on risks realized
- approves RM&ICS focus areas
- approves corporate risk reports
- monitors the RM&ICS reliability and performance

**AUDIT COMMISSION**

- performs audits of the Company’s financial and business operations, verifying the accuracy and reliability of data included in Rosneft’s annual report and annual accounting (financial) statements, and in the report on related party transactions entered into in the reporting period.

**INTERNAL AUDIT SERVICE**

- assists the Company’s executive bodies in investigating wrongdoings / unlawful acts by the Company’s employees and third parties
- monitors the incorporation of RM&ICS improvement proposals made by internal auditors.

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**RISK MANAGEMENT AND DECISION-MAKING**

**RISK AND INTERNAL CONTROL EXPERTS OF BUSINESS UNITS**

- identify, assess, and develop risk management initiatives
- develop, implement, and update business process controls
- develop, monitor/ implement projects to eliminate gaps identified in business process controls.

**BUSINESS UNIT EMPLOYEES**

- execute risk management controls and projects
- assist the Company’s management in managing risks
- help identify, assess, and report on risks and internal controls.
Audit Commission

The Audit Commission comprises five members and is elected by the General Shareholders Meeting until the next Annual General Shareholders Meeting. A Company shareholder or any person nominated by a shareholder may be a member of the Audit Commission. Members of the Audit Commission may not concurrently serve on the Board of Directors or hold other positions in the Company’s governing bodies.

The Audit Commission audits the Company’s financial and business operations, verifies the accuracy and reliability of data included in Rosneft’s (financial) statements, and in reports on related party transactions entered into in the reporting period.

In 2017, the Audit Commission held two meetings.

In accordance with the approved action plan, the Audit Commission conducted a desk audit of Rosneft’s financial and business operations. The Commission prepared a report on the findings of the audit of the annual accounting (financial) statements and on the accuracy and reliability of data included in the annual report, and the report on related party transactions entered into in the reporting period.

MEMBERSHIP OF THE AUDIT COMMISSION

(AS AT 31 DECEMBER 2017)

Under the resolution of the General Shareholders Meeting dated 22 June 2017, the following persons were elected to the Audit Commission:

Chairman of the Audit Commission:

ZAKHAR SABANTSEV
Born in 1974.
Graduated from the Moscow State University of Economics, Statistics, and Informatics.
Section-Head, Bank Sector Monitoring, Consolidated and Analytical Work Section, Financial Policy Department, Ministry of Finance of the Russian Federation.

Members of the Audit Commission

OLGA ANDRIANOVA
Born in 1958.
Graduated from the All-Russian State Distance-Learning Institute of Finance and Economics (ARDLIFE).
Chief Accountant – Head of the Finance and Economics Service at JSC ROSNEFTEGAZ.

ALEXANDER BOGASHOV
Born in 1989.
Graduated from the State University of Management.
Deputy Department Director for Corporate Governance, Price Environment, Control and Audit Activity in the Fuel Producing Industries of the Ministry of Energy of the Russian Federation.

SERGEY POMA
Born in 1959.
Graduated from Nakhimov Black Sea Higher Naval School, Saint Petersburg State University.
Vice President, Deputy Chairman of the National Association of Securities Market Participants (NAUFOR).

PAVEL SHUMOV
Born in 1978.
Graduated from the Moscow State University of Economics, Statistics, and Informatics.
Acting Deputy Department Director, Ministry of Economic Development of the Russian Federation.

Regulations on Remuneration and Compensation of Members of the Audit Commission were approved by Rosneft’s Board of Directors on 22 May 2015 (Minutes No. 34 dated 25 May 2015), with amendments (Minutes No. 29 dated 22 June 2017).

On 22 June 2017, the Annual General Shareholders Meeting (minutes w/n dated 27 June 2017) resolved to pay the following remuneration amounts to members of the Company’s Audit Commission pro-rata to the time served:

- Alexey Afonyashin – RUB 200,000
- Oleg Zenkov – RUB 220,000
- Sergey Poma – RUB 220,000

The Audit Commission is responsible for auditing the Company’s operations, which involves identifying and assessing risks arising as a result and in the course of its financial and business operations.

Risk Management Committee

The Risk Management Committee is a collegial advisory body under Rosneft’s Chief Executive Officer, primarily responsible for pre-viewing, and forming a consolidated position on, the following matters before they are escalated to Rosneft’s executive bodies:

- Company-wide risk management development plan
- Progress monitoring results
- Risk reporting
- Risk appetite and the compliance monitoring results for risk appetite limits
- RM&ICS operational disputes

The Committee is set up, reorganized, and abolished by resolutions of Rosneft’s Management Board, and the Committee membership structure is determined by the Company’s Chief Executive Officer. The Risk Management Committee comprises heads of core businesses and had seven permanent members as at 31 December 2017.

In accordance with the Risk Management Committee’s action plan, the Committee held four meetings in 2017 and discussed RM&ICS development, risk reporting, and the Company’s risk appetite.
Internal Control System

The internal control system (ICS) is a part of the RM&ICS, with both systems having aligned goals.

The ICS is organized as per the Company’s Policy on the Risk Management and Internal Control System, the Company’s Standard on the Internal Control System, and the Company’s Regulations on Development, Implementation, and Maintenance of the Internal Control System.

The Company relies on these documents to analyze risks inherent to business processes and implement controls so as to make business processes more efficient and manageable, while ensuring reliability of its financial statements and compliance with legislation and local regulations of the Company.

To achieve the ICS objectives the Company needs to:

- define and update key ICS focus areas that have to be aligned with the Company’s needs and stakeholder requirements
- develop, adopt, and follow controls, including development of uniform guidelines for the organization and high performance of the Company’s ICS
- identify shortcomings in existing controls, develop and implement measures to address them; streamline and upgrade controls
- developing and implementing tools to enhance communication and information sharing on internal control among all RM&ICS stakeholders, including via information systems.

THESE OBJECTIVES ARE ADDRESSED AS PART OF ONGOING ICS PROCESSES:

1. ICS PLANNING
   - Planning ICS development, implementation, and maintenance

2. ICS DEVELOPMENT AND IMPLEMENTATION
   - Identifying business process risks
   - Reviewing controls
   - Drafting an action plan to address shortcomings in controls
   - Developing/improving controls

3. ICS MAINTENANCE
   - Following up on measures taken to address shortcomings in controls
   - Updating the risk matrix and controls

4. INDEPENDENT ASSESSMENT
   - Conducting internal audit to assess reliability and efficiency of the ICS

Risk Management System

The risk management process at the Company is regulated by the Company’s Policy on the Risk Management and Internal Control System and the Company’s Standard on the Corporate-Wide Risk Management System (CWRMS).

The CWRMS is a combination of interrelated elements embedded into various business processes of the Company (including strategic and business planning processes) and implemented at all management levels by all employees of the Company.

KEY CWRMS COMPONENTS:

- Planning ICS development, implementation, and maintenance
- Identifying business process risks
- Reviewing controls
- Drafting an action plan to address shortcomings in controls
- Developing/improving controls
- Following up on measures taken to address shortcomings in controls
- Updating the risk matrix and controls
- Conducting internal audit to assess reliability and efficiency of the ICS

All key risks of the Company are reported within the CWRMS, including the risks affecting the implementation of its Long-Term Development Program and the risks related to day-to-day financial and business operations. Risk reports are delivered to the Board of Directors and management and comprise all necessary information on risks, risk assessment, and measures taken to manage risks.

Key CWRMS regulations are:

- the Company’s Policy on the Risk Management and Internal Control System
- the Company’s Standard on the Corporate-Wide Risk Management System (CWRMS)
- the Company’s Standard on Insurance of Corporate Risks
- the Company’s Standard on Market Risk Management
- the Company’s Regulations on Market Risk Management
- the Company’s Regulations on Insurance of Corporate Risks
In 2017, the Company’s performance was considerably affected by market risks, including:

- Risks related to crude oil, gas, and petroleum product prices
- Interest rate risks
- Currency risks

The market risk management principles are detailed in the Company’s Regulations on Market Risk Management and establish a portfolio approach that selects and combines market risk management tools to match the aggregate impact of market risks on the Company’s performance targets. Heads of the Company’s businesses organize and coordinate risk management processes within the scope they are responsible for. When choosing a risk response and specific mitigation measures, risk owners seek to find an optimal trade-off while maintaining an acceptable risk level (risk appetite).

The market risk management approach to assess the exposure of the Company’s performance to the market risk portfolio. Rosneft uses insurance as a risk management tool enabling it to pass financial losses caused by insured occurrence through to insurers. Rosneft’s corporate insurance program covers:

- The Company’s assets
- Civil liability (liability to indemnify for damage caused to others)
- Business risks.

The most material risks are insured on the international market with companies having the reliability rating of at least A– by S&P.

Rosneft insures its liability as required by federal legislation, including Federal Law No. 225 On Compulsory Insurance of Owners of Hazardous Facilities against Civil Liability for Damage Caused by Accidents at Hazardous Facilities. The compulsory insurance requirement under Federal Law No. 225 applies to property interests of the facility’s owner, which relate to its obligation to indemnify for damage caused to the affected party (Part 1 of Article 1 of the Federal Law).

Rosneft has in place insurance coverage against the risk of damage to loss of property and potential losses resulting from business interruption due to accidents and other accidental emergencies, and liability insurance against the risk of legal action by third parties related to its onshore and offshore operations.

Rosneft is currently taking steps to settle damage claims for the Bashneft – Ufaneftekhim Refinery. Related risks are insured under a comprehensive property and business interruption insurance policy.

The acceptable risk level (risk appetite) was approved by the Board of Directors within the Company’s business plan (Minutes No. 8 dated 21 December 2017).
Enhancement of the Risk Management and Internal Control System in 2017

In 2017, the Company implemented the following initiatives to support the ongoing development of the RM&ICS:

- Developed and implemented register of standard risks and controls detailing standard risks that can affect the achievement by the Company of the goals outlined in its Strategy and Long-Term Development Program, standard risks for its day to day financial and business operations, risk factors, business process risks, controls, and their interfaces.
- Put in place the Guidelines for Determining and Applying Risk Appetite. Determined the Company’s risk appetite profile and levels for 2018 in accordance with these Guidelines.
- Approved standard functions of RM&ICS experts, as part of introducing the function of risk and internal control experts in the Company. Rosneft’s business units and 24 Group Subsidiaries appointed employees to function as risk and internal control experts.
- Over 180 employees of Rosneft and Group Subsidiaries were trained in risk management and internal controls.
- Piloted Internal Control and Risk Management information tools as part of automating RM&ICS processes.

Fostering Compliance

The Company has in place the Code of Business and Corporate Ethics (the Code) and the Anti-Corruption Policy (the Policy) approved by Rosneft’s Board of Directors, which outline Company-wide principles and approaches applied to comply with anti-corruption requirements.

The Code reflects the Company’s culture, while underlining its commitment to the highest standards of business ethics and imposing the responsibility for compliance with ethical standards on all employees regardless of their status and position. The Code explains the key notions of the process for settling conflicts of interest and changing corporate gifts.

The Policy imposes the responsibility for complying with anti-corruption principles and requirements, and for actions (omissions) of their subordinates on all employees and members of governing bodies of the Company regardless of their position. The Policy also requires employees to report all cases of being incited by any person to commit corruption offences to authorized persons and units.

In the reporting period, the Company continued to focus on improving anti-corruption and anti-fraud efforts, ensuring compliance by top managers and employees with international and Russian anti-corruption legislation, and the applicable local regulations.

As part of introducing anti-corruption practices, the Company has been consistently working on improving its framework for building its culture elements, organizational structure, and rules and procedures designed to prevent corporate fraud and corruption, and to mitigate reputational risks and risks that the Company will be held liable for briefing officials:

- Rosneft’s Comprehensive Anti-Fraud and Anti-Corruption Program for 2017–2018 was drafted and approved by Rosneft’s Council for Business Ethics.
- Rules and a procedure for anti-corruption examination of draft local regulations and administrative documents of the Company were determined to exclude the risk that they would encourage corruption.

The key RM&ICS focus and enhancement areas are detailed in the RM&ICS Holistic Development Plan.


These Regulations detail responsibilities of the Company’s officers/employees in managing a conflict of interest, and restrictions and prohibitions designed to prevent a conflict of interest (such as business conducted by employees and their close relatives, including securities/ shares/units held in other legal entities, and associations, and positions held in other organizations, etc.).

The Regulations prohibit the Company’s officers/employees from having their close relatives and/or family members directly reporting to, or supervised by, them and/or from participating in hiring, promoting, assessing performance of, or determining compensation (including salary, bonuses, or other remuneration) payable to, such persons.

Moreover, the Regulations introduce a framework to classify conflicts of interest, including conflicts of interest between shareholders and members of the Company’s governing bodies (e.g. decisions made by corporate governing bodies that might adversely affect the Company’s financial and business performance; the Company failing to make a statutory disclosure or members of corporate governing bodies concealing certain information on their positions in governing bodies of other entities, on stakes (shares) held in other entities, or other information required to be disclosed by law, the Company’s Charter or local regulations).

The Regulations also provide for ethical certification of the Company’s employees designed to identify conflicts of interest.

Fostering Compliance

The Company is working on installing zero tolerance for corruption in its employees.

Materials required to support the Tone at the Top process are prepared on a regular basis and posted on the corporate intranet and website.

In the reporting period, the Company arranged and held in-person and remote trainings on anti-corruption, basics of corporate and business ethics, and approaches to fostering compliance for 11,457 employees of the Head Office and Group Subsidiaries. The Company publishes regular articles on business ethics and the compliance function in its corporate newspaper and newsletter.

A standard anti-corruption clause is included in agreements with legal entities and individuals.

The Company’s Regulations on the Procedure for Charitable Activities of Rosneft and Group Subsidiaries, and on Sponsorship by Rosneft and Group Subsidiaries are applied across the Company.

The Company operates a 24/7 Security Hotline to report on cases of corporate fraud and corruption.

The Company keeps up its consistent efforts to identify commercial arrangements involving abuse of authority by management or third parties. In 2017, 7,355 criminal cases were initiated, 276 persons were held criminally liable, and 261 persons were sentenced as a result of submissions by the Company’s security services to law enforcement authorities.

In 2017, due diligence was conducted on 117,051 potential bidders (to supply inventory, perform capital construction projects, and provide oilfield and non-operating services), with 2,618 bids rejected.

The Corruption Control section on the official corporate website has:

- the Company’s statement on its zero tolerance for corruption;
- key provisions of international and Russian anti-corruption legislation;
- local corruption control regulations of the Company (Rosneft’s Code of Business and Corporate Ethics, and Anti-Corruption Policy);
- security Hotline contacts;
- information about cooperation with law enforcement authorities, etc.
During 2017, the Security Hotline received 20,486 calls (19,801 in 2016, up 4.8%), granting savings of RUB 103.7 mln. Ensuing audits resulted in termination of employment contracts with 29 employees and disciplinary sanctions for 69 employees. Findings of 18 audits were submitted to law enforcement authorities.

Members of the Company’s Board of Directors were updated on the Security Hotline operation on a quarterly basis. The Company also has in place a mailbox for feedback on matters related to business ethics: code@rosneft.ru

### Internal Audit

Rosneft’s internal audit function is performed by the Vice President – Head of Internal Audit, as well as the Operational Audit Department, the Corporate Audit Department, the Regional Audit Department, the Internal Audit Methodology and Management Division, and the Economic and Organizational Analysis Division. In accordance with Rosneft’s organizational structure approved by the Board of Directors, units of the Internal Audit Service report directly to the Vice President – Head of Internal Audit.

In the reporting period, the internal audit function was guided by, and acted in accordance with:

- the Company’s Policy on Internal Audit
- the Company’s Standard on the Organization of Internal Audit
- the Company’s Regulations on the Internal Audit Quality Assurance and Improvement Program
- the Company’s Regulations on the Procedure for Cooperation between the Internal Audit Service and Business Units of Rosneft and Group Subsidiaries when Performing Internal Audit
- Rosneft’s Instruction on the Procedure for Internal Audits
- the Company’s other local regulations governing internal audit operations.

The internal audit function assists the Board of Directors and the Company’s executive bodies in increasing the Company’s governance efficiency and improving overall financial and business performance, including through the application of a consistent systematic approach to reviewing and assessing the RM&ICS as well as corporate governance, therefore providing reasonable assurance that Rosneft will achieve its goals.

The internal audit action plan is based on an audit model using information and requests received from Rosneft’s executive bodies and Board of Directors, as well as its risk evaluation results.

The internal audit action plan for the reporting period has been approved by Rosneft’s Chief Executive Officer and endorsed by the Audit Committee of the Board of Directors.

Details of the action plan were presented to the Board of Directors as part of the internal audit report for the previous period.

The internal audit report was reviewed by the Chief Executive Officer, the Audit Committee of the Board of Directors, and the Board of Directors of Rosneft.

The internal audit report includes information about material risks, violations and shortcoming, results and efficiency of internal audit proposals on eliminating identified violations or shortcomings, results of implementing the internal audit action plan, and assessment results on the actual condition, reliability, and efficiency of the Company’s corporate governance and the RM&ICS.

Based on results from the risk management and internal control system efficiency assessment, the internal audit concluded that the RM&ICS ensures overall support of the risk management process and effective functioning of the internal control system, providing reasonable assurance that the Company will achieve its goals. The assessment results have been reviewed by the Rosneft Board of Directors.

The existing reporting lines by which the Head of Internal Audit reports to the Board of Directors and the Company’s executive bodies, provide sufficient independence for performing internal audit functions.

Heads of units within the Internal Audit Service do not participate in managing functional areas of the Company’s business that require management decision-making on audited entities.

The Head of Internal Audit was appointed to Rosneft’s Management Board following a decision made by the Board in July 2016. The Head of Internal Audit is not entitled to vote on matters requiring management decisions on audited entities.

A procedure was put in place for Internal Audit Service employees to routinely provide written confirmation of their personal objectivity and absence of a conflict of interest by signing the relevant declaration at least once a year, thereby raising awareness among the employees of potential conflicts of interest, as well as response procedures to situations which may influence the independence and objectivity of an internal audit.

The Head of Internal Audit provides Rosneft’s Chief Executive Officer, Board of Directors (Its Audit Committee) with confirmation of the organizational independence of internal auditing and individual objectivity of internal auditors at least once a year, as part of the internal audit report.

In 2017, over 300 inspections were conducted, covering most of the Company’s major and significant projects. Over 90.0% of thematic inspections and audits were assessing the RM&ICS performance, improving the efficiency of the Company’s business processes in Key Group Subsidiaries, and assessing the business performance of Group Subsidiaries.

In cooperation with the heads of business units, the Internal Audit Service prepares proposals based on its inspection results aimed at improving business processes and RM&ICS optimization, as well as resolutions for eliminating the violations and shortcomings identified during inspections.
External Audit

As required by law, Rosneft’s annual accounting statements are subject to statutory audit to confirm their accuracy and reliability.

By its resolution dated 29 December 2015, Rosneft’s Procurement Commission dealing with financial, audit, and consulting services approved the material terms and conditions of the procurement procedure for contracting statutory audit of RAS accounting (financial) statements and IFRS consolidated financial statements of Rosneft and its Major Subsidiaries in 2016–2018, and selected the service provider, Ernst & Young LLC.

The Audit Committee of the Board of Directors assessed the potential auditor and proposed that Rosneft’s Board of Directors recommend the General Shareholders Meeting to approve Ernst & Young LLC as the Company’s auditor and determine its fee. The auditor was approved by the Annual General Shareholders Meeting of Rosneft.

Ernst & Young LLC, incorporated under the laws of the Russian Federation, is an independent member of Ernst & Young’s (EY) global network offering auditing services and consulting on taxation and business conduct. Ernst & Young LLC is one of the Big Four major international auditing companies and a member of the Self-Regulatory Organization of Auditors Association, Russian Union of Auditors (RUA) with a long track record of cooperation with the Company, beginning in 2002.

The Auditor provides the following services to the Company:

- Statutory audit of accounting (financial) statements prepared under the Russian Accounting Standards (RAS)
- Statutory audit of consolidated financial statements of Rosneft Group prepared under the International Financial Reporting Standards (IFRS)
- Audit review of the Company’s interim consolidated financial statements prepared under the IFRS
- Other one-off additional audit services for new assets acquired by Rosneft Group to be reflected in its IFRS consolidated financial statements

Ernst & Young LLC, one of the Big Four major international auditing companies, provided audit services to Rosneft in 2017.

Ernst & Young LLC

The Auditor's fee was determined by the Board of Directors as follows:

- For auditing accounting (financial) statements prepared under the RAS — up to RUB 3,246,000.00, inclusive of VAT
- For auditing consolidated financial statements prepared under the IFRS — up to RUB 88,194,804.74, inclusive of VAT

> 300 INSPECTIONS conducted by the Internal Audit Service in 2017

In the reporting period, the Internal Audit Service conducted regular in-house self-assessment on its internal audit quality.

Overall, internal audit operations complied with the requirements of the Company’s local regulations on internal audit, the International Standards for the Professional Practice of Internal Auditing, and the Code of Ethics of the International Institute of Internal Auditors. A report was drafted following the assessment, and an action plan was formulated to further develop the Company’s internal audit function.

Based on the RM&ICS performance assessment, the internal audit concluded that Rosneft’s RM&ICS ensures overall support of the risk management process and effective functioning of the internal control system, providing reasonable assurance that the Company will achieve its goals.

To ensure compliance with the principle of internal audit independence, the Vice President — Head of Internal Audit administratively reports directly to Rosneft’s Chief Executive Officer, and functionally reports to Rosneft’s Board of Directors. Employees within the Internal Audit Service units report to the Head of Internal Audit both administratively and functionally.

The Head of Internal Audit cooperates with the Company’s governing and supervisory bodies, the external auditor, and audit commissions of the Company’s subsidiaries and affiliates.

For auditing accounting (financial) statements prepared under the RAS — up to RUB 3,246,000.00, inclusive of VAT

For auditing consolidated financial statements prepared under the IFRS — up to RUB 88,194,804.74, inclusive of VAT
6.1. SHARE CAPITAL

Rosneft shares are traded on the Russian organized securities market operated by Moscow Exchange (First (Top) Tier Quotation List).

As at 31 December 2017, a total of 28,959 shareholders (including five nominees) were registered in the Shareholder Register of Rosneft (unadjusted for disclosures by nominee shareholders).


As at 31 December 2006 Rosneft listed its Global Depositary Receipts (GDRs) on the London Stock Exchange. The issue of GDRs which certify rights to ordinary registered shares of the Company under the law of the relevant jurisdiction was carried out by J.P. Morgan as depositary bank. One Global Depositary Receipt certifies rights to one ordinary registered share of Rosneft.

As at 31 December 2017, GDRs were issued for 700 mln ordinary shares of Rosneft representing 6.6% of the Company's total share capital.

As at 31 December 2017, Rosneft's charter capital was RUB 105,981,778.17 divided into 10,598,177,817 ordinary registered book-entry shares with a par value of RUB 0.01 each.

The issue of the outstanding ordinary shares was registered on 29 September 2005 under state registration No. 1-02-00122A. The Company has not made any follow-on issues or offerings of shares or securities convertible into ordinary shares since it completed its IPO and finalized the consolidation of its subsidiaries in 2006.

Rosneft shares are traded on the Russian organized securities market operated by Moscow Exchange (First (Top) Tier Quotation List).

As at 31 December 2017, a total of 28,959 shareholders (including five nominees) were registered in the Shareholder Register of Rosneft (unadjusted for disclosures by nominee shareholders).


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As at 31 December 2017, GDRs were issued for 700 mln ordinary shares of Rosneft representing 6.6% of the Company’s total share capital.

Share Capital Structure¹

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>number of shares</td>
<td>stake in share capital, %</td>
</tr>
<tr>
<td>JSC ROSNEFTEGAZ (shareholder)</td>
<td>5,298,088,910</td>
<td>50.00000001</td>
</tr>
<tr>
<td>BP Russian Investments Limited (shareholder)</td>
<td>2,092,900,097</td>
<td>19.75</td>
</tr>
<tr>
<td>QHG Oil Ventures Pte. Ltd.¹</td>
<td>2,066,727,473</td>
<td>19.50</td>
</tr>
<tr>
<td>National Settlement Depository (nominee central depository)</td>
<td>1,098,600,619</td>
<td>10.37</td>
</tr>
<tr>
<td>Other shareholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russian Federation represented by the Federal Agency for State Property Management</td>
<td>1</td>
<td>Less than 0.01 year</td>
</tr>
<tr>
<td>Individuals</td>
<td>39,256,385</td>
<td>0.37</td>
</tr>
<tr>
<td>Account of unidentified persons</td>
<td>111,655</td>
<td>Less than 0.01 year</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10,598,177,817</td>
<td>100.00</td>
</tr>
</tbody>
</table>

¹ Based on data from Rosneft’s Shareholder Register.
² JSC ROSNEFTEGAZ is 100% owned by the federal government. The government directly owns through the Federal Agency for State Property Management 0.000000009% of Rosneft’s charter capital.
³ Shareholder’s former name – QHG Shares Pte. Ltd.

Monthly updates on shareholders owning over 5% of Rosneft’s charter capital are posted on the Company’s official website at: https://www.rosneft.com/Investors/Equity/Shareholder_structure/
6.2. IMPROVING DIVIDEND POLICY

The Rosneft Dividend Policy formalizes the Company’s key principles of, and approaches to, dividend payouts to shareholders while using transparent decision-making processes for paying out (declaring) dividends and determining their size and payout procedure.

Our Dividend Policy is driven by the following principles:
- When paying out (declaring) dividends, ensure compliance with the requirements of the Russian legislation, the Company’s Charter and internal documents
- Maximize the transparency of the dividend calculation process
- Increase the Company’s investment appeal
- Maintain the balance of short- and long-term interests of shareholders
- Support shareholder commitment to improving the Company’s profitability
- Ensure that the dividend payout pattern comfortably reflects an increase in Rosneft’s net profit
- Make dividend payouts in a way most convenient for the shareholders
- Pay out dividends in the shortest possible time

On 31 August 2017, the Company’s Board of Directors approved amendments to the Dividend Policy to increase the target dividend from 35% to 50% of the consolidated net profit under IFRS. Target payout frequency – at least twice a year.

Rosneft’s Charter provides for a five-year period during which shareholders may claim Rosneft’s Charter provides for a five-year period during which shareholders may claim dividends.

The target payout frequency – at least twice a year.

The Company’s Board of Directors approved amendments to the Dividend Policy for FY2017. The target dividend from 35% to 50% of the consolidated net profit under IFRS.

The payout decision is made by the General Shareholders Meeting of the Company upon recommendation of the Board of Directors. When determining the recommended size of dividends, the Board of Directors relies on the amount of net profit reported in the Company’s annual financial statements.

Dividend size may also be influenced by the Company’s outlook, its financial standing and financing needs, overall macroeconomic environment and market conditions, and other factors, including taxation and legislation.

A total of RUB 63,377 mln was paid out by the Company as dividend for FY2016. The dividend payout ratio (dividends / consolidated net profit under IFRS) was 35%.

On 25 April 2018, Rosneft’s Board of Directors recommended the General Shareholders Meeting to approve RUB 6.65 per share as dividend for FY2017.

Dividends were paid to all shareholders of record, except for persons who failed to timely notify the issuer’s registrar of changes in the data recorded on their profile.

When paying out (declaring) dividends, the ratio (dividends / non-consolidated net profit under RAS) was 50%. In line with amendments to the Dividend Policy approved in 2017, RUB 51,984 mln were paid as dividend for FY2016 (RUB 5.98 per outstanding share) and for 1H 2017 (RUB 3.83 per outstanding share).

As at 31 December 2017, Rosneft had no payouts outstanding to JSC ROSNETFEGAZ.

As at 31 December 2017, the Company discharged 99.98% of its obligation to pay out dividends for FY2016 and 1H2017. Dividends were paid to all shareholders of record, except for persons who failed to timely notify the issuer’s registrar of changes in the data recorded on their profile.

In 2017, Rosneft made two dividend payouts – for FY2016 (RUB 5.98 per outstanding share) and for 1H 2017 (RUB 3.83 per outstanding share).
6.3. 2017 ACTIONS
ENHANCING SHAREHOLDER RELATIONS AND SECURING SHAREHOLDER RIGHTS

Exercise of Rights by Shareholders

Rosneft’s corporate governance framework ensures that all shareholders’ rights are exercised as required by the Russian legislation, recommendations of the Bank of Russia’s Code, and the Company’s Charter and internal documents.

The Right to Govern Rosneft by Voting at the General Shareholders Meeting of Rosneft

Rosneft creates the most favorable conditions to attend the General Shareholders Meeting.

The Charter provides for holding General Shareholders Meetings through joint attendance both in Moscow (Rosneft’s Head Office) and in capital cities of the Company’s major regions of operation such as St. Petersburg, Krasnodar, Sochi, Stavropol, Saratov, Orenburg, Tyumen, Krasnoyarsk, Khabarovsk, Vladivostok, and in Krasnogorsk (the Moscow region).

Shareholders may, according to the procedure and within the time limits set out in the Russian legislation, Rosneft’s Charter and internal documents:
- propose items to be included in the agenda of General Shareholders Meetings and candidates to governing and supervisory bodies;
- review information and materials provided for General Shareholders Meetings;
- attend General Shareholders Meetings and vote on all items of the agenda.

KEY RIGHTS OF ROSNEFT’S SHAREHOLDERS INCLUDE:

- The right to govern the Company by voting at the General Shareholders Meeting of Rosneft
- The right to elect Rosneft’s Board of Directors as established by the Russian legislation
- The right to receive part of the Company’s profit as dividend
- The right to receive necessary information on the Company on a timely and regular basis
- The right to freely dispose of shares without any hindrance and be provided with reliable and effective means of recording rights to shares

Shareholders may exercise their right to govern Rosneft by attending General Shareholders Meetings in person and/or by submitting filled-out voting ballots to the Company or its registrar, LLC Reestr-RN.

Shareholders whose rights to Company shares are recorded by nominees may participate in General Shareholders Meetings by giving their nominees voting instructions (if such nominees are authorized to vote under an agreement with the Company’s shareholder), or by attending the meeting in person and voting on agenda items using voting ballots provided during shareholder registration.

As General Shareholders Meetings, all shareholders may express their views on agenda items, put questions to speakers, members of the Board of Directors, the Chief Executive Officer, members of the Audit Commission, the auditor; candidates to governing and supervisory bodies, analysts, and consultants, and receive answers during (or, if in writing, after) such General Shareholders Meeting as soon as practicable.

Resolutions adopted at the General Shareholders Meeting held in person are announced after the count of votes on agenda items and brought to the attention of stakeholders through publication in the Rossiyskaya Gazeta and Komsomolskaya Pravda newspapers and on the Company’s website.

The Right to Elect Rosneft’s Board of Directors as Established by the Russian legislation

As required by the applicable legislation, the Company has in place a simple and easy-to-follow procedure for shareholders to propose items to be included in the agenda of the General Shareholders Meeting and nominees to Rosneft’s Board of Directors and Audit Commission.

This procedure is set out in the Charter and the Regulations on the General Shareholders Meeting of Rosneft.

Shareholders may propose items to the agenda of the Annual General Shareholders Meeting and nominees to Rosneft’s Board of Directors and Audit Commission within 60 days after the end of the financial year, which is twice as long as the period required by the Russian legislation (30 days).

The Right to Receive Part of the Company’s Profit as Dividend

Each of Rosneft’s shareholders is entitled to an equal and fair share in the Company’s profit distributed as dividends.

The Company’s Dividend Policy sets out clear rules of determining which part of profit will be distributed as dividends, conditions under which dividends may be declared, determining the size of dividends on shares, and paying out dividends declared.

In 2017, Rosneft paid out all dividends and paying out dividends declared.

The Right to Freely Dispose of Shares without Any Hindrance and be Provided with Reliable and Effective Means of Recording Rights to Shares

The Shareholder Register is maintained by a professional registrar, LLC Reestr-RN, acting under a perpetual license for registering security holders.

The Company’s registrar has an impeccable reputation and all necessary capabilities, including technical means, to safeguard the rights of shareholders to register and exercise their rights to shares of the Company.
6.4. INVESTOR RELATIONS

Rosneft shares are among the most attractive investment opportunities in the Russian stock market. 10.75% of its shares are free float, including 6.6% in the form of Global Depositary Receipts (GDR) traded on the London Stock Exchange (LSE). The Company enjoys a diversified investor base of over 700 institutional investors.

International institutional shareholders of the Company are based in major business and financial hubs, such as New York, Boston, Los Angeles, London, Frankfurt, Stockholm, Hong Kong, Singapore, and Tokyo. For ten years since its IPO, Rosneft shares have been steadily growing in value and outperforming their competitors and the MICEX index. Between 19 July 2006 and 30 December 2017, Rosneft share prices on the Moscow Exchange grew by 43%. As at late 2017, the Company’s capitalization was RUB 3.09 trln.

In 2014–2017, Rosneft’s total shareholder return (TSR) was 64.1%, i.e. 9.3 percentage points higher than the average for its Russian peers. Relations with the Company’s investors, both existing, and potential, are maintained by the Chairman of the Management Board of Rosneft, heads of businesses, First Vice President, and the Investor Relations Department. In 2017, the Company completed an extensive IR program, including a number of strategic speeches by the Chairman of the Management Board of Rosneft, heads of businesses, First Vice President, and the Investor Relations Department. In 2017, the Company completed an extensive IR program, including a number of strategic speeches by the Chairman of the Management Board of Rosneft, heads of businesses, First Vice President, and the Investor Relations Department.

The Company has in place several communications channels used to safeguard the exercise of its corporate rights and to maintain efficient shareholder relations, including:

- Hotline for Rosneft shareholders (a multichannel phone line to receive and handle calls): +7 800 500 1100 (toll-free within Russia); +7 495 987 3060.
- Mailing address for letters: 26/1, Sofiyskaya Embankment, Moscow, 117997, Russian Federation.
- E-mail: shareholders@rosneft.ru.
- Fax: +7 499 517 8653.

The Company replied to all questions put by shareholders.

For all matters related to exercising their rights to shares, submission of documents required to update personal data and transact in their securities, shareholders of record may contact service and transfer agent outlets operating in regions where most of the Company’s shareholders reside. These include the Head Office, 11 branches and 2 stand-alone offices of the Company’s registrar, 29 transfer agent outlets at regional branches of LLC Reestr RN, partner banks, and 2 shareholder contact and service centers of the Company.

LLC Reestr RN has been operating in the registrar services market for 16 years and ranks among top ten Russian registrars. The company keeps registers for more than 2 thousand issuers, with an inventory of 413 thousand personal accounts to record the rights of their shareholders.

In 2017, shareholders asked the Company about:

1. Shares:
   - Place where rights to shares are registered (Shareholder Register / depository)
   - Contact details of the Company’s Registrar and nominee shareholders
   - Transfer of shares between the register and the depository
   - Procedure for updating the shareholder’s profile
   - Procedure for claiming inheritance rights to shares and recording them in the Register / with the depository
   - Share purchase / sale / transfer by gift / transfer by will
   - Par value and market value of shares

2. Dividends:
   - Dividend record date
   - Dividend per share
   - Dividend payout timeline
   - Procedure for changing the method of dividend payouts (bank / mail)
   - Payment of unclaimed dividends to shareholders who have timely submitted their dividend claims
   - Assessment and withholding of taxes and issuance of Form 2 (Personal Income Tax)

3. General Shareholders Meetings:
   - Date, time, place, and agenda of General Shareholders Meetings
   - Date for determining (recording) the list of persons entitled to attend the General Shareholders Meeting
   - Timeline and procedure for notifying shareholders of General Shareholders Meetings
   - Places where materials for General Shareholders Meetings are made available
   - Timeline for sending out of voting ballots, instructions for filling out, and submitting them to the Company
   - Rules for attending, and voting at, shareholders meetings for shareholders whose shares are registered with the depository
   - Handouts at General Shareholders Meetings
   - Place of live broadcast of the Annual General Shareholders Meeting and ability to use voting ballots at the place of broadcast
   - Resolutions adopted by General Shareholders Meetings

The Company provided answers to frequently asked questions are posted on the Company’s official website: https://www.rosneft.ru/investors/shareholdersinfo/FAQs/
2017 IR Highlights

JANUARY
- Investor meetings at Deutsche Bank's CEEMEA Conference, London
- Disclosure of the Company’s performance for 2016
- Investor conference call involving heads of finance, economics, and operations
- Investor meetings at Credit Suisse’s Energy Summit, US
- Investor meetings at Gazprombank’s Non-Deal Road Show, Hong Kong
- Investor meetings at HSBC’s Non-Deal Road Show, Singapore
- Investor meetings at Citi’s Non-Deal Road Show, New York, Boston, San Francisco, and Los Angeles

FEBRUARY
- Disclosure of the Company’s performance for 2016
- Investor conference call involving heads of finance, economics, and operations
- Investor meetings at Credit Suisse’s Non-Deal Road Show, The Hague, Rotterdam, Brussels

MARCH
- Investor meetings at J.P. Morgan’s CEEMEA Conference, US
- Investor meetings at J.P. Morgan’s CEEMEA Conference, London

APRIL
- Investor meetings at Goldman Sachs’ Russia Corporate Days, Frankfurt
- Investor meetings at Sberbank’s Exchange Forum, Moscow

MAY
- Publication of Rosneft’s Annual Report for 2016
- Disclosure of the Company’s performance for Q1 2017
- Investor conference call involving heads of finance, economics, and operations

JUNE
- Speech by the Chairman of the Management Board of Rosneft at the St. Petersburg Economic Forum
- Speech by the Chairman of the Management Board of Rosneft at the Annual General Shareholders Meeting
- Investor meetings at Renaissance Capital’s Annual Investor Conference, Moscow

AUGUST
- Disclosure of the Company’s performance for Q2 2017
- Investor conference call involving heads of finance, economics, and operations

SEPTEMBER
- Investor meetings at HSBC’s Annual CEMEIA & LATAM, London
- Investor meetings at Deutsche Bank’s Global EMEA, US
- Investor meetings at Morgan Stanley’s CEMEIA Conference, London
- Investor meetings at Goldman Sachs’ Top Projects & European Oil Services Symposium, London

OCTOBER
- Investor meetings at HSBC’s Non-Deal Road Show, Boston
- Investor meetings at HSBC’s Non-Deal Road Show (HSHCB), Copenhagen, Tallinn, Stockholm, London

NOVEMBER
- Disclosure of the Company’s performance for Q3 2017
- Investor conference call involving heads of finance, economics, and operations

DECEMBER
- Investor meetings at Wood & Company’s Winter Emerging Europe Conference, Prague
- Investor meetings at MDEP Goldman Sachs Forum, London
- Investor meetings at HSBC’s Non-Deal Road Show, London

Index
- Rosneft Share and Depositary Receipt Index Weight as at the End of 2017, %
  - MSCI Russia 3.33
  - FTSE Russia ICB 4.48
  - MICEX 5.84
  - SCI 18.76

Recommendation, early 2017 Recommendation, late 2017
- Bank of America Merrill Lynch Buy Buy
- Citibank Buy Buy
- Credit Suisse Hold Hold
- Deutsche Bank Buy Buy
- Goldman Sachs Hold Buy ↑
- HSBC Buy Buy
- J.P. Morgan Hold Hold
- Morgan Stanley Buy Buy
- Sberbank CIB Hold Sell ↓
- UBS Hold Buy ↑
- BCS Prime Hold Buy ↑
- Gazprombank Hold Hold
- Otkritie Buy Buy
- Raiffeisen Bank Hold Buy ↑
- Wood & Company Hold Hold
- Renaissance Capital Hold Buy ↑
- Uralsib Hold Hold
- Aton Hold Buy ↑
- VTB Capital Put on review Put on review

* Analytical coverage was initiated in November 2017.
6.5. BONDS AND CREDIT RATINGS OF THE COMPANY

In 2012, Rosneft issued two Eurobond series for USD 1 bln maturing in 2017 and for USD 2 bln maturing in 2022, as part of its Eurobond Program worth a total of USD 10 bln. Between 2006 and 2010, companies of TNK-BP Group issued eight Eurobond series for a total of USD 5.5 bln maturing in 2011–2020. Three Eurobond series worth a total of USD 3.6 bln, issued by Rosneft and its subsidiaries, that had previously been part of TNK-BP, remained outstanding as at 31 December 2017.

In 2012–2015, the Company launched three Ruble Bond Programs, with 33 issues for a total of RUB 1,190 bln, including eight issues for a total of RUB 400 bln in 2015.

In 2016, the Company registered a fourth multi-currency Exchange-Traded Bond Program with a total par value of RUB 1,071 bln and had three issues with a total par value of RUB 650 bln in December 2016. The Company fully completed the Program during 2017 with five exchange-traded bond issues with a total par value of RUB 481 bln.

In November 2017, the Company registered its fifth multi-currency Exchange-Traded Bond Program with a total par value of RUB 1,330 bln and had three bond issues with a total par value of RUB 630 bln in December 2017.

Rating Agency “Expert RA” assigned its highest rating of debt instruments’ reliability (ruAAA) to all ruble bonds of the Company.

In January 2018, Moody’s upgraded its outlook to “Stable” at Baa3 and Standard & Poor’s affirmed its rating at BB+ with outlook “Positive”, in February 2018.

<table>
<thead>
<tr>
<th>Par Value, mln</th>
<th>Currency</th>
<th>Coupon</th>
<th>Series / Issue Number</th>
<th>Issue Date</th>
<th>Maturity Date</th>
<th>Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eurobonds</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>800</td>
<td>USD</td>
<td>6.625%</td>
<td>Series 4</td>
<td>March 2007</td>
<td>March 2017</td>
<td>Rosneft Finance S.A.</td>
</tr>
<tr>
<td>1,100</td>
<td>USD</td>
<td>7.875%</td>
<td>Series 6</td>
<td>October 2007</td>
<td>March 2018</td>
<td>Rosneft Finance S.A.</td>
</tr>
<tr>
<td>500</td>
<td>USD</td>
<td>7.25%</td>
<td>Series 8</td>
<td>February 2010</td>
<td>February 2020</td>
<td>Rosneft Finance S.A.</td>
</tr>
<tr>
<td>1,000</td>
<td>USD</td>
<td>3.149%</td>
<td>Series 1</td>
<td>December 2012</td>
<td>March 2017</td>
<td>Rosneft International Finance Ltd.</td>
</tr>
<tr>
<td>2,000</td>
<td>USD</td>
<td>4.199%</td>
<td>Series 2</td>
<td>December 2012</td>
<td>March 2022</td>
<td>Rosneft International Finance Ltd.</td>
</tr>
</tbody>
</table>

| **Ruble bonds** |   |        |                      |            |              |                        |
| 20,000         | RUB     | 7.9%   | Series 04, 05         | October 2012 | October 2022 | Rosneft                 |
| 30,000         | RUB     | 8%     | Series 07, 08         | March 2013 | March 2023    | Rosneft                 |
| 40,000         | RUB     | 7.95%  | Series 06, 08, 10     | June 2013 | May 2023      | Rosneft                 |
| 40,000         | RUB     | 7.95%  | Series 08, 09, 10     | December 2013 | December 2023 | Rosneft                 |
| 35,000         | RUB     | 8.9%   | Series 01, 02         | February 2014 | February 2024 | Rosneft                 |
| 225,000        | RUB     | 9.4%   | Series 02, 03, 04, 05, 06, 07 | December 2014 | November 2024 | Rosneft                 |
| 400,000        | RUB     | 7.85%  | Series 05, 06, 07     | December 2014 | December 2020 | Rosneft                 |
| 400,000        | RUB     | 8.6%   | Series 08, 09, 10, 11, 12, 13, 14 | December 2014 | January 2021 | Rosneft                 |
| 600,000        | RUB     | 8.35%  | Series 01, 02, 03     | December 2016 | November 2026 | Rosneft                 |
| 30,000         | RUB     | 9.39%  | Series 02, 03         | December 2016 | December 2026 | Rosneft                 |
| 20,000         | RUB     | 9.50%  | Series 03             | December 2016 | December 2026 | Rosneft                 |
| 40,000         | RUB     | 8.65%  | Series 04             | May 2017    | April 2027    | Rosneft                 |
| 15,000         | RUB     | 8.6%   | Series 05             | May 2017    | May 2025      | Rosneft                 |
| 286,000        | RUB     | 8.5%   | Series 06, 07, 08     | July 2017   | July 2027     | Rosneft                 |
| 100,000        | RUB     | 8.6%   | Series 08             | October 2017 | September 2027 | Rosneft                 |
| 600,000        | RUB     | 8.35%  | Series 01, 02, 03     | December 2017 | November 2027 | Rosneft                 |
| 30,000         | RUB     | 7.75%  | Series 03             | December 2017 | December 2027 | Rosneft                 |

* Coupon rate as at 31 December 2017.
**6.6. DISCLOSURES AND HIGHER INFORMATION TRANSPARENCY**

Rosneft is committed to regular, prompt, accessible, reliable, and content-rich disclosures of corporate information. The Company ensures timely and full disclosure of all aspects of its operations to relevant stakeholders (except for trade secrets).

In disclosing its information, Rosneft is guided by the applicable Russian legislation, requirements of Moscow Exchange and the London Stock Exchange, the Company’s Regulations on the Information Policy, and other requirements and regulations.

Rosneft makes disclosures mostly on its official website offering all necessary information on the Company’s operations, material facts, events, governance structure, and financial and operating performance.

The website also contains the Company’s Charter and other internal documents, annual reports and sustainability reports, quarterly accounting (financial) statements under IAS, quarterly consolidated financial statements under IFRS and relevant Management Discussion and Analysis (MD&A), analyst’s handbook, presentations, press releases, information on affiliates, and other data that can influence the performance of Rosneft securities.

As required by the Regulations on Information Disclosure¹, when publishing information, the Company also uses the webpage of an information provider operating in the securities market (LLC Interfax Corporate Information Disclosure Center).

### 2017 Disclosure Items

<table>
<thead>
<tr>
<th>616 DISCLOSURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>61 Meetings and resolutions of Rosneft’s governing bodies Completed</td>
</tr>
<tr>
<td>28 Transactions and projects, including stakes held in other entities</td>
</tr>
<tr>
<td>234 Licenses for operations that are material for the issuer</td>
</tr>
<tr>
<td>17 Disclosure of, and access to, the issuer’s reports (Annual Report, quarterly reports, accounting statements, consolidated financial statements, list of affiliates)</td>
</tr>
<tr>
<td>17 Controlled entities</td>
</tr>
<tr>
<td>67 Bond issues</td>
</tr>
<tr>
<td>119 Accrued and paid income on bonds and shares</td>
</tr>
<tr>
<td>73 Other</td>
</tr>
</tbody>
</table>

Information transparency is key to Rosneft’s corporate governance. The Company has been consistently leading the industry by the number of disclosures.

As part of its efforts to increase transparency and openness, the Company focuses on enhancing its shareholder and investor relations. Rosneft maintains telephone and e-mail channels for shareholders and investors, including a shareholder hotline.

Transparency of financial statements is a pillar of the Company’s corporate governance. On 19 March 2018, Rosneft published its 2017 consolidated financial statements under IFRS accompanied by the independent auditor’s report.

In 2017, Rosneft held regular presentations on its financial performance under IFRS as part of its communications with institutional investors, shareholders, and other stakeholders.

The Company is constantly working on enhancing the transparency of its operations through running periodic management meetings with major investment banks’ analysts, international investment funds, and recognized rating agencies.

In accordance with Rosneft’s Policy on Sustainable Development, Rosneft has been holding annual round tables with representatives of its stakeholders since 2007 in its key regions of operation (15 round tables held in 2017). These meetings cover social and economic relations, environment and environmental protection, occupational health and industrial safety, social security, and charity issues.

Rosneft places a particular emphasis on preparing Sustainability Reports which reflect information on those social and environmental efforts of the Company that are material for the Company, its shareholders, employees, and other stakeholders.

These Reports detail a wide range of matters relating to HSE, operations of subsidiaries and their contribution to regional social and economic growth, personnel development, government and other stakeholder relations, and charity.

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INDEPENDENT AUDITOR’S REPORT

to the shareholders of Rosneft Oil Company

OPINION

We have audited the consolidated financial statements of Public Joint Stock Company Rosneft Oil Company and its subsidiaries hereinafter collectively referred to as the "Company", which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profits or loss, consolidated statement of other comprehensive income, consolidated statement of changes in shareholders’ equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code). Together with the work we have performed in connection with the other information obtained prior to the date of our auditor’s report, we conclude that there is a material misstatement of this other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

OTHER INFORMATION INCLUDED IN THE MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

We have fulfilled the responsibilities described in the auditor’s responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. These matters are described in the other information included in the management’s discussion and analysis of financial condition and results of operations, the related notes and the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have considered the key audit matters described in this section in our audit of the consolidated financial statements and have included them in our communications with those charged with governance.

We have audited the consolidated financial statements of Public Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the “Company”), which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in shareholders’ equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

INDEPENDENT AUDITOR’S REPORT

CONSOLIDATED FINANCIAL STATEMENTS

APPENDIX 1

CONSOLIDATED FINANCIAL STATEMENTS OF ROSNEFT OIL COMPANY FOR THE YEAR ENDED 31 DECEMBER 2017 WITH INDEPENDENT AUDITOR’S REPORT

APPENDIX 2

CONCLUDING REMARKS

APPENDIX 3

CONCLUDING REMARKS

APPENDIX 4

CONCLUDING REMARKS

APPENDIX 5

CONCLUDING REMARKS

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CONCLUDING REMARKS

APPENDIX 7

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CONCLUDING REMARKS

APPENDIX 42

CONCLUDING REMARKS

Appendix No. 1
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements do not contain material misstatements.

- obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Company to express our opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them about relationships and other matters that may potentially affect our independence, and about applicable / relevant safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit relating to this independent auditor’s report is Dmitry Lobachev.

Dmitry Lobachev
Partner, General Director
Ernst & Young LLC
19 March 2018

Details of the audited entity
Name: Rosneft OJSC
Record made in the State Register of Legal Entities on 12 August 2002; State Registration Number 1027700043502.
Address: 26/1 Sofiyskaya Embankment, Moscow, 115035, Russian Federation.

Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002; State Registration Number 102773970203.
Address: 77 Beloveshchenskaya Embankment, Building 1, Moscow, 115035, Russian Federation.
Ernst & Young LLC is a member of Self-regulated organization of auditors “Russian Union of auditors” (Association) (“SRO RUA”); Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11630509548.

CONsolidated balance sheet (RUB BLN)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2017</th>
<th>At as 31 December 2016 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>19</td>
<td>322</td>
</tr>
<tr>
<td>Bank loans granted</td>
<td>13</td>
<td>35</td>
</tr>
<tr>
<td>Other short-term financial assets</td>
<td>20</td>
<td>336</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>21</td>
<td>843</td>
</tr>
<tr>
<td>Inventories</td>
<td>22</td>
<td>324</td>
</tr>
<tr>
<td>Provisions and other current assets</td>
<td>23</td>
<td>454</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>2,692</strong></td>
<td><strong>2,200</strong></td>
</tr>
<tr>
<td><strong>Non-current assets</strong> &amp;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>24</td>
<td>7,923</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>25</td>
<td>71</td>
</tr>
<tr>
<td>Other long-term financial assets</td>
<td>26</td>
<td>626</td>
</tr>
<tr>
<td>Investments in associates and joint ventures</td>
<td>27</td>
<td>628</td>
</tr>
<tr>
<td>Bank loans granted</td>
<td>28</td>
<td>121</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>29</td>
<td>26</td>
</tr>
<tr>
<td>Goodwill</td>
<td>30</td>
<td>285</td>
</tr>
<tr>
<td>Other non-current non-financial assets</td>
<td>31</td>
<td>285</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td><strong>9,935</strong></td>
<td><strong>8,817</strong></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>12,627</strong></td>
<td><strong>11,117</strong></td>
</tr>
</tbody>
</table>

LIabilities and equity

Current liabilities

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>29</td>
<td>971</td>
</tr>
<tr>
<td>Loans and borrowings and other financial liabilities</td>
<td>30</td>
<td>2,229</td>
</tr>
<tr>
<td>Income tax liabilities</td>
<td>31</td>
<td>787</td>
</tr>
<tr>
<td>Other tax liabilities</td>
<td>32</td>
<td>209</td>
</tr>
<tr>
<td>Provisions</td>
<td>33</td>
<td>284</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>34</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>3,836</strong></td>
<td><strong>2,773</strong></td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings and other financial liabilities</td>
<td>30</td>
<td>1,783</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>31</td>
<td>313</td>
</tr>
<tr>
<td>Provisions</td>
<td>32</td>
<td>245</td>
</tr>
<tr>
<td>Provisions on long-term oil and petroleum products supply agreements</td>
<td>33</td>
<td>1,332</td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>34</td>
<td>45</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td><strong>4,208</strong></td>
<td><strong>4,052</strong></td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>35</td>
<td>1</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>36</td>
<td>627</td>
</tr>
<tr>
<td>Other funds and liabilities</td>
<td>(332)</td>
<td>(442)</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,313</td>
<td>3,316</td>
</tr>
<tr>
<td>Rosneft shareholders’ equity</td>
<td>3,618</td>
<td>3,302</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>17</td>
<td>584</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td><strong>4,183</strong></td>
<td><strong>3,782</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td><strong>12,627</strong></td>
<td><strong>11,117</strong></td>
</tr>
</tbody>
</table>

Chief Executive Officer ________________ I. Sechin ________19 March 2018

The accompanying notes to the consolidated financial statements are an integral part of these statements.
## Consolidated Statement of Profit or Loss (RUB Bln, Except Earnings Per Share Data, and Share Amounts)

<table>
<thead>
<tr>
<th>For the Year Ended 31 December</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES AND EQUITY SHARE IN PROFITS OF ASSOCIATES AND JOINT VENTURES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil, gas, petroleum products and petrochemicals sales</td>
<td>5,377</td>
<td>4,667</td>
</tr>
<tr>
<td>Support services and other revenues</td>
<td>77</td>
<td>76</td>
</tr>
<tr>
<td>Equity share in profits of associates and joint ventures</td>
<td>27</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total revenues and equity share in profits of associates and joint ventures</strong></td>
<td>6,014</td>
<td>4,988</td>
</tr>
<tr>
<td><strong>Costs and expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and operating expenses</td>
<td>607</td>
<td>559</td>
</tr>
<tr>
<td>Cost of purchased oil, gas, petroleum products and refining costs</td>
<td>837</td>
<td>614</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>112</td>
<td>109</td>
</tr>
<tr>
<td>Pipeline tariffs and transportation costs</td>
<td>336</td>
<td>375</td>
</tr>
<tr>
<td>Exploration expenses</td>
<td>15</td>
<td>14</td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>24,25</td>
<td>198</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>2</td>
<td>1,919</td>
</tr>
<tr>
<td>Support services costs</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total costs and expenses</strong></td>
<td>5,390</td>
<td>4,333</td>
</tr>
<tr>
<td>Export customs duty</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td>Dividends declared on common stock (Note 36)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive income, net of tax, attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rosneft shareholders</td>
<td>222</td>
<td>174</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>75</td>
<td>76</td>
</tr>
<tr>
<td><strong>Total comprehensive income, net of tax</strong></td>
<td>297</td>
<td>192</td>
</tr>
<tr>
<td><strong>Total income attributable to:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rosneft shareholders</td>
<td>297</td>
<td>192</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>75</td>
<td>76</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td>372</td>
<td>268</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Changes in Shareholders’ Equity (RUB Bln, Except Share Amounts)

<table>
<thead>
<tr>
<th>For the Year Ended 31 December</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Notes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>297</td>
<td>192</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>24,25</td>
<td>198</td>
</tr>
<tr>
<td>Loss on disposal of non-current assets</td>
<td>25</td>
<td>147</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td>Increase in accounts receivable, gross</td>
<td>33</td>
<td>24</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Increase in other tax liabilities</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td><strong>Balance at 1 January, 2017</strong></td>
<td>10,598</td>
<td>1,603</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td><strong>Balance at 31 December, 2017</strong></td>
<td>10,899</td>
<td>1,948</td>
</tr>
</tbody>
</table>

## Consolidated Statement of Cash Flows (RUB Bln)

<table>
<thead>
<tr>
<th>For the Year Ended 31 December</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Notes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>297</td>
<td>192</td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>24,25</td>
<td>198</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td>Increase in accounts receivable, gross</td>
<td>33</td>
<td>24</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>5</td>
<td>25</td>
</tr>
<tr>
<td>Increase in other tax liabilities</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td><strong>Net cash provided by operating activities</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td><strong>Balance at 1 January, 2017</strong></td>
<td>10,598</td>
<td>1,603</td>
</tr>
<tr>
<td><strong>Change in cash and cash equivalents</strong></td>
<td>301</td>
<td>345</td>
</tr>
<tr>
<td><strong>Balance at 31 December, 2017</strong></td>
<td>10,899</td>
<td>1,948</td>
</tr>
</tbody>
</table>
The accompanying notes to the consolidated financial statements are an integral part of these statements.

### INVESTING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of short-term financial assets</td>
<td>(34)</td>
<td></td>
</tr>
<tr>
<td>Net increase in operating assets of subsidiary banks</td>
<td>(144)</td>
<td>27</td>
</tr>
<tr>
<td>Net increase in operating liabilities of subsidiary banks</td>
<td>20</td>
<td>9</td>
</tr>
<tr>
<td>Proceeds from sale of trading receivables</td>
<td>30</td>
<td>9</td>
</tr>
<tr>
<td>Net cash provided by operating activities before income tax and interest</td>
<td>391 695</td>
<td></td>
</tr>
<tr>
<td>Income tax payments</td>
<td>(112)</td>
<td>(88)</td>
</tr>
<tr>
<td>Dividends received</td>
<td>27</td>
<td>650</td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>327 079</td>
<td></td>
</tr>
</tbody>
</table>

### FINANCING ACTIVITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Effect of foreign exchange on cash and cash equivalents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>19</td>
<td>559</td>
</tr>
<tr>
<td>Effect of foreign exchange on cash and cash equivalents</td>
<td>(24)</td>
<td>(83)</td>
</tr>
<tr>
<td>Cash and cash equivalents at the end of the year</td>
<td>120 700</td>
<td>120 700</td>
</tr>
</tbody>
</table>

### SIGNIFICANT ACCOUNTING POLICIES

1. **General**
   - Pursuant to the PCAOB (Public Company Accounting Oversight Board) requirements, the Company applies the methodologies and policies described in this document.

2. **Basis of Preparation**
   - The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards Board ("IASB") effective in the reporting period, and are fully compliant therewith.

3. **Significant Accounting Policies**
   - These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Accounting Standards Board ("IASB") effective in the reporting period, and are fully compliant therewith.

### Associates

- The Company uses the equity method when it has an investment in an associate or an joint venture in which it has significant influence.

### Joint arrangements

- The Company participates in joint arrangements either in the form of joint ventures or joint operations.

### Cash and cash equivalents

- Cash represents cash on hand in the Company’s bank accounts, interest and interest-bearing deposits which can be withdrrawn at any time without notice or other penalties and includes amounts on deposit. Cash equivalents are highly liquid amounts of cash and have original maturities of three months or less from their date of purchase.
Financial assets

The Company recognizes financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized, they are measured at fair value, which usually is the price of the transaction, i.e. the fair value of consideration received.

The discount rate reflects the minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of foregoing other investments.

Depreciation, depletion and amortization

The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use; in which, an asset is used or is expected to be used (e.g., the asset becoming idle, or the useful life of an asset is reassessed as finite rather than indefinite).

Repayment of debt

The carrying amount of the net assets of the Company is more than its market capitalization.

International sources of information:

- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.

For instance, if an effective tax rate was determined as 20%, the income tax expense that should be recognized in the income statement is 20% of the provision for income taxes.

The following factors indicate that exploration and evaluation assets may be impaired:

- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be less than expected. Such evidence includes the existence of a technical failure or an obvious technical or economic fact that indicates that the asset is impaired.
- the carrying amount of the net assets of the Company is more than its market capitalization.

Depreciation, depletion and amortization

- the carrying amount of the net assets of the Company is more than its market capitalization.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.

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- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be less than expected. Such evidence includes the existence of a technical failure or an obvious technical or economic fact that indicates that the asset is impaired.
- the carrying amount of the net assets of the Company is more than its market capitalization.

Repurchase and resale agreements

Securities sold under repurchase or resale agreements (‘repo’) and securities purchased under repurchase or resale agreements (‘reverse repo’) are accounted for at fair value at the date of the repurchase or resale agreement. The fair value of these agreements is determined by reference to the market prices of the securities involved, taking into account any related interest payments or other adjustments.

Development and production

The Company recognizes the recognition criteria for exploration and evaluation assets. When exploration and evaluation assets are recognized, they are measured at fair value, which usually is the price of the transaction, i.e. the fair value of consideration received.

The carrying amount of the net assets of the Company is more than its market capitalization.

Depreciation, depletion and amortization

- the carrying amount of the net assets of the Company is more than its market capitalization.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.

For instance, if an effective tax rate was determined as 20%, the income tax expense that should be recognized in the income statement is 20% of the provision for income taxes.

The following factors indicate that exploration and evaluation assets may be impaired:

- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be less than expected. Such evidence includes the existence of a technical failure or an obvious technical or economic fact that indicates that the asset is impaired.
- the carrying amount of the net assets of the Company is more than its market capitalization.

Depreciation, depletion and amortization

- the carrying amount of the net assets of the Company is more than its market capitalization.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.
- evidence of a significant decline in the current fair value of the principal financial instrument.

For instance, if an effective tax rate was determined as 20%, the income tax expense that should be recognized in the income statement is 20% of the provision for income taxes.

The following factors indicate that exploration and evaluation assets may be impaired:

- evidence is available from internal reporting that indicates that the economic performance of an asset is or will be less than expected. Such evidence includes the existence of a technical failure or an obvious technical or economic fact that indicates that the asset is impaired.
- the carrying amount of the net assets of the Company is more than its market capitalization.
Deferred tax assets and liabilities are classified as Non-current Deferred tax assets and Non-current Deferred tax liabilities, respectively. All of that deferred tax asset to be utilized.

Registration of revenue

Deferred tax assets and liabilities are recognized in the accompanying consolidated financial statements in the amount determined by the Company in accordance with IAS 12 Income Taxes.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of these transactions. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities designated as foreign currency cash flow hedging instruments are recognized within other comprehensive income and, where appropriate, in the share capital reserve. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items are translated in other functional currencies in a manner that reflects their historical cost in the foreign currency.

The Company’s subsidiaries

Prepayments on oil and gas products supply agreements

The following amendments were applied for the first time in 2017:

· the IFRS 9 Financial Instruments amendments; and
· the IFRS 15 Revenue from Contracts with Customers amendments.

Deferred tax assets and liabilities are recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

· the initial recognition of an asset or a liability in a transaction that does not have commercial substance;
· the measurement of assets and liabilities using the liability method on the reporting date between the tax bases of assets and liabilities and another carrying amount for financial reporting purposes.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

· the initial recognition of an asset or a liability in a transaction that does not have commercial substance;
· the measurement of assets and liabilities using the liability method on the reporting date between the tax bases of assets and liabilities and another carrying amount for financial reporting purposes.

Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available at the reporting date to utilize the deductible temporary differences and carry forwards. The probability required for this purpose is based on the consideration of all available positive and negative evidence, including tax reversal dates, projected future taxable profit, and tax planning strategies.

Deferred tax assets for deductible temporary differences arising from investments in subsidiaries and associates, and joint ventures in joint ventures, to the extent that the following tax assets are not recognized:

· the measurement of deferred tax assets is based on the reporting date between the tax bases of assets and liabilities and another carrying amount for financial reporting purposes.

Deferred tax assets are recognized as non-current for deferred tax assets that are expected to be realized after more than 12 months from the reporting date.

Deferred tax assets and liabilities are not recognized: if it is more likely than not that some or all of the deferred tax asset will not be realized.

Deferred tax assets and liabilities are classified as non-current if deferred tax assets and liabilities are not recognized.
The Company seeks to identify and manage foreign exchange rate risk in a comprehensive manner, including an integrated analysis of natural economic hedges, in order to benefit income or loss and then reclassify to profit or loss in the same period in which the hedged item affects the profit or loss.

In May 2017, the IASB issued IFRS 17 Insurance Contracts. IFRS 17 establishes a single framework for the accounting for insurance contracts and contains requirements for related financial instruments. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In December 2016, the IASB issued amendments to IAS 40 Investment Property entitled Transfers of Investment Property. The amendments clarify the requirements for transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In September 2016, the IASB issued IFRIC 22 Interpretation entitled Foreign Currency Transactions and Advance Consideration. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use in initial recognition of the related asset, expense or income (or part of it) in the absence of capital in nature or contractually related to the exchange rate. The date of the transaction is either the date of advance consideration or the date of the transaction for the purpose of determining the exchange rate to use in initial recognition of the related asset, expense or income (or part of it). The amendments are effective for annual periods beginning on or after January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In December 2016, the IASB issued IFRIC 23 Interpretation entitled Income Tax Treatments. The IFRIC clarifies that for the purposes of calculating current and deferred tax, companies should use a tax treatment of uncertainties, which will probably be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

The schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as at 31 December 2017, is presented below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Before income tax</th>
<th>Income tax</th>
<th>Net of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>234</td>
<td>67</td>
<td>167</td>
</tr>
<tr>
<td>2019</td>
<td>226</td>
<td>69</td>
<td>157</td>
</tr>
<tr>
<td>2020</td>
<td>226</td>
<td>69</td>
<td>157</td>
</tr>
<tr>
<td>2021</td>
<td>226</td>
<td>69</td>
<td>157</td>
</tr>
<tr>
<td>Total</td>
<td>692</td>
<td>234</td>
<td>458</td>
</tr>
</tbody>
</table>

The impact of foreign exchange cash flows recognized in other comprehensive income is set out below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Before income tax</th>
<th>Income tax</th>
<th>Net of tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>348</td>
<td>118</td>
<td>230</td>
</tr>
<tr>
<td>2017</td>
<td>348</td>
<td>118</td>
<td>230</td>
</tr>
<tr>
<td>2018</td>
<td>348</td>
<td>118</td>
<td>230</td>
</tr>
<tr>
<td>2019</td>
<td>348</td>
<td>118</td>
<td>230</td>
</tr>
<tr>
<td>Total</td>
<td>1392</td>
<td>472</td>
<td>920</td>
</tr>
</tbody>
</table>

The expected reclassification is calculated using the Central Bank of Russia ("CBR") exchange rate as at December 31, 2017 and may differ from actual exchange rates in the future.

The level of sensitivity is assessed on a monthly basis using sensitivity analysis and is maintained within the limits adopted in line with the Company’s policy. The table below summarizes the impact on the Company’s income before income tax and equity of the depreciation/"appreciation" of the Russian ruble against the U.S. dollar and euro.

<table>
<thead>
<tr>
<th>Year</th>
<th>US$ billion</th>
<th>Euro billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>10.08%</td>
<td>20.16%</td>
</tr>
<tr>
<td>2018</td>
<td>11.34%</td>
<td>21.83%</td>
</tr>
<tr>
<td>2019</td>
<td>11.71%</td>
<td>11.71%</td>
</tr>
</tbody>
</table>

Interest rate risk

The Company is exposed to interest rate risk on its debt instruments denominated in foreign currencies or denominated in U.S. dollars or euros. The Company holds a portfolio of debt instruments that carry varying interest rate risk profiles.

The table below summarizes the impact of potential increases or decreases in interest rates on the Company’s profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increases/decreases is based on management estimates of potential interest rate movements.

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase</th>
<th>Decrease</th>
<th>Effect on income before income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>4.50%</td>
<td>4.50%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

The sensitivity analysis is limited to variable interest rates and borrowings and is conducted with all other variables held constant. The analysis is prepared in accordance with the assumptions relating to foreign currency risk and the exchange rate sensitivity analysis. The table below summarizes the impact of potential increases or decreases in interest rates on the Company’s profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increases/decreases is based on management estimates of potential interest rate movements.

<table>
<thead>
<tr>
<th>Year</th>
<th>Increase</th>
<th>Decrease</th>
<th>Effect on income before income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

The sensitivity analysis does not take into account other potential changes in economic conditions that may accompany the relevant changes in market interest rates.

The Company’s foreign currency risk management strategy is to hedge future export revenue in the amounts of the net monetary position in U.S. dollars on on-balance sheet basis.

Changes in the nominal hedging amount during 2017 are presented in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal amount as at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,763</td>
</tr>
<tr>
<td>2017</td>
<td>1,763</td>
</tr>
</tbody>
</table>

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Changes in the nominal hedging amount during 2017 are presented in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal amount as at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,763</td>
</tr>
<tr>
<td>2017</td>
<td>1,763</td>
</tr>
</tbody>
</table>

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Changes in the nominal hedging amount during 2017 are presented in the table below:

<table>
<thead>
<tr>
<th>Year</th>
<th>Nominal amount as at December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1,763</td>
</tr>
<tr>
<td>2017</td>
<td>1,763</td>
</tr>
</tbody>
</table>
In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. The Company primarily has banking relationships with large Russian banks and certain large Russian banks. The Company’s exposure to credit risk is limited to the carrying value of financial assets recognized on the consolidated balance sheet.

Liquidity risk

The Company has identified liquidity risk management processes covering short-term, mid-term and long-term funding. Liquidity risk is controlled through maintaining sufficient reserves and the adequate amount of committed credit facilities and loan funds. Management regularly monitors projected and actual cash flow information, and analyses the repayment schedules of the existing financial assets and liabilities, including upcoming and/or accrued interest payments, and performs annual detailed budgeting procedures.

The contractual maturity of the Company’s financial liabilities is as follows:

### Acquisition of 30% interest in the concession agreement for the development of the Zhar field

In October 2017 the Company finalized the acquisition of a 30% stake in the concession agreement for the development of the Zhar field from Eni S.p.A. Participation in the exploration of this deep-water gas field in offshore Egypt together with Eni (25%) and BP (12%), the Company’s strategic partners, will allow the Company to substantially increase its gas production abroad within a short period and strengthen its position in the promising and strategically significant region. The acquisition price amounted to USD 1.1 billion, while the compensation of the 30% share of project costs to Eni S.p.A., which is subject to reimbursement according to the terms of the concession agreement, amounted to USD 1.2 billion. The acquired interest in the concession agreement was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company’s interest in accordance with IFRS 11, Joint Arrangements.

As at December 31, 2017, the Company’s current liabilities exceeded its current assets. Management believes that the Group’s current cash on hand, expected cash flows from operations and available restricted cash balances from financial institutions will be sufficient to meet the Company’s working capital requirements and repay its short-term debts and obligations when they become due. In 2017, the Company was refinancing existing short-term credits and entering into other short-term bank agreements and other agreements for operations using the favorable market conditions. As a result, the amount of short-term liabilities increased while an adequate level of liquidity risk was maintained.

### 7. ACQUISITIONS OF SUBSIDIARIES AND SHARES IN JOINT OPERATIONS

#### Acquisitions of 2017

**Acquisition of TTI**

In December 2017 the Company gained control over TNK Trading International S.A. (“TTI”) through concluding a number of agreements. Until December 2017 the Company considered its interest in TTI to be a part of investments in joint operations and accounted for it under the equity method.

As at December 31, 2017, the Company recognized an impairment of goodwill arising on the JSCB Peresvet acquisition due to the existence of significant impairment indicators. A goodwill impairment loss of RUB 4 billion is recognized in Other expenses of the Company’s consolidated statement of profit or loss for the year ended at December 31, 2017 (Note 13). The estimated equity component of convertible bonds representing a non-controlling interest is RUB 312 billion.

### 8. LIABILITIES

**Current liabilities**

#### Non-current liabilities

The following table summarizes the Company’s preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Current liabilities</th>
<th>Non-current liabilities</th>
<th>Total liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>85</td>
<td>68</td>
<td>153</td>
</tr>
</tbody>
</table>
The following table summarizes the Company’s allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

| Identification of net assets at fair value | Total identifiable net assets at fair value | Transferred totaled RUB 329.69 billion. As a result of the transaction, the Company has obtained control over PJSC Bashneft Oil Company and its subsidiaries (“Bashneft”).

On October 12, 2016, the Company completed the acquisition of the state’s stake in PJSC Bashneft Oil Company totaling 50.0755% of its charter capital. The consideration transferred included for the purpose of goodwill 330 billion. The consideration transferred amounted to US$ 1,522 million (RUB 92 billion at the CBR official exchange rate at the acquisition date).

BP has consolidated 100% of the equity of the Gelsenkirchen refinery and solvents production facility DHC Solvent Chemie GmbH. The total consideration amounted to US$ 5.299 billion and RUB 219 billion, respectively, for the year ended at 31 December 2016.

Had Targin’s acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 6,043 billion and RUB 196 billion, respectively, for the twelve month period ended at 31 December 2016.

No cash consideration was transferred at the acquisition date.

The table below presents the identifiable intangible asset amounting to RUB 9 billion represents an estimate of the future benefits arising from the oil trading agreements between TTI and its major oil supplier. The valuation of this intangible asset is subject to updating under the final allocation of the purchase price to the fair value of assets acquired and liabilities assumed.

Cash acquired as a result of the TTI acquisition.

Net cash inflow

The book value of the accounts receivable approximates their fair value as of the date of acquisition. There are no accounts receivable that are not expected to be collected.

The revaluation of this intangible asset was classified as a part of acquisitions and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company’s interests in accordance with IFRS 1, joint arrangements.

The following table summarizes the Company’s allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

### 2016 Acquisitions

**Acquisition of shares in refineries in Germany**

On 31 December 2016 the Company acquired shares in refineries in Germany as part of the restructuring of Ruhrgas GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe (Note 13). As a result of the restructuring, the Company has become a direct holder and increased its shareholdings in Bayerische Raffeineriegesellschaft mbH from 12.3% to 20%, in Moerser Raffinerie Oberhafen GmbH from 12% to 24%, in Ruhrgas Raffinerie GmbH from 35.4% to 54.1% in exchange, BP has consolidated 100% of the equity of the Bayerische Raffinerie Oberhafen GmbH and the facilities of DHC Solvent Chemie GmbH. The consideration transferred amounted to US$ 1,522 million (RUB 92 billion at the CBR official exchange rate at the acquisition date).

The acquired interest was classified as a part of acquisitions and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company’s interests in accordance with IFRS 1, joint arrangements.

The following table summarizes the Company’s allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

**Acquisition of Bashneft Oil Company**

On January 15, 2016, the Company completed the acquisition of the state’s stakes in PJSC Bashneft Oil Company totaling 50.0755% of its charter capital. The consideration transferred included for the purpose of goodwill 330 billion. The consideration transferred amounted to US$ 1,522 million (RUB 92 billion at the CBR official exchange rate at the acquisition date).

The following table summarizes the Company’s allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

## AFFILIATES AND ASSOCIATES

**Acquisition of Targin**

On December 30, 2016 the Company acquired a 100% interest in JSC Targin, a supplier of oil products and services. The following table summarizes the Company’s allocation of the purchase price to the fair value of assets acquired and liabilities assumed.
The date of the issuance of the consolidated financial statements for the year ended at 31 December 2016 the Company made a preliminary allocation of the purchase price of these acquisitions. The allocation of the purchase price of the acquisitions was finalized during 2017.

Other acquisitions

On March 31, 2016 the Company acquired 120% of shares in a real estate leasing entity. The cost of the acquisition amounted to RUB 3 billion. In 2016 the Company completed several acquisitions, including JSC Tarzhan, PSC Zhezkazgantransmash in Kazakhstan as part of the Rostec Group restructuring. At the date of the issuance of the consolidated financial statements for the year ended at 31 December 2016 the Company made a preliminary allocation of the purchase price of these acquisitions.

The allocation of the purchase price of the acquisition was finalized during 2017.

The following table summarizes the effect of the finalized estimations on the consolidated balance sheet as at 31 December 2016:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Before Realized</th>
<th>Before Realized</th>
<th>Effect from Realized Estimation</th>
<th>After Realized Estimation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td>2,300</td>
<td>–</td>
<td>–</td>
<td>2,300</td>
</tr>
<tr>
<td>Non-current assets</td>
<td>7,050</td>
<td>24</td>
<td>41</td>
<td>(4)</td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>39</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td>806</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other long-term financial assets</td>
<td>411</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank loans granted</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debentures</td>
<td>25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred</td>
<td>94</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current non-financial assets</td>
<td>8,730</td>
<td>24</td>
<td>67</td>
<td>(4)</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td>11,030</td>
<td>24</td>
<td>67</td>
<td>(4)</td>
</tr>
<tr>
<td>Liabilities and equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2,773</td>
<td>–</td>
<td>–</td>
<td>2,773</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings and other financial liabilities</td>
<td>1,914</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivatives liabilities</td>
<td>960</td>
<td>27</td>
<td>6</td>
<td>(1)</td>
</tr>
<tr>
<td>Provisions</td>
<td>203</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayment on long-term oil and petroleum products supply agreements</td>
<td>1,586</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other non-current liabilities</td>
<td>41</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total non-current liabilities</td>
<td>4,531</td>
<td>24</td>
<td>64</td>
<td>(1)</td>
</tr>
<tr>
<td>Equity</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,986</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other funds and reserves</td>
<td>597</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,026</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benkhardt shareholders’ equity</td>
<td>2,308</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(4)</td>
<td>(3)</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>417</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total equity</td>
<td>3,726</td>
<td>–</td>
<td>59</td>
<td>(3)</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td>11,030</td>
<td>24</td>
<td>67</td>
<td>(4)</td>
</tr>
</tbody>
</table>

8. SEGMENT INFORMATION

The Company determines its operating segments based on the nature of its operations. The performance of these operating segments is assessed by management on a regular basis. The Exploration and production segment is engaged in field exploitation and the production of crude oil and natural gas. The Refining and distribution segment is engaged in the refining of crude oil and the production of a wide range of petrochemical products. The Marketing and sales segment is engaged in the procurement and sale of oil products and petrochemicals.

Operating segments

The operating segments in 2017:

<table>
<thead>
<tr>
<th>Operating segments</th>
<th>Exploration and production</th>
<th>Refining and distribution</th>
<th>Corporate and other unallocated activities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenue and equity share in profits of associates and joint ventures</td>
<td>3,180</td>
<td>6,099</td>
<td>123</td>
<td>(3,388)</td>
</tr>
<tr>
<td>Costs and expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs of exploration other than depreciation, depletion and amortization</td>
<td>2,076</td>
<td>5,019</td>
<td>107</td>
<td>(3,388)</td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>863</td>
<td>110</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Total costs and expenses</td>
<td>2,939</td>
<td>6,209</td>
<td>115</td>
<td>(3,388)</td>
</tr>
<tr>
<td>Operating income</td>
<td>642</td>
<td>14</td>
<td>88</td>
<td></td>
</tr>
<tr>
<td>Income before income tax</td>
<td>562</td>
<td>64</td>
<td>(29)</td>
<td></td>
</tr>
</tbody>
</table>

The Company is not dependent on any of its major customers or any one particular customer, as there is a liquid market for crude oil and petroleum products. As at 31 December 2017, the amount of cash receivables from the Company’s largest customer totaled RUB 52 billion, or 8% of the Company’s trade receivables.
9. TAXES OTHER THAN INCOME TAX

Taxes other than their income tax for the year ended December 31 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral extraction tax</td>
<td>1,458</td>
<td>1,067</td>
</tr>
<tr>
<td>Excise tax</td>
<td>326</td>
<td>187</td>
</tr>
<tr>
<td>Property tax</td>
<td>38</td>
<td>36</td>
</tr>
<tr>
<td>Social charges</td>
<td>61</td>
<td>60</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total taxes</td>
<td>1,918</td>
<td>1,246</td>
</tr>
</tbody>
</table>

10. EXPORT CUSTOMS DUTY

Export duties for the year ended December 31 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export duties on oil sales</td>
<td>480</td>
<td>487</td>
</tr>
<tr>
<td>Export duties on petrochemicals sales</td>
<td>178</td>
<td>160</td>
</tr>
<tr>
<td>Total export duties</td>
<td>658</td>
<td>647</td>
</tr>
</tbody>
</table>

11. FINANCE INCOME

Finance income for the year ended December 31 comprises the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposits and certificates of deposit</td>
<td>29</td>
<td>24</td>
</tr>
<tr>
<td>Loans issued</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Notes receivable</td>
<td>6</td>
<td>9</td>
</tr>
<tr>
<td>Bonds</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Long-term advances issued (Note 30)</td>
<td>29</td>
<td>30</td>
</tr>
<tr>
<td>Current/retained accounts</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Other interest income</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total interest income</td>
<td>62</td>
<td>60</td>
</tr>
<tr>
<td>Net gain from operations with derivative financial instruments</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Gain from disposal of financial assets</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other finance income</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Total finance income</td>
<td>107</td>
<td>91</td>
</tr>
</tbody>
</table>

12. FINANCE EXPENSES

Finance expenses for the year ended December 31 comprise the following:

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expenses on:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>(113)</td>
<td>(80)</td>
</tr>
<tr>
<td>Increase in provision due to the unwinding of a discount</td>
<td>(17)</td>
<td>(17)</td>
</tr>
<tr>
<td>Loss from disposal of financial assets</td>
<td>(6)</td>
<td>(4)</td>
</tr>
<tr>
<td>Other finance expenses</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Total finance expenses</td>
<td>(123)</td>
<td>(92)</td>
</tr>
</tbody>
</table>

The weighted average rates used to determine the amount of borrowing costs eligible for capitalization were 8.31% and 4.82% p.a. in 2017 and 2016, respectively.
The reconciliation of net deferred tax liabilities is as follows:

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of January 1</td>
<td>(791)</td>
</tr>
<tr>
<td>Deferred income tax (expense)/benefit, recognized in the consolidated statement of profit or loss</td>
<td>22</td>
</tr>
<tr>
<td>Deferred assets</td>
<td>26</td>
</tr>
<tr>
<td>Deferred tax liabilities</td>
<td>(813)</td>
</tr>
<tr>
<td>As of December 31</td>
<td>(787)</td>
</tr>
</tbody>
</table>

The reconciliation of net deferred tax liabilities is as follows:

<table>
<thead>
<tr>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before income tax</td>
<td>395 368</td>
</tr>
<tr>
<td>Income tax at statutory rate of 20%</td>
<td>79 61</td>
</tr>
<tr>
<td>Increase/(decrease) resulting from: Effect of change in unrecognized deferred tax assets</td>
<td>4 6</td>
</tr>
<tr>
<td>Effect of income tax rates in other jurisdictions</td>
<td>2 3</td>
</tr>
<tr>
<td>Effect of special tax treatments</td>
<td>2 3</td>
</tr>
<tr>
<td>Effect of income tax refund</td>
<td>(14) 186</td>
</tr>
<tr>
<td>Effect of equity share in profits of associates and joint ventures</td>
<td>(8) 379</td>
</tr>
<tr>
<td>Effect of tax on intercompany dividends</td>
<td>11 7</td>
</tr>
<tr>
<td>Effect of tax on controlled investments in foreign subsidiaries</td>
<td>2 1</td>
</tr>
<tr>
<td>Effect from posted write-off</td>
<td>1 1</td>
</tr>
<tr>
<td>Effect from disposal of a subsidiary</td>
<td>(1) 1</td>
</tr>
<tr>
<td>Effect from sale of shares in subsidiaries</td>
<td>38 38</td>
</tr>
<tr>
<td>Effect from restructuring of joint ventures</td>
<td>7 26</td>
</tr>
<tr>
<td>Effect of prior period adjustments</td>
<td>4 1</td>
</tr>
<tr>
<td>Effect from non-taxable income and non-deductible expenses</td>
<td>25 11</td>
</tr>
<tr>
<td>Income tax</td>
<td>58 114</td>
</tr>
</tbody>
</table>

17. NON-CONTROLLING INTERESTS

Non-controlling interests include:

- As of 31 December 2017
  - PJSC Bashneft Oil Company: 20.05
  - JSC Vankorneft: 49.90
  - LLC Taas-Yuriakh Neftegazodobycha: 42.68
  - PJSC VerkhniNefteyugansk: 20.05
- As of 31 December 2016
  - PJSC Bashneft Oil Company: 49.59
  - JSC Vankorneft: 49.90
  - LLC Taas-Yuriakh Neftegazodobycha: 35.81
  - PJSC VerkhniNefteyugansk: 42.68

The summarized financial information of subsidiaries that have material non-controlling interests is provided below.

### Summarized statement of comprehensive income for 2017

<table>
<thead>
<tr>
<th>PJSC Bashneft Oil Company</th>
<th>JSC Vankorneft</th>
<th>LLC Taas-Yuriakh Neftegazodobycha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>614</td>
<td>330</td>
</tr>
<tr>
<td>Costs and other income and expenses</td>
<td>(486)</td>
<td>(260)</td>
</tr>
<tr>
<td>Income before income tax</td>
<td>128</td>
<td>70</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>(27)</td>
<td>(15)</td>
</tr>
<tr>
<td>Net income</td>
<td>101</td>
<td>55</td>
</tr>
<tr>
<td>incl. attributable to non-controlling interests</td>
<td>40</td>
<td>29</td>
</tr>
</tbody>
</table>

### Summarized statement of comprehensive income for 2016

<table>
<thead>
<tr>
<th>PJSC Bashneft Oil Company</th>
<th>JSC Vankorneft</th>
<th>LLC Taas-Yuriakh Neftegazodobycha</th>
</tr>
</thead>
<tbody>
<tr>
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<td>330</td>
</tr>
<tr>
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<td>55</td>
</tr>
<tr>
<td>incl. attributable to non-controlling interests</td>
<td>40</td>
<td>29</td>
</tr>
</tbody>
</table>

### Net income for the years ended December 31, 2017 and 2016

<table>
<thead>
<tr>
<th>PJSC Bashneft Oil Company</th>
<th>JSC Vankorneft</th>
<th>LLC Taas-Yuriakh Neftegazodobycha</th>
</tr>
</thead>
<tbody>
<tr>
<td>As of 31 December 2017</td>
<td>39.67</td>
<td>42.68</td>
</tr>
<tr>
<td>As of 31 December 2016</td>
<td>49.59</td>
<td>49.90</td>
</tr>
</tbody>
</table>

**From the acquisition date.**
18. EARNINGS PER SHARE
For the years ended December 31 basic and diluted earnings per share comprise the following:

<table>
<thead>
<tr>
<th>Year</th>
<th>Basic Earnings per Share</th>
<th>Diluted Earnings per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2.06</td>
<td>2.06</td>
</tr>
<tr>
<td>2016</td>
<td>2.06</td>
<td>2.06</td>
</tr>
</tbody>
</table>

19. CASH AND CASH EQUIVALENTS
Cash and cash equivalents consist of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and in bank accounts in RUB</td>
<td>125</td>
<td>116</td>
</tr>
<tr>
<td>Cash on hand and in bank accounts in foreign currencies</td>
<td>29</td>
<td>29</td>
</tr>
<tr>
<td>Deposits and other cash equivalents in RUB</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Total cash and cash equivalents</td>
<td>171</td>
<td>174</td>
</tr>
</tbody>
</table>

20. OTHER SHORT-TERM FINANCIAL ASSETS
Other short-term financial assets comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial assets available-for-sale</td>
<td></td>
</tr>
<tr>
<td>Bonds and promissory notes</td>
<td>126</td>
</tr>
<tr>
<td>Preferred shares</td>
<td>116</td>
</tr>
<tr>
<td>Total Financial assets available-for-sale</td>
<td>242</td>
</tr>
<tr>
<td>Financial assets held-to-maturity</td>
<td></td>
</tr>
<tr>
<td>Bonds</td>
<td>1</td>
</tr>
<tr>
<td>Total Financial assets held-to-maturity</td>
<td>1</td>
</tr>
<tr>
<td>Loans and accounts receivable</td>
<td></td>
</tr>
<tr>
<td>Loans granted</td>
<td>12</td>
</tr>
<tr>
<td>Loans issued to associated enterprises</td>
<td>2</td>
</tr>
<tr>
<td>Notes receivable, net of allowance</td>
<td>4</td>
</tr>
<tr>
<td>Loans granted under reverse repurchase agreements</td>
<td>2</td>
</tr>
<tr>
<td>Deposits and certificates of deposit</td>
<td>4</td>
</tr>
<tr>
<td>Total Financial assets held-to-maturity</td>
<td>247</td>
</tr>
<tr>
<td>Total other short-term financial assets</td>
<td>268</td>
</tr>
</tbody>
</table>

21. ACCOUNTS RECEIVABLE
Accounts receivable comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade receivables</td>
<td></td>
</tr>
<tr>
<td>Amount due to customers</td>
<td>656</td>
</tr>
<tr>
<td>Other accounts receivable</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>671</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(35)</td>
</tr>
<tr>
<td>Total allowance receivable, net of allowance</td>
<td>636</td>
</tr>
</tbody>
</table>

The allowance for doubtful accounts is recognized as an expense at the balance sheet date based on estimates of the Company’s management regarding the expected cash inflows to repay accounts receivable.

22. INVENTORIES
Inventories comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil and gas</td>
<td></td>
</tr>
<tr>
<td>Petroleum products and petrochemicals</td>
<td></td>
</tr>
<tr>
<td>Materials and supplies</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>324</td>
</tr>
</tbody>
</table>

The cost of inventories recognized as an expense during the period includes cost of purchased oil, gas, petroleum products and refining costs, and General and administrative expenses in the consolidated statement of profit or loss.

23. PREPAYMENTS AND OTHER CURRENT ASSETS
Prepayments comprise the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value added tax and excise receivables</td>
<td></td>
</tr>
<tr>
<td>Prepayments to suppliers</td>
<td>160</td>
</tr>
<tr>
<td>Settlement with customs</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>162</td>
</tr>
</tbody>
</table>

The settlement with customs primarily represents export duties related to the export of crude oil and petroleum products (Note 10).
24. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

### Exploration and production

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of property, plant and equipment</td>
<td>5,410</td>
<td>8,026</td>
<td>8,026</td>
</tr>
<tr>
<td>Accumulated depreciation and depletion</td>
<td>(2,125)</td>
<td>(3,964)</td>
<td>(3,964)</td>
</tr>
<tr>
<td>Net book value as of January 1, 2016</td>
<td>3,285</td>
<td>4,062</td>
<td>4,062</td>
</tr>
<tr>
<td>Additions</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net book value as of January 31, 2016</td>
<td>3,294</td>
<td>4,071</td>
<td>4,071</td>
</tr>
<tr>
<td>Additions</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net book value as of January 31, 2017</td>
<td>3,303</td>
<td>4,080</td>
<td>4,080</td>
</tr>
</tbody>
</table>

### Exploration and evaluation assets

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
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</tr>
</tbody>
</table>

### Refining and distribution

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of refinery plant and equipment</td>
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### Exploration and evaluation assets

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### Refining and distribution assets

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<td>Disposals</td>
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<td>Disposals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net book value as of January 31, 2017</td>
<td>3,303</td>
<td>4,080</td>
<td>4,080</td>
</tr>
</tbody>
</table>

### Intangible assets and goodwill

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost of property, plant and equipment</td>
<td>5,410</td>
<td>8,026</td>
<td>8,026</td>
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</tr>
<tr>
<td>Disposals</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Disposals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net book value as of January 31, 2017</td>
<td>3,303</td>
<td>4,080</td>
<td>4,080</td>
</tr>
</tbody>
</table>

The Company performs its annual goodwill impairment test as of October 1 of each year. The impairment test is carried out as at the beginning of the fourth quarter of each year using the same methodology and at the same date as comparable RUB 1,838 billion and RUB 329 billion for the Exploration and Production and Refining and Distribution segments, respectively. As a result of the annual test, no impairment of goodwill was identified in 2017 and 2016.

### Value in use

The Company uses the value-in-use method of calculating the recoverable amount of a cash-generating unit (CGU). The Company considers consolidated subsidiary and joint arrangement assets. The value-in-use method of calculation is based on the fair value less costs to sell approach. The excess of fair value over identifiable assets comprised RUB 1,639 billion and RUB 239 billion for the Exploration and Production and Refining and Distribution segments, respectively. Discounted cash flows are most sensitive to changes in the following factors:

<table>
<thead>
<tr>
<th>Factor</th>
<th>Sensitivity</th>
<th>Discount Rate</th>
<th>12.4% p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average annual RUB / USD exchange rate</td>
<td>RUB 64.7 for 2018, RUB 66.9 for 2019, RUB 68.0 for 2020, RUB 67.0 from 2021 onwards</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urals oil price</td>
<td>RUB 2,834 per barrel for 2018, RUB 2,783 per barrel for 2019, RUB 2,883 per barrel for 2020 and RUB 3,015 per barrel from 2021 onwards</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Foreign exchange differences

Foreign exchange differences included in the calculation of the value in use for the year ended 31 December 2017 were RUB (73) billion (RUB 73 billion) and RUB (23) billion (RUB 23 billion), respectively. The average RUB / USD exchange rate applied was as follows: RUB 64.7 for 2018, RUB 66.9 for 2019, RUB 68.0 for 2020, RUB 67.0 for 2021 onwards.

### Amortization charge

Amortization charge included in the calculation of the value in use for the year ended 31 December 2017 was RUB (4) billion (RUB 4 billion), respectively.

### An explanation of the calculation of the value in use

The Company has estimated the value in use of the operating segments using a discounted cash flow model. Future cash flows have been adjusted for risks specific to each segment and discounted using a risk that reflects current market assessments of the time value of money and the risk specific to each segment, for which the future cash flow estimates have not been adjusted.

The Company’s business plans, approved by the Company’s Board of Directors, is the primary source of information for the determination of the operating segments’ value in use. The business plans contain internal forecasts of all oil and gas production, refinery throughput, sales volumes of various types of refined products, revenue, operating and capital expenditures. As an initial step in the preparation of these plans, various assumptions, such as the type of natural gas price, refining margins, petroleum product margins and cost, inflation rates, are set. These assumptions take into account existing prices, U.S. dollar and Ruble inflation rates, other macroeconomic factors and historical trends, as well as market volatility. In determining the value in use for each of the operating segments, twelve- year period cash flows were calculated based on the Company management’s forecasts for each key input. The result of this forecast period longer than the period from the company originates from the industry’s average investment cycle.

The discount rate calculation is based on the Company’s weighted average cost of capital adjusted to reflect the pre-tax discount rate and amounts to 13% p.a. in 2017, 12.5% p.a. in 2016 and 13% p.a. in 2015.

### Key assumptions applied to the calculation of value in use

The discount rate calculation is based on the Company’s weighted average cost of capital adjusted to reflect the pre-tax discount rate and amounts to 12.5% p.a. in 2016 and 13% p.a. in 2015.

### Important factors in the determination of the value in use

- Production volumes
- Capital expenditure
- Refining and distribution

### Appendix No. 1

ROSNEFT ANNUAL REPORT 2017
The equity share in profits/(losses) of associates and joint ventures comprises the following:

<table>
<thead>
<tr>
<th>Name of investee</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td></td>
<td>RUB million</td>
</tr>
</tbody>
</table>

The unrecognized share of losses of associates and joint ventures comprises the following:

<table>
<thead>
<tr>
<th>Name of investee</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td></td>
<td>RUB million</td>
</tr>
</tbody>
</table>

Sensitivity to changes in assumptions:

The effects of changes in key assumptions are as follows:

- Changes in oil and petroleum products prices — the long-term increase in the weighted average cost of capital above 10.0% may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment’s goodwill impairment.
- Changes in oil and petroleum products prices — the long-term increase in the weighted average price of petroleum products excluding petroleum products below RUB 2,500 thousand per tonne with an annual price increase on average of 6%.
- Changes in other key assumptions — the Russian oil industry tax regime has a significant influence on the rate of return of the Refining and distribution segment’s refining operations. In case the tax regime remains unchanged in the long term, there is a possibility that estimated discounted cash flows will decrease resulting in a goodwill impairment of the segment.
- As at 31 December 2017 and 2016 the Company did not have any intangible assets with indefinite useful lives. As at 31 December 2017 and 2016 no intangible assets have been impaired.
- Changes in oil and petroleum products prices — the long-term decrease in oil prices below RUB 2,901 per barrel for the period 2018 onwards may have a significant effect on the company’s expected future cash flows and may lead to the segment’s goodwill impairment. A similar effect can be caused by a long-term decrease in the forward oil price curve.

28. OTHER LONG-TERM FINANCIAL ASSETS

The following table presents the Company’s long-term financial assets and liabilities as of December 31, 2017 and 2016:

<table>
<thead>
<tr>
<th>Category</th>
<th>As of December 31, 2017</th>
<th>As of December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RUB million</td>
<td>RUB million</td>
</tr>
<tr>
<td>Bonds</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>Term deposits</td>
<td>542</td>
<td>499</td>
</tr>
<tr>
<td>Financial assets available for sale</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares of INTREPID FUND (IRE)</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Shares of FONDOR Russian Grid</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Shares of JSC Mobile Telecommunication Technology</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Long-term loans issued to associates and joint ventures</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Long-term leases</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Total other long-term financial assets</td>
<td>606</td>
<td>608</td>
</tr>
</tbody>
</table>

Bank deposits of the Company are listed in rubles, US dollars and euros at interest rates ranging from 4.3% to 7.3% p.a. Bank deposits of the Company exclude amounts in collateral and are held in the balance sheet as of the last reporting date. As at 31 December 2017 and 2016, the Company did not have any intangible assets with indefinite useful lives. As at 31 December 2017 and 2016, no intangible assets have been impaired.

27. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures comprise the following:

<table>
<thead>
<tr>
<th>Name of investee</th>
<th>Company’s share, %</th>
<th>As of December 31, 2017</th>
<th>As of December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Company’s share, %</td>
<td>RUB million</td>
<td>RUB million</td>
</tr>
<tr>
<td>ESAB Sheldt Caspian Ventures Limited</td>
<td>49.13</td>
<td>638</td>
<td>619</td>
</tr>
<tr>
<td>TNK Trading International S.A.</td>
<td>49.94</td>
<td>494</td>
<td>494</td>
</tr>
<tr>
<td>PETROVICTORIA S.A.</td>
<td>40.00</td>
<td>583</td>
<td>583</td>
</tr>
<tr>
<td>Nizhnevartovskaya TPP (NVGRES Holdings Limited )</td>
<td>25.01</td>
<td>149</td>
<td>149</td>
</tr>
<tr>
<td>Rosneft-Shell Caspian Ventures Limited</td>
<td>51.00</td>
<td>99</td>
<td>99</td>
</tr>
<tr>
<td>Arktikshelfneftegaz CJSC</td>
<td>50.00</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Fuel-filling complex of Vnukovo (Lanard Holdings Limited)</td>
<td>50.00</td>
<td>80</td>
<td>80</td>
</tr>
<tr>
<td>Taihu Ltd</td>
<td>51.00</td>
<td>2017</td>
<td>2016</td>
</tr>
<tr>
<td>Boqueron S.A.</td>
<td>26.66</td>
<td></td>
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<tr>
<td>Petroperija S.A.</td>
<td>40.00</td>
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<td>PetroMonagas S.A.</td>
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<tr>
<td>National Oil Consortium LLC</td>
<td>80.00</td>
<td>80</td>
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<td>OJSC NGK Slavneft</td>
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<td>OJSC NGK Slavneft</td>
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<tr>
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<tr>
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<td>PetroMonagas S.A.</td>
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<tr>
<td>National Oil Consortium LLC</td>
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<td>Petroperija S.A.</td>
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<tr>
<td>PetroMonagas S.A.</td>
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<tr>
<td>National Oil Consortium LLC</td>
<td>80.00</td>
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</tr>
<tr>
<td>OJSC NGK Slavnef...</td>
<td>49.94</td>
<td>49.94</td>
<td>49.94</td>
</tr>
</tbody>
</table>
Trade and other payables are non-interest bearing.

**Investments in Essar Oil Limited**

In August 2017 the Company completed the acquisition of a 49% stake in Essar Oil Limited, a modern refinery in the Asia-Pacific region in India, with integrated infrastructure. Essar Oil Limited owns a large petrol station chain in India operating under the Essar brand. The acquisition price totaled US$ 3.9 billion (RUB 230 billion at the CBR official exchange rate at the payment date).

**Investments in Venezuela**

In May 2016 the Company increased its stake in the Petrominera joint venture with the state company of Venezuela Petroleos de Venezuela SA (PDVSA) (from 16.7% to 40%). The share of ROSSNEFT was reduced to 60%. The cost of the additional share acquisition was US$ 500 million (RUB 33 billion at the CBR official exchange rate at the date of the transaction).

**Accounts payable and accrued liabilities**

The Company's total share in net income 7

**Long-term loans and borrowings**

For the year ended 31 December 2017, the Company drew down long-term funds from Russian banks: under a floating rate with repayable periods in 2020-2022 and 2024, and the outstanding loan with a floating rate and maturity in February 2018 amounted to US$ 0.2 billion (RUB 11.3 billion at the CBR official exchange rate as at 31 December 2017), of these four loans were fully repaid in previous years. In December 2017 the Company fully repaid the third one. As at 31 December 2017 the total debt and accrued interest on long-term loans and borrowings amounted to US$ 3.9 billion (RUB 230 billion).

**Total accounts payable and accrued liabilities**

Total short-term loans and borrowings and other financial liabilities 2,228 1,578

**Long-term loans and borrowings**

Long-term bank loans comprise the following:
Company under those transactions amounted to the equivalent of RUB 1,265 billion (at the CBR official exchange rate as at 31 December 2017). Own corporate bonds were used as Short-term loans and borrowings.

All of the bonds, excluding certain issues, allow early repurchase at the request of the bond holder as set in the respective offering documents. In addition, the issuer, at any time and at an early redemption.

In the fourth quarter of 2017 the Company continued to settle other long-term borrowings under repurchasing agreement operations. As at 31 December 2017, the liabilities of the bonds amounted to the equivalent of RUB 240 billion at the CBR official exchange rate as at 31 December 2017. The Company's own corporate bonds were used as an early redemption.

In March 2017, the Company fully repaid Eurobonds (Series 4) of US$ 0.8 billion (RUB 46.4 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP.

In the fourth quarter of 2012, the Company raised funds through the placement of two Eurobonds in the total amount of US$ 3.0 billion. The Eurobonds were placed in two tranches –

Eurobonds (Series 1) 3.149% US$ 2017

Eurobonds (Series 2) 4.199% US$ 2022

Eurobonds (Series 8) 7.250% US$ 2018

In the fourth quarter of 2012, the Company raised funds through the placement of two Eurobonds in the total amount of US$ 3.0 billion. The bonds were used for general corporate purposes.

1. Early repurchase at the request of the bond holder is not allowed.
2. Coupon payments every three months.
3. Coupon payments at the maturity day.
4. On the reporting date these issues are partially used as an instrument for other borrowings under repurchasing agreement operations.
5. For the coupon period effective as at 31 December 2017.

The cross-currency rate swaps are recorded in the consolidated balance sheet at fair value. The measurement of the fair value of the transactions is based on a discounted cash flow model and consensus forecasts of foreign currency rates. The consensus forecasts include forecasts of the major international banks and agencies. The Bloomberg system is the main information source for the model.

Derivative financial instruments comprise the following:

Eurobonds (Series 8) 7.250% US$ 2018

In accordance with its foreign currency and interest rate risk management policy the Company enters into cross-currency rate swaps to sell US$. The transactions balance the currency of revenues and liabilities and reduce the overall interest rates on borrowings.

Liabilities related to derivative financial instruments

In accordance with its foreign currency and interest rate risk management policy the Company enters into cross-currency rate swaps to sell US$. The transactions balance the currency of revenues and liabilities and reduce the overall interest rates on borrowings.

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31. OTHER SHORT-TERM TAX LIABILITIES

Other short-term tax liabilities comprise the following:

As of December 31, 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount, billions of RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value-added tax</td>
<td>160</td>
</tr>
<tr>
<td>VAT</td>
<td>72</td>
</tr>
<tr>
<td>Excise duties</td>
<td>26</td>
</tr>
<tr>
<td>Property tax</td>
<td>12</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>2</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total other short-term tax liabilities</strong></td>
<td><strong>278</strong></td>
</tr>
</tbody>
</table>

32. PROVISIONS

Provisions which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company’s expected sale requirements.

Deliveries of oil and petroleum products that reduce the prepayment amounts started to be made in 2015. The Company considers these contracts to be regular-way contracts.

The crude oil and petroleum product prices are calculated based on current market prices. The prepayment is settled through

33. PREPAYMENT ON LONG-TERM OIL AND PETROLEUM PRODUCTS SUPPLY AGREEMENTS

Other non-current liabilities comprise the following:

As of December 31, 2017

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount, billions of RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint project liabilities</td>
<td>23</td>
</tr>
<tr>
<td>Liabilities for financing activities</td>
<td>4</td>
</tr>
<tr>
<td>Liabilities for joint operation contracts in Germany</td>
<td>14</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total other non-current liabilities</strong></td>
<td><strong>45</strong></td>
</tr>
</tbody>
</table>

35. PENSION BENEFIT OBLIGATIONS

Defined contribution plans

The Company makes payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage of salary expense and are paid through the year.

The Company also maintains a defined benefit corporate pension plan to finance the non-state pensions of its employees.

Pension contributions recognized in the consolidated statement of profit or loss are as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount, billions of RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Pension Fund</td>
<td>53</td>
</tr>
<tr>
<td><strong>Total pension contributions</strong></td>
<td><strong>53</strong></td>
</tr>
</tbody>
</table>

36. SHAREHOLDERS’ EQUITY

Common shares

As of December 31, 2017 and 2016

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount, billions of RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issued and fully paid shares</td>
<td>10,398</td>
</tr>
<tr>
<td>Amount in treasury</td>
<td>980</td>
</tr>
<tr>
<td><strong>Total common shares</strong></td>
<td><strong>10,398</strong></td>
</tr>
</tbody>
</table>

Authorized common shares:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount, billions of RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal value of 1 common share, RUB</td>
<td>0.01</td>
</tr>
</tbody>
</table>

On June 15, 2010, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2010 in the amount of RUB 125 billion, or RUB 11.75 per share, which comprised 20% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2010.

On June 15, 2011 the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2011 in the amount of RUB 64 billion, or RUB 5.82 per share, which comprised 50% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2011.

On June 15, 2012, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2012 in the amount of RUB 64 billion, or RUB 5.82 per share, which comprised 50% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2012.

On June 15, 2013, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2013 in the amount of RUB 64 billion, or RUB 5.82 per share, which comprised 50% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2013.

On June 15, 2014, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2014 in the amount of RUB 64 billion, or RUB 5.82 per share, which comprised 50% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2014.

On June 15, 2015, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2015 in the amount of RUB 125 billion, or RUB 11.75 per share, which comprised 20% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2015.

On June 15, 2016, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2016 in the amount of RUB 125 billion, or RUB 11.75 per share, which comprised 20% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2016.

On June 15, 2017, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2017 in the amount of RUB 125 billion, or RUB 11.75 per share, which comprised 20% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2017.

On June 15, 2018, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2018 in the amount of RUB 125 billion, or RUB 11.75 per share, which comprised 20% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2018.

On June 15, 2019, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2019 in the amount of RUB 125 billion, or RUB 11.75 per share, which comprised 20% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2019.

On June 15, 2020, the Annual General Shareholders Meeting approved dividends on the Company’s common shares for 2020 in the amount of RUB 125 billion, or RUB 11.75 per share, which comprised 20% of IFRS net income attributable to the Company’s shareholders.

Dividends were paid by the Company in July 2020.

37. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of financial assets and liabilities is determined as follows:

- The fair value of financial assets and liabilities is determined in accordance with generally accepted models and is based on discounted cash flow analysis that relies on assumptions confirmed by observable market prices or rates as of the reporting date.

38. LIQUIDITY AND CAPITAL RESOURCES

Liquidity and capital resources are essential for the Company’s business. The Company has been able to manage its liquidity and capital resources in accordance with generally accepted methods and is based on discounted cash flow analysis that relies on assumptions confirmed by observable market prices or rates as of the reporting date.
Settlement balances

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Loans receivable</td>
<td>6</td>
</tr>
<tr>
<td>Provisions and other current assets</td>
<td>-</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>52</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>85</td>
</tr>
<tr>
<td>Loans and borrowings and other financial liabilities</td>
<td>11</td>
</tr>
</tbody>
</table>
| Settlement with joint ventures

Crude oil is purchased from joint ventures at Russian domestic market prices.

Revenues and income

<table>
<thead>
<tr>
<th></th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Oil, gas, petroleum products and petrochemicals sales</td>
<td>222</td>
</tr>
<tr>
<td>Support services and other revenues</td>
<td>3</td>
</tr>
<tr>
<td>Finance income</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>238</td>
</tr>
</tbody>
</table>

Costs and expenses

<table>
<thead>
<tr>
<th></th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Production and operating expenses</td>
<td>25</td>
</tr>
<tr>
<td>Cost of purchased oil, gas, petroleum products and refining costs</td>
<td>29</td>
</tr>
<tr>
<td>Pipeline tariffs and transportation costs</td>
<td>3</td>
</tr>
<tr>
<td>Other expenses</td>
<td>4</td>
</tr>
<tr>
<td>Finance expenses</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>304</td>
</tr>
</tbody>
</table>

Other operations

<table>
<thead>
<tr>
<th></th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Acquisition of interest in associates and joint ventures</td>
<td>(8)</td>
</tr>
<tr>
<td>Loans received</td>
<td>-</td>
</tr>
<tr>
<td>Loans repaid</td>
<td>9</td>
</tr>
<tr>
<td>Loans and borrowings issued</td>
<td>(2)</td>
</tr>
<tr>
<td>Repayment of bank and borrowings issued</td>
<td>127</td>
</tr>
</tbody>
</table>

Settlement balances

<table>
<thead>
<tr>
<th></th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Loans receivable</td>
<td>6</td>
</tr>
<tr>
<td>Provisions and other current assets</td>
<td>-</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>52</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued liabilities</td>
<td>85</td>
</tr>
<tr>
<td>Loans and borrowings and other financial liabilities</td>
<td>11</td>
</tr>
</tbody>
</table>

Transactions with associates

<table>
<thead>
<tr>
<th></th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2017</td>
</tr>
<tr>
<td>Oil, gas, petroleum products and petrochemicals sales</td>
<td>222</td>
</tr>
<tr>
<td>Support services and other revenues</td>
<td>5</td>
</tr>
<tr>
<td>Finance income</td>
<td>227</td>
</tr>
</tbody>
</table>

Including financial instruments designated as hedging instruments with a carrying value of RUB 51.7 billion and a fair value of RUB 47.6 billion.
## Compensation to key management personnel

For the purpose of these consolidated financial statements key management personnel include members of the Management Board of JSC Rosneft Oil Company and members of the Board of Directors. Short-term gains (losses) from the Management Board member’s, taking into account personal (notional), including payroll and bonuses, totalled RUB 2.7 million and RUB 2.69 million in 2017 and 2016, respectively, (local social security contributions, which are not Management Board members’ income, totalled RUB 0.7 million and RUB 0.29 million, respectively). Short-term gains (losses) exclude one-off reimbursements for major acquisition projects and integration of new assets, compensations for medical insurance and transportation costs paid in 2017. Short-term gains (losses) are disclosed in accordance with the Russian tax law on information disclosure. There were no share-based benefits paid.

On June 22, 2017, the Annual General Shareholders Meeting approved remuneration to the following members of the Board of Directors for the group’s shares plan non-market related expenses: Mr. Andrey Azarov – US$545,300 (RUB 37.7 million at the CBR official exchange rate on June 22, 2017); Mr. Matthias Warnig – US$569,600 (RUB 38.6 million at the CBR official exchange rate on June 22, 2017). M. Oleg Yegunov – US$550,000 (RUB 36.3 million at the CBR official exchange rate on June 22, 2017). Remuneration does not include compensation of travel expenses. No remuneration was paid to members of the Board of Directors who are state officials (Andrey Belousov and Alexander Navalnii) or to Mr. Igor Sechin, the Chairman of the Management Board for their Board of Directors service.

On June 15, 2016, the Annual General Shareholders Meeting approved remuneration to the following members of the Company’s Board of Directors for the period of their service in the following amount: Mr. Andrey Azarov – US$569,500 (RUB 37.2 million at the CBR official exchange rate on June 15, 2016); Mr. Matthias Warnig – US$580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Oleg Yegunov – US$580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016). Mr. Donald Kagaev – US$550,000 (RUB 36.3 million at the CBR official exchange rate on June 15, 2016). Remuneration does not include compensation of travel expenses. No remuneration was paid to members of the Board of Directors who are state officials (Andrey Belousov, Belikov and Alexander Navalnii) or to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

### Costs and expenses

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production and operating expenses</td>
<td>11</td>
<td>5</td>
</tr>
<tr>
<td>Cost of purchased oil, gas, petroleum products and refining costs</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Selling, general and administrative costs</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other expenses</td>
<td>13</td>
<td>6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>32</strong></td>
<td><strong>32</strong></td>
</tr>
</tbody>
</table>

### Settlement balances

<table>
<thead>
<tr>
<th>Settlement balances</th>
<th>As of December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2017</strong></td>
<td><strong>2016</strong></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Accounts receivable</strong></td>
<td>22</td>
</tr>
<tr>
<td><strong>Prepayments and other current assets</strong></td>
<td>41</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Accounts payable and accrued liabilities</strong></td>
<td>75</td>
</tr>
<tr>
<td><strong>Loans and borrowings issued</strong></td>
<td>124</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>132</td>
</tr>
</tbody>
</table>

### Transactions with non-state pension funds

<table>
<thead>
<tr>
<th>Costs and expenses</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td>7</td>
<td>5</td>
</tr>
</tbody>
</table>

### 39. KEY SUBSIDIARIES

<table>
<thead>
<tr>
<th>Name</th>
<th>Country of incorporation</th>
<th>Core activity</th>
<th>Preferred and common shares</th>
<th>Voting %</th>
<th>Preferred and common shares</th>
<th>Voting %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>JSC Neftochimneftegaz</strong></td>
<td>Russia</td>
<td>Oil and gas development and production</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>JSC Samotlorneftegaz</strong></td>
<td>Russia</td>
<td>Oil and gas development and production</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td><strong>JSC Turaeneftegaz</strong></td>
<td>Russia</td>
<td>Oil and gas development and production</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

### 40. CONTINGENCIES

#### Russian business environment

Russian economic reforms and the development of its legal, tax and regulatory frameworks are required by a market economy. The future stability of the Russian economy is largely dependent on economic and financial reforms and government measures undertaken by the Russian government. The Russian government is committed to implementing economic and structural changes that are necessary for Russia to transition to a market-based economy, and to improving the business environment and the investment climate.

#### Guarantees and indemnities issued

An unconditional guarantee in favor of the Government and municipal authorities of Norway is effective in respect of the Company’s operations in the Norwegian continental shelf. That guarantee covers all potential environmental liabilities of the Company, subject to Norwegian law. The guarantee provides for the Company’s future financial position, results of operations and business prospects. Management is taking appropriate measures to support the sustainability of the Company’s business in the current economic environment.

#### Legal claims

Russian companies are involved in a number of legal disputes with JSC Sibur and JSC Sistema, related to the illegal possession of Bashneft shares by JSC Sibur and JSC Sistema. In the case of a recovery of losses in favor of the Company (the amount of RUB 170.5 billion), the Company would recover the amount of RUB 131.5 billion in connection with the payment of dividends to shareholders during the period of their illegal possession of the Bashneft shares (case 2). The Company also has a contingent liability in the case of the PJSFC Sistema’s claim for recovery of losses in the amount of RUB 304.4 billion arising from the actions of Bashneft and Bashneft-Sibneftegaz, which is reflected in the capital reserves of Bashneft.

### Appendix No. 1

#### ROSNEFT ANNUAL REPORT 2017

The abovementioned disputes were settled by the parties by concluding a settlement agreement approved by the Decision of the Arbitration Court of the Republic of Bashkortostan dated December 26, 2017 for case 1. According to the settlement agreements, the Company has agreed to compensate the Company previously incurred losses amounting to RUB 100 billion by March 30, 2018, after which the parties will be a party to mutual claims on cases 2 and 3.
The results of operations relating to oil and gas production are presented below

Consolidated subsidiaries and joint operations

For the years ended December 31:

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (in billion rubles)</th>
<th>Exploration and production taxes (in million rubles)</th>
<th>Selling, general and administrative expenses (in million rubles)</th>
<th>Exploration expenses (in million rubles)</th>
<th>Depreciation, depletion and amortization, impairment and litigation losses (in million rubles)</th>
<th>Taxes other than income tax (in million rubles)</th>
<th>Net income (in million rubles)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,908</td>
<td>3,535</td>
<td>1,054</td>
<td>115</td>
<td>114</td>
<td>18,436</td>
<td>13,076</td>
</tr>
<tr>
<td>2016</td>
<td>2,251</td>
<td>3,087</td>
<td>1,346</td>
<td>104</td>
<td>115</td>
<td>16,441</td>
<td>14,004</td>
</tr>
</tbody>
</table>

Reserve quantity information

For the years ended December 31, 2017 and 2016, the Company used oil and gas reserve information prepared by Deloitte and MacNaughton, independent reservoir engineers. Proved oil and gas reserves are the estimated quantities of oil and gas which, based upon engineering and economic data, can be expected with reasonable certainty to be recovered in future years and have been found by drilling and development activities. Proved oil and gas reserves are further classified into proved developed reserves, which can be expected to be recovered from existing wells using existing equipment and operating methods, and proved undeveloped reserves, which will require development activities such as drilling of new wells or the installation of additional equipment before production can commence. Proved undeveloped reserves are those quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods. Proved oil and gas reserves are reserves that are expected to be recovered from new wells on undeveloped acreage, or from existing wells on undeveloped acreage where a major capital expenditure is required for recompletion. Reserves on undeveloped acreage are limited to those drilling units offsetting producing units that are reasonably certain of production when drilled. Due to market industry uncertainty and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available. The Company’s management included in proved reserves those reserves which the Company intends to extract after the expiry of the current licenses. The license for the development and production of hydrocarbons currently held by the Company generally expires between 2019 and 2022, with license holders for the most important deposits expiring between 2019 and 2021. The Company estimates hydrocarbon production licenses for the whole production life of the fields. Extension of the license depends on compliance with the terms set forth in the existing licenses agreements. As of the date of the consolidated financial statements, the Company is generally in compliance with all of the terms of the licenses agreements and intends to continue complying with such terms in the future. The amount of net unproduced liquid hydrocarbons and sales gas reserves and changes therein for the years ended December 31, 2017 and 2016 are shown in the table below and expressed in million barrels of oil equivalent (liquid hydrocarbons production data was recalculated from tonnes to barrels using field-specific coefficients; sales gas production data was recalculated from cubic meters to barrels of equivalent ‘boe’ using an average ratio).

<table>
<thead>
<tr>
<th>Year</th>
<th>Beginning of year (in million barrels of oil equivalent)</th>
<th>Revisions of previous estimates (in million barrels of oil equivalent)</th>
<th>Extensions and discoveries (in million barrels of oil equivalent)</th>
<th>Improved recovery (in million barrels of oil equivalent)</th>
<th>Purchase of new reserves (in million barrels of oil equivalent)</th>
<th>Production (in million barrels of oil equivalent)</th>
<th>Sales of reserves (in million barrels of oil equivalent)</th>
<th>End of year (in million barrels of oil equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>43,791</td>
<td>0</td>
<td>1,080</td>
<td>1</td>
<td>70</td>
<td>2,388</td>
<td>1,327</td>
<td>43,791</td>
</tr>
<tr>
<td>2016</td>
<td>43,277</td>
<td>0</td>
<td>1,036</td>
<td>1</td>
<td>29</td>
<td>2,040</td>
<td>1,327</td>
<td>43,277</td>
</tr>
</tbody>
</table>

Standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves

The standardized measure of discounted future net cash flows relates to the above oil and gas reserves based on PRMS. Estimated future cash inflows from all conditions and production are computed on the projected prices of the company on a long-term market. The discounted cash flows are calculated using a 10% discount factor. Future development, depreciation, depletion and amortization, impairment and litigation losses, taxes other than income tax, and such terms as in the future.

The table below shows the standardized measure of discounted future net cash flows and changes therein relating to proved oil and gas reserves.

<table>
<thead>
<tr>
<th>Year</th>
<th>Future cash inflows (in million rubles of oil equivalent)</th>
<th>Future development costs (in million rubles of oil equivalent)</th>
<th>Future production costs (in million rubles of oil equivalent)</th>
<th>Future income tax expenses (in million rubles of oil equivalent)</th>
<th>Future net cash flows (in million rubles of oil equivalent)</th>
<th>Discounted value of future cash flows as of the end of year (in million rubles of oil equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>75,162</td>
<td>8,333</td>
<td>15,996</td>
<td>(1,862)</td>
<td>43,359</td>
<td>(13,272)</td>
</tr>
<tr>
<td>2016</td>
<td>87,718</td>
<td>12,742</td>
<td>(2,174)</td>
<td>(1,574)</td>
<td>79,215</td>
<td>(11,756)</td>
</tr>
</tbody>
</table>
### Share of other (minority) shareholders in discounted value of future cash flows

#### Consolidated subsidiaries and joint operations

<table>
<thead>
<tr>
<th>UCAM</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of other (minority) shareholders in discounted value of future cash flows</td>
<td>717</td>
<td>727</td>
</tr>
</tbody>
</table>

### Changes therein relating to proved oil and gas reserves

#### Consolidated subsidiaries and joint operations

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discounted value of future cash flows as of the beginning of year</td>
<td>10,344</td>
<td>9,750</td>
</tr>
<tr>
<td>Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes</td>
<td>(1,081)</td>
<td>(1,035)</td>
</tr>
<tr>
<td>Changes in price estimates, net</td>
<td>(1,689)</td>
<td>(607)</td>
</tr>
<tr>
<td>Changes in estimated future development costs</td>
<td>(1,185)</td>
<td>(1,042)</td>
</tr>
<tr>
<td>Development costs incurred during the period</td>
<td>876</td>
<td>621</td>
</tr>
<tr>
<td>Revisions of previous reserves estimates</td>
<td>189</td>
<td>271</td>
</tr>
<tr>
<td>Increase in reserves due to discoveries, true-up, reclassifications</td>
<td>216</td>
<td>260</td>
</tr>
<tr>
<td>Net change in income taxes</td>
<td>254</td>
<td>284</td>
</tr>
<tr>
<td>Acquisition of discount</td>
<td>1,034</td>
<td>975</td>
</tr>
<tr>
<td>Net changes due to purchases of oil and gas fields</td>
<td>116</td>
<td>975</td>
</tr>
<tr>
<td>Net changes due to sales of oil and gas fields</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Discounted value of future cash flows as of the end of year</td>
<td>9,067</td>
<td>10,344</td>
</tr>
</tbody>
</table>

### Company's share in costs, inventories and future cash flows of the joint ventures and associates

<table>
<thead>
<tr>
<th></th>
<th>UCAM</th>
<th>2017</th>
<th>2016 (increased)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share in capitalized costs relating to oil and gas producing activities (total)</td>
<td>250</td>
<td>218</td>
<td></td>
</tr>
<tr>
<td>Share in results of operations for oil and gas producing activities (total)</td>
<td>42</td>
<td>17</td>
<td></td>
</tr>
<tr>
<td>Share in estimated proved crude oil and gas reserves</td>
<td>2,019</td>
<td>2,181</td>
<td></td>
</tr>
<tr>
<td>Share in estimated proved developed oil and gas reserves</td>
<td>1,500</td>
<td>1,205</td>
<td></td>
</tr>
<tr>
<td>Share in discounted value of future cash flows</td>
<td>463</td>
<td>619</td>
<td></td>
</tr>
</tbody>
</table>

#### APPENDIX 2

**KEY RISK FACTORS**
Industry-wide risks


- Related to crude oil, gas and petroleum products
- Related to the dependency on monopolist providers of oil, gas and petroleum products transportation services and their tariffs
- Related to geographical and climatic conditions
- Related to the sale of gas productivity by the Company
- Related to competition
- HSE risks

Risk description

- Rosneft has sufficient capability to redistribute its commercial flows in case of a significant price difference between the domestic and international markets. The Company is among the world’s leaders by shipment costs per barrel, and can promptly cut down and stop supplies to meet its commitments and objectives if prices for gas and petroleum products in the international market are lower than in Russia.
- Rosneft takes into account the negative impact of changes in the natural monopolies tariffs for natural gas transportation and transportation flows taking into account climatic conditions, including the shipment schedule, as well as the shipment schedule adjustment.
- Rosneft has the capability to redistribute commodity flows taking into account climatic conditions, including the use of alternatives for oil and petroleum product transportation, as well as the shipment schedule adjustment.
- Rosneft has the capability to re-estimate the Company’s performance and financial position.
- The Company rebuilds its refineries to satisfy the stable sector for petroleum product sales in the domestic market, which is less exposed to spot-market price changes and demand declines in the market.
- Rosneft introduces advanced technologies.
- The Company’s PGС system combines resources and procedures needed for providing products and services to public and corporate customers, a system for petroleum product stockpiling of individual types of petroleum products; provides tailored solutions for the needs of different consumer segments; and is designed to provide quality customer service and high availability of the Company’s own marketing and distribution facilities and contractors covering almost all Russian regions.
- The Company maintains a focus on the development of own retailing systems and stations that meet the latest European requirements as the most stable sector for petroleum products sale in the domestic market, which is less exposed to spot-market price changes and demand declines in the market.
- Rosneft controls risks associated with supply chain and procurement of high-quality petroleum raw materials, advanced technologies, and equipment.
- The Company controls the processes associated with the production and procurement of goods and services, as well as the procurement of infrastructure assets and other resources needed to support the implementation of Rosneft’s projects.
- Rosneft has its own HSE management system, which provides a basis for ensuring the development of HSE management systems in association with Rosneft’s HSE management system.
- Rosneft takes into account the negative impact of changes in the natural monopolies tariffs for natural gas transportation and transportation flows taking into account climatic conditions, including the shipment schedule, as well as the shipment schedule adjustment.
- Rosneft has the capability to redistribute commodity flows taking into account climatic conditions, including the use of alternatives for oil and petroleum product transportation, as well as the shipment schedule adjustment.
- Rosneft has the capability to re-estimate the Company’s performance and financial position.
- The Company rebuilds its refineries to satisfy the stable sector for petroleum product sales in the domestic market, which is less exposed to spot-market price changes and demand declines in the market.
- Rosneft introduces advanced technologies.
Inflation

Inflation rates in the Russian Federation significantly impact the Company's performance.

The Company analyses exposure to interest rate changes, including monitoring macroeconomic scenarios to assess the influence of interest rate changes on the Company's performance.

Changes in interest rates

As a major borrower, Rosneft is exposed to risks related to changes in interest rates.

The Company's loan portfolio consists of USD. An interest rate on most of these loans is based on LIBOR and EURIBOR interbank lending rates. An increase in these interest rates may result in higher debt servicing costs for Rosneft. Growth of borrowing costs for the Company may have a negative effect on its profitability.

Inflation

Inflation rates in the Russian Federation significantly impact the Company's performance.

When planning its business operations, Rosneft takes into account the impact of inflation on its financial performance, including the impact on the cost of procurement, materials and equipment, as well as changes in contractors' fees. The Company develops mechanisms to mitigate the risk, including the search for alternative contractors and suppliers of materials and equipment.

Legal risks

In 2017, certain Group Subsidiaries were involved in legal disputes concerning contractual breaches and other obligations.

Rosneft regularly monitors its compliance with legal requirements. It makes full use of internal processes and the information obtained through inspections conducted by government bodies in its operations. It plans to continue the practice of taking into account the best market practices in the area of legal protection, legal audits, and seeks to prevent such violations in the future.

Related to changes in tax regulation

Rosneft might be involved in foreign trade. Therefore, the Company is exposed to risks related to changes in rules of origin for trade in goods and customs legislation regulating the procedures for transfer of goods through the customs border, determining and applying of customs duties, clearance, introduction, and collection of customs duties.

In 2017, the European Economic Union adopted its Customs Code (EEU Customs Code) effective since 1 January 2017. The main changes in the EEU customs legislation are related to simplification of customs administration procedures and customs clearance.

The amendments introduce changes in classification of goods, change the basis for determining the value of goods, modify the customs valuation system, streamline the declaration of goods and electronic document workflow between the customs authorities and the foreign trade operators, including automated registration and release of customs declarations via information systems.

The Company notes the impact of risks related to changes in customs legislation on its operations and potential impact on its international trade. The Company's representatives were involved in the drafting of these changes.

Rosneft continuously monitors changes in customs legislation, assesses, and plans the impact to which such changes might affect its operations. The Company's experts are regularly involved in various working groups responsible for drafting legislation.

Related to changes in tax laws

Rosneft is regularly involved in working groups responsible for tax laws, evaluates and forecasts the degree of their impact on the Company's tax position and legal protection measures taken by the tax authorities, and predicts the impact to which such changes might affect its operations.

In case of any legal amendments that could affect the Company's operations, the Company plans to take the necessary legal protection measures in a timely manner. The Company's experts are regularly involved in various working groups responsible for drafting legislation.
<table>
<thead>
<tr>
<th>Type</th>
<th>Risk description</th>
<th>Risk management measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Related to statutory regulation of subsoil use</td>
<td>Subsoil use is Rosneft’s core line of business. Therefore, significant changes in statutory regulation of subsoil use may impact the Company’s operations. At the same time, subsoil legislation is not subject to frequent significant adjustments. Changes in subsoil legislation in 2017 are considered positive. The most significant changes relate to introduction of an option to repeatedly increase subsoil areas in certain situations, and as long as the increase constitutes 20% of subsoil reserves or less, and also to the increase of preceding exploration work times in the Komi Republic to 7 years.</td>
<td>The Company performs operations related to subsoil use in accordance with subsoil laws under issued licenses. The Company continuously monitors amendments to subsoil laws and assesses the latest legal precedents. Plans for obtaining subsoil licenses and conducting day-to-day operations related to subsoil use are developed taking into account the latest trends in statutory regulation in this sphere.</td>
</tr>
<tr>
<td>Related to statutory regulation of land use</td>
<td>Rosneft is exposed to risks related to changes in land legislation. No material amendments to land legislation were made in 2017. The most significant changes that affect the Company’s operations are related to adjusting calculation of tax base for state and municipal land and bring it in line with the market tax rate. There were no changes in 2017 that might have a negative impact on the Company’s operations.</td>
<td>Rosneft regularly monitors amendments to the applicable legislation, rulings by supreme courts and assesses legal precedents. In case of any legal precedents Rosneft also submits proposals for updating the legislation applies to government bodies for explanations and recommendations for implementing the specific regulations.</td>
</tr>
<tr>
<td>Related to environmental protection and industrial safety</td>
<td>Amendments to laws on industrial safety and environmental protection made during the reporting period are minor. The likelihood of occurrence of risks related to amendments that come into force in the reporting period is assessed as low.</td>
<td>Rosneft has implemented a health, safety and environment management system that complies with resources and procedures required for preventing hazardous events and responding to them. The principle and approach followed in all stages of the life cycle of industrial facilities are designed to enable the Company to prevent environmental incidents and manage of HSE risks in accordance with applicable requirements for process safety and operation of industrial facilities, taking into account existing state-of-the-art technologies. The Company continuously monitors amendments to laws on environmental and industrial safety and takes into account legal precedents in its operations.</td>
</tr>
<tr>
<td>Related to ongoing legal proceedings in which the Company is involved</td>
<td>Rosneft was, or is, a party to the following litigations that may have a significant impact on its financial and business performance: 1. Rosneft and Bashneft are parties to legal disputes involving PUSC Saratoma and JSC Sistearm Invest over Bashneft’s shares unlawfully held by PJSC Sistema and JSC Saratoma. Invest which thereby Bashneft sought to recover RUB 170.6 bln of losses caused by restructurings (Dispute 1) and RUB 13.7 bln of losses incurred as a result of dividend payments to the defendants when they unlawfully held Bashneft’s shares (Dispute 2), and as co-defendants in a case brought by Rosneft against JSC Tyumenneft against JSC Tyumenneft. The dispute is over the control to be obtained by Rosneft and Bashneft for Bashneft’s legitimate interests (Dispute 3). These disputes were settled through an out-of-court agreement between the parties, which was approved by the Arbitration Court of the Republic of Bashkortostan. In its ruling on Dispute 1 dated 20 December 2017. Under the out-of-court agreement, PJSC Sistema and JSC Saratoma Invest undertake to indemnify Bashneft and 30 March 2018 for RUB 100 bln of losses incurred by it, after which the parties to the disputes will waive their claims under Dispute 2 and 3. 2. In October-November 2014, former shareholders of JSC TNK-BP holding brought an action against Rosneft’s claims/losses caused to allegedly wrong (in view of the shareholders) valuation of shares bought back under Article 84.8 of the Federal Law On Joint-Stock Companies. The court of first instance, having been the ruling of the higher court, dismissed the complaint and held Rosneft’s claim baseless. On 30 March 2018, the Court of the Russian Federation dismissed a claim to refer the complaint to the Judicial Chamber on Economic Disputes the dispute was closed with claims against the Company found to be baseless. Rosneft is also involved in a number of other litigations that arise in the course of its business. The outcomes of these litigations will have no major impact on the Company’s performance or financial position. 3. In 2015, First National Petroleum Corporation (FNPC) initiated arbitration proceedings in the Arbitral Institute of the Stockholm Chamber of Commerce against JSC Tyumenneft, a subsidiary of Rosneft, seeking recovery of losses and interest in the amount exceeding USD 160 million for alleged breach of an agreement to purchase Bashneft’s shares. On 30 March 2018, the Arbitral Institute of the Russian Federation dismissed a claim to refer the complaints to the judicial Chamber on Economic Disputes the dispute was closed with claims against the Company found to be baseless. Rosneft is also involved in a number of other litigations that arise in the course of its business. The outcomes of these litigations will have no major impact on the Company’s performance or financial position.</td>
<td>Rosneft regularly monitors rulings by supreme courts and assesses legal precedents involved in district arbitration courts; it actively uses such precedents when protecting its rights and legal interests in court and when setting any legal issue arising during its operations. Therefore, risks related to changes in court practice are considered minor.</td>
</tr>
<tr>
<td>E2 and US Sanctions</td>
<td>In 2014, the US and EU imposed a series of sectoral sanctions. The sanctions introduce restrictions with regard to certain persons designated by the US and EU and: 1. prevent US and EU residents from providing new financing, or works, goods, or services that can be used by such persons under deep-water oil, Arctic oil, and Russian shale oil upstream projects. 2. prevent US residents from providing works, goods, or services that can be used by such persons to implement similar projects initiated as of 29 January 2018 in Russia, regardless of the size and type of a stake equal to, or exceeding, 20% of a majority stake in such project. A number of other countries have also imposed sectoral sanctions similar to the US and EU sanctions.</td>
<td>The Company takes these sanctions into account in its operations and continuously monitors them in order to minimize their negative impact.</td>
</tr>
</tbody>
</table>
This Corporate Governance Code Compliance Report (the Report) was discussed at the meeting of Rosneft's Board of Directors on April 25, 2018 (Minutes No. 17 dated April 28, 2018) as part of its Annual Report for 2017. The Board of Directors confirmed that the disclosure contained in the Report is full and reliable information on Rosneft's compliance with the principles and recommendations of the Corporate Governance Code for 2017. Rosneft performs Corporate Governance Code compliance assessment, as per the guidelines recommended by the Bank of Russia in Letter No. RU/E-52/8 dated 17 February 2016 on Disclosure of the Report on Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of Public Joint-Stock Company Rosneft.

### Appendix No. 3
ROSNEFT ANNUAL REPORT 2017

### Table of Compliance with Corporate Governance Principles

<table>
<thead>
<tr>
<th>No.</th>
<th>Corporate governance principles</th>
<th>Criteria for assessment of compliance with a corporate governance principle</th>
<th>Nature of compliance with a corporate governance principle</th>
<th>Explanations concerning failure to meet the criteria for the assessment of compliance with a corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>The company should treat all shareholders equally and fairly when they exercise their right to participate in the management of the company.</td>
<td></td>
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<td></td>
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<tr>
<td>1.1.1</td>
<td>The company has created the best possible conditions for the shareholders to exercise their right to participate in the General Shareholders Meeting and conditions required for forming an informed opinion on the terms of the agenda of the meeting, taking the shareholders' actions, and opportunities for them to express their opinion on matters under consideration.</td>
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<tr>
<td>1.1.2</td>
<td>The procedure for notifying of a General Shareholders Meeting and providing materials for the meeting enables the shareholders to prepare for it properly.</td>
<td>Complied with in part</td>
<td>Not complied with</td>
<td>To maintain efficient shareholder relations, Rosneft has a place for conducting the General Shareholders Meeting is publicly available. The company provides a freely available communication channel such as a hotline, email or an Internet forum allowing the shareholders to express their opinions and send questions regarding the agenda during the preparation for the General Shareholders Meeting. Actions in question had been taken by the Company before the beginning of the reporting period.</td>
</tr>
<tr>
<td>1.1.3</td>
<td></td>
<td>Complied with in part</td>
<td>Not complied with</td>
<td>During the preparation for the General Shareholders Meeting and the meeting itself, the shareholders had an opportunity to receive information on the meeting and related materials easily accessible both during their preparation for the General Shareholders Meeting and the company's executive bodies and members of the Company's Board of Directors' questions.</td>
</tr>
<tr>
<td>1.2</td>
<td>The company has developed and disclosed a procedure for determining the amount of dividends and their payment.</td>
<td></td>
<td></td>
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<tr>
<td>1.2.1</td>
<td>The company has developed and implemented the mechanism for determining the amount of dividends and their payment.</td>
<td>Complied with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.2</td>
<td>The company does not make a decision on dividend payment if such a decision is economically unfeasible and may create a misleading impression as to the company's dividend policy.</td>
<td>Complied with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.3</td>
<td>The company does not alter a determination in terms of dividend rights of existing shareholders.</td>
<td>Complied with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.4</td>
<td>The company ensures that shareholders do not have any other way of obtaining information on the General Shareholders Meeting, except for dividends and liquidation value.</td>
<td>Complied with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2.5</td>
<td>Under other shareholders from using other means of gaining profit (income) from the company’s operations, despite its dividend policy, the dividend process is transparent.</td>
<td>Complied with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4</td>
<td>The company has developed and disclosed the procedures of registering and holding of General Shareholders Meeting.</td>
<td></td>
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</tr>
<tr>
<td>1.4.1</td>
<td>Shareholders are provided with reliable and effective methods of registering ownership and an opportunity to freely and quickly dispose of their shares.</td>
<td>Complied with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4.2</td>
<td>The company does not take any actions which can or may cause artificial redistribution of corporate control.</td>
<td>Complied with</td>
<td></td>
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</tr>
<tr>
<td>1.7</td>
<td>A shareholder's right to demand that the General Shareholders Meeting be convened, nominates candidates to governing bodies and proposes agendas for the General Shareholders Meeting was considered without unnecessary delay.</td>
<td>Complied with</td>
<td></td>
<td></td>
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<tr>
<td>1.8</td>
<td>An internal document (internal policy) of the company contains procedures whereby participants of the General Shareholders Meeting may receive a copy of the draft agenda, the list of persons eligible for participation in the General Shareholders Meeting, the company's executive bodies and members of the Company's Board of Directors' questions and communications with each other.</td>
<td>Complied with</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.9</td>
<td>Each shareholder could freely exercise his or her right to sit in the way that is the easiest and most convenient for them or her.</td>
<td>Complied with</td>
<td></td>
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</tbody>
</table>
2.1.2 The Board of Directors decides on the main long-term strategic targets for the Company’s operations and approves key performance indicators and budgets, evaluates and approves business plans and other key strategic documents prepared for the Company’s core business areas.

2.1.3 The Board of Directors determines the principles and approaches to the development of the risk management and internal control system in the Company.

2.1.4 The Board of Directors determines the Company’s policy on the payment of remuneration and (or) compensation (in any form) to the members of the Board of Directors, executive bodies or other key executives of the Company.

2.1.5 The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts between the Company’s bodies, its shareholders and employees.

2.1.6 The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts between the Company’s bodies, its shareholders and employees.

2.1.7 The Board of Directors oversees the Company’s corporate governance principles and plays a key role in the Company’s significant corporate events.

2.2 The Board of Directors is accountable to the Company’s shareholders.

2.2.1 The performance of the Board of Directors is disclosed and provided to shareholders.

2.2.2 The Chairman of the Board of Directors is available for communication with the Company’s shareholders.

2.3 The Board of Directors is an effective and professional governing body of the Company able to make objective independent judgments and make decisions in the interests of the Company and its shareholders.

2.3.1 Only persons having an impeccable business and personal reputation and the knowledge, skills and experience required for making decisions within the competence of the Board of Directors and having no conflict of interest functions are elected to the Board of Directors.

2.3.2 The Board of Directors has an effective system for the nomination, appointment, evaluation, dismissal and limited liability of its members, ensuring the independence of its members.

2.3.3 The number of members of the Board of Directors is balanced, including in terms of its members’ qualifications, experience, knowledge and business skills, ensuring the confidence of shareholders.

2.3.4 The Board of Directors makes it possible to organize its work most effectively, including the opportunity to elect a candidate for whom they vote to the Board of Directors, not giving the Company’s substantial interests to individuals or groups of shareholders or to form Board Committees, as well as ensuring the Company’s substantial interests to individuals or groups of shareholders or to form Board Committees, as well as ensuring that under normal circumstances a candidate (an elected member of the Board of Directors) associated with the Company, (an) major shareholder, major counterparty, competitor or the government cannot be considered independent.

2.4 An adequate number of independent directors sit on the Board of Directors.

2.4.1 A person shall be qualified as an “Independent Director” if the or she has sufficient professional skills, experience and independence to form his/her own opinion, is able to make objective and fair judgments independently of the business activities of the Company, individual groups of shareholders or related persons, is not associated with the Company, (a) major shareholder, major counterparty, competitor or the government, cannot be considered independent.

2.4.2 The Company assesses whether candidates for the Board of Directors meet the independence criteria, and a regular analysis is carried out to determine whether independent members of the Board of Directors meet the independence criteria. When the Company recognizes a conflict of interest, it should prevail over form.

2.4.3 Independent directors comprise at least one third of the elected members of the Board of Directors.

2.4.4 Independent directors play a key role in preventing internal conflicts in the Company and in significant corporate actions taken by the Company.
2.5.2 The Chairman of the Board of Directors ensures that the functions assigned to the Board of Directors are performed as efficiently as possible.

2.6.3 Members of the Board of Directors are provided with sufficient information to enable the Board to meet the criteria for assessment of compliance with a corporate governance principle.

2.6.4 All members of the Board of Directors have sufficient time to perform their duties, and are provided with sufficient information on the Company and the challenges facing the Company at any given time.

2.7 Meetings of the Board of Directors

2.7.1 Meetings of the Board of Directors are held at least six meetings in the reporting year.

2.7.2 The Company's internal documents stipulate that a member of the Board of Directors shall inform the Board of Directors if there is a conflict of interest in relation to any issue on the agenda of the meeting of the Board of Directors. The Company has a formalized induction and training program for newly elected members of the Board of Directors.

2.7.3 The form of the meeting of the Board of Directors is determined taking into account the importance of agenda items. The most important issues are addressed at least twice in meetings of the Board of Directors.

2.7.4 Resolutions concerning the most important issues of the Board of Directors' business are adopted by a qualified majority of votes, or by a majority of votes cast by all elected members of the Board of Directors.

2.8 The Board of Directors establishes committees for preliminary consideration of the most important issues related to the Company's business.

2.8.1 An Audit Committee consisting of Independent Directors has been established for preliminary consideration of any issues related to the Company's financial and business operations.

2.8.2 A Remuneration Committee consisting of Independent Directors has been established for preliminary consideration of any issues related to the establishment of an efficient and transparent remuneration practice.

2.8.3 The Board of Directors has formed the Remuneration Committee consisting of Independent Directors only.

2.8.4 The Remuneration Committee is an Independent Director who is not a member of the Board of Directors.

2.8.5 The Board of Directors has formed the Audit Committee.

2.8.6 Members of the Audit Committee must have a good understanding of the Company's shareholders, and within the limits of normal business risk.

2.8.7 The role, rights and duties of the Chairman of the Board of Directors are determined taking into account the importance of agenda items. The most important issues are addressed at least twice in meetings of the Board of Directors.

2.8.8 The Charter or an internal document of the Company stipulates that the most significant issues are to be resolved by the Board of Directors by a qualified majority of votes, or by a majority of votes cast by all elected members of the Board of Directors.
2.8.3 A Nomination [Appointment, HR] Committee consisting mostly of Independent Directors has been established to be responsible for preparing the performance assessment of the performance of the Board of Directors.

2.8.4 Given the scale of business and the role it plays, the Company’s Board of Directors has made sure that the membership of its committees meets all objectives of the relevant Code or the Corporate Governance Code. The committees have been either formed or considered unnecessary (the Strategy Committee, the Corporate Governance Committee, the Ethics Committee, the Risk Management Committee, the Budget Committee, the Health, Safety, and Environment Committee, etc.)

2.8.5 The membership of the Board of Directors is determined so that it would enable a comprehensive discussion of issues for preliminary consideration, taking into account different opinions.

2.8.6 Chairmen of the Committees regularly inform the Board of Directors and its committees about the performance of their activities.

The Board of Directors arranges a performance assessment of the Board of Directors, its committees and members.

<table>
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<tr>
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<th>Corporate governance principles</th>
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<th>Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.8.3</td>
<td>A Nomination [Appointment, HR] Committee has been established for preliminary assessment of the Board of Directors which is related to the Board’s planning (strategic planning committees) and ensures the Board of Directors’ performance assessment of the performance of the Board of Directors.</td>
<td></td>
<td></td>
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<tr>
<td>2.8.4</td>
<td>The Board of Directors includes at least two corporate entities, which are not members of the National Committee on Corporate Governance.</td>
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</tr>
<tr>
<td>2.8.5</td>
<td>The Board of Directors includes at least one (1) member who is an expert in the legal field, two (2) members who are independent professionals, and at least one (1) member who is a risk management professional.</td>
<td></td>
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</tr>
<tr>
<td>2.8.6</td>
<td>The Board of Directors includes at least one (1) member who is an expert in environmental matters, and at least one (1) member who is an expert in health, safety, and the environment.</td>
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</tbody>
</table>

2.9 The Board of Directors arranges a performance assessment of the Board of Directors, its committees and members.

2.9.1 Performance assessment of the Board of Directors is aimed at evaluating the performance of the Board of Directors, determining whether their work meets the Company’s development needs and identifying the work of the Board of Directors and identifying opportunities for the improvement of its performance.

2.9.2 Assessment of performance of the Board of Directors, its committees and members is carried out as a regular basis at least once a year on an external (independent) (consultants) is engaged to perform an independent assessment of the performance of the Board of Directors at least once every three years.

2.9.3 Assessment of the performance of the Board of Directors, its committees, and members is carried out as a regular basis at least once a year on an external (independent) (consultants) is engaged to perform an independent assessment of the performance of the Board of Directors at least once every three years.

2.10 The Company’s Corporate Secretary facilitates effective ongoing communication with shareholders, coordinates the Company’s efforts aimed at ensuring the shareholders’ rights and interests and supports the significant work of the Board of Directors.

2.10.1 The Corporate Secretary has established and implemented the necessary mechanisms for ensuring the performance of its basic tasks, including (but not limited to) the following:

<table>
<thead>
<tr>
<th>No.</th>
<th>Corporate governance principles</th>
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</tr>
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<tbody>
<tr>
<td>2.10.1</td>
<td>The Corporate Secretary has established and implemented the necessary mechanisms for ensuring the performance of its basic tasks, including (but not limited to) the following:</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

3.1 The Company’s Corporate Secretary facilitates effective ongoing communication with shareholders, coordinates the Company’s efforts aimed at ensuring the shareholders’ rights and interests and supports the significant work of the Board of Directors.

3.1.1 The Corporate Secretary has established and implemented the necessary mechanisms for ensuring the performance of its basic tasks, including (but not limited to) the following: | | | | |
4.3.3 The amount of compensation (the golden parachute) paid by the Company to members of executive bodies or key executives of the Company is returned to the Company's shareholders.

4.3.4 The Company has implemented a long-term incentive plan for members of executive bodies and other key executives involving the use of the Company's shares (options or other derivatives for which the Company’s shares are underlying assets).

4.3.5 The amount of compensation (the golden parachute) paid by the Company in the event of early dismissal of members of executive bodies or key executives of the Company is returned to the Company's shareholders.

5.1 The Company has created an effective risk management and internal control system aimed at providing reasonable assurance that the Company will achieve its goals.

5.1.1 The Board of Directors has established the principles of and approaches to organizing the risk management and internal control system in the Company.

5.1.2 The Company's executive bodies ensure the creation and support of an effective risk management and internal control system in the Company.

5.1.3 The risk management and internal control system of the Company gives a clear, objective and clear picture of the current situation in the Company and its prospects and ensures integrity and transparency of the Company’s management processes, while also ensuring that risks taken by the Company are reasonable and acceptable.

5.1.4 The Company’s Board of Directors takes necessary measures to make sure that the Company’s risk management and internal control system is in line with the principles of and approaches to its organization formulated by the Board of Directors and that its functions are carried out.

5.2 The Company organizes internal audit in order to make an independent and systematic assessment of the reliability and performance of the risk management and internal control systems and the corporate governance system.

5.2.1 To conduct internal audit, the Company has established independent unit or has engaged an independent third party organization. Functional and administrative accountability of the internal audit unit is defined. The internal audit unit is functionally accountable to the Board of Directors or the Audit Committee.

5.2.2 The internal audit unit assesses the performance of the internal control system, the risk management system and the corporate governance system. The Company uses generally accepted performance standards in the sphere of internal audit.

6.1 The Company and its operations are transparent to shareholders, investors and other stakeholders.

6.1.1 The Company has developed and implemented an information policy ensuring effective communication between the Company, its shareholders, investors and other stakeholders.

6.1.2 The Company discloses information on the system and practice of corporate governance, including detailed information on compliance with the principles and recommendations of the Code.

6.1.3 The Company discloses information on the system and practice of corporate governance in the Company's annual report.

6.2 The Company discloses comprehensive, up-to-date and accurate information on the Company so that its shareholders and investors are able to make informed decisions.

6.2.1 The Company discloses information in accordance with the principles of regularity, consistency and promptness, as well as availability, accuracy, comprehensiveness and comparability of disclosed data.
The Company avoids using a formal approach to information disclosure and discloses material information on its operations even if the law does not require disclosing such information.

Being one of the most important means of corporate governance, ensuring an assessment of the Company’s performance during the year, the Company provides equal and easy access to information and documents at the shareholders’ request.

The Company ensures that significant corporate actions are taken in a manner that enables the shareholders to receive full information on such actions, provides them with an opportunity to influence such actions and guarantees their rights are observed and properly protected when such actions are taken.

Actions that have or may have a substantial impact on the Company’s share capital structure and financial position and, accordingly, on the legitimate interests of shareholders, other stakeholders.

The Company discloses comprehensive information on its capital structure and financial position.

The Company’s Charter classifies transactions or other actions constituting significant corporate actions and such actions fall within the competence of the Company’s Board of Directors.

The Company’s Charter provides a list of transactions or other actions constituting significant corporate actions and such actions fall within the competence of the Company’s Board of Directors.

The Company has established a procedure for engaging an independent appraiser to carry out a valuation of the property sold or acquired in a major transaction or a related-party transaction.

The Company’s Charter classifies reorganization of the Company, purchase or buyback.

Given the nature of the Company’s operations, the minimum criteria established by the Company’s Charter for classifying the Company’s transactions as significant corporate actions are lower than those established by law.

During the reporting period, all significant corporate actions were approved prior to their implementation.

The Company has established a procedure where, the Board of Directors relies on the opinion of Independent Directors of the Company.

The Company discloses comprehensive information on its capital structure and financial position and on its website.

Information on environmental and social performance of the Company, as disclosed in its Annual Report, is a significant non-financial component of the Company’s disclosure policy.

The rules and procedures for the implementation of significant corporate actions are set forth in the Company’s Charter in full detail.

The Company’s internal documents contain an expanded list of reasons why members of the Company’s Board of Directors and other persons stipulated by applicable laws can be recognized as related parties for the purpose of transactions of the Company.

For the purpose of transactions of the Company, companies effective as of 1 January, 2017 have a closed list of grounds for being deemed a related party. Thus, it appears impossible to comply with the Code’s requirement for making an additional list of such grounds.
# 1. Non-core asset divestment

## 1.1 Non-core asset divestment program

Subparagraph 1, paragraph 1 of Instruction of the President of the Russian Federation No. Pr-843 dated 10 May 2017

Subparagraph 2, paragraph 1 of the Resolution of the Government of the Russian Federation No. 894-r dated 10 May 2017

The divestment program defines the criteria for defining non-core and non-performing assets and the procedures for managing and disposing of them. The program also includes measures to dispose of non-core and non-performing assets, including those scheduled for disposal in 2017-2022.

The registers of non-core and non-performing assets of Rosneft and its subsidiaries are maintained and updated on a regular basis, in compliance with the guidelines on the identification and disposal of non-core assets approved by the Resolution of the Government of the Russian Federation No. 894-r dated 10 May 2017.

In 2017, Rosneft disposed of its shares in seven group subsidiaries and other business entities, implemented measures to prepare assets for divestment, and sold non-core real estate facilities.

The funds raised from the non-core and non-performing asset divestment program were contributed to the company's investment program and the accomplishment of the company's strategic objectives.

## 2. Asset disposals

### 2.1 Non-core asset divestment

<table>
<thead>
<tr>
<th>No</th>
<th>Asset name</th>
<th>Asset inventory No. (if applicable)</th>
<th>Balance sheet item containing the asset and the reporting period</th>
<th>Items (analytics included) containing the asset disposal</th>
<th>Carrying amount, RUB '000</th>
<th>Actual realizable value, RUB '000 (net of VAT)</th>
<th>Deviation of actual realizable value from carrying amount, RUB '000</th>
<th>Reason for deviation of actual realizable value from carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>333 1/3 ordinary shares of LLC Mornagiagazjnt</td>
<td>1170</td>
<td>91 01/01/2017</td>
<td>371,00</td>
<td>500,00</td>
<td>129,00</td>
<td>Negotiated selling price based on market value assessment results</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>4,455 ordinary shares of JSC Sibur - Iours</td>
<td>1170</td>
<td>91 01/01/2017</td>
<td>445,00</td>
<td>1,000,00</td>
<td>255,00</td>
<td>Negotiated selling price based on market value assessment results</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>39 ordinary shares of JSC Chisht</td>
<td>1173</td>
<td>91/01/2017</td>
<td>290</td>
<td>1,000,00</td>
<td>799,00</td>
<td>Selling price based on tender results</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>100% of LLC Akpol Electromechanical Management Company</td>
<td>1240</td>
<td>91 01/01/2017</td>
<td>129,320,00</td>
<td>24,320,00</td>
<td>Selling price based on tender results</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>4,632,150 ordinary shares of JSC Rosneft Trans-Gaz</td>
<td>1170</td>
<td>91 01/01/2017</td>
<td>163,620,00</td>
<td>315,620,00</td>
<td>151,799,00</td>
<td>Negotiated selling price based on market value assessment results</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>979,677,646 ordinary shares of JSC Orentrans</td>
<td>1170</td>
<td>91 01/01/2017</td>
<td>272,540,00</td>
<td>521,203,00</td>
<td>248,657,00</td>
<td>Negotiated selling price based on market value assessment results</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>20% of LLC Ojuchka Management Company</td>
<td>1170</td>
<td>91 01/01/2017</td>
<td>0,00</td>
<td>13,30</td>
<td>13,30</td>
<td>Negotiated selling price based on market value assessment results</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Building, cluster 20 - cluster 20 water pipelines, total length 2,390 m</td>
<td>45440</td>
<td>01/01/2017</td>
<td>1150 Property, plant, and equipment</td>
<td>620,079,317,00</td>
<td>893,079,317</td>
<td>733,079,317</td>
<td>Negotiated selling price based on tender results</td>
</tr>
</tbody>
</table>
### Production garage

<table>
<thead>
<tr>
<th>No.</th>
<th>Asset name</th>
<th>Asset inventory No. (if applicable)</th>
<th>Balance sheet items containing the asset as at the reporting date prior to the asset disposal</th>
<th>Items (analysis included), containing asset disposal amount and equipment (realizable assets)</th>
<th>Carrying amount, RUB '000</th>
<th>Actual realizable value, RUB '000 (net of VAT)</th>
<th>Deviation of actual realizable value from carrying amount (RUB '000)</th>
<th>Reason for deviation of actual realizable value from carrying amount</th>
<th>Selling price based on tender results</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Production garage building No. 9</td>
<td>5379</td>
<td>1150 Property, plant and equipment</td>
<td>62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other income (realizable assets) / 01.09 Disposal of property, plant and equipment</td>
<td>103,94 208,00 102,06</td>
<td>Selling price based on tender results</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Production garage building No. 10</td>
<td>5377</td>
<td>1150 Property, plant and equipment</td>
<td>62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other income (realizable assets) / 01.09 Disposal of property, plant and equipment</td>
<td>105,94 208,00 102,06</td>
<td>Selling price based on tender results</td>
<td></td>
<td></td>
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<tr>
<td>15</td>
<td>Production garage building No. 1</td>
<td>5375-4</td>
<td>1150 Property, plant and equipment</td>
<td>62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other income (realizable assets) / 01.09 Disposal of property, plant and equipment</td>
<td>105,94 208,00 102,06</td>
<td>Selling price based on tender results</td>
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<tr>
<td>16</td>
<td>Production garage building No. 3</td>
<td>5376</td>
<td>1150 Property, plant and equipment</td>
<td>62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other income (realizable assets) / 01.09 Disposal of property, plant and equipment</td>
<td>105,94 208,00 102,06</td>
<td>Selling price based on tender results</td>
<td></td>
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</table>

### 2-room apartment

<table>
<thead>
<tr>
<th>No.</th>
<th>Asset name</th>
<th>Asset inventory No. (if applicable)</th>
<th>Balance sheet items containing the asset as at the reporting date prior to the asset disposal</th>
<th>Items (analysis included), containing asset disposal amount and equipment (realizable assets)</th>
<th>Carrying amount, RUB '000</th>
<th>Actual realizable value, RUB '000 (net of VAT)</th>
<th>Deviation of actual realizable value from carrying amount (RUB '000)</th>
<th>Reason for deviation of actual realizable value from carrying amount</th>
<th>Selling price based on tender results</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Production garage building No. 4</td>
<td>5379</td>
<td>1150 Property, plant and equipment</td>
<td>62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other income (realizable assets) / 01.09 Disposal of property, plant and equipment</td>
<td>104,66 208,00 103,34</td>
<td>Selling price based on tender results</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Production garage building No. 5</td>
<td>5360</td>
<td>1150 Property, plant and equipment</td>
<td>62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other income (realizable assets) / 01.09 Disposal of property, plant and equipment</td>
<td>106,66 208,00 103,34</td>
<td>Selling price based on tender results</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>19</td>
<td>Production garage building No. 6</td>
<td>5365-4</td>
<td>1150 Property, plant and equipment</td>
<td>62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other income (realizable assets) / 01.09 Disposal of property, plant and equipment</td>
<td>104,66 208,00 103,34</td>
<td>Selling price based on tender results</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### No. Asset name Asset inventory No. (if applicable) Balance sheet item containing the assets No. (if applicable) Balance sheet item containing the assets No. Asset name Asset inventory No. (if applicable) Balance sheet item containing the assets No. (if applicable) Balance sheet item containing the assets

<table>
<thead>
<tr>
<th>No.</th>
<th>Asset name</th>
<th>Asset inventory</th>
<th>Carrying amount, RUB '000</th>
<th>Actual realizable value, RUB '000</th>
<th>Deviation of actual realizable carrying amount (RUB '000)</th>
<th>Reason for deviation of actual realizable carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>3-room apartment, 28 Nakhodkinsky Avenue, Apt. 16, with movable property</td>
<td>130000000009 Account 07, balance sheet item 1150</td>
<td>3 982,03</td>
<td>4 705,35</td>
<td>723,62</td>
<td>Selling price based on tender results</td>
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<tr>
<td>24</td>
<td>3-room apartment, 28 Nakhodkinsky Avenue, Apt. 21, with movable property</td>
<td>130000000007 Account 07, balance sheet item 1150</td>
<td>3 995,89</td>
<td>4 784,39</td>
<td>788,50</td>
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</tr>
<tr>
<td>25</td>
<td>3-room apartment, 28 Nakhodkinsky Avenue, Apt. 27, with movable property</td>
<td>130000000010 Account 07, balance sheet item 1150</td>
<td>3 886,25</td>
<td>4 794,14</td>
<td>887,89</td>
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<tr>
<td>26</td>
<td>3-room apartment, 28 Nakhodkinsky Avenue, Apt. 46, with movable property</td>
<td>130000000013 Account 07, balance sheet item 1150</td>
<td>4 078,34</td>
<td>4 702,67</td>
<td>624,33</td>
<td>Selling price based on tender results</td>
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<tr>
<td>27</td>
<td>3-room apartment, 28 Nakhodkinsky Avenue, Apt. 49, with movable property</td>
<td>130000000015 Account 07, balance sheet item 1150</td>
<td>4 112,79</td>
<td>5 269,15</td>
<td>1 156,36</td>
<td>Selling price based on tender results</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>No.</th>
<th>Asset name</th>
<th>Asset inventory</th>
<th>Carrying amount, RUB '000</th>
<th>Actual realizable value, RUB '000</th>
<th>Deviation of actual realizable carrying amount (RUB '000)</th>
<th>Reason for deviation of actual realizable carrying amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>28</td>
<td>3-room apartment, 28 Nakhodkinsky Avenue, Apt. 5, with movable property</td>
<td>130000000014 Account 07, balance sheet item 1150</td>
<td>3 967,19</td>
<td>4 748,81</td>
<td>781,62</td>
<td>Selling price based on tender results</td>
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<tr>
<td>29</td>
<td>4-room apartment, 28 Nakhodkinsky Avenue, Apt. 10, with movable property</td>
<td>130000000017 Account 07, balance sheet item 1150</td>
<td>4 081,90</td>
<td>6 102,00</td>
<td>2 020,10</td>
<td>Selling price based on tender results</td>
</tr>
<tr>
<td>30</td>
<td>4-room apartment, 28 Nakhodkinsky Avenue, Apt. 15, with movable property</td>
<td>130000000018 Account 07, balance sheet item 1150</td>
<td>4 775,16</td>
<td>6 416,77</td>
<td>1 641,61</td>
<td>Selling price based on tender results</td>
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<tr>
<td>31</td>
<td>4-room apartment, 28 Nakhodkinsky Avenue, Apt. 19, with movable property</td>
<td>130000000019 Account 07, balance sheet item 1150</td>
<td>4 762,84</td>
<td>6 174,89</td>
<td>1 412,05</td>
<td>Selling price based on tender results</td>
</tr>
<tr>
<td>32</td>
<td>4-room apartment, 28 Nakhodkinsky Avenue, Apt. 21, with movable property</td>
<td>130000000020 Account 07, balance sheet item 1150</td>
<td>4 658,07</td>
<td>5 597,07</td>
<td>938,00</td>
<td>Selling price based on tender results</td>
</tr>
<tr>
<td>No.</td>
<td>Asset name</td>
<td>Asset inventory No. (if applicable)</td>
<td>Balance sheet item containing the asset as at the reporting date prior to the asset disposal</td>
<td>Items (analytics included) containing asset disposal income and expenditure</td>
<td>Carrying amount, RUB '000</td>
<td>Actual realizable value, RUB '000 (yes of VAT)</td>
</tr>
<tr>
<td>-----</td>
<td>------------</td>
<td>----------------------------------</td>
<td>-----------------------------------------------</td>
<td>-------------------------------------------------</td>
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<tr>
<td>33</td>
<td>Land plot 2122</td>
<td>1130</td>
<td>34</td>
<td>100000000016</td>
<td>91.01/91.02</td>
<td>2,864,03</td>
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<tr>
<td>34</td>
<td>Warehouse</td>
<td>9046</td>
<td>1130</td>
<td>91.01/91.02</td>
<td>0,20</td>
<td>115,08</td>
</tr>
<tr>
<td>35</td>
<td>Administrative building</td>
<td>1000000406</td>
<td>36</td>
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<tr>
<td>36</td>
<td>Administrative building</td>
<td>1000000406</td>
<td>37</td>
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</tr>
<tr>
<td>37</td>
<td>Garage building</td>
<td>1000000607</td>
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<tr>
<td>38</td>
<td>Fire station building</td>
<td>1000000608</td>
<td>39</td>
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<tr>
<td>39</td>
<td>Garage-soundproof building</td>
<td>1000000609</td>
<td>40</td>
<td>620000003200</td>
<td>1,125</td>
<td>12,591,38</td>
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<tr>
<td>40</td>
<td>Packing shop building</td>
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<tr>
<td>41</td>
<td>Concrete building</td>
<td>1000000611</td>
<td>42</td>
<td></td>
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</tr>
<tr>
<td>42</td>
<td>Land plot, land category settled, authorized use production, total area 861.01 sq. m</td>
<td>1000000613</td>
<td>43</td>
<td></td>
<td></td>
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<tr>
<td>43</td>
<td>Avdiyevskaya reservoir, total area 12.92 sq. m</td>
<td>1000000630</td>
<td>44</td>
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<td></td>
<td></td>
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<tr>
<td>44</td>
<td>Parking place, function non-residential area 12.92 sq. m, floor plan numbers basement, area 1/m</td>
<td>1000000631</td>
<td>45</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2. Procurement of goods, works, services**

**2.1. Approval of the Regulations on Procurement, Procurement Transparency Improvement**

Federal Law No. 223-FZ On Procurement of Goods, Works, and Services by Certain Types of Legal Entities (the Regulations are posted on the Company’s official website and in the Integrated Information System (http://zakupki.gov.ru)), which:  
- stipulate the provisions regulating the participation of small and medium-sized enterprises (SMEs) in procurement contracts;  
- describe the key elements of the process of procurement of works, goods, and services, including the procedure for preparing and carrying out procurement procedures, and the procedure for signing and executing relevant contracts;  
- establish the rules for preparing and signing procurement contracts; and  
- stipulate the provisions regulating the participation of small and medium-sized enterprises (SMEs) in procurement contracts.

On 3 April 2015, Rosneft’s Board of Directors resolved to approve the revised version of the Company’s Regulations on Procurement of Goods, Works, and Services (the Regulations are posted on the Company’s official website and in the Integrated Information System (http://zakupki.gov.ru)), which:  
- stipulate the provisions regulating the participation of small and medium-sized enterprises (SMEs) in procurement contracts;  
- describe the key elements of the process of procurement of works, goods, and services, including the procedure for preparing and carrying out procurement procedures, and the procedure for signing and executing relevant contracts;  
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- stipulate the provisions regulating the participation of small and medium-sized enterprises (SMEs) in procurement contracts;  
- describe the key elements of the process of procurement of works, goods, and services, including the procedure for preparing and carrying out procurement procedures, and the procedure for signing and executing relevant contracts;  
- stipulate the provisions regulating the participation of small and medium-sized enterprises (SMEs) in procurement contracts.
5. Strategy Development and Update, Efficiency, Long-Term Planning

5.1. Innovation Development Program and Approval

Recommendations for the Development of the Innovation Development Programs approved by resolution of the Government of the Russian Federation, by its resolution dated 20 November 2018 (Minutes No. 27 dated 22 December 2018). The Innovation Development Program is updated based on revised strategic guidelines following changes in the Russian asset portfolio and elaboration of new strategic approaches. The updated strategic guidelines ensure the Company’s efforts to aim to improve business profitability and increase returns on existing assets through enhanced development, focusing on implementing key projects and changing the management model to enable accelerated innovation and business development.

While developing the Rosneft Strategy the Company conducted an in-depth analysis of the external environment and challenges facing each business segment. The Company carried out detailed initiatives across all business segments enabling development and accomplishment of its growth priorities. The key messages of the Rosneft 2022 Strategy were announced by Rosneft’s Chief Executive Officer during the Annual General Shareholders’ Meeting on 22 June 2017 and posted on Rosneft’s official website. For more information and procedures of the 2020-2022 Strategy, see the relevant section of the Annual Report.

The 2017 Long-Term Development Program was approved by resolution of the Board of Directors on 23 February 2017 (Minutes No. 13 dated 21 December 2016). In 2017, Rosneft’s Board of Directors approved the Rosneft 2022 Strategy (Minutes No. 8 dated 21 December 2016). These changes in the Company’s business planning are implemented through advanced management approaches and new technologies while increasing returns on the Company’s existing assets. The Rosneft 2022 Strategy fully covers modern challenges being faced by the Company and is structured to achieve business objectives and goals, including inorganic growth opportunities. The key messages of the Rosneft 2022 Strategy were announced by Rosneft’s Chief Executive Officer during the Annual General Shareholders’ Meeting on 22 June 2017 and posted on Rosneft’s official website. The information on the successful execution of the 2017 Long-Term Development Program was updated based on revised strategic guidelines following changes in the Russian asset portfolio and elaboration of new strategic approaches. The updated strategic guidelines ensure the Company’s efforts to improve business profitability and increase returns on existing assets through enhanced development, focusing on implementing key projects and changing the management model to enable accelerated innovation and business development.

5.2. Managing Rights to Intellectual Property

In 2017, Rosneft’s Board of Directors approved the Rosneft 2022 Strategy (Minutes No. 8 dated 21 December 2016). These changes in the Company’s business planning are implemented through advanced management approaches and new technologies while increasing returns on the Company’s existing assets. The Rosneft 2022 Strategy fully covers modern challenges being faced by the Company and is structured to achieve business objectives and goals, including inorganic growth opportunities. The key messages of the Rosneft 2022 Strategy were announced by Rosneft’s Chief Executive Officer during the Annual General Shareholders’ Meeting on 22 June 2017 and posted on Rosneft’s official website. The information on the successful execution of the 2017 Long-Term Development Program was updated based on revised strategic guidelines following changes in the Russian asset portfolio and elaboration of new strategic approaches. The updated strategic guidelines ensure the Company’s efforts to improve business profitability and increase returns on existing assets through enhanced development, focusing on implementing key projects and changing the management model to enable accelerated innovation and business development.

5.3. Development and Approval of the Strategy and Long-Term Development Program

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5.4. Innovation Development Program and Approval

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The 2017 Long-Term Development Program was approved by resolution of the Board of Directors on 23 February 2017 (Minutes No. 13 dated 21 December 2016). In 2017, Rosneft’s Board of Directors approved the Rosneft 2022 Strategy (Minutes No. 8 dated 21 December 2016). These changes in the Company’s business planning are implemented through advanced management approaches and new technologies while increasing returns on the Company’s existing assets. The Rosneft 2022 Strategy fully covers modern challenges being faced by the Company and is structured to achieve business objectives and goals, including inorganic growth opportunities. The key messages of the Rosneft 2022 Strategy were announced by Rosneft’s Chief Executive Officer during the Annual General Shareholders’ Meeting on 22 June 2017 and posted on Rosneft’s official website. The information on the successful execution of the 2017 Long-Term Development Program was updated based on revised strategic guidelines following changes in the Russian asset portfolio and elaboration of new strategic approaches. The updated strategic guidelines ensure the Company’s efforts to improve business profitability and increase returns on existing assets through enhanced development, focusing on implementing key projects and changing the management model to enable accelerated innovation and business development.

5.5. Development and Approval of the Company’s Strategy and Long-Term Development Program

In 2017, Rosneft’s Board of Directors approved the Rosneft 2022 Strategy (Minutes No. 8 dated 21 December 2016). These changes in the Company’s business planning are implemented through advanced management approaches and new technologies while increasing returns on the Company’s existing assets. The Rosneft 2022 Strategy fully covers modern challenges being faced by the Company and is structured to achieve business objectives and goals, including inorganic growth opportunities. The key messages of the Rosneft 2022 Strategy were announced by Rosneft’s Chief Executive Officer during the Annual General Shareholders’ Meeting on 22 June 2017 and posted on Rosneft’s official website. The information on the successful execution of the 2017 Long-Term Development Program was updated based on revised strategic guidelines following changes in the Russian asset portfolio and elaboration of new strategic approaches. The updated strategic guidelines ensure the Company’s efforts to improve business profitability and increase returns on existing assets through enhanced development, focusing on implementing key projects and changing the management model to enable accelerated innovation and business development.

5.6. Managing Rights to Intellectual Property

In 2017, Rosneft’s Board of Directors approved the Rosneft 2022 Strategy (Minutes No. 8 dated 21 December 2016). These changes in the Company’s business planning are implemented through advanced management approaches and new technologies while increasing returns on the Company’s existing assets. The Rosneft 2022 Strategy fully covers modern challenges being faced by the Company and is structured to achieve business objectives and goals, including inorganic growth opportunities. The key messages of the Rosneft 2022 Strategy were announced by Rosneft’s Chief Executive Officer during the Annual General Shareholders’ Meeting on 22 June 2017 and posted on Rosneft’s official website. The information on the successful execution of the 2017 Long-Term Development Program was updated based on revised strategic guidelines following changes in the Russian asset portfolio and elaboration of new strategic approaches. The updated strategic guidelines ensure the Company’s efforts to improve business profitability and increase returns on existing assets through enhanced development, focusing on implementing key projects and changing the management model to enable accelerated innovation and business development.
Section 1: Reduction of Operating Expenses

In 2016, the Group completed a significant project to centralize the treasury function of Rosneft’s Group Subsidiaries. Since 2005, through the process of bringing all financial transactions into the Group treasury, the Company has implemented a centralized treasury system to maximize cash flow management and reduce administrative expenses associated with multiple entities managing treasury operations. The Group’s treasury management system is based on centralization of cash management, which allowed it to optimize internal financial balances and improve the efficiency of cash management. Thanks to this initiative, the Group’s treasury system was approved by the Company’s Board of Directors on 25 May 2016.

The adoption of a centralized treasury system has led to a significant reduction in the administrative expenses of the Group Subsidiaries, which amounted to 3.8% of the total administrative expenses in 2016. The Group Subsidiaries have also implemented a centralized treasury system since 2015, which has led to a reduction in administrative expenses of 3.7% in 2016 compared to 2015.

In 2016, the Group implemented several initiatives aimed at reducing administrative expenses, including the following:

- A reduction of 12.4% in operating expenses calculated in accordance with principles approved by the Russian Ministry of Finance
- An increase in the efficiency of repair programs
- An improvement in the efficiency of running programs
- A reduction in the number of joint-stock companies

By implementing these initiatives, the Group managed to reduce operating expenses by 12.4% in 2016. The Group achieved this result by optimizing additional programs and implementing best practices to improve efficiency in all areas of operations.

Section 2: Improvement of Operating and Investment Performance

During the reporting period, the Company continued to focus on improving its operating and investment performance. The Company’s performance is measured using key performance indicators (KPIs), which include production, investment, and financial performance metrics. The KPIs are reviewed quarterly by the Company’s Board of Directors and are announced to the public.

The Company’s performance in 2016 was influenced by several factors, including changes in oil prices, which impacted the revenue and profitability of the Company. Despite these challenges, the Company maintained its focus on improving operating and investment performance. The Company’s performance metrics during the reporting period are as follows:

- Production
- Investment
- Financial performance

The Company’s performance metrics are published in its annual report, which is available on the Company’s official website.

Section 3: Improvement of Corporate Governance

The Company continues to strengthen its corporate governance framework to ensure the effective management of the Company’s business. The Company’s Board of Directors has implemented several initiatives to improve corporate governance, including the adoption of new policies and procedures.

The Company’s Board of Directors has adopted several new policies and procedures to improve corporate governance, including:

- A policy on communication with stakeholders
- A policy on management of hazardous substances
- A policy on the use of IT systems

These policies and procedures are reviewed annually by the Company’s Board of Directors and are available on the Company’s official website.

Section 4: Improvement of Safety Performance

The Company continues to prioritize safety as a core value and is committed to maintaining a safe working environment for all employees. The Company’s safety performance is measured using key performance indicators (KPIs), which include employee safety, incident rates, and safety culture metrics. The KPIs are reviewed quarterly by the Company’s Board of Directors and are announced to the public.

The Company’s safety performance during the reporting period is as follows:

- Employee safety
- Incident rates
- Safety culture metrics

The Company’s safety performance metrics are published in its annual report, which is available on the Company’s official website.
This Annual Report has been prepared based on the following local (internal) regulations of Rosneft:

- Charter;
- Corporate Governance Code;
- Code of Business Ethics and Corporate Conduct;
- Regulations on the General Shareholders’ Meeting of Rosneft;
- Regulations on the Board of Directors of Rosneft;
- Regulations on the Audit Committee of the Board of Directors of Rosneft;
- Regulations on the Strategic Planning Committee of the Board of Directors of Rosneft;
- Regulations on Remuneration and Compensation to the Members of the Board of Directors of Rosneft;
- Regulations on the Procedure for the Organization and Work of the Board Committees of Rosneft;
- Regulations on the Collective Executive Body (Management Board) of Rosneft;
- Regulations on the Sole Executive Body (Chief Executive Officer) of Rosneft;
- Regulations on Remuneration and Compensation to Top Managers of Rosneft;
- Regulations on the Audit Commission of Rosneft;
- Regulations on Information Policy of Rosneft;
- Regulations on Information Disclosure to Shareholders of Rosneft;
- Regulations on Insider Information;
- Anti-Corruption Policy of the Company;
- Company Policy on Internal Audit;
- Company Policy on Internal Control and Risk Management;
- Company Policy on Environmental Protection;
- Company Policy on Health and Safety;
To the Shareholders and the Board of Directors of PJSC Rosneft Oil Company

OPINION

We have audited the accompanying financial statements of PJSC Rosneft Oil Company (the “Company”) which comprise the balance sheet as at 31 December 2017, income statement for the year ended 31 December 2017, and notes to these financial statements.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Company as at 31 December 2017, its financial performance and cash flows for 2017 in conformity with the requirements of the Russian Federation.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the Internationally Accepted Code of Ethics for Professional Accountants (ESBA) Code together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation; and we have fulfilled our other ethical responsibilities in accordance with those requirements and the ESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Those matters were addressed in the context of our audit of the consolidated financial statements as a whole, and, in forming our opinion, we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is included in key audit matters and is the basis for determining the audit procedure.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to those matters. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We also:

· detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be

APPENDIX 6

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF ROSNEFT OIL COMPANY FOR THE YEAR ENDED 31 DECEMBER 2017

APPENDIX 6

ROSNEFT ANNUAL REPORT 2017

APPENDIX No. 6

To the Shareholders and the Board of Directors of PJSC Rosneft Oil Company

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KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. Those matters were addressed in the context of our audit of the consolidated financial statements as a whole, and, in forming our opinion, we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is included in key audit matters and is the basis for determining the audit procedure.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to those matters. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We also:

· detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be
From the matters communicated with the Audit Committee of the Board of Directors, we determine these matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor’s report is K.I. Petrov.

D.E. Lobachev
Partner, General Director
Ernst & Young LLC
UFApril 2018

Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 12 August 2002; State Registration Number 1027730043502.
Address: 115035, Russia, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
Details of the auditor
Name: PJSC Rosneft Oil Company
Address: 115021, Russia, Moscow, Sofiyskaya Nab., 26/1.

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**BALANCE SHEET AS OF 31 DECEMBER 2017**

<table>
<thead>
<tr>
<th>Explorato-</th>
<th>Item</th>
<th>Line</th>
<th>As at 31 December 2017</th>
<th>As at 31 December 2016</th>
<th>As at 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>RUB (thsd)</td>
<td>RUB (thsd)</td>
<td>RUB (thsd)</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I. NON-CURRENT ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Intangible assets</td>
<td>1110</td>
<td>23,486,759</td>
<td>23,214,357</td>
<td>20,833,787</td>
<td></td>
</tr>
<tr>
<td>8. Research and development results</td>
<td>1120</td>
<td>4,860,385</td>
<td>3,344,717</td>
<td>2,514,742</td>
<td></td>
</tr>
<tr>
<td>7. Intangible exploration assets</td>
<td>1130</td>
<td>111,433,011</td>
<td>78,518,809</td>
<td>74,850,436</td>
<td></td>
</tr>
<tr>
<td>2. Tangible exploration assets</td>
<td>1140</td>
<td>95,179,659</td>
<td>71,305,809</td>
<td>65,368,131</td>
<td></td>
</tr>
<tr>
<td>5. Property, plant and equipment</td>
<td>1150</td>
<td>1,180,519,970</td>
<td>1,056,725,579</td>
<td>1,033,326,426</td>
<td></td>
</tr>
<tr>
<td>11. Financial investments</td>
<td>1160</td>
<td>6,003,716,398</td>
<td>5,482,464,842</td>
<td>3,945,681,951</td>
<td></td>
</tr>
<tr>
<td>21. Deferred tax assets</td>
<td>1170</td>
<td>9,252,560,790</td>
<td>8,235,927,390</td>
<td>12,801,709,618</td>
<td></td>
</tr>
<tr>
<td>9. Retained current assets</td>
<td>1180</td>
<td>22,715,043</td>
<td>22,715,043</td>
<td>22,715,043</td>
<td></td>
</tr>
<tr>
<td>Total for Section I</td>
<td>1100</td>
<td>7,483,529,455</td>
<td>6,788,716,536</td>
<td>5,213,358,963</td>
<td></td>
</tr>
<tr>
<td>II. CURRENT ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Inventories</td>
<td>1210</td>
<td>143,288,685</td>
<td>113,017,735</td>
<td>107,207,600</td>
<td></td>
</tr>
<tr>
<td>10. Value-added tax on purchased assets</td>
<td>1220</td>
<td>72,598,729</td>
<td>57,272,596</td>
<td>51,445,066</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total for Section II</td>
<td>1200</td>
<td>3,599,388,917</td>
<td>3,184,684,934</td>
<td>4,236,515,301</td>
<td></td>
</tr>
<tr>
<td>III. EQUITY AND RESERVES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>119. Share capital (pooled capital, charter capital, partner contributions)</td>
<td>1310</td>
<td>105,982</td>
<td>105,982</td>
<td>105,982</td>
<td></td>
</tr>
<tr>
<td>19. Treasury shares</td>
<td>1320</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>19. Redeemed items</td>
<td>1330</td>
<td>0</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>19. Additional capital (without revaluation)</td>
<td>1340</td>
<td>113,278,538</td>
<td>113,279,280</td>
<td>113,244,694</td>
<td></td>
</tr>
<tr>
<td>19. Reserve capital</td>
<td>1350</td>
<td>61,023,750</td>
<td>50,403,366</td>
<td>40,469,001</td>
<td></td>
</tr>
<tr>
<td>19. Other funds and reserves</td>
<td>1360</td>
<td>1,186,529,970</td>
<td>1,058,799,579</td>
<td>1,003,328,496</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total for Section III</td>
<td>1300</td>
<td>1,684,375,058</td>
<td>1,533,087,259</td>
<td>1,434,431,053</td>
<td></td>
</tr>
<tr>
<td>IV. NON-CURRENT LIABILITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Borrowings</td>
<td>1410</td>
<td>5,083,998,328</td>
<td>4,338,773,620</td>
<td>4,081,526,948</td>
<td></td>
</tr>
<tr>
<td>21. Deferred non-current liabilities</td>
<td>1420</td>
<td>91,105,397</td>
<td>78,948,226</td>
<td>69,693,400</td>
<td></td>
</tr>
<tr>
<td>24. Provisions</td>
<td>1430</td>
<td>20,059,244</td>
<td>22,943,218</td>
<td>22,443,697</td>
<td></td>
</tr>
<tr>
<td>16. Other liabilities</td>
<td>1440</td>
<td>1,419,426,029</td>
<td>1,550,012,639</td>
<td>1,784,929,682</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total for Section IV</td>
<td>1400</td>
<td>6,655,553,504</td>
<td>6,018,137,851</td>
<td>5,976,619,021</td>
<td></td>
</tr>
<tr>
<td>V. CURRENT LIABILITIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Borrowings</td>
<td>1510</td>
<td>600,370,600</td>
<td>520,561,293</td>
<td>434,337,961</td>
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</tr>
<tr>
<td>15.16. Accounts payable</td>
<td>1520</td>
<td>1,785,520,878</td>
<td>1,772,738,261</td>
<td>1,416,028,483</td>
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<tr>
<td>24. Deferred income</td>
<td>1530</td>
<td>2,651,115</td>
<td>1,874,814</td>
<td>1,581,530</td>
<td></td>
</tr>
<tr>
<td>24. Provisions</td>
<td>1540</td>
<td>20,059,244</td>
<td>22,943,218</td>
<td>22,443,697</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total for Section V</td>
<td>1500</td>
<td>2,746,889,810</td>
<td>2,402,176,360</td>
<td>2,038,826,160</td>
<td></td>
</tr>
<tr>
<td>BALANCE</td>
<td></td>
<td></td>
<td>11,082,918,372</td>
<td>9,953,401,470</td>
<td>9,449,874,264</td>
</tr>
</tbody>
</table>

V.A. Surkov
General Director of LLC RN-Uchet
(Contract No. 100017/027119)
At 31 December 2017

I.I. Sechin
Chief Executive Officer of ROSNEFT

Rosneft Oil Company
(RUB (thsd))
### STATEMENT OF CHANGES IN CAPITAL FOR 2017

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>Share capital</th>
<th>Treasury shares</th>
<th>Additional capital</th>
<th>Reserve capital</th>
<th>Other funds and reserves</th>
<th>Reserves comprising (thsd)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity at 31 December 2015</td>
<td>3100</td>
<td>105,982</td>
<td>113,244,709</td>
<td>5,299</td>
<td>471,888,054</td>
<td>2,762,963,117</td>
<td>1,434,431,053</td>
<td></td>
</tr>
<tr>
<td>For 2016 year</td>
<td>3110</td>
<td>—</td>
<td>34,586</td>
<td>—</td>
<td>123,875,951</td>
<td>99,274,258</td>
<td>223,144,209</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>3211</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>99,236,214</td>
<td>99,236,214</td>
</tr>
<tr>
<td>Revaluation of property</td>
<td>3212</td>
<td>x</td>
<td>x</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Earnings directly increasing equity</td>
<td>3213</td>
<td>x</td>
<td>x</td>
<td>34,586</td>
<td>x</td>
<td>123,875,951</td>
<td>38,044</td>
<td>123,948,581</td>
</tr>
<tr>
<td>Additional share issue</td>
<td>3214</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Increase in the par value of shares</td>
<td>3215</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>x</td>
<td>—</td>
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<tr>
<td>Legal entity reorganization</td>
<td>3216</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Total decrease in equity</td>
<td>3220</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>(124,528,589)</td>
<td>(124,528,589)</td>
</tr>
<tr>
<td>Loss</td>
<td>3221</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Revaluation of property</td>
<td>3222</td>
<td>x</td>
<td>x</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Expenses directly decreasing equity</td>
<td>3223</td>
<td>x</td>
<td>x</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Decrease in the par value of shares</td>
<td>3224</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Decrease in the number of shares</td>
<td>3225</td>
<td>—</td>
<td>x</td>
<td>x</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Legal entity reorganization</td>
<td>3226</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Dividends</td>
<td>3327</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>(103,968,124)</td>
<td>(103,968,124)</td>
</tr>
<tr>
<td>Change in additional capital</td>
<td>3330</td>
<td>x</td>
<td>x</td>
<td>(10)</td>
<td>x</td>
<td>10</td>
<td>x</td>
<td>—</td>
</tr>
<tr>
<td>Change in reserve capital</td>
<td>3340</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>—</td>
<td>x</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Equity at 31 December 2017</td>
<td>3300</td>
<td>105,982</td>
<td>113,278,543</td>
<td>5,299</td>
<td>231,746,689</td>
<td>1,802,733,923</td>
<td>1,684,375,058</td>
<td></td>
</tr>
</tbody>
</table>

### INCOME STATEMENT FOR JANUARY-DECEMBER 2017

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>For January-December 2017</th>
<th>For January-December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2110</td>
<td>4,892,934,388</td>
<td>4,318,055,268</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>2120</td>
<td>(3,459,587,329)</td>
<td>(2,846,770,153)</td>
</tr>
<tr>
<td>Exploration and estimation expenses</td>
<td>2130</td>
<td>(14,149,489)</td>
<td>(27,496,713)</td>
</tr>
<tr>
<td>Gross income (loss)</td>
<td>2100</td>
<td>1,419,197,570</td>
<td>1,443,788,402</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>2210</td>
<td>(885,298,265)</td>
<td>(855,153,650)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>2220</td>
<td>(38,941,255)</td>
<td>(36,218,765)</td>
</tr>
<tr>
<td>Operating income (loss)</td>
<td>2200</td>
<td>359,957,079</td>
<td>422,396,433</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>2320</td>
<td>179,255,883</td>
<td>165,880,068</td>
</tr>
<tr>
<td>Interest payable</td>
<td>2330</td>
<td>(206,174,924)</td>
<td>(206,174,924)</td>
</tr>
<tr>
<td>Gains from changes in the fair value of derivative financial instruments</td>
<td>2332</td>
<td>3,535,630</td>
<td>6,497,269</td>
</tr>
<tr>
<td>Losses from changes in the fair value of derivative financial instruments</td>
<td>2334</td>
<td>(988)</td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>2350</td>
<td>(413,579,272)</td>
<td>(283,910,694)</td>
</tr>
<tr>
<td>Income (loss) before tax</td>
<td>2300</td>
<td>83,106,878</td>
<td>54,379,463</td>
</tr>
<tr>
<td>Trading income</td>
<td>2410</td>
<td>5,237,616</td>
<td>4,792,244</td>
</tr>
<tr>
<td>Including permanent tax assets (liabilities)</td>
<td>2421</td>
<td>25,395,060</td>
<td>27,768</td>
</tr>
<tr>
<td>Change in deferred tax liabilities</td>
<td>2430</td>
<td>(12,517,717)</td>
<td>(2,904,904)</td>
</tr>
<tr>
<td>Change in deferred tax assets</td>
<td>2450</td>
<td>25,810,500</td>
<td>(5,981,739)</td>
</tr>
<tr>
<td>Other income</td>
<td>2470</td>
<td>(85,935,677)</td>
<td>30,595,870</td>
</tr>
<tr>
<td>Tax at prior year income</td>
<td>2481</td>
<td>(17,202,560)</td>
<td>(60,569)</td>
</tr>
<tr>
<td>Net income</td>
<td>2490</td>
<td>83,106,878</td>
<td>54,379,463</td>
</tr>
<tr>
<td>Revaluation of non-current assets not included in net income (loss) for the period</td>
<td>2510</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Result of the revaluation of non-current assets not included in net income (loss) for the period</td>
<td>2510</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Comprehensive financial result for the period</td>
<td>2520</td>
<td>105,982,980</td>
<td>59,230,614</td>
</tr>
<tr>
<td>Basic earnings (loss) per share</td>
<td>2900</td>
<td>13,11</td>
<td>9,36</td>
</tr>
</tbody>
</table>

I.I. Sechin
Chief Executive Officer of
Rosneft Oil Company

V.A. Surkov
General Director of LLC
RN-Uchet (Contract
No. 100017/02711D dated
1 August 2017)
# 2. Adjustments due to a change in accounting policy and correction of errors

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Through net income (loss)</td>
<td>Through other factors</td>
<td></td>
</tr>
<tr>
<td>Adjustments due to a change in the accounting policy</td>
<td>3410</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Correction of errors</td>
<td>3420</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Adjustments due to</td>
<td>3500</td>
<td>1,434,431,053</td>
<td>99,236,214</td>
<td>(580,008)</td>
</tr>
<tr>
<td>Retained earnings (unearned loss)</td>
<td>3400</td>
<td>1,792,963,117</td>
<td>99,236,214</td>
<td>(124,490,545)</td>
</tr>
<tr>
<td>Retained earnings (uncovered loss):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3421</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3422</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Before adjustments</td>
<td>3401</td>
<td>1,792,963,117</td>
<td>99,236,214</td>
<td>(124,490,545)</td>
</tr>
<tr>
<td>Changes in the accounting policy</td>
<td>3411</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Correction of errors</td>
<td>3421</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>After adjustments</td>
<td>3501</td>
<td>1,434,431,053</td>
<td>99,236,214</td>
<td>(580,008)</td>
</tr>
<tr>
<td>Adjustments due to</td>
<td>3402</td>
<td>(358,532,064)</td>
<td>-</td>
<td>123,910,537</td>
</tr>
<tr>
<td>Correction of errors</td>
<td>3422</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>After adjustments</td>
<td>3502</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

# 3. Net assets

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net assets</td>
<td>3600</td>
<td>1,694,375,058</td>
<td>1,533,087,259</td>
<td>1,434,431,053</td>
</tr>
</tbody>
</table>

## STATEMENT OF CASH FLOWS

### CASH FLOWS FROM OPERATING ACTIVITIES

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total proceeds</td>
<td>4110</td>
<td>4,693,828,278</td>
<td>3,933,482,781</td>
</tr>
<tr>
<td>Dividends and other distributions of income among shareholders (participants)</td>
<td>4323</td>
<td>(2,916,775,317)</td>
<td>(536,263,076)</td>
</tr>
<tr>
<td>Lease payments, license payments, royalties, commissions and other similar payments</td>
<td>4324</td>
<td>(2,916,775,317)</td>
<td>(536,263,076)</td>
</tr>
<tr>
<td>From sales of products, goods, work and services</td>
<td>4111</td>
<td>3,764,832,033</td>
<td>3,345,204,035</td>
</tr>
<tr>
<td>Total cash disbursements</td>
<td>4210</td>
<td>2,473,022,201</td>
<td>2,706,084,416</td>
</tr>
<tr>
<td>Other payments</td>
<td>4200</td>
<td>3,737,788,843</td>
<td>3,556,824,256</td>
</tr>
<tr>
<td>Total cash disbursements including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,213,811,044</td>
<td>6,262,908,672</td>
</tr>
<tr>
<td>CASH FLOWS FROM INVESTING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total proceeds</td>
<td>4110</td>
<td>2,473,022,201</td>
<td>2,706,084,416</td>
</tr>
<tr>
<td>Other proceeds</td>
<td>4200</td>
<td>3,737,788,843</td>
<td>3,556,824,256</td>
</tr>
<tr>
<td>Total cash disbursements including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,213,811,044</td>
<td>6,262,908,672</td>
</tr>
<tr>
<td>Net cash flows used in investing activities</td>
<td>4210</td>
<td>(1,004,902,809)</td>
<td>(103,172,017)</td>
</tr>
<tr>
<td>CASH FLOWS FROM FINANCING ACTIVITIES</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total proceeds</td>
<td>4110</td>
<td>2,473,022,201</td>
<td>2,706,084,416</td>
</tr>
<tr>
<td>Other payments</td>
<td>4200</td>
<td>3,737,788,843</td>
<td>3,556,824,256</td>
</tr>
<tr>
<td>Total cash disbursements including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>4,213,811,044</td>
<td>6,262,908,672</td>
</tr>
<tr>
<td>Net cash flows used in investing activities</td>
<td>4210</td>
<td>(1,004,902,809)</td>
<td>(103,172,017)</td>
</tr>
</tbody>
</table>

## Appendix No. 6

*Naked Oil Company (RUB thsd) 

**V.A. Surkov**  
General Director of LLC  
Rosneft Oil Company  
No. 100017/071110 dated 1 August 2017  

**I.I. Sechin**  
Chief Executive Officer of Rosneft Oil Company  
No. 100017/071110 dated 1 August 2017  

* * *  
2018
The Board of Directors of Rosneft Oil Company made the following decisions with respect to the Management Board of the Company:

1. Igor Ivanovich Sechin was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 1 dated 20 April 2017)

2. Yuri Ivanovich Kalinin was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 2 dated 20 April 2017)

3. Yury Igorevich Kurilin was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 3 dated 20 April 2017)

4. Faisal M. Alsuwaidi was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 4 dated 20 April 2017)

5. Robert Dudley was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 5 dated 20 April 2017)

6. Guillermo Quintero was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 6 dated 20 April 2017)

7. Eric Maurice Liron was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 7 dated 20 April 2017)

8. Oleg Vyacheslavovich Viyugin was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 8 dated 20 April 2017)

9. Alexander Valentinovich Novak was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 9 dated 20 April 2017)

10. Andrey Nikolaevich Shishkin was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 10 dated 20 April 2017)

11. Vlada Vilorikovna Rusakova was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 11 dated 20 April 2017)

12. Zehir Berkin Sheikh was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 12 dated 20 April 2017)

13. Yuri Ivanovich Kalinin was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 13 dated 20 April 2017)

14. Andrey Nikolaevich Shishkin was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 14 dated 20 April 2017)

15. Vlada Vilorikovna Rusakova was appointed as a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 15 dated 20 April 2017)
3. CHANGES IN OPENING BALANCES IN THE FINANCIAL STATEMENTS FOR THE 2017 REPORTING YEAR

To ensure the comparability of financial statements, the adjustment of opening balances was reflected:

- In 2017, the proposed for recording gains from shareholder in other entities was changed in 2017. Activities related to shareholder in other entities were included into ordinary activities as meeting the criteria of being regular and managed. These gains are recorded as revenue in the Company’s financial statements for 2017.

<table>
<thead>
<tr>
<th>Table 1 Changes in the income (RUB thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income (loss) before tax</td>
</tr>
<tr>
<td>RUR 36,735,463</td>
</tr>
<tr>
<td>Net income</td>
</tr>
<tr>
<td>RUR 26,820,236</td>
</tr>
</tbody>
</table>

5. FIXED ASSETS AND CAPITAL CONSTRUCTION IN PROGRESS

Fixed assets include buildings, structures, machinery, equipment, measuring and control instruments and devices, computers, vehicles, tools, fittings and fittings, etc. Fixed assets include property, plant and equipment, intangible assets, and other assets. The cost of assets recorded in the income statement is as follows:

- Historical cost
- Accumulated depreciation

<table>
<thead>
<tr>
<th>Table 2 Information on fixed assets (RUB thousand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group of fixed assets</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Total fixed assets</td>
</tr>
<tr>
<td>Buildings and structures</td>
</tr>
<tr>
<td>Machinery, equipment, etc.</td>
</tr>
</tbody>
</table>

6. INTANGIBLE ASSETS

Intangible assets include:

- Development costs for the development of new goods, technologies, processes, etc.
- Intangible assets acquired by purchase
- Development costs for the development of new goods, technologies, processes, etc.
When an intangible asset is created in-house, the related costs are to be capitalized beginning from the development stage, i.e. when the Company can demonstrate:

- The useful life of an intangible asset is determined on the basis of:
  - The actual (historical) cost of an intangible asset acquired under a contract providing for non-monetary compensation (settlement) is determined on the basis of the cost of similar assets under comparable circumstances.
  - Intangible assets are amortized using the straight-line method or the unit-of-production method. The method used is determined taking into account the nature of the intangible asset, the extent of its usage, and the Company's intent.
  - Costs incurred at the research stage are not capitalized and are treated as either expenses relating to ordinary activities or other expenses, depending on the purpose of research. Intangible assets are reported in the balance sheet at their net book value.

The Company created the following intangible assets in the reporting period:

- Digital maps and electronic maps, as well as other spatial data

The technical feasibility of creating the intangible asset

- The period during which the Company is expected to use the asset and receive economic benefits

- Costs related to capitalization should be capitalized.

<table>
<thead>
<tr>
<th>Intangible asset</th>
<th>At the beginning of the period</th>
<th>Changes for the period</th>
<th>At the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical cost</td>
<td>Accumulated amortization</td>
<td>Disposed</td>
<td>Amortization change</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>24,751,731</td>
<td>947</td>
<td>1,755</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group of intangible assets</th>
<th>Period</th>
<th>At the beginning of the period</th>
<th>Changes for the period</th>
<th>At the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Historical cost</td>
<td>Accumulated amortization</td>
<td>Disposed</td>
<td>Amortization change</td>
<td>Historical cost</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>2017</td>
<td>947</td>
<td>1,755</td>
<td>24,788,938</td>
</tr>
</tbody>
</table>

The Company annually reviews the amortization method for an intangible asset during inventory counts in order to determine if it should be revised. If the calculation of the expected period for receiving future economic benefits is not reliably estimated during inventory counts, no changes are made to the amortization method. Intangible assets are not revalued and are not tested for impairment by the Company. If the timing for receiving future economic benefits is not reliably estimated during inventory counts, no changes are made to the amortization method. Intangible assets are not revalued and are not tested for impairment by the Company.

Intangible assets are not amortized if their useful lives cannot be determined. The Company examines the amortization methodology for an intangible asset during inventory counts in order to determine if it should be revised. If the calculation of the expected period for receiving future economic benefits is not reliably estimated during inventory counts, no changes are made to the amortization method. Intangible assets are not revalued and are not tested for impairment by the Company. The Company determined that there was no need to revise the amortization methodology and the useful life of intangible assets in the reporting period.

Intangible assets are not amortized if their useful lives cannot be determined. The Company examined the amortization method for an intangible asset during inventory counts in order to determine if it should be revised. If the calculation of the expected period for receiving future economic benefits is not reliably estimated during inventory counts, no changes are made to the amortization method. Intangible assets are not revalued and are not tested for impairment by the Company. The Company determined that there was no need to revise the amortization methodology and the useful life of intangible assets in the reporting period. The Company has determined useful lives for all intangible assets.

Intangible assets are reported in the balance sheet at their net book value.

### Table 6 Information on intangible assets (RUB thsd)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Disposal</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amortization change</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Historical cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Table 7 Information on intangible assets created by the Company (RUB thsd)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Disposal</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amortization change</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Historical cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Table 8 Information on investments in progress made to create intangible assets (RUB thsd)

<table>
<thead>
<tr>
<th>Investments in progress</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
</tbody>
</table>

### Table 9 Information on intangible assets received by the Company for use (RUB thsd)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Disposal</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amortization change</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Historical cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Table 10 Information on fully amortized intangible assets (RUB thsd)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Disposal</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Amortization change</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Historical cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
<tr>
<td>Accumulated amortization</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

### Table 11 Information on investments in progress made to create intangible assets (RUB thsd)

<table>
<thead>
<tr>
<th>Investments in progress</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
</tbody>
</table>

### Table 12 Information on fully amortized intangible assets (RUB thsd)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
</tbody>
</table>

### Table 13 Information on intangible assets received by the Company for use (RUB thsd)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
</tbody>
</table>

### Table 14 Information on investments in progress made to create intangible assets (RUB thsd)

<table>
<thead>
<tr>
<th>Investments in progress</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
</tbody>
</table>

### Table 15 Information on fully amortized intangible assets (RUB thsd)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost</td>
<td>2,482,703</td>
<td>2,143,751</td>
<td>1,904,368</td>
</tr>
</tbody>
</table>

7. OIL AND GAS RESERVES EXPLOREATION AND ESTIMATION COSTS

Oil and gas reserves exploration and evaluation expenses are recognized using the successful efforts method of accounting, according to which only those costs that are capitalized are recognized as oil and gas exploration and evaluation expenses in the period in which they are incurred. The oil and gas exploration and evaluation expenses are capitalized if the following conditions are met:

- Costs related to the construction of offshore appraisal/exploration wells abandoned as successful are recognized as tangibly exploratory assets or as intangible exploration assets and are transferred to intangible exploration assets in the event that the discovery of hydrocarbon reserves is confirmed and there is a possibility that these reserves will be approved by the State Committee on Reserves with regard to the well in question and the subsurface area for which results have been obtained. The subsurface area is evaluated based on geological results of the well. Until the decision on commercial viability has been reached, expenses related to the construction of offshore appraisal/exploration wells abandoned as successful are recognized as intangible exploration assets in the form of information received as the result of drilling the offshore appraisal/exploration wells.
As of the reporting date, the Company annually tests exploration assets for any indication of impairment when making the decision on the commercial viability of oil and gas production in a licensed area. Impairment testing is performed by field (licensed area). Where there is evidence of impairment, the Company writes down the exploration assets by the amount of expected future undiscounted cash flows generated from the assets, adjusted to include the effects of future expenses. Where there is evidence of impairment in the exploration assets, the Company makes a write-down of the exploration assets that are not commercially viable.

The Company recognizes exploration assets at the respective licensed area if it is possible to commercially realize or if consideration is projected.

### Table 11. Information on exploration assets (RUB thsd)

<table>
<thead>
<tr>
<th>Period</th>
<th>As at the beginning of the period</th>
<th>Changes for the period</th>
<th>As at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Accumulated impairment</td>
<td>Additions</td>
</tr>
<tr>
<td>2017</td>
<td>11,045,468</td>
<td>(4,632)</td>
<td>15,478,948</td>
</tr>
</tbody>
</table>

### Table 12. R&D results profiles (RUB thsd)

<table>
<thead>
<tr>
<th>Period</th>
<th>As at the beginning of the period</th>
<th>Changes for the reporting period</th>
<th>As at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Additions</td>
<td>Depreciation</td>
</tr>
<tr>
<td>2017</td>
<td>264,753</td>
<td>(48,712)</td>
<td>371,614</td>
</tr>
<tr>
<td>2016</td>
<td>633,525</td>
<td>(19,206)</td>
<td>23,077</td>
</tr>
</tbody>
</table>

Changes in R&D project value written-off amount from the R&D value in 2017 and R&D value in 2018 were made in the course of reclaaming R&D projects to intangible assets at net book value upon receipt of protection documentation.

### Table 13 R&D in progress and pending registration (RUB thsd)

<table>
<thead>
<tr>
<th>Period</th>
<th>As at the beginning of the period</th>
<th>Changes for the reporting period</th>
<th>As at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Costs for the period</td>
<td>Costs expensed as unexploitable</td>
<td>Recognized as intangible assets (R&amp;D costs)</td>
</tr>
<tr>
<td>2016</td>
<td>2,270,462</td>
<td>797,060</td>
<td>(43,805)</td>
</tr>
</tbody>
</table>

### 9. OTHER NON-CURRENT ASSETS

Other non-current assets include assets which are assumed to produce economic benefit over a period exceeding 12 months. This includes prepaid expenses, fixed and tangible exploration assets, and intangible exploration assets (license obligations, purchased use rights, and other).

Other non-current assets are valued based on actual costs, except for ARO funds that are subject to accounting estimates. Prepaid expenses relating to severance leave are written off using the straight-line method.

The amount of the ARO funds (both in respect to sites or facilities which, when abandoned, require disposal of materials and/or remediation of land plots) is determined based on the estimated costs at the reporting date, which the Company is expected to incur when abandoning these assets and remediating natural resources on occupied land plots. Such costs are based on the beginning of the reporting month and are subsequently adjusted to the production volume from the beginning of the year to the beginning of the reporting month.

The ARO asset relates to tangible exploration equipment at the fields where it is confirmed that the production is commercially viable.

### Table 14. Information on other non-current assets (RUB thsd)

<table>
<thead>
<tr>
<th>Period</th>
<th>As at the beginning of the period</th>
<th>Change for the reporting period</th>
<th>As at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Accumulated impairment</td>
<td>Additions</td>
</tr>
<tr>
<td>2017</td>
<td>3,128,676</td>
<td>1,003,258</td>
<td>-</td>
</tr>
<tr>
<td>2016</td>
<td>7,385,761</td>
<td>4,598,510</td>
<td>7,005,297</td>
</tr>
<tr>
<td>2015</td>
<td>3,197,575</td>
<td>18,849</td>
<td>253,169</td>
</tr>
</tbody>
</table>

### 10. RESERVES, VALUE ADDED TAX, EXCISES ON SELF-PRODUCED PETROLEUM PRODUCTS

Inventories are valued at historical cost calculated based on the amount of actual acquisition, production costs, net of value added tax and other recoverable taxes (except in instances stipulated by Russian law).

Materials, fuel, spare parts and other materials are recorded at their actual acquisition cost.

Prepaid expenses are recorded at their historical cost. Costs for the period are expensed as unexploitable if the results of R&D activities are not commercialized or the results of R&D activities are not commercially viable. These costs on the use of special protective clothes are expensed as unexploitable if the results of R&D activities are not commercialized or the results of R&D activities are not commercially viable.

### Table 15 Information on inventories (RUB thsd)

<table>
<thead>
<tr>
<th>Period</th>
<th>As at the beginning of the period</th>
<th>Change for the reporting period</th>
<th>As at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Accumulated impairment</td>
<td>Additions</td>
</tr>
<tr>
<td>2016</td>
<td>142,439,261</td>
<td>(50,706)</td>
<td>113,063,448</td>
</tr>
</tbody>
</table>

### Table 16 Information on R&D in progress and pending registration (RUB thsd)

<table>
<thead>
<tr>
<th>Period</th>
<th>As at the beginning of the period</th>
<th>Change for the reporting period</th>
<th>As at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Accumulated impairment</td>
<td>Additions</td>
</tr>
<tr>
<td>2016</td>
<td>20,143,400</td>
<td>(2,828,345)</td>
<td>8,029,975</td>
</tr>
</tbody>
</table>

The costs related to the maintenance of subsurface areas where exploration is being carried out and of fields which are not commercially operated are expensed in the year of the expenditure. Special protective clothes handed over for use are accounted for as materials. The value of special protective clothes with the service life of more than 12 months is depreciated using the straight-line method over the specified period of time.

The actual value of self-produced semi-finished products is determined based on the average cost of production by the refinery where they are produced (whichever). The actual value of self-produced finished products is determined based on the average cost of production by the refinery where they are produced (whichever). Special protective clothes handed over for use are accounted for as materials. The value of special protective clothes with the service life of more than 12 months is depreciated using the straight-line method over the specified period of time.

The actual value of self-produced semi-finished products is determined based on the average cost of production by the refinery where they are produced (whichever). The actual value of self-produced finished products is determined based on the average cost of production by the refinery where they are produced (whichever). Special protective clothes handed over for use are accounted for as materials. The value of special protective clothes with the service life of more than 12 months is depreciated using the straight-line method over the specified period of time.

The actual value of self-produced semi-finished products is determined based on the average cost of production by the refinery where they are produced (whichever). The actual value of self-produced finished products is determined based on the average cost of production by the refinery where they are produced (whichever). Special protective clothes handed over for use are accounted for as materials. The value of special protective clothes with the service life of more than 12 months is depreciated using the straight-line method over the specified period of time.
11. FINANCIAL INVESTMENTS

Financial investments are initially recognized at their actual acquisition cost. Subsequently, financial investments whose market value can be determined as remeasured at market value and financial investments that cannot be remeasured are recognized at amortized cost. The impairment of financial investments is supported by impairment basis, the Company creates (adjustments for) allowance for impairment of such financial investments as at the last day of the reporting period. As at 31 December 2017, the allowance for impairment of financial investments amounts to RUB 2,564 million. The valuation of financial investments whose market value cannot be determined is adjusted to the current market value on a quarterly basis. The valuation adjustment is recorded within other income (expenses).

In general, the current market value may be determined if the relevant quotations are available in the securities market. In this case, the current market value of financial investments is determined at the price at which the investment could be sold in market conditions at the reporting date (at the bid price for a market where the investor is the buyer or at the offer price for a market where the investor is the seller). Financial investments, for which the current market value is not determined, are due to the fact that quotes in the securities market do not represent a market price (control premium). The difference between the current market value and the market value is therefore recognized in the financial statements. Financial investments are not indexed to foreign exchange rates. The historical cost of financial investments whose current market value cannot be determined is adjusted for the difference between the historical cost and nominal value.

Depreciation and gains are not measured at present value. At disposal of assets recognized at amortized cost, the difference is charged against equity.

Financial investments whose current market value cannot be determined are measured at historical cost; no dispersion is made in the valuation of financial investments.

Long-term financial investments are reclassified to short-term debts when the term to maturity under the agreement remains 365 days or less after the reporting date.

Long-term related financial investments are reclassified to short-term debts when the term to maturity under the agreement remains 365 days or less after the reporting date.

The value of all financial investments previously remeasured at market value is recorded at the current market value as the reporting date. The Company did not record financial investments carried at market value at market value at the reporting date.

12. DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives are financial instruments that simultaneously meet the following criteria:

- The contract is to receive or deliver the underlying instrument or instrument index.
- The contract is to receive or deliver the underlying instrument or instrument index, or the exchange of cash flows of the underlying instrument or instrument index.
- The value of the contract is determined by the fair value of the underlying instrument or instrument index, or exchange of cash flows of the underlying instrument or instrument index.
- The fair value of the contract is measured at fair value on a transaction basis.
- The contract contains one of more of the following: (i) a provision that the holder of the derivative has the right to receive cash, other financial assets that are not reclassified to an asset, or other financial instruments that are not reclassified to an asset; (ii) a provision that the holder of the derivative has the right to deliver cash, other financial assets that are not reclassified to a liability, or other financial instruments that are not reclassified to a liability; (iii) a provision that the holder of the derivative has the right to receive a variable amount of cash that is calculated using a floating interest rate; (iv) a provision that the holder of the derivative has the right to receive a variable amount of cash that is calculated using an index; (v) a provision that the holder of the derivative has the right to receive a variable amount of cash that is calculated using a combination of an index and a floating interest rate; (vi) a provision that the holder of the derivative has the right to receive a variable amount of cash that is calculated using a combination of an index and an interest rate that is fixed at the inception of the contract.

The fair value of a derivative financial instrument is a function of the fair value of the underlying instrument or instrument index, or exchange of cash flows of the underlying instrument or instrument index.

The change in the 2017 long-term financial investments in RUB 5,467,247 million to RUB 1,607,577,777 million, due to the acquisition of shares and increases in interests in associates is due to the following long-term financial investments: RUB 2,594,041 million is attributable to the acquisition of Rosneft Oil Company; RUB 1,943,498 million is attributable to derivatives related to state insurance trusts; RUB 1,259,280 million, including the calculation of derevaluation and realization of unrealized gain, is attributable to other financial investments, the fair value of which changes due to exchange rate fluctuations. A portion of the future monthly export revenue expected to be received in US dollars was designated as a hedged item. The nominal amounts of the hedged item and the hedging instrument are equal. To the extent that a change in the foreign currency rate impacts the hedging instrument, the effects were recorded in other funds and reserves in accordance with the Company's accounting policies; subsequently these effects shall be transferred into profit or loss of the period in which the hedged revenue is recognized.

The Company makes investments in the form of derivatives, the hedging of which is intended to mitigate the risks of changes in exchange rates and interest rates on the financial instruments with which the Company desires to hedge.

13. INFORMATION ON HEDGING TRANSACTIONS

Cash flow hedging of the Company's future exports

Hedging transactions are operations (set of operations) with financial instruments (including those of different types), performed to minimize (compensate) adverse effects, fully or partially, on the basis of an increase in the currency risk (hedged item) by reducing the impact of a change in the foreign currency exchange rate, including the rate of the foreign currency to the rate of the Russian Federation, or another indicator (last of indications) of a hedged item (hedge effectiveness).

In the reporting year the Company performed hedging to hedge the cash flows of the Company's future exports due to foreign currency risks attributed to export revenue denominated in foreign currency and USD in US dollars. The Company faces revaluation of the foreign currency risks as term financial investments attributed to export revenue.

1.24

In 2017, the Company designated part of its USD-denominated borrowings as a hedging instrument for export revenue which is likely to be received. A subsequent appreciation of the export revenue amount expected to be realized is reported as a hedged item. The nominal amounts of the hedged item and the hedging instrument are equal. To the extent that a change in the foreign currency rate impacts the hedging instrument, the effects were recorded in other funds and reserves in accordance with the Company's accounting policies; subsequently these effects shall be transferred into profit or loss of the period in which the hedged revenue is recognized.

On 1 October 2014, the Company designated part of its USD-denominated borrowings as a hedging instrument for export revenue which is likely to be received. A subsequent appreciation of the export revenue amount expected to be realized is reported as a hedged item. The nominal amounts of the hedged item and the hedging instrument are equal. To the extent that a change in the foreign currency rate impacts the hedging instrument, the effects were recorded in other funds and reserves in accordance with the Company's accounting policies; subsequently these effects shall be transferred into profit or loss of the period in which the hedged revenue is recognized.

The expected reclassification is calculated using the CBR official exchange rate as of 31 December 2017 and may differ when actual exchange rates are used in the future.

14. CASH

Cash includes the Company's amounts with banks and credit institutions, in operational and other cash offices, as well as deposits and other cash equivalents with the maturity period not exceeding 10 days.

For the purposes of the statement of cash flows, cash flows are classified based on the criteria specified in clause 2-1 of Article 23 of IAS No. 7 for the period.

Foreign currency cash flows are translated into Russian rubles at the official rate of the foreign currency to Russian ruble set by the Central Bank of the Russian Federation at the date of sale or receipt. The average exchange rate is not applied to transactional flows. There is no cash-unavailable for use by the Company.

15. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable are recognized as assets and disclosed in the financial statements in accordance with the respective existing agreements.

Accounts receivable from suppliers and contractors include advances that are recorded in the balance sheet under VAT deductible or deducted at the reporting date in accordance with the value added tax (VAT) for the Russian Federation, VAT or advance deductible (but not claimed for deduction at the reporting date) is recorded in the balance sheet within other current assets.

Accounts payable to suppliers and contractors include advances received that are recorded in the balance sheet within VAT on advances received.

Accounts receivable include non-income-bearing financial investments with derivatives within Rosneft Group Company.

The Company for the reporting period did not enter into any material commitments in relation to future capital expenditures.

The Company's current assets and current liabilities include all current assets and all current liabilities, unless the substance of the transaction is specifically disclosed.
Similarly, part of long-term accounts receivable and payable are converted into short-term if the debt under existing contracts is repayable in installments during different periods.

Table 23. Information on accounts receivable (RUB thousand)

<table>
<thead>
<tr>
<th>Accounts payable by type</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>2,531,094,112</td>
<td>1,523,199,112</td>
<td>1,025,593,914</td>
</tr>
<tr>
<td>Long-term accounts payable</td>
<td>1,411,377,288</td>
<td>716,707,241</td>
<td>1,134,428,474</td>
</tr>
<tr>
<td>Including</td>
<td>89,808</td>
<td>159,262</td>
<td>68,215</td>
</tr>
<tr>
<td>Buyers and customers</td>
<td>1,124,864,914</td>
<td>608,020,087</td>
<td>441,584,963</td>
</tr>
<tr>
<td>Payments</td>
<td>493,738</td>
<td>338,706</td>
<td>247,471</td>
</tr>
<tr>
<td>Advances paid</td>
<td>1,745,690,676</td>
<td>1,126,569,175</td>
<td>942,180,318</td>
</tr>
<tr>
<td>Loans due to companies</td>
<td>2,159,337,102</td>
<td>1,486,102,992</td>
<td>1,323,781,711</td>
</tr>
<tr>
<td>Interest on long-term loans, prepayments</td>
<td>220,058,312</td>
<td>209,946,805</td>
<td>95,928,797</td>
</tr>
<tr>
<td>Other accounts payable</td>
<td>11,143,074</td>
<td>6,501,663</td>
<td>6,136,343</td>
</tr>
<tr>
<td>Including</td>
<td>38,208,836</td>
<td>32,033,098</td>
<td>41,263,561</td>
</tr>
<tr>
<td>Buyers and customers</td>
<td>149,563,758</td>
<td>123,312,213</td>
<td>107,028,663</td>
</tr>
<tr>
<td>Payments</td>
<td>38,088,090</td>
<td>35,002,039</td>
<td>41,953,195</td>
</tr>
<tr>
<td>Advances paid</td>
<td>925,182,672</td>
<td>441,075,820</td>
<td>664,377,728</td>
</tr>
<tr>
<td>Settlements under agreements, other accounts payable</td>
<td>77,153,979</td>
<td>82,757,564</td>
<td>88,323,716</td>
</tr>
</tbody>
</table>

As of 31 December 2016, the Company’s accounts receivable amounted to RUB 1,753,787 million, including the provision for doubtful debts in the amount of RUB 14,834 million. The accounts receivable increased primarily attributable to settlements with the companies within Rosneft Oil Company Group for accounts payable in the amount of RUB 21,378 million. The accounts receivable increased primarily due to the non-interest-bearing long-term loans issued to the companies within Rosneft Oil Company Group in 2016.

Table 24. Information on accounts payable (RUB thousand)

<table>
<thead>
<tr>
<th>Accounts payable by type</th>
<th>At 31 December 2017</th>
<th>At 31 December 2016</th>
<th>At 31 December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>1,785,522,679</td>
<td>1,753,787,381</td>
<td>1,416,028,642</td>
</tr>
<tr>
<td>Suppliers and contractors</td>
<td>1,123,734,625</td>
<td>1,184,165,791</td>
<td>793,714,866</td>
</tr>
<tr>
<td>Payments to the Company’s employees</td>
<td>3,682</td>
<td>12,812</td>
<td>12,812</td>
</tr>
<tr>
<td>Payments to the budget and non-beneficial funds</td>
<td>71,118,409</td>
<td>52,204,017</td>
<td>34,931,985</td>
</tr>
<tr>
<td>Advances paid</td>
<td>112,078,050</td>
<td>60,193,372</td>
<td>177,356,069</td>
</tr>
<tr>
<td>Settlements under agreements, other accounts payable</td>
<td>77,153,979</td>
<td>82,757,564</td>
<td>88,323,716</td>
</tr>
</tbody>
</table>

As of 31 December 2016, the Company’s accounts payable amounted to RUB 1,753,787 million. In 2017, accounts payable increased by RUB 31,736 million and amounted to RUB 1,785,522,679 million. The accounts payable increased primarily due to the non-interest-bearing long-term loans issued to the companies within Rosneft Oil Company Group in 2016.

16. Long-term and Short-term Loans and Borrowings, Other Liabilities and Collateral Pledged

Loans and loans payable are accounted for and recorded in financial statements in accordance with the respective existing agreements. The Company’s long-term and short-term loans and borrowings include long-term loans that if repaid if the repayment period under the existing agreement is revised and increased up to 365 days. The Company redeems long-term loans in shorter periods when the outstanding repayment period becomes 365 days or less.

The interest on the short-term loans and borrowings reflected as accrued interest and other receivables is accounted for in the balance sheet as pre- or current non-current assets or current assets and current liabilities.

For the purpose of presenting long-term and short-term interest on long-term and short-term loans and loans payable in the consolidated financial statements, the interest is accrued at the interest rates prevailing as of the reporting date. Interest includes the interest accrued on bonds issued (coupon income) and the current and non-current portion of the interest payable as of the reporting date. Interest on loans payable and interest on bonds issued as of the reporting date is also disclosed in the consolidated financial statements. The repayment schedule of long-term loans and borrowings, and bonds issued as of 31 December 2017 is as follows:

Table 25. Information on long-term and short-term loans and borrowings (RUB thousand)

<table>
<thead>
<tr>
<th>Loans and borrowings, type</th>
<th>Balance at 31 Dec- ember 2017</th>
<th>Received (accrued)</th>
<th>Repaid</th>
<th>Balance at 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term loans and borrowings</td>
<td>4,338,723,672</td>
<td>2,234,516,781</td>
<td>(1,041,795,734)</td>
<td>(441,492,328)</td>
</tr>
<tr>
<td>Including</td>
<td>877,198,044</td>
<td>248,887,613</td>
<td>(413,929,440)</td>
<td>(132,420,527)</td>
</tr>
<tr>
<td>Long-term loans</td>
<td>1,484,495,129</td>
<td>888,018,683</td>
<td>(493,195,696)</td>
<td>(509,406,527)</td>
</tr>
<tr>
<td>Long-term interest accrued on loan and borrowings</td>
<td>124,546,067</td>
<td>41,450,067</td>
<td>(11,546,067)</td>
<td>(86,393,054)</td>
</tr>
<tr>
<td>Long-term promissory notes issued</td>
<td>3,387,026</td>
<td>2,492,302</td>
<td>(3,224,069)</td>
<td>(2,602,818)</td>
</tr>
<tr>
<td>Long-term interest on promissory notes issued</td>
<td>3,387,026</td>
<td>2,492,302</td>
<td>(3,224,069)</td>
<td>(2,602,818)</td>
</tr>
<tr>
<td>Long-term bonds issued</td>
<td>1,750,500,000</td>
<td>1,053,634,001</td>
<td>(1,934,201)</td>
<td>(35,000,000)</td>
</tr>
<tr>
<td>Short-term loans and borrowings</td>
<td>525,361,253</td>
<td>2,224,088,072</td>
<td>(3,330,870,084)</td>
<td>441,492,328</td>
</tr>
</tbody>
</table>
Table 29. Information on other long-term liabilities (RUB million)

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term prepayment under crude oil and products contracts</td>
<td>1,550,012,639</td>
<td>117,646,800</td>
<td>(248,233,410)</td>
</tr>
<tr>
<td>Table 30. Information on items pledged as collateral by type of pledge</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Terms pledged as collateral</td>
<td>Share in the total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues from sales of oil and products</td>
<td>10,259</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>5,711</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prepayment is settled through physical deliveries of crude oil.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In 2017, Rosneft Oil Company conducted an agreement with Statoil ASA and the ExxonMobil Oil Corporation to take effect, which are part of the Company's cooperation in the development of the Russian continental shelf. These agreements stipulate that the parties shall provide mutual guarantees that are unrestricted, unlimited and indefinite, and that the parties shall provide a commercial damage (to Rosneft Oil Company). The cooperation between Rosneft Oil Company and the ExxonMobil Oil Corporation to develop oil and gas reserves in Western Siberia is governed by an agreement stipulating that the partner shall pay a commercial discovery bonus to Rosneft Oil Company.

The cooperation between Rosneft Oil Company and the ExxonMobil Oil Corporation to develop oil and gas reserves in Western Siberia is governed by an agreement stipulating that the partner shall pay a commercial discovery bonus to Rosneft Oil Company.

The use of profit is recognized in accounting records and financial statements in the year of the decision shareholders' meeting. The portion of the profit, which has not been paid as dividends pursuant to the decision of the shareholders, is recognized in the financial statements in retained earnings. If this profit is used for capital investments, the total balance of the retained earnings is not decreased.

As of 31 December 2017, the rates of the main taxes were as follows:

- Value added tax – 18%
- Income tax – 20%
- Property tax – 2.6%
- Other taxes and levies payable – 1.7%

Taxes and levies receivable decreased by RUB 11,120 million as compared to that of 31 December 2016 primarily due to decrease in the amount of 107 million receivables from the budget as of the year-end 2016. In addition, income tax receivable decreased by RUB 6,974,500 million due to return of the overpaid income tax of 2015.

Table 33. Consolidated debt structure (RUB billion)

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt</td>
<td>RUB 2,815 billion</td>
<td>RUB 2,815 billion</td>
</tr>
<tr>
<td>Borrowed funds</td>
<td>RUB 1,418 billion</td>
<td>RUB 1,285 billion</td>
</tr>
<tr>
<td>Issuer's own funds</td>
<td>RUB 1,397 billion</td>
<td>RUB 1,530 billion</td>
</tr>
</tbody>
</table>

Table 34. Settlements with the budget and state non-budgetary funds (RUB million)

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes and levies payable</td>
<td>RUB 19,192 million</td>
<td>RUB 19,018 million</td>
</tr>
</tbody>
</table>

Table 35. Company's income and expenses (RUB thousand)

<table>
<thead>
<tr>
<th>Description</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from operations</td>
<td>RUB 7,637,178</td>
<td>RUB 7,222,857</td>
</tr>
</tbody>
</table>

For financial reporting purposes, foreign exchange differences are all operations of translation of the value of assets and liabilities denominated in foreign currency to be recorded as other income or other expenses. In the reporting period, total (balanced) amount of all operations of translation of the value of assets and liabilities denominated in foreign currency amounted to RUB 3,959,230 million and included in other income of the Company.

Foreign exchange differences from the Company's operations outside the Russian Federation are accounted for in other comprehensive income in accordance with the accounting standards (IAS/IFRS). The Company's 'net' foreign exchange differences are computed based on the daily exchange rates for the reporting period.

The use of profit is recognized in accounting records and financial statements in the year of the decision shareholders' meeting. The portion of the profit, which has not been paid as dividends pursuant to the decision of the shareholders, is recognized in the financial statements in retained earnings. If this profit is used for capital investments, the total balance of the retained earnings is not decreased.

As of 31 December 2017, the rates of the main taxes were as follows:

- Value added tax – 18%
- Income tax – 20%
- Property tax – 2.6%
- Other taxes and levies payable – 1.7%

Taxes and levies receivable decreased by RUB 11,120 million as compared to that of 31 December 2016 primarily due to decrease in the amount of 107 million receivables from the budget as of the year-end 2016. In addition, income tax receivable decreased by RUB 6,974,500 million due to return of the overpaid income tax of 2015.
The Company prepares indicators representing the accounting for income tax settlements on a monthly basis.

Table 37. Deferred and permanent tax assets and liabilities (RUB thsd)

<table>
<thead>
<tr>
<th>Description</th>
<th>Balance at the beginning of the year</th>
<th>Adjusted for the reporting year</th>
<th>For the reporting year</th>
<th>Balance at the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventory tax expense</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>78,929,386</td>
<td>(18,853,642)</td>
<td>6,792,477</td>
<td>71,103,372</td>
</tr>
<tr>
<td>Permanent tax liability</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
<tr>
<td>Interest payable (accrued)</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

22. DIVIDENDS

Number of shares and their par value

According to constitutional documents, share capital represents the Company’s capital. The holders of ordinary shares are entitled to one vote per share at shareholders’ meetings. The Company placed 103,827,817 ordinary shares with a par value of RUB 1.00 each for the total amount of RUB 103,827,817.

Amount of dividends

In 2017, the Company’s net income amounted to RUB 126,283 million, and net earnings per share amounted to RUB 12.31.

As of the beginning of the year, the Board of Directors will provide recommendations on the amount of dividends on the Company’s shares for 2017.

24. CONTINGENCIES, PROVISIONS

Contingent assets and liabilities

Rosneft Oil Company and Bashneft are parties to litigations with JSC Sibur and Sibur Invest related to unlawful possession of Bashneft’s shares by JSC Sibur and Sibur Invest. Case No. А40-237551/2017, the parties are parties to the case on recovery of losses of RUB 131.6 billion related to dividend payments on Rosneft Oil Company’s ordinary shares in the amount of RUB 8,795 million as of the end of the reporting year (case No. А07-14085/2017).

Contingent assets and liabilities

21. DEFERRED TAX ASSETS AND LIABILITIES, PERMANENT TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized based on the following assumptions: (i) the Company’s tax rate in the future years will be the same as the Company’s effective tax rate; (ii) tax losses can be used for the period in which they are recognized;

Table 38. Allocation of the Company’s expenses recognized in the income statement by type (RUB thsd)

<table>
<thead>
<tr>
<th>Description</th>
<th>Against the revenue reporting</th>
<th>For the reporting year</th>
<th>Balance at the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material costs</td>
<td>3,730,656,091</td>
<td>3,257,366,248</td>
<td></td>
</tr>
<tr>
<td>Fringe</td>
<td>32,659,834</td>
<td>29,471,066</td>
<td></td>
</tr>
<tr>
<td>Social charges</td>
<td>6,358,871</td>
<td>5,696,004</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>141,504,417</td>
<td>124,824,157</td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>517,383,591</td>
<td>487,587,924</td>
<td></td>
</tr>
<tr>
<td>TOTAL TYPE OF EXPENSES</td>
<td>5,322,578,308</td>
<td>5,035,858,230</td>
<td></td>
</tr>
<tr>
<td>TOTAL EXPENSES RELATED TO ORDINARY ACTIVITIES</td>
<td>5,322,578,308</td>
<td>5,035,858,230</td>
<td></td>
</tr>
</tbody>
</table>

Table 39. Provisions (RUB thsd)

<table>
<thead>
<tr>
<th>Description</th>
<th>Provision Period</th>
<th>Balance at the beginning of the year</th>
<th>Adjusted for the reporting year</th>
<th>For the reporting year</th>
<th>Balance at the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision for annual-ear revenue and expenses</td>
<td>2016</td>
<td>24,276,156</td>
<td>14,606,373</td>
<td>(14,008,251)</td>
<td>(376,585)</td>
</tr>
<tr>
<td>Provision for annual-ear revenue and expenses</td>
<td>2017</td>
<td>12,394,663</td>
<td>12,189,238</td>
<td>(15,351,236)</td>
<td>23,335,278</td>
</tr>
<tr>
<td>Provision for future vacation payments</td>
<td>2016</td>
<td>2,211,106</td>
<td>2,865,263</td>
<td>(2,263,826)</td>
<td>3,423,896</td>
</tr>
<tr>
<td>Provision for future vacation payments</td>
<td>2017</td>
<td>3,233,106</td>
<td>3,181,152</td>
<td>(2,305,650)</td>
<td>2,911,054</td>
</tr>
</tbody>
</table>
### Description
- **Provision of loans to other parties**: $(2,148,009,714)$ $(1,433,146,713)$
- **Purchase of shares (interest) in other entities**: $(567,948,332)$ $(352,137,880)$
- **Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets**: $(178,629,295)$ $(146,948,911)$
- **Repayment of loans, receivables from other parties, etc.**: $1,470,040,394$ $1,267,966,689$
- **Sale of non-current assets (except for financial investments)**: $4,920,023$ $5,254$
- **Loans and borrowings received**: $1,459,925$ $1,013,368$
- **Payment of rent and lease payments, repayment (redemption) of promissory notes, etc.**: $(4,000,000)$ $(3,477,000)$
- **Long-term accounts receivable**: $4,363,724,124$ $3,477,000$
- **Prepaid expenses**: $4,030,000$ $(3,477,000)$
- **Lease payments, license payments, royalties, commissions and other similar payments**: $18,092,746$ $17,765,684$
- **Short-term accounts receivable**: $1,386,531,255$ $691,018,978$
- **Advance to shareholders**: $1,470,040,394$ $1,267,966,689$
- **Advances and deposits**: $1,459,925$ $1,013,368$
- **Deposits placed**: $266,000,000$ $304,100,000$
- **Deposits repaid**: $266,000,000$ $304,100,000$
- **Repayment of long-term loans and borrowings**: $929,811,806$ $934,008,371$

### 25. RELATED-PARTY TRANSACTIONS

In the normal course of its business, Rosneft Oil Company enters into transactions with entities which are related parties in accordance with Russian law. The list of related parties is disclosed in the notes to the financial statements. The related parties consist of entities in which Rosneft Oil Company holds, directly or through other entities, more than 20% of the outstanding voting shares or has significant influence, as defined under IFRS 24, Related Parties Disclosure.
**Russian legal requirements for disclosure of information by issuers of securities.**

No share-based payments were made.

Expenses. The amount of short-term compensation to members of the Management Board and members of the Board of Directors for 2017 is disclosed in accordance with the law, which are not income of the members of the Management Board, amounted to RUB 373 million and RUB 395 million, respectively. The short-term compensation considering personal income tax, amounted to RUB 2,711 million and RUB 2,884 million, respectively (social insurance contributions paid to the budget of the Russian Federation).

The amount of compensation to members of the Management Board for 2017 is not included one-off bonuses paid in 2017 for realization of major projects (acquisition and integration of new assets) and compensation of health insurance and transportation under the law, which are not income of the members of the Management Board, amounted to RUB 373 million and RUB 395 million, respectively. The short-term compensation considering personal income tax, amounted to RUB 2,711 million and RUB 2,884 million, respectively (social insurance contributions paid to the budget of the Russian Federation).

**Table 44. Information on transactions with principal owners and state-controlled entities (RUB thsd)**

<table>
<thead>
<tr>
<th>Principal owners and state-controlled entities</th>
<th>For the 2017 reporting year</th>
<th>For the 2016 reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance</td>
<td>Balance</td>
</tr>
<tr>
<td></td>
<td>at 31 December 2017</td>
<td>at 31 December 2016</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, including</td>
<td>37,783,751</td>
<td>27,374,162</td>
</tr>
<tr>
<td>Long-term accounts receivable</td>
<td>1,087,674</td>
<td>5,566,345</td>
</tr>
<tr>
<td>Other long-term receivables</td>
<td>89,046,024</td>
<td>62,111,363</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4,089,308</td>
<td>4,192,600</td>
</tr>
<tr>
<td></td>
<td>93,934,422</td>
<td>95,021,982</td>
</tr>
<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>157,809,410</td>
<td>86,744,573</td>
</tr>
<tr>
<td>Long-term accounts payable (including market)</td>
<td>1,109,987,003</td>
<td>1,109,524,705</td>
</tr>
<tr>
<td>Including long-term</td>
<td>1,107,979,111</td>
<td>1,109,024,945</td>
</tr>
<tr>
<td></td>
<td>886,947,537</td>
<td>1,137,830,937</td>
</tr>
</tbody>
</table>

**Information on compensation paid to key management personnel**

For information disclosure purposes, key management personnel include members of the Management Board and members of the Board of Directors of Rosneft Oil Company. In 2017 and 2016, short-term compensation to members of the Management Board taking into account the rotation of the management staff, including salary and bonuses and personal income tax, amounted to RUB 3,775 million and RUB 4,584 million, respectively, and has not included one-off bonuses paid in 2017 for realization of major projects (acquisition and integration of new assets) and compensation of health insurance and transportation under the law, which are not income of the members of the Management Board, amounted to RUB 373 million and RUB 395 million, respectively. The short-term compensation considering personal income tax, amounted to RUB 2,711 million and RUB 2,884 million, respectively (social insurance contributions paid to the budget of the Russian Federation).

**Table 43. Assets and liabilities under transactions with associates (RUB thsd)**

<table>
<thead>
<tr>
<th>Transactions</th>
<th>For the 2017 reporting year</th>
<th>For the 2016 reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SALES REVENUE AND OTHER INCOME</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil and gas sales</td>
<td>203,761,921</td>
<td>168,447,363</td>
</tr>
<tr>
<td>Petroleum products and petrochemical sales</td>
<td>89,255,809</td>
<td>91,763,747</td>
</tr>
<tr>
<td>Other revenues</td>
<td>48,934,389</td>
<td>230,909,151</td>
</tr>
<tr>
<td><strong>COSTS AND EXPENSES</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gains from transactions involving term transaction financial instruments</td>
<td>33,710,500</td>
<td>332,833,300</td>
</tr>
<tr>
<td>Systems duties</td>
<td>377,765,600</td>
<td>599,583,085</td>
</tr>
<tr>
<td>Lease of assets</td>
<td>607,533</td>
<td>711,937</td>
</tr>
<tr>
<td>Interest from transactions involving term transaction financial instruments</td>
<td>11,173,372</td>
<td>5,157,305</td>
</tr>
<tr>
<td>Other expenses</td>
<td>8,245,604</td>
<td>1,739,217</td>
</tr>
<tr>
<td><strong>CASH FLOWS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of assets, goods, work and services</td>
<td>(98,928,875)</td>
<td>(129,981,720)</td>
</tr>
<tr>
<td>Other</td>
<td>(40,683,526)</td>
<td>(96,593,898)</td>
</tr>
<tr>
<td>Payments for/to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers (contractors) for raw materials, work and services</td>
<td>(287,820,886)</td>
<td>(298,885,201)</td>
</tr>
<tr>
<td>Exploration costs</td>
<td>(747,916)</td>
<td>(3,402,739)</td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments for/to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exploration assets</td>
<td>(2,773,158)</td>
<td>(10,000,961)</td>
</tr>
<tr>
<td><strong>CASH FLOWS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of assets, goods, work and services</td>
<td>312,072,692</td>
<td>184,850,423</td>
</tr>
<tr>
<td>Other</td>
<td>11,818,701</td>
<td>23,412,233</td>
</tr>
<tr>
<td>Payments for/to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers (contractors) for raw materials, work and services</td>
<td>(11,059,389,796)</td>
<td>(288,941,408)</td>
</tr>
<tr>
<td><strong>Interest on debt obligations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest from financial activities</td>
<td>(6,87,282,968)</td>
<td>(13,548,206)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of assets, goods, work and services</td>
<td>312,072,692</td>
<td>184,850,423</td>
</tr>
<tr>
<td>Other</td>
<td>11,818,701</td>
<td>23,412,233</td>
</tr>
<tr>
<td>Payments for/to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suppliers (contractors) for raw materials, work and services</td>
<td>(11,059,389,796)</td>
<td>(288,941,408)</td>
</tr>
</tbody>
</table>
In the reporting period, Rosneft Oil Company mainly used the monetary form of settlements with related parties.

Operating environment in the Russian Federation

Russia continues economic reforms and development of its legal, tax and regulatory frameworks to comply with legal requirements regarding environmental protection, and, therefore, the Company has no risk of significant liabilities in this area, except for those already disclosed and recorded in these financial statements.

Insurance

The Company continues to insure its property, motor vehicles, cargoes, shipments, construction works and the liability of its officials.

Energy resources

The total costs related to energy resources used in 2017 is given below.

Table 49. Information on resources used (RUB thsd)

<table>
<thead>
<tr>
<th>Energy resource</th>
<th>Amount</th>
<th>Market share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric energy</td>
<td>37,736</td>
<td>43.3%</td>
</tr>
<tr>
<td>Heat energy</td>
<td>4,336</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

Other sales include the sales of other goods, rendering of services, dividends, lease of fixed assets, etc.

27. RELATED INFORMATION

Environmental matters

The activities of oil and gas companies are always subject to environmental risk. The Company’s management believes that its activities comply with legislative requirements regarding environmental protection, and, therefore, the Company has no risk of significant liabilities in this area, except for those already disclosed and recorded in these financial statements.

Table 48. Information on sales revenue by segment (RUB thsd)

<table>
<thead>
<tr>
<th>Name of the segment</th>
<th>Net revenue for the reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Olies</td>
<td>2,261,642,176</td>
</tr>
<tr>
<td>Other sales</td>
<td>495,313,859</td>
</tr>
<tr>
<td>Total</td>
<td>2,756,955,035</td>
</tr>
</tbody>
</table>

Table 47. Assets and liabilities under transactions with other related parties (RUB thsd)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Balance at 31 December 2017</th>
<th>Balance at 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivable</td>
<td>80,572,603</td>
<td>55,181,477</td>
</tr>
<tr>
<td>Advances issued for capital construction and equipment for installation</td>
<td>26,918,572</td>
<td>4,883,853</td>
</tr>
<tr>
<td>Short-term advances</td>
<td>75,610,066</td>
<td>41,725,378</td>
</tr>
<tr>
<td>Short-term financial investments</td>
<td>494,574,214</td>
<td>497,726,980</td>
</tr>
<tr>
<td>Other related parties</td>
<td>593,658,976</td>
<td>1,084,200,862</td>
</tr>
<tr>
<td>Total</td>
<td>593,658,976</td>
<td>1,084,200,862</td>
</tr>
</tbody>
</table>

Joint venture participants

There are no transactions with companies involved in joint activities with Rosneft Oil Company for the period of 2016-2017.

Other related parties

Other related parties include a non-state pension fund operating in the interests of the Company’s employees.

Other sales include the sales of other goods, rendering of services, dividends, lease of fixed assets, etc.

26. SEGMENT INFORMATION

The Company, its subsidiaries and associates (hereinafter, the “Rosneft Oil Company Group”) operate as a vertically integrated business. The Rosneft Oil Company Group is principally engaged in the exploration, development, production and sales of oil and gas, as well as in the production, transportation and sales of petroleum products in the Russian Federation and abroad. Management information, which is regularly analysed by those persons with the power to make decisions on resource allocation in the Company and further performance evaluation, is prepared for the business purposes of Rosneft Oil Company Group as a whole. Given the fact that the business of the Company is an integral part of the Group management, management decision-making and resource allocation is performed by the duly authorized persons at the level of Rosneft Oil Company Group.

Joint venture participants

There are no transactions with companies involved in joint activities with Rosneft Oil Company for the period of 2016-2017.

Other related parties

Other related parties include a non-state pension fund operating in the interests of the Company’s employees.

Expenses under non-state pension agreements | 406,536 | 393,194 |

Table 46. Information on transactions with other related parties (RUB thsd)

<table>
<thead>
<tr>
<th>Transactions</th>
<th>For the 2017 reporting year</th>
<th>For the 2016 reporting year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other income</td>
<td>381</td>
<td>391</td>
</tr>
<tr>
<td>Total</td>
<td>772</td>
<td>784</td>
</tr>
</tbody>
</table>

Table 45. Assets and liabilities under transactions with principal owners and state-controlled entities (RUB thsd)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Balance at 31 December 2017</th>
<th>Balance at 31 December 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>18,511,957</td>
<td>431,391,425</td>
</tr>
<tr>
<td>Accounts receivable, including</td>
<td>80,572,603</td>
<td>55,181,477</td>
</tr>
<tr>
<td>Advances issued for capital construction and equipment for installation</td>
<td>26,918,572</td>
<td>4,883,853</td>
</tr>
<tr>
<td>Short-term advances</td>
<td>75,610,066</td>
<td>41,725,378</td>
</tr>
<tr>
<td>Short-term financial investments</td>
<td>494,574,214</td>
<td>497,726,980</td>
</tr>
<tr>
<td>Other related parties</td>
<td>593,658,976</td>
<td>1,084,200,862</td>
</tr>
<tr>
<td>Total</td>
<td>593,658,976</td>
<td>1,084,200,862</td>
</tr>
</tbody>
</table>

Export oriented business includes businesses that export their products abroad. In accordance with Article 21 of Federal Law No. 340-FZ “On Energy Resources and Energy Guarantees”, and in accordance with the Regulation of the Russian Government dated 30 November 2009, the export-oriented business is a business whose product is produced for export.


In the reporting period, Rosneft Oil Company mainly used the monetary form of settlements with related parties.

Rosneft Oil Company Group is principally engaged in the exploration, development, production and sales of oil and gas, as well as in the production, transportation and sales of petroleum products in the Russian Federation and abroad. Management information, which is regularly analysed by those persons with the power to make decisions on resource allocation in the Company and further performance evaluation, is prepared for the business purposes of Rosneft Oil Company Group as a whole. Given the fact that the business of the Company is an integral part of the Group management, management decision-making and resource allocation is performed by the duly authorized persons at the level of Rosneft Oil Company Group. The Company is an integral part of the Group management, management decision-making and resource allocation is performed by the duly authorized persons at the level of Rosneft Oil Company Group. The Company is an integral part of the Group management, management decision-making and resource allocation is performed by the duly authorized persons at the level of Rosneft Oil Company Group.
ADDITIONAL INFORMATION
GENERAL INFORMATION ABOUT ROSNEFT

Date of state registration and registration number of Oil Company Rosneft:
· Date of state registration of the Company as a legal entity: December 7, 1995;
· Number of State Registration Certificate of the Company: 024.537;
· Date of entry in the Uniform State Register of Legal Entities about a legal entity established prior to July 1, 2002: August 12, 2002;
· Series and number of Certificate of Entitlement in the Uniform State Register of Legal Entities about a legal entity established prior to July 1, 2002: Series 77 No. 0342607;
· Primary State Registration Number under which entry about establishment of the Company is made in the Uniform State Register of Legal Entities: 1027700004320;

Constituent entity of the Russian Federation in whose territory the Company is registered: Moscow.

Main types of operations of the Company: geological prospecting and geological exploration work aimed at oil, gas, coal and other minerals search; extraction, transportation and processing of oil, gas, coal and other minerals and timber; production of oil products, petrochemicals and other products, including electric power, woodworking products, fast moving consumer goods and provision of services to the public; storage and sale (including sale in the domestic market and export sale of oil, gas, oil products, coal, electric power, woodworking products, and other hydrocarbon and other derivatives).

Pursuant to Decree of the Government of the Russian Federation dated August 20, 2009, No. 1226–r, Rosneft has been included into the list of strategic enterprises charged with implementation of uniform public policy in those sectors of economy where such enterprises operate.

Pursuant to Decree of the President of the Russian Federation dated May 21, 2012, No. 688, Rosneft has been included into the list of strategic enterprises and strategic joint stock companies.

CONTACT DETAILS

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English Version: www.rosneft.com