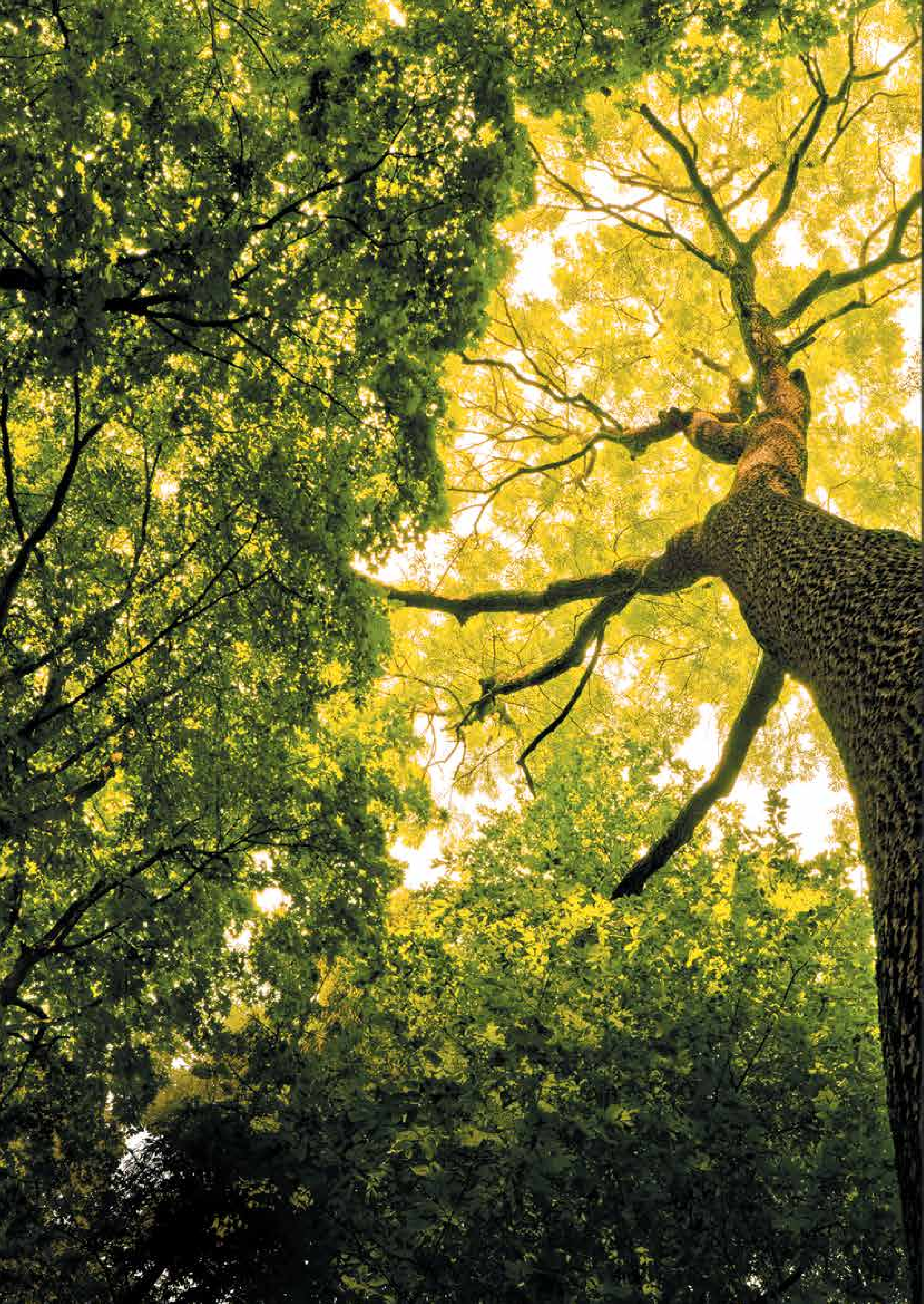
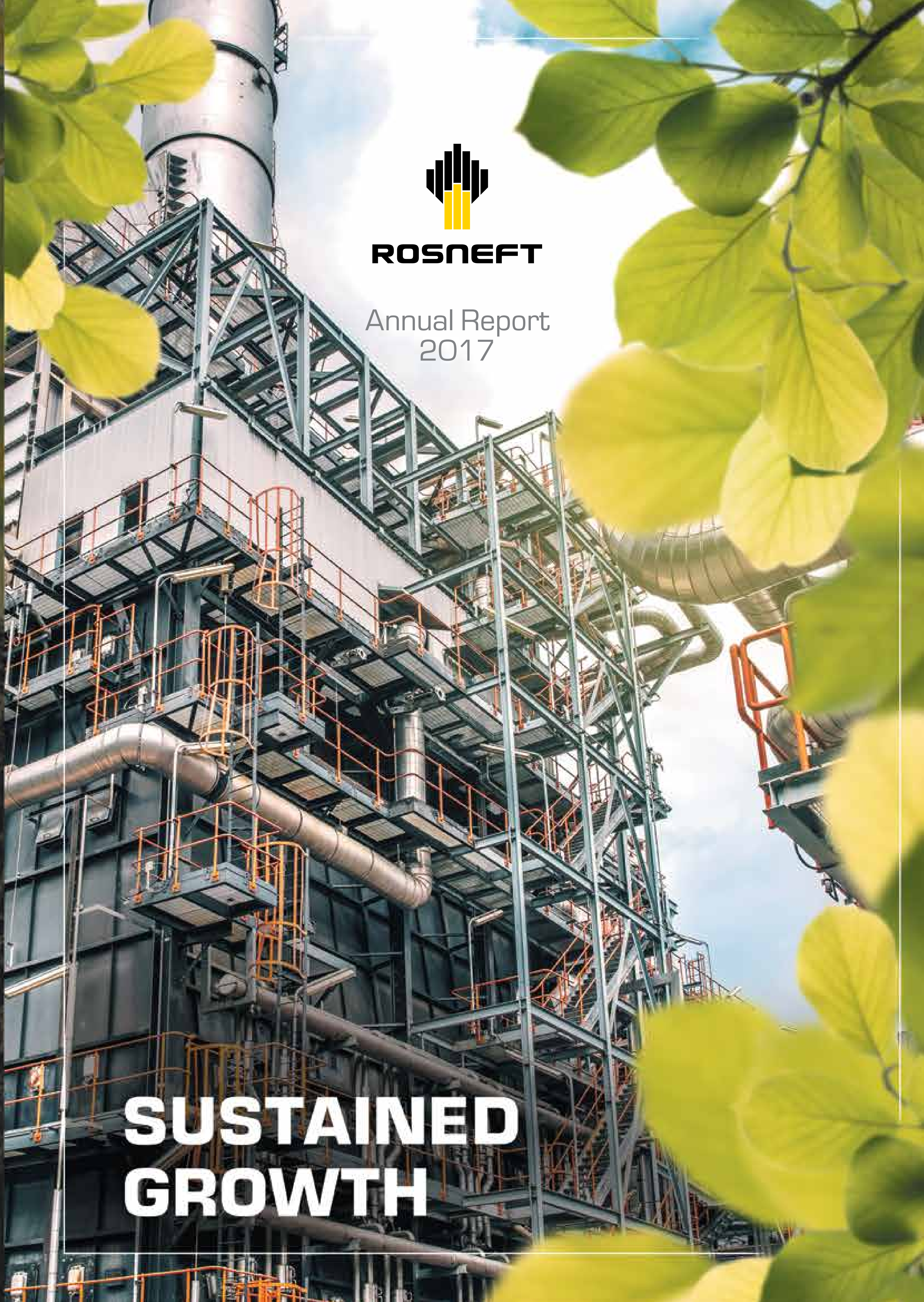


ANNUAL REPORT 2017

SUSTAINED GROWTH



ROSNEFT

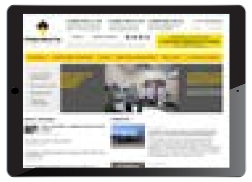
Annual Report
2017

SUSTAINED GROWTH

CONTENTS

Annual report containing integrated reporting elements

Rosneft's Annual Report for 2017 contains elements of integrated reporting as defined in the International Integrated Reporting Standard published by the International Integrated Reporting Council (IIRC). It aims to present the Company's financial results and achievements in sustainable development, highlighting the existing links between the competitive environment, the Company's strategy, business model, risk management, and a clearly defined corporate governance structure. Since 2012, Rosneft has been part of the IIRC pilot program intended to clearly define international standards of integrated reporting.



Visit our website: www.rosneft.com

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

MESSAGE FROM THE CHAIRMAN OF ROSNEFT'S BOARD OF DIRECTORS

Gerhard Schroeder

Chairman of the Board of Directors

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

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 adopted 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 mmtoe of hydrocarbons, up by 6.2% year-on-year, and sustaining our global leadership on unit production costs[1].

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 mmtoe 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 20.6%, 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 Yurubcheno-Tokhomskoye 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 mmt in oil reserves and has a projected plateau rate of over 8 mmt. The cluster was built by integrating Kondaneft'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 Zvezda 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, ice 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, above all, increasing business profitability and improving the performance of existing assets, focusing on implementing key projects on time and on budget, achieving target synergies and adjusting our management model to enable the accelerated rollout of new technologies while taking the Company to a fundamentally new level in the face of challenges posed by the digital era.

[1] Among publicly quoted companies.

01 ABOUT THE COMPANY

1.1. ASSETS AND REGIONS OF OPERATION

6%
share of global oil production
see more on p. 33

41%
share of Russian oil production
see more on p. 114

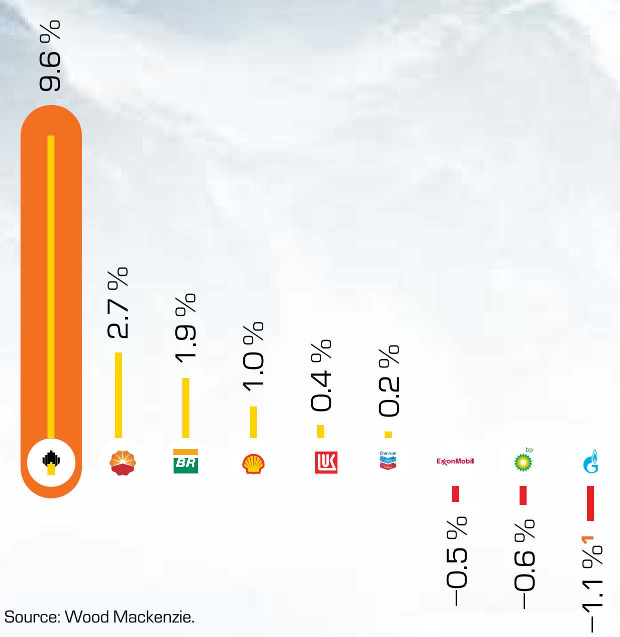
36%
share of Russian oil refining
see more on p. 162

26
COUNTRIES OF OPERATION

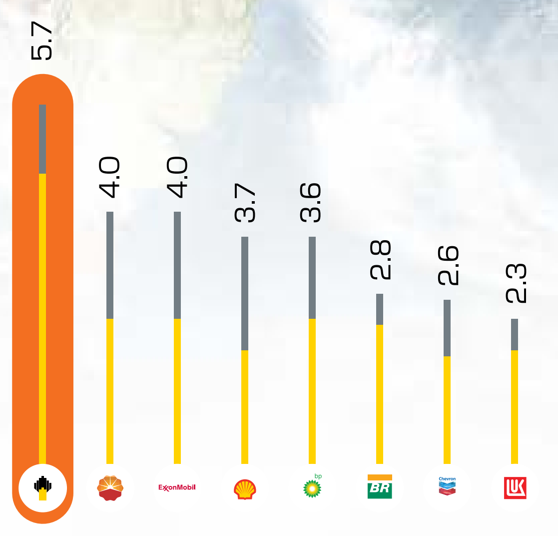
72
RUSSIAN REGIONS OF OPERATION

HYDROCARBON PRODUCTION, 2007–2017 CAGR

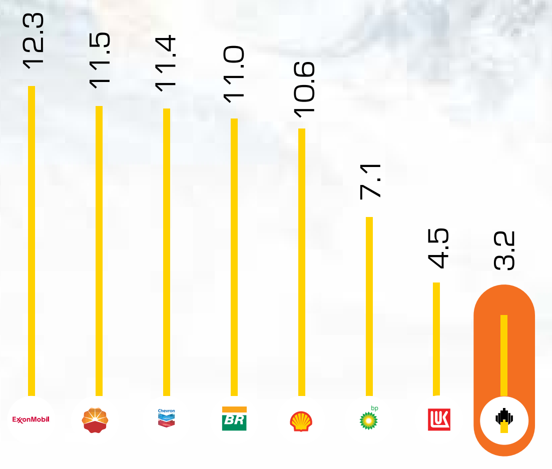
Source: Company reports.



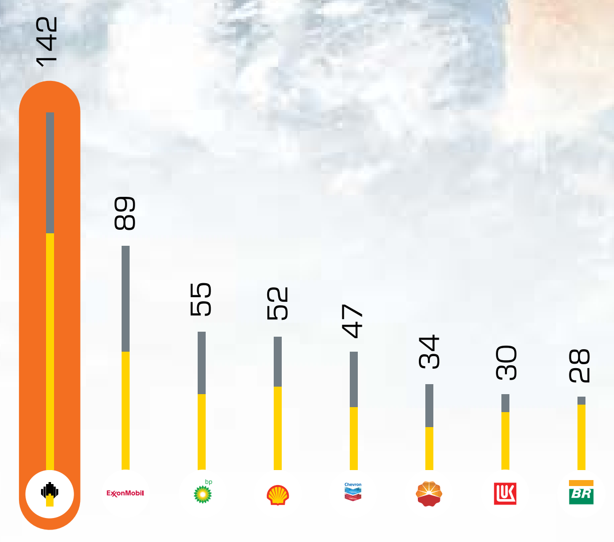
HYDROCARBON PRODUCTION IN 2017, MMBOE PER DAY



HYDROCARBON PRODUCTION COSTS IN 2017, USD PER BOE



HYDROCARBON RESERVES IN 2017, BBOE[2]



[1] Source: Wood Mackenzie.

[2] Information on Rosneft's reserves is provided according to the Russian resource classification system (AB1C1+B2C2) 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.

1.2. MISSION AND VALUES

Rosneft General Business Principles

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

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.

COMPANY VALUE FOR STAKEHOLDERS

CONSUMERS

Rosneft ensures stable supplies of high-quality fuel both in Russia and abroad

128.7 MMT OF CRUDE

109.6 MMT OF PETROLEUM PRODUCTS

63.9 BCM OF GAS

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

922 RUB BLN IN CAPEX

in 2017 – one of the largest investors delivering a multiplicative effect for the national economy

SHAREHOLDERS AND INVESTORS

50% of net income under IFRS allocated for dividend payouts

64.1%

Rosneft's total shareholder return[1] (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

28.1 RUB BLN EXPENDITURE ON SOCIAL PROGRAMS

in 2017 – a socially responsible business

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)

97.9 RUB BLN

share of procurement from SMEs in 2017

> 230 RUB BLN "GREEN" INVESTMENTS

[1] Within three years from 2014 to 2017.

1.3. COMPANY STRUCTURE[1]

Exploration and Production

EXPLORATION

Russian Federation
LLC RN-Exploration
LLC RN-Shelf Arktika
LLC Priazovneft
LLC RN-Endyrneftegaz

Brazil
Rosneft BRASIL E&P LTDA

Norway
RN Nordic Oil AS

Venezuela
Petromiranda S.A.
PetroVictoria S.A.

Iraq
Bashneft International B.V.
LLC RN BVK

Vietnam
Rosneft Vietnam B.V.

Myanmar
Bashneft International B.V.

SERVICES

Russian Federation
LLC RN-Service
LLC RN-Burenie
LLC RN-GRP
LLC RN-Transport
LLC RN-Remont NPO
JSC Targin
LLC Bashneft-Petrotest

Venezuela
Precision Drilling de Venezuela, C.A.
Perforosven, S.A

PRODUCTION

Timan–Pechora
LLC RN-Severnaya Neft
LLC Bashneft-Polyus

Far East (offshore)
Sakhalin-1
JSC RN-Shelf Dalny Vostok

Western Siberia
LLC RN-Yuganskneftegaz
LLC RN-Purneftegaz
OJSC Tomskneft VNK
RN-Uvatneftegaz
Samotlorneftegaz
JSC Rospan International
JSC RN-Nyaganneftegaz
JSC Nizhnevartovsk Oil and Gas Producing Company
JSC Sibneftegaz
CJSC Purgaz
LLC Kynsko-Chaselskoye Neftegaz
JSC Tyumenneftegaz
JSC Messoyakhaneftegaz
PJSC Varyoganneftegaz
OJSC NGK Slavneft
LLC Sorovskneft
JSC Yugraneft Corporation
LLC RN-Severo-Varyoganskoye
JSC Kondaneft

Eastern Siberia and the Far East (onshore)
JSC Verkhnechonskneftegaz
JSC Vankorneft
JSC Vostsibneftegaz
LLC RN-Vankor

LLC RN-Sakhalinmorneftegaz
LLC Taas-Yuryakh Neftegazodobycha
JSC Suzun
LLC Tagulskoye
JSC Bratskekogaz

Central Russia
JSC Samaraneftegaz
OJSC Udmurtneft
PJSC Orenburgneft
LLC Bashneft-Dobycha

Southern Russia
LLC RN-Krasnodarneftegaz
OJSC Grozneftegaz
LLC RN-Stavropolneftegaz
PJSC Rosneft-Dagneft
JSC Dagneftegaz
OJSC RN Ingushneft

Venezuela
Petroperija S.A.
Boqueron S.A.
Petromonagas S.A.

Vietnam
Rosneft Vietnam B.V.

Canada
RN CARDIUM OIL Ink.

Egypt
Upstream Project Pte

[1] Key information on the legal structure is provided in Appendix 1.

Refining and Sales

REFINING

Russian Federation
JSC Angarsk Petrochemical Company
JSC Achinsk Refinery VNK
LLC RN-Komsomolsk Refinery
JSC Novokuibyshevsk Refinery
JSC Kuibyshevsk Refinery
JSC Syzran Refinery
LLC RN-Tuapse Refinery
LLC Saratov Refinery
JSC Ryazan Oil Refining Company
LLC Nizhnevartovsk Oil Refining Association
OJSC Slavneft-YANOS
Integrated refinery in Ufa (Bashneft-Ufaneftekhim, Bashneft-Novoil, and Bashneft-UNPZ)

Oils Plants
LLC Novokuibyshevsk Oils and Additives Plant
PJSC Rosneft – MP Nefteprodukt

Petrochemicals and Catalysts
JSC Angarsk Polymer Plant
JSC Novokuibyshevsk Petrochemical Company
JSC Angarsk Catalyzers and Organic Synthesis Plant (ACOSP)

LLC Novokuibyshevsk Catalyzers Plant
PJSC Ufaorgsintez

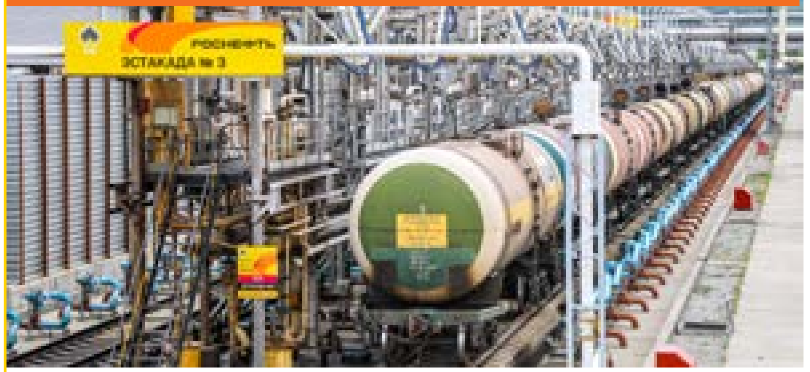
Gas Processing
JSC Otradnensky Gas Processing Plant
JSC Neftegorsky Gas Processing Plant
LLC Tuymazinskoye Gas Processing Plant
LLC Shkapovskoye Gas Processing Plant

Germany
Rosneft Deutschland GmbH
PCK Raffinerie GmbH

Belarus
JSC Mozyr Refinery

Ukraine
PRJSC LINIK

SALES



Russian Federation
LLC RN-Morskoy Terminal Nakhodka
LLC RN-Vostoknefteprodukt
LLC RN-Arkhangelsknefteprodukt
LLC RN-Morskoy Terminal Tuapse
LLC RN-Krasnoyarsknefteprodukt
LLC RN-Novosibirsknefteprodukt
LLC RN-Chechennefteprodukt
PJSC Rosneft-Altaineftеprodukt
PJSC Rosneft-Cubannefteprodukt
PJSC Rosneft-Kurgannefteprodukt
PJSC Rosneft-Smolensknefteprodukt
PJSC Rosneft-Kabardino-Balkaria Fuel Company
OJSC Rosneft-Artag
LLC Bashneft-Roznitsa
PJSC Rosneft-Murmansknefteprodukt
JSC RN-Moscow
JSC Bryansknefteprodukt
JSC Voronezhnefteprodukt
JSC Lipetsknefteprodukt
JSC Ulyanovsknefteprodukt
JSC Samaranefteprodukt
PJSC Buryatnefteprodukt
JSC Tambovnefteprodukt
JSC Khakasnefteprodukt VNK
JSC RN-Tver
JSC Rosneft-Stavropolye
PJSC Rosneft-Karachaevo-Cherkessknefteprodukt
LLC RN-Ingushnefteprodukt
PJSC Rosneft-Yamalnefteprodukt
LLC Zapsibnefteprodukt
LLC RN-Severo-Zapad
JSC Belgorodnefteprodukt
JSC Irkutsknefteprodukt
JSC Orelnefteprodukt

JSC Penzanefteprodukt
JSC Tomsknefteprodukt VNK
LLC RN-Volgograd
LLC RN-Aero
PJSC Tulanefteprodukt
JSC RN-Rostovnefteprodukt
LLC RN-Bunker
PJSC Kaluganefteprodukt
PJSC Ryazannefteprodukt
JSC Karelianefteprodukt
PJSC Saratovnefteprodukt
JSC RN-Yaroslavl
LLC Kurskoblnefteprodukt
JSC Uralsevergaz

Belarus
LLC RN-Severo-Zapad

Mongolia
LLC Rosneft-Mongolia
LLC Mergevan

Kyrgyzstan
CJSC RN-Kyrgyznefteprodukt

Armenia
LLC Petrol Market
CJSC Rosneft-Armenia

Georgia
Petrocas Energy International Limited

Abkhazia
LLC RN-Abkhazia

1.4. KEY HIGHLIGHTS

JANUARY

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.

91 mmt

total oil suppliers under the agreement within 10 years

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.

FEBRUARY

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 2017–2019 period.

MARCH

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

APRIL

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

Rosneft closed a deal to acquire a 100% stake in the Kondaneft project. According to the results of an international audit of reserves conducted by DeGolyer & MacNaughton, the Kondinskoye 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.

JUNE

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.

JULY

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.

103 mmt

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

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.

49.13 %

acquired Rosneft in Essar Oil Limited (EOL), the second largest Indian refinery ranking among the world's Top 10 most complex refineries in terms of technology in 2017

AUGUST

SEPTEMBER

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.

OCTOBER

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 Rosnefteflot signed contracts with LLC Zvezda Shipbuilding Complex for the construction of ten Arctic shuttle tankers, each with a capacity of 42 thousand deadweight tonnes.

> 80 mmt

of recoverable oil reserves at the Centralno-Olginskoye field in the Khatanga Bay

NOVEMBER

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).

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 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.

DECEMBER

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.

Bashneft's Board of Directors approved the terms of out-of-court settlement with Sistema.

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[1] GDP in constant 2010 prices) accelerated to 3.7% year-on-year[2] (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.

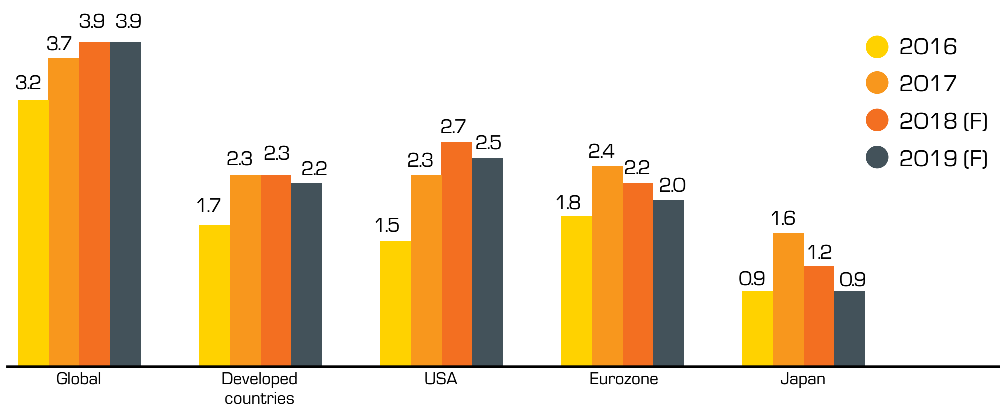
Among developed economies, the most notable economic growth occurred in the USA, Canada, Japan, and the Eurozone. In 2017, GDP growth rate in the USA was 2.3% (1.5% in 2016), 3.0% in Canada (1.4% in 2016), and 1.6% in Japan (0.9% in 2016).

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.

GDP growth rates slowed down in both the UK (from 1.9% in 2016 to 1.8%[3] in 2017) and Mexico (from 2.9% in 2016 to 2.2% in 2017).

GDP Growth Rates (PPP GDP in constant 2010 prices) in Developed Economies

Sources: International Monetary Fund, national statistical services, Russia's Federal State Statistics Service (Rosstat).



[1] Purchasing power parity.
[2] Year-on-year.
[3] According to the British Office for National Statistics.

In 2017, GDP growth rate in China increased by 0.1 percentage points to 6.8% (6.7% in 2016), while a significant slowdown in GDP growth rates was observed in India (from 7.1% in 2016 to 6.7% in 2017), as well as in the Middle East and in North Africa (from 4.9% in 2016 to 2.5% in 2017).

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). In fourth place was the mining sector with a contribution of 8.4% to the GDP growth (1.4% growth year-on-year). In 2017, the most significant change in the GDP structure was the growing share of the mining sector, which grew by 0.8 percentage points to 10.3%.

Economy growth rates in developed economies are projected at 2.3% in 2018 and 2.2% in 2019, while the GDP growth rates in emerging markets are expected to be higher, 4.9% and 5.0%, respectively.

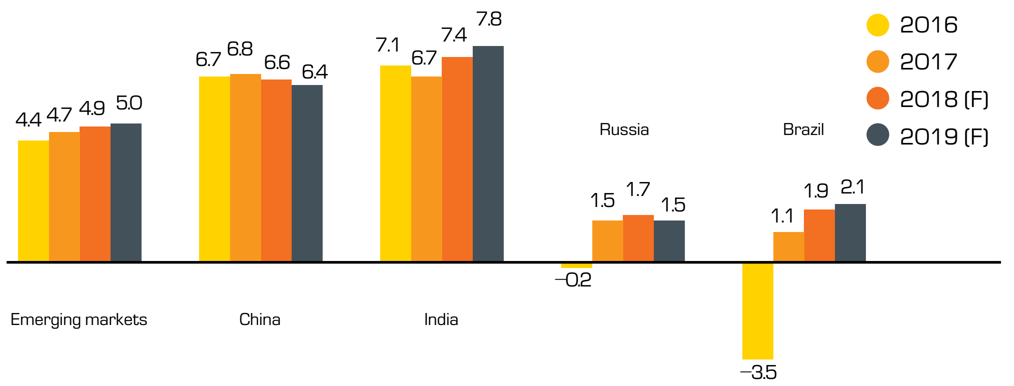
Global trade growth is expected to slow down to 4.6% year-on-year in 2018 and to 4.4% year-on-year in 2019.

The IMF forecasts the Russian economy to grow at 1.7% in 2018 and 1.5% in 2019. The Bank of Russia forecasts the Russian GDP growth rate at 1.5%–2.0% in 2018, with a slight deceleration to 1%–1.5% in 2019. The Ministry of Economic Development of the Russian Federation forecasts (as at 27 October 2017, baseline scenario) the Russian GDP growth rate at 2.1% in 2018, while in 2019 and 2020, there will be a slight acceleration of the Russian GDP growth to 2.2% and 2.3%, respectively.

The IMF forecasts the global GDP growth rate to accelerate to 3.9% in 2018 and 2019 (World Economic Outlook as at 22 January 2018).

GDP Growth Rates (PPP GDP in constant 2010 prices) in Emerging Markets

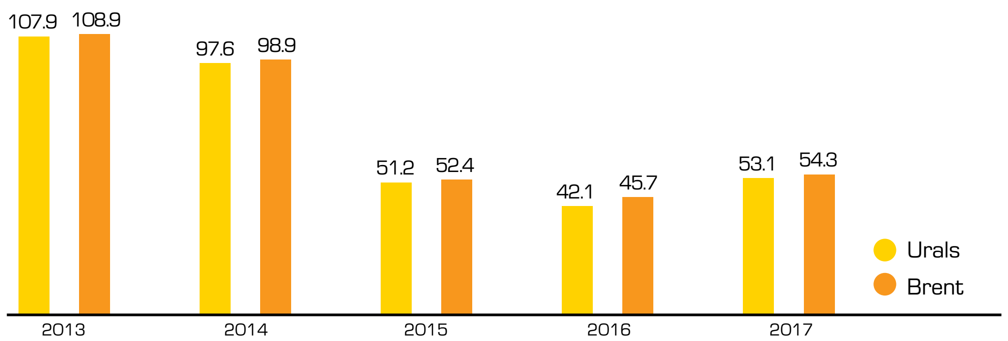
Sources: International Monetary Fund, national statistical services, Russia's Federal State Statistics Service (Rosstat)



Energy Prices, Foreign Exchange Rates, and Inflation in Russia

Annual Average Brent and Urals Prices, USD per barrel

Source: Platts.



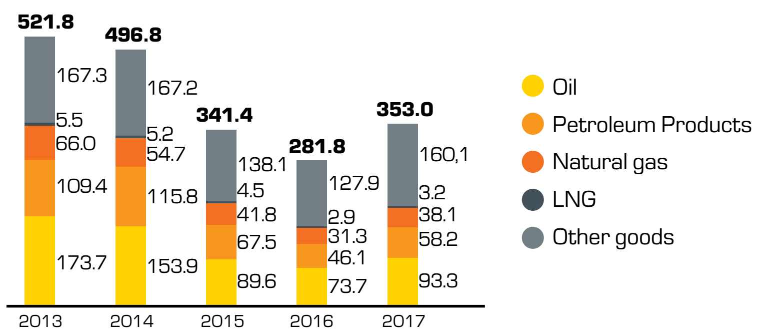
The observed oil surplus in 2014–2016 gave way to shortages in 2017 caused by the growing demand for oil and the deal to curb oil output, reached by OPEC and 11 non-members. According to the International Energy Agency (IEA), shortage in the oil market totaled 0.4 mmb per day in 2017. Since June 2017, 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.

Russian Exports, USD bln

Source: Central Bank of the Russian Federation.



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 ruble 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 7.6% (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 2018).

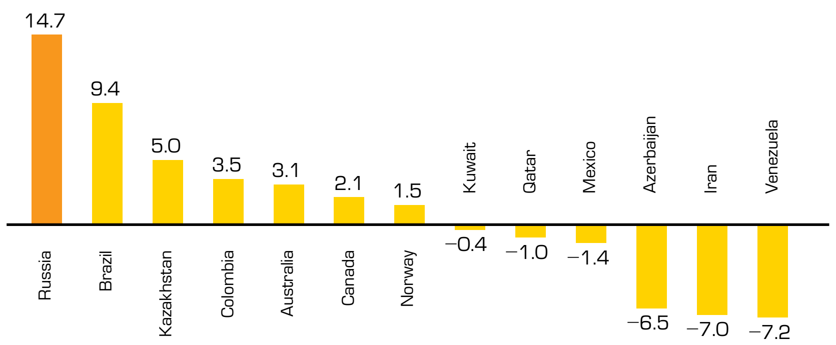
In 2017, oil companies' transportation costs in Russia grew following an increase in tariffs. As of 1 January 2017, PJSC Transneft's rates for oil transportation via trunk pipelines increased by 3.5%, and 4.0% indexation was applied to export tariffs for the Eastern Siberia – Pacific Ocean pipeline to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

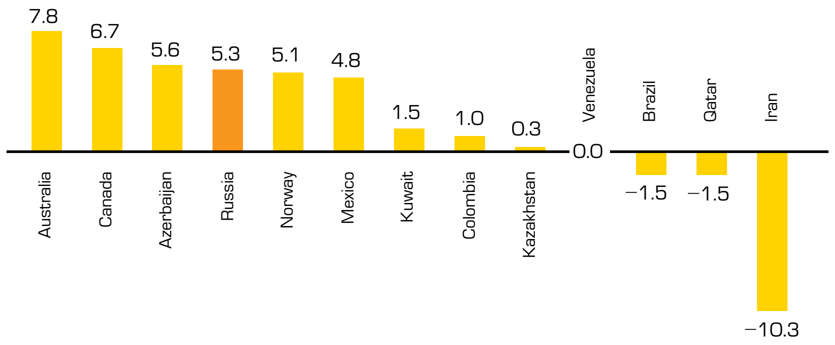
Changes in Annual Average Nominal Exchange Rates of Oil-Exporting Countries' National Currencies to USD in 2017, % y-o-y[1]

Sources: International Monetary Fund, World Bank, the Central Bank Bank of the Russian Federation.



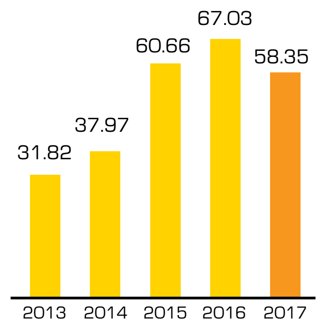
Changes in Nominal Exchange Rates of Oil Exporting Countries' National Currencies to USD in 2017, % y-o-y at year-end[1]

Sources: International Monetary Fund, World Bank, the Central Bank of the Russian Federation.



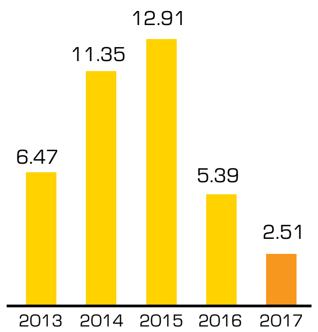
Average Nominal USD/RUB Rate, RUB per USD

Source: Central Bank of the Russian Federation.



Inflation in Russia, % y-o-y as at December

Source: Rosstat.



1 "+" indicates appreciation of a national currency against USD; "–" indicates depreciation of a national currency against USD.

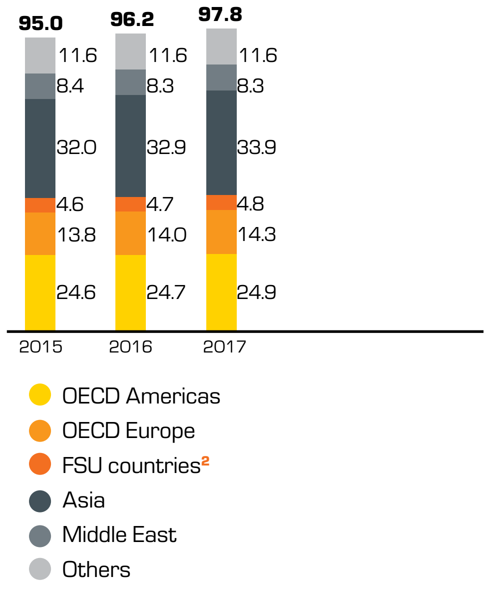
1.6. GLOBAL OIL AND GAS MARKET

Global Oil Market

According to preliminary data from IEA, global demand for liquid hydrocarbons (LH)[1] slightly accelerated in 2017 to 1.6% (1.3% in 2016) at 97.8 mmb per day, up 1.6 mmb per day year-on-year. About 35% of the demand originated from Asia, accounting for 66% of growth in global LH demand in 2017.

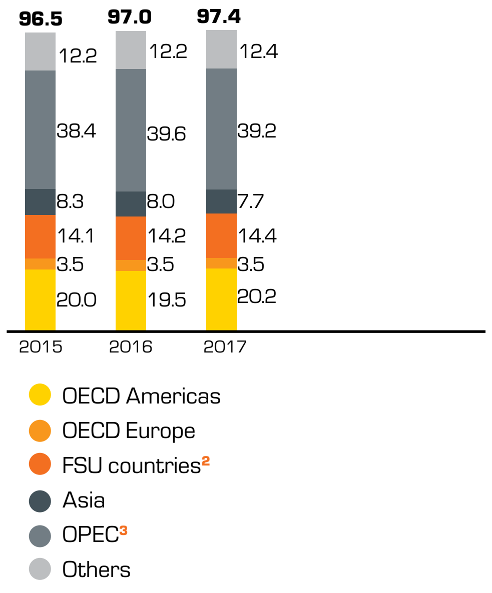
LH Demand by Region, mmb per day

Source: IEA.



LH Output by Region, mmb per day

Source: IEA.



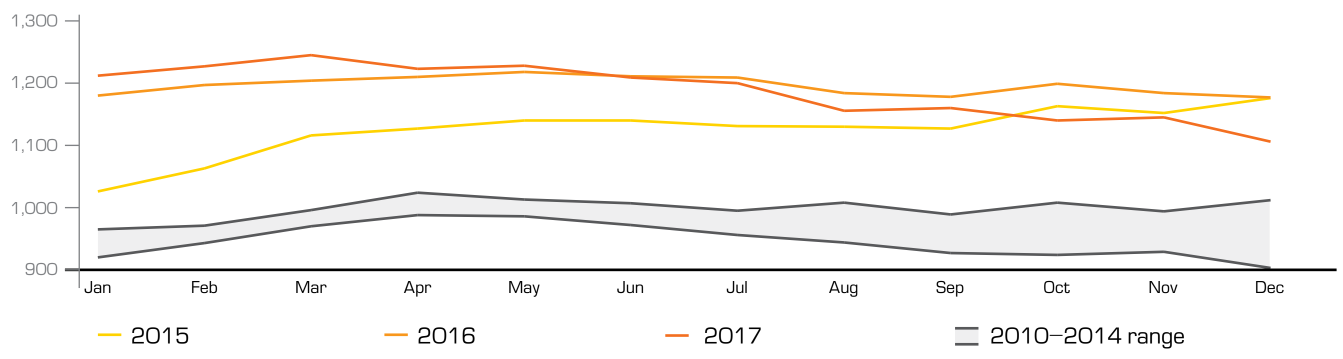
According to preliminary data from IEA, global LH[4] output in 2017 grew by 0.4 mmb per day to 97.4 mmb per day. Production growth slowed down from 0.5% year-on-year in 2016 to 0.4% year-on-year in 2017. The slowed production results from measures taken under the joint agreement between OPEC members and 11[5] 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 mmb per day, although the production of gas condensate liquids was up 1.3% year-on-year to 6.9 mmb per day. Production trends varied across OPEC's 14 countries. In 2017, crude output mainly dropped in Saudi Arabia (down 4.4% year-on-year to 10.0 mmb per day) and in Venezuela (down 12.2% year-on-year to 2.0 mmb per day), while an increase in crude output was primarily posted by Libya (up 2.1 times year-on-year to 0.8 mmb per day) and in Iran (up 7.0% year-on-year to 3.8 mmb 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 mmb 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 mmb per day, including crude production up 5.4% year-on-year to 9.3 mmb per day. LH output also grew significantly in Canada, by 7.4% year-on-year to 4.8 mmb per day, while Mexico, also having signed the OPEC production cut agreement, reduced its LH output in 2017 by 9.5% year-on-year to 2.2 mmb per day.

In 2017, LH output in Asian countries dropped to 7.7 mmb per day. Regional output growth slowed down from 3.9% year-on-year in 2016 to 3.3% year-on-year in 2017. The trend was attributable to the deceleration of LH production rates in China from 6.8% year-on-year in 2016 to 2.8% year-on-year in 2017. In 2017, Chinese LH production stood at 3.9 mmb per day, accounting for half of the Asian LH output.

Commercial Crude Inventories in OECD Countries, bln barrels

Source: IEA.

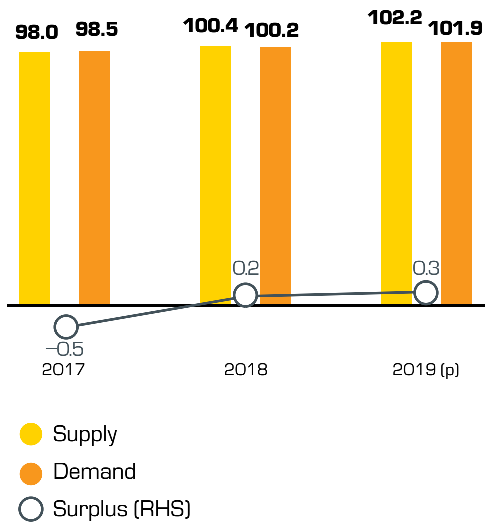


As a result of slowed production rates, IEA estimates that in 2017 the oil market showed a slight production deficit of 0.4 mmb per day. In November 2017, commercial crude inventories in OECD[7] countries dropped 6.0% year-on-year to approximately 1.11 bln barrels.

IEA forecasts[8] that global LH demand in 2018 will grow 1.4% year-on-year to 99.2 mmb per day. The US Energy Information Administration (EIA)[9] forecasts that accelerated LH production growth will drive a surplus of 0.2 mmb per day in 2018 and 0.3 mmb per day in 2019. According to EIA projections, global LH[10] demand in 2018 will grow 1.7% year-on-year to 100.2 mmb per day, with global LH output up 2.5% year-on-year to 100.4 mmb per day.

EIA's Forecast[6] of Global LH Demand and Output, mmb per day

Source: Forecast by US Energy Information Administration as at February 2018.



[1] In this document, LH demand indicates the consumption of petroleum products from oil and gas condensate; consumption of oil as fuel; and consumption of hydrocarbon components from unconventional sources (biofuel, GTL, CTL, etc.). GTL (Gas to Liquids) and CTL (Coal to Liquids) are technologies for producing synthetic liquid fuel from gas and coal, respectively.
[2] Excluding Estonia and Latvia.
[3] 14 member countries as at 1 January 2018.
[4] In this document, LH output indicates the production of crude oil, gas condensate, gas condensate liquids, and production of hydrocarbon components from unconventional sources (biofuel, GTL, CTL, etc.).
[5] Equatorial Guinea joined OPEC in May 2017.

[6] U.S. Energy Information Administration.
[7] Official national estimates of crude inventories, IEA data. The discrepancies in crude stock estimates for 2010–2016 as compared to the previous annual report of the Company are due to IEA's updates and revisions made during the year.
[8] Forecast of January 2018.
[9] Forecast of February 2018.
[10] Forecasts of global LH demand and supply for 2017–2018 were based on EIA data, since IEA's Oil Market Report only contains global demand outlooks for 2018. The discrepancy between EIA's LH demand and supply data for 2017–2018 and IEA's data are due to different calculation methodologies.

Overview of the Global Gas Industry

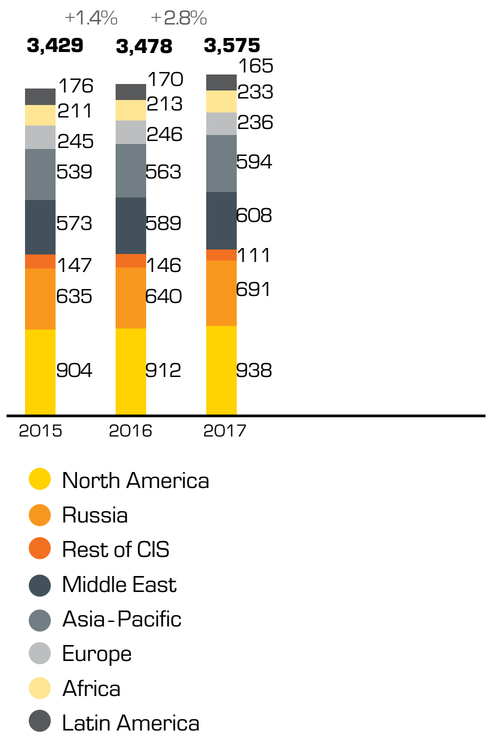
The global demand for gas grew 2.4% to 3.6 tcm[1] in 2017. A considerable part of the demand growth (up 34 bcm – 42% of total growth for 2017) is attributable to Asia-Pacific, primarily China. The market is supported by the increasing accessibility of supplies and relatively competitive prices, particularly prices for oil and petroleum products.

The demand growth was accompanied by an increase in global gas output[2] to 3.6 tcm, 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 tcm of gas.[3] Approximately 68% of global gas exports are transported by pipelines, and 32% as LNG.[4]

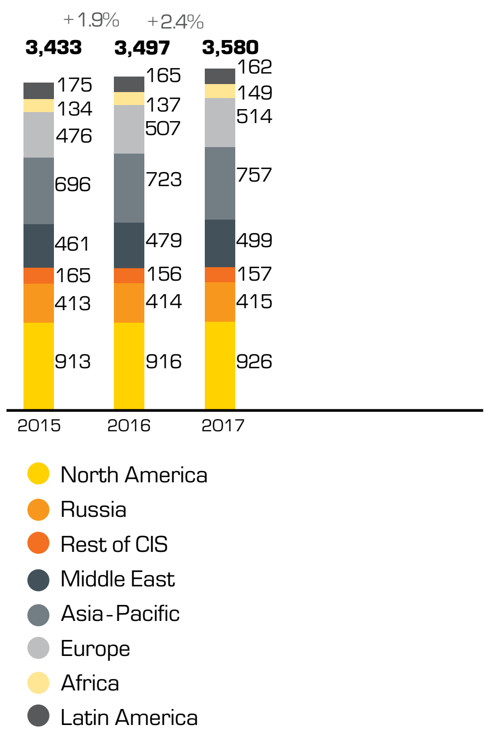
Gas Production by Region, bcm

Source: IHS.



Gas Consumption by Region, bcm

Source: IHS.



[1] IHS Markit preliminary estimates.
[2] IHS Markit preliminary estimates.
[3] Rosneft's estimates based on IHS and IEA data.
[4] Based on BP data for 2016. 2017 data will be published in June 2018.

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.

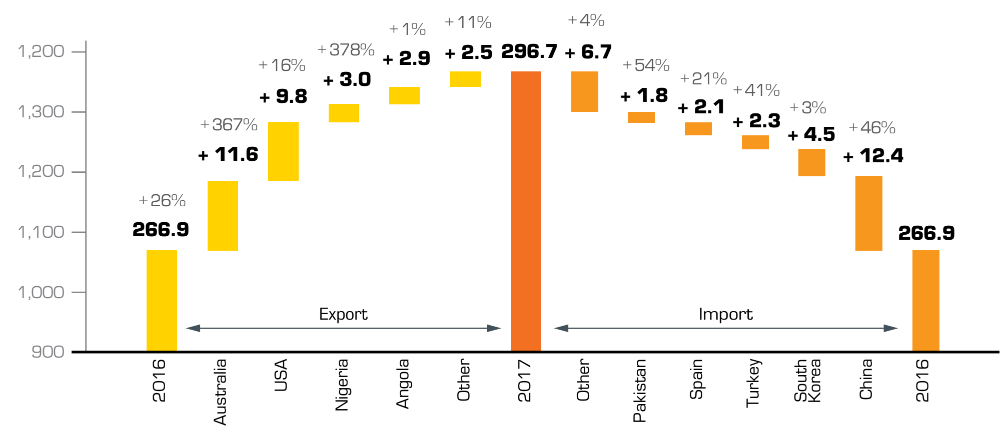
The growth was largely attributable to new LNG trains commissioned in 2017 at existing plants and new LNG projects coming on line in:
- Australia, increasing exports by 11.6 mmt to 55.8 mmt to provide 39% of the global export growth
- the US, increasing exports by 4.7 times to 12.5 mmt.

In addition, in December 2017, the first liquefaction train with a nameplate capacity of 5.5 mtpa was launched at the Yamal LNG project in Russia, with LNG supplies from the train totaling 73 thousand tonnes in 2017. In 2017, Qatar, the world's largest LNG exporter, cut its supplies by 1.1% year-on-year to 81.0 mmt. In July 2017, state-owned Qatar Petroleum announced its ambitious plans to expand LNG production capacity to 100 mtpa. Construction of new LNG trains will allow Qatar to retain its position as the leading LNG producer.

After many years of multiple new LNG projects announced across the industry, the market came to a lull. In 2017, the final investment decision[5] was only made for one LNG project, Coral South FLNG (Mozambique, 3.4 mtpa).

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

Source: IHS.



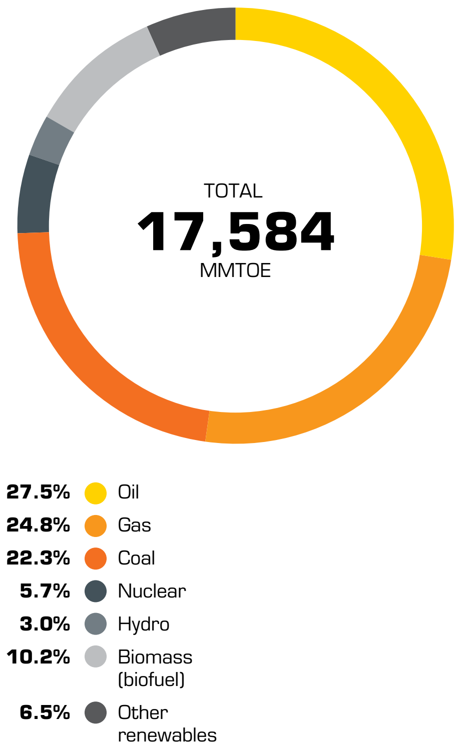
Long-Term Forecast for Hydrocarbon Demand

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[6] will reach 104.9 mmb per day by 2040. The bulk of this growth will be attributable to Asia-Pacific[7], 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.

[5] Final investment decision (FID) is the decision to proceed with a project. As a rule, FID is taken after the design stage is completed, necessary permits obtained, an EPC (Engineering, Procurement, and Construction) contract signed, and financing sources and target markets for the project products identified.
[6] Oil demand indicates the consumption of petroleum products from oil and gas condensate; consumption of oil as fuel; and consumption of hydrocarbon components from unconventional sources (GTL, CTL, etc.), excluding biofuel.
[7] Regional demand does not include demand from international aviation and bunkering.

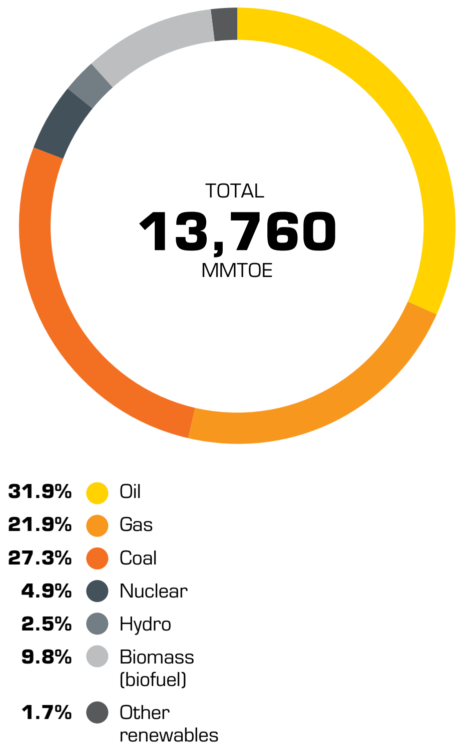
Global Energy Consumption by Fuel Type in 2040, IEA's baseline scenario, %

Source: IEA's forecast of November 2017.



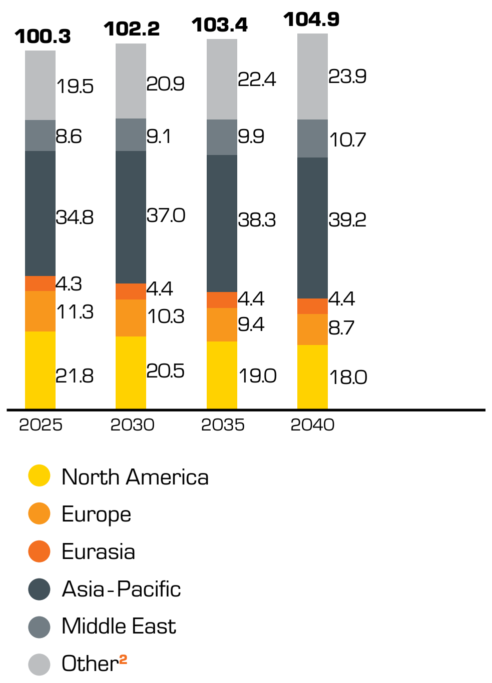
Global Energy Consumption by Fuel Type in 2016, %

Source: IEA's forecast of November 2016.

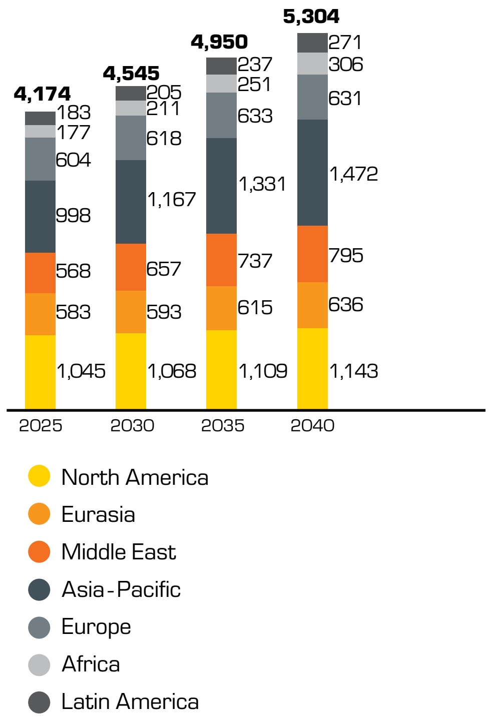


Oil Demand by Region,[1] IEA's Baseline Scenario, mmb per day

Source: IEA's forecast of November 2017.



Gas Demand by Region,[1] bcm



By 2040, global gas demand[3] will reach 5.30 tcm, 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.

[1] Regional demand does not include international aviation (excluded from oil demand estimates only) and bunkering.
[2] Includes demand for oil from other countries, as well as international aviation and bunkering.
[3] Regional demand does not include international bunkering.

Russian Oil Industry

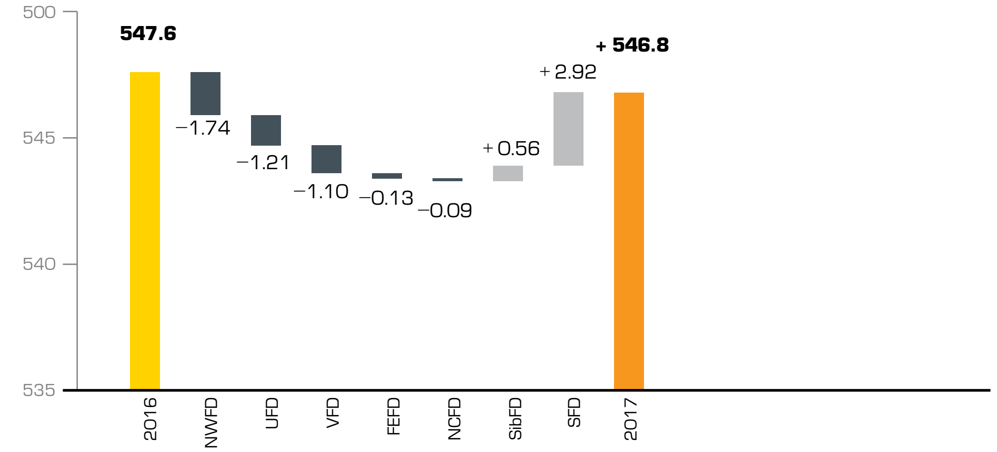
Oil and gas condensate production in Russia amounted to 546.8 mmt in 2017, down by 0.1% year-on-year. The decline results from Russia's participation in an agreement with OPEC countries and other oil producers to cut production in 2017 and 2018.

The Northwestern Federal District was the main contributor to the reduction (down 5.1% year-on-year to 32.0 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 (2.6% 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 in 2017), including a 1.6% year-on-year decline to 235.2 mmt in the Khanty-Mansi Autonomous Area (43%) and a reduction in the Tyumen Region by 11.4% year-on-year to 11.0 mmt (2%), while production in the Yamalo-Nenets Autonomous Area rose by 7.9% to 56.6 mmt (10.4%). Production in the Volga Federal District decreased by 0.9% year-on-year to 117.4 mmt (21.5%).

In 2017, there was a 1.1% year-on-year production growth in the Siberian Federal District, totaling 52.5 mmt, constituting 9.6% of Russia's total production and resulting from increased production in the Krasnoyarsk Region (up 3.8% year-on-year to 23.3 mmt; 4.3%) and the Irkutsk Region (up 2.5% year-on-year to 18.5%; 3.4%). The Southern Federal District also exhibited growth (up 29.7% year-on-year to 12.7%; 2.3%) due to increased production in the Astrakhan Region (up 57.9% year-on-year to 9.2%; 1.7%).

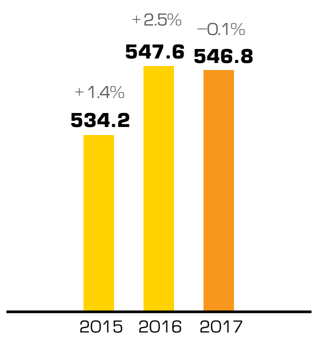
Oil and Gas Condensate Production by Federal District, mmt

Source: CDU TEK of Russia[4].



Oil and Gas Condensate Production in Russia, mmt

Source: CDU TEK of Russia.



In 2017, Russian oil and gas condensate refining volumes decreased by 0.2% year-on-year to 280 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 47.0%, reaching its highest level since 2011.

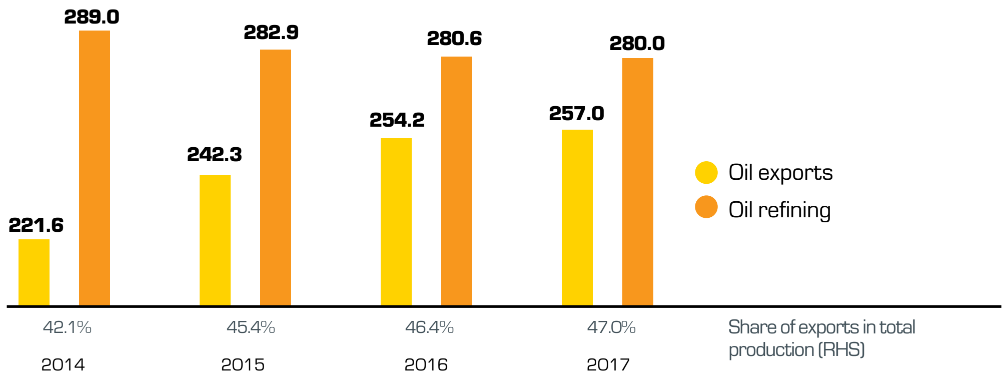
Oil and gas condensate exports to countries outside the CIS increased by 1.2% year-on-year to 238.9 mmt, causing an overall rise in exports. Almost 66% (approximately 157.2 mmt) of export volumes outside the CIS were transported by sea, including 18.4% via Primorsk and 13.3% via the Kozmino oil port.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

[4] Central Dispatching Department of the Fuel Energy Complex of the Russian Federation.

Russian Oil and Gas Condensate Exports and Refining, mmt

Source: CDU TEK of Russia.



Russian Gas Industry

In 2017, natural and associated gas production in Russia increased by 7.9% year-on-year, reaching 691.1 bcm.[1] 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.

Russia's natural gas exports amounted to 225.8 bcm in 2017, up by 5.8% year-on-year. Total supplies via Gazprom's pipeline system[2] were 210.2 bcm, 175.9 bcm of which was exported to countries outside the CIS, resulting in a 6.8% increase year-on-year, while exports to CIS countries totaled 34.3 bcm, up 0.8% year-on-year. A total 15.6 bcm (up 6.1% year-on-year) was exported as LNG, mostly by members of Sakhalin-2 PSA[3] consortium.

Major gas consumers in Russia include power generation companies, households, utilities, and companies in the oil, metals, and agrochemical industries, altogether accounting for almost 80% of the country's total gas consumption.

Rosneft supplies gas to industrial consumers, as well as to households and municipal utilities.

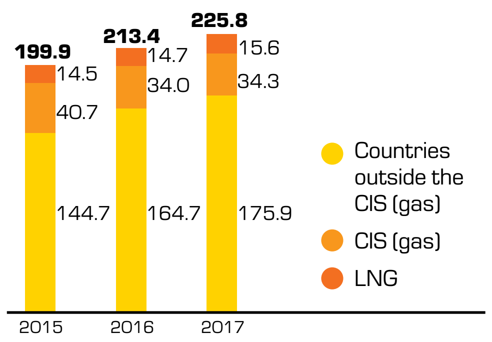
Rosneft's selling prices of gas are based on agreements with customers, and are not regulated by the Government. The wholesale prices of gas produced by Gazprom and its affiliates and sold to domestic consumers are used as a benchmark. The prices are fixed by orders of the Federal Anti-Monopoly Service 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.

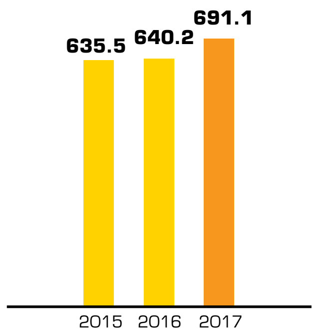
The indexation benchmark for regulated gas prices is the Forecast of Social and Economic Development of the Russian Federation, published by the Ministry of Economic Development of the Russian Federation.

Gas Exports from Russia, bcm

Source: Federal Customs Service of Russia, CDU TEK.

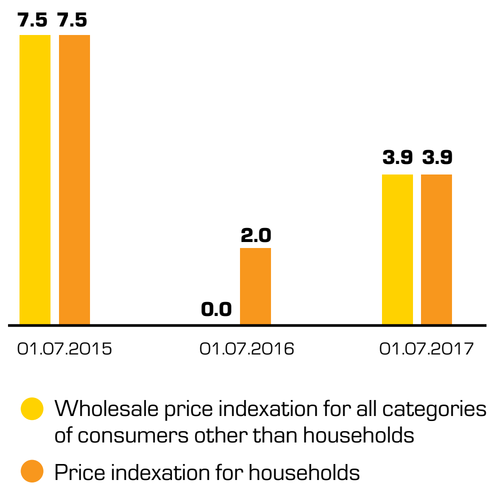


Gas Production in Russia, bcm

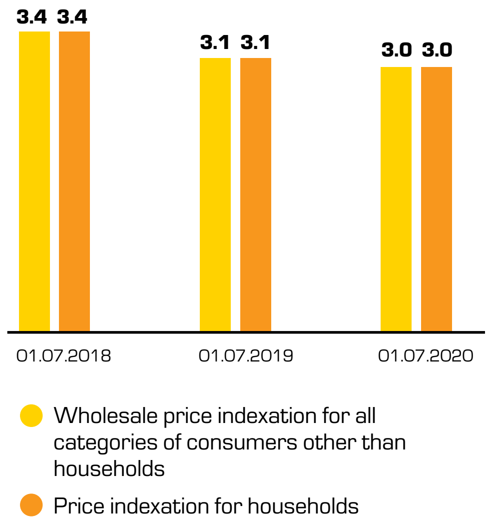


Actual Growth in Regulated Gas Prices in Russia, %

Source: Forecast of Social and Economic Development of the Russian Federation for 2018 and for the 2019–2020 Planning Period, approved at a meeting of the Government of the Russian Federation on 29 June 2017.



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.

[1] CDU TEK of Russia.
[2] Pursuant to Federal Law of the Russian Federation No. 117-FZ On Gas Export dated 18 July 2006, the exclusive right to gas export shall be granted to the owner of the Unified Gas Supply System or to its wholly-owned subsidiary.
[3] Production Sharing Agreement.

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[1]). 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 makes use of 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.

[1] FTS – Federal Tariff Service of Russia was relinquished by Presidential Decree No. 373 dated 21 July 2015, with the FAS Russia appointed as its successor.

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 {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

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

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%.

1.7. COMPETITIVE ANALYSIS

Hydrocarbon Exploration and Production

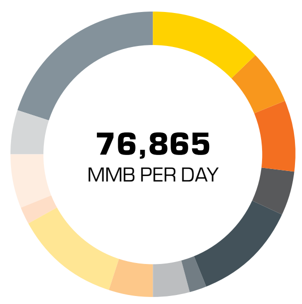
Rosneft is the largest oil and gas company in Russia, and among public oil and gas companies, it is the world's largest holder of hydrocarbon reserves and producer of hydrocarbon liquids maintaining a steady growth of economically recoverable hydrocarbon reserves. This is achieved through consistent 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 6%, 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, 83,838 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.

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.

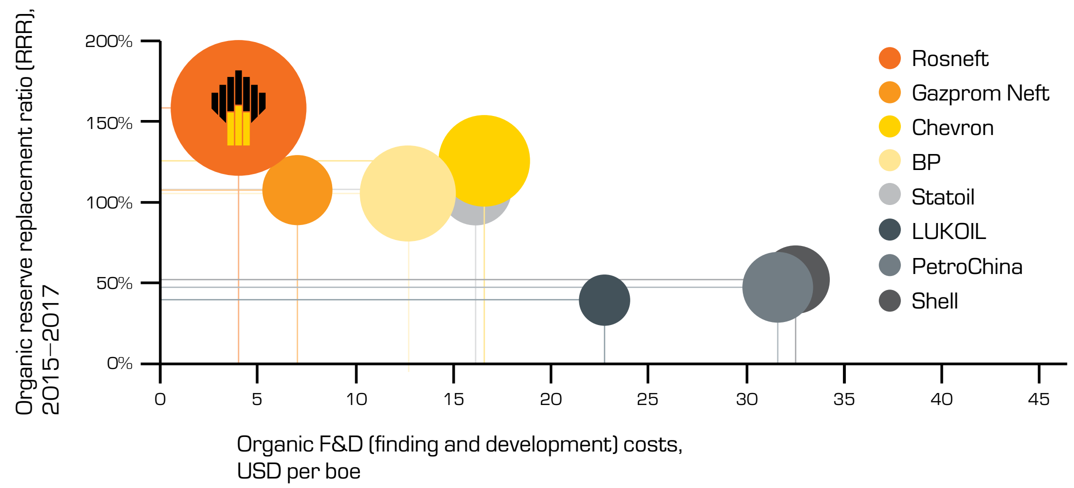
Global Oil Production in 2017

Source: Wood Mackenzie.



13%	Saudi Arabia
6%	Rosneft
8%	Russia (excl. Rosneft)
5%	Canada
12%	USA
2%	Norway
4%	Brazil
5%	China
12%	Other OPEC countries
2%	Venezuela
6%	Iraq
5%	Iran
20%	Other

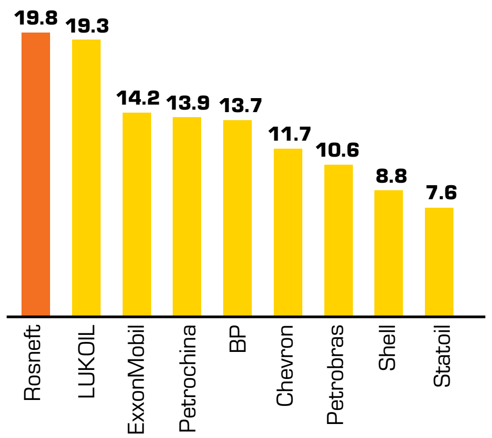
Reserve Replacement and Upstream Costs[2]



The pie size reflects the organic reserves additions in 2015–2017.

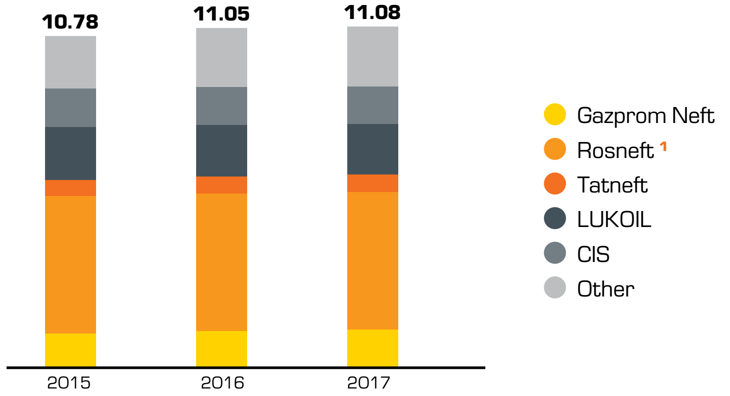
[1] Reserve replacement ratio is calculated in tonnes of oil equivalent; Rosneft's reserve replacement ratio in barrels of oil equivalent was estimated at 186%.
[2] Including affiliates. Rosneft and PetroChina – excluding affiliates. ExxonMobil and Petrobras are not shown in the chart as they demonstrated negative additions.

Reserve Life (SEC) in 2017, years[2]

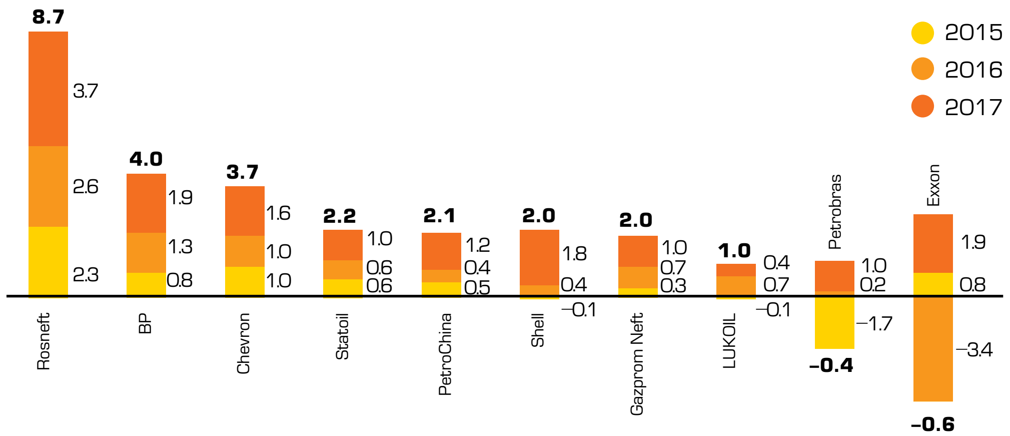


Oil and Gas Condensate Production in Russia, mmb per day

Source: CDU TEK.



Organic Reserves Growth (SEC),[2] bboe



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.

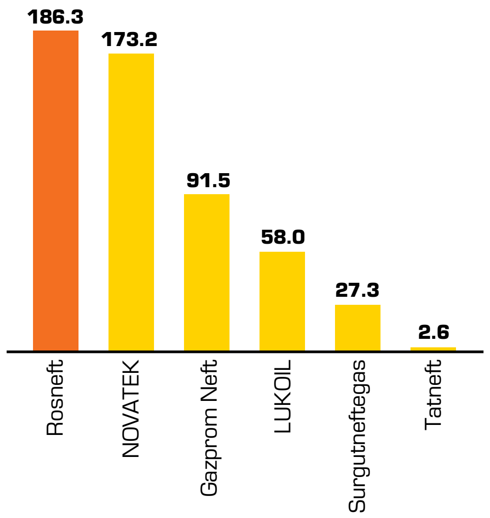
Given Russia's commitment under the OPEC+ production cut deal, the Company's average daily liquid hydrocarbons production grew 0.04% (on a pro-forma basis) in 2017 year-on-year (including Bashneft assets from the beginning of 2016). Consolidating production from new assets from the date of acquisition, Rosneft's daily hydrocarbon production grew by 7.6% in 2017, ranking higher than most public oil and gas companies in addition to leading its competitors in average hydrocarbon production growth rate over a 10-year period.

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 of the Erginsky cluster (Khanty-Mansi Autonomous Area) and the Severo-Tyamkinsky, Kosukhinskoye, the Severo-Tamarginskoye 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 Yurubcheno-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,[3] bcm per day

Source: CDU TEK, for Rosneft – the Central Dispatch Office of Rosneft.



[1] Rosneft 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 affiliates.

[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.

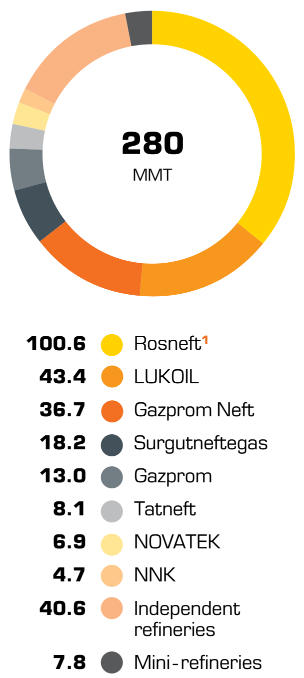
Downstream (Refining and Commerce)

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 Komsomolsk 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 fulfil 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.

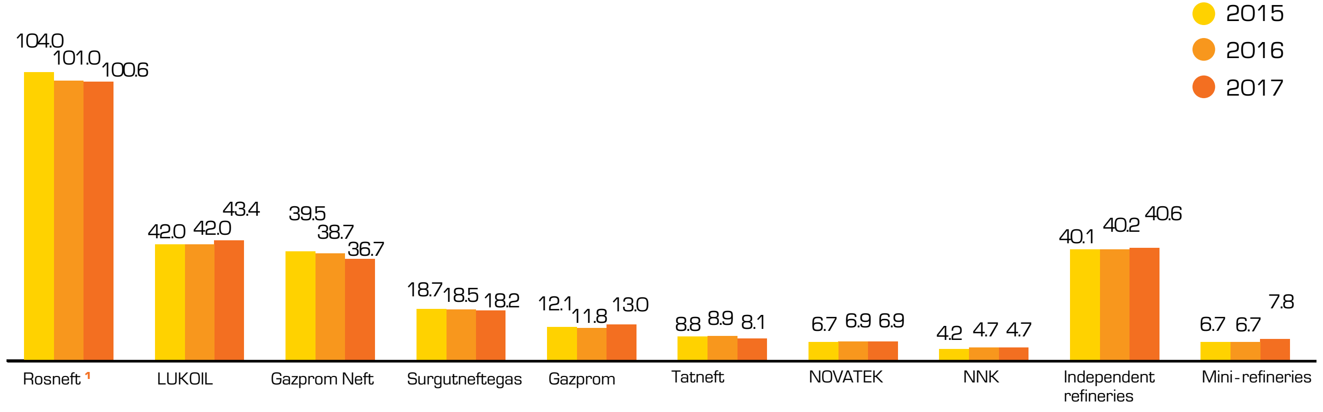
Russia's Oil Refining Profile, mmt

Source: CDU TEK.



[1] Rosneft's financial statements.

Oil Refining in Russia, mmt



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 oil at German refineries. As of 1 January 2017, following the restructuring of the ROG joint

Novokuibyshevsk Oils and Additives Plant

[1] 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 MiRO 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 to the new growth markets in Asia-Pacific will be supported by establishing strategic partnerships with the region's oil and gas companies, the expansion of direct oil and petroleum product supplies, and implementation of new projects.

A Group Subsidiary signed a contract with the Iraqi Kurdistan Regional Government for the purchase and sale of oil in 2017–2019, its execution will expand the Company's trading opportunities and enable a higher cost efficiency of feedstock supplies to the Company's foreign refineries.

The Company's main competitors in Russian oil exports are Russian vertically integrated companies such as LUKOIL, Surgutneftegas, and Gazprom Neft. At the same time, all Russian producers have their own export schedule for oil transportation outside the Russian customs zone based on equal access to the oil trunk pipeline system and seaport terminals. The main competitors supplying other crude oil grades to the export market are international and national oil companies such as Shell, BP, ExxonMobil, Chevron, Total, Statoil, Saudi Aramco, NIOC, etc.

Rosneft is one of the largest players on Russian gasoline and diesel fuel markets, operating the largest retail chain in Russia, with 2,901 filling stations. Petroleum products are sold in the domestic market across all federal districts of the Russian Federation. The Company relies on extensive own and third-party infrastructure for marketing and distribution of petroleum products (oil depots, filling stations), which takes into account the capacity of regional markets and consumer demand. The Rosneft trademark is one of the most recognizable in the oil products market across the regions of the Company's operation, and it is associated with high-quality fuel sold at filling stations.

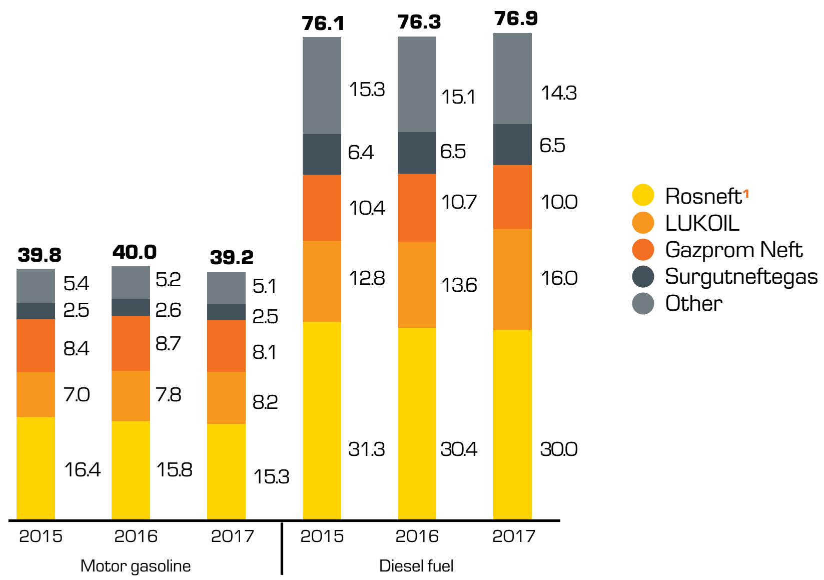
As with oil, the Company's petroleum products are exported to European, Asia Pacific, and CIS countries. The Company's competitive advantage is its ability to maintain stable relations with foreign partners, and in particular, expand and renew oil product supply contracts. In Q4 2016, Rosneft signed 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 Petrocas Energy (Rosneft Group Subsidiary) and Motor Oil Hellas (Greece), in Q4 2017, Rosneft, Petrocas 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 3.6 mmt of diesel fuel with an ultra-low sulfur content of 10 ppm as well as 1.0 mmt of liquefied 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 Enerji 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, Gazprom Neft, and Tatneft, while the main competitors supplying petroleum products to the export market are major international oil companies such as Shell, BP, Total, ExxonMobil, and Chevron.

Motor Fuels Production in Russia, mmt[1]

Source: CDU TEK.

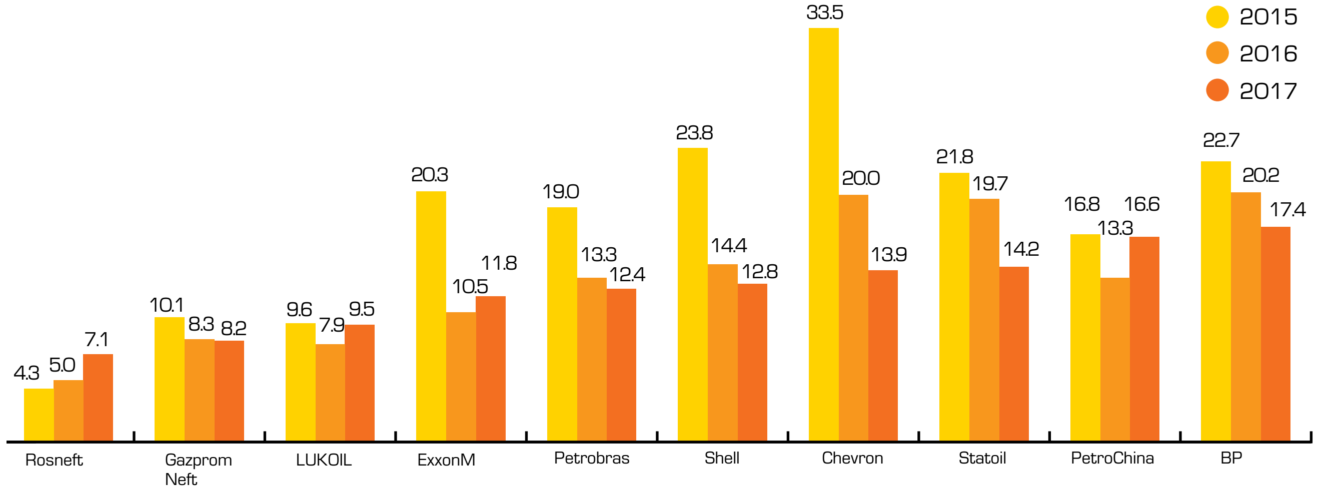


[1] Financial statements. Rosneft data for 2015 and 2016 is shown in the pro-forma including Bashneft, since 1 January 2015.

Operational and Financial Performance

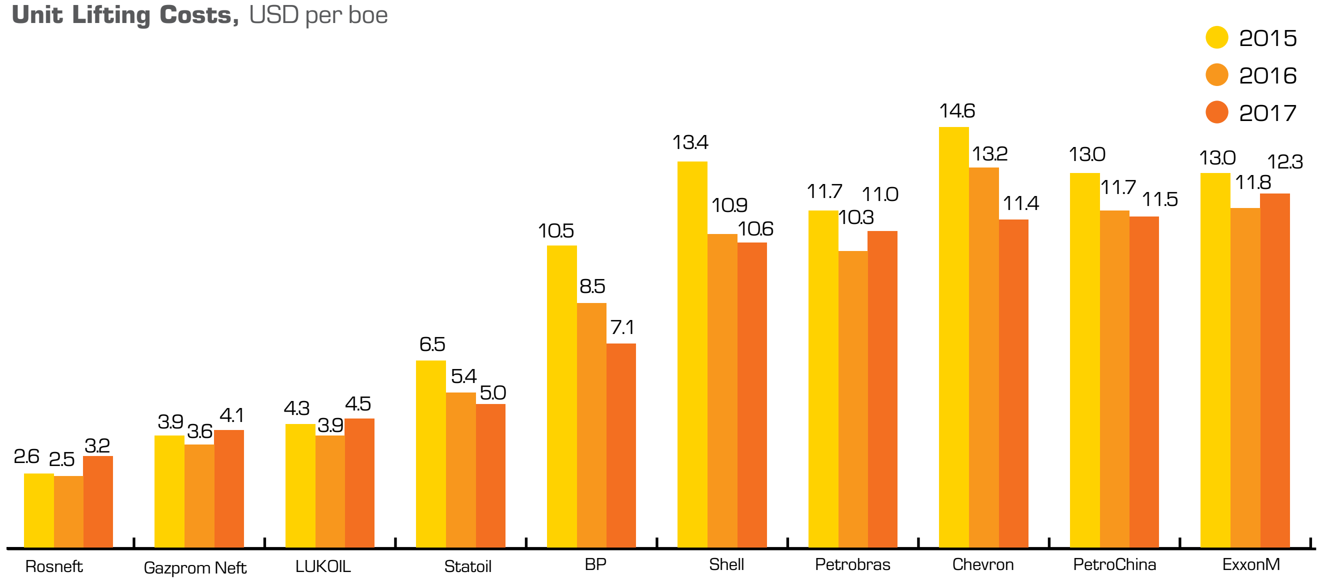
High cost efficiency and smart allocation of upstream capex in 2017 helped the Company maintain well-balanced production levels both by launching new projects and enhancing production at mature fields with the lowest unit upstream capex in the industry among public oil and gas companies.

Unit Upstream CAPEX, USD per boe



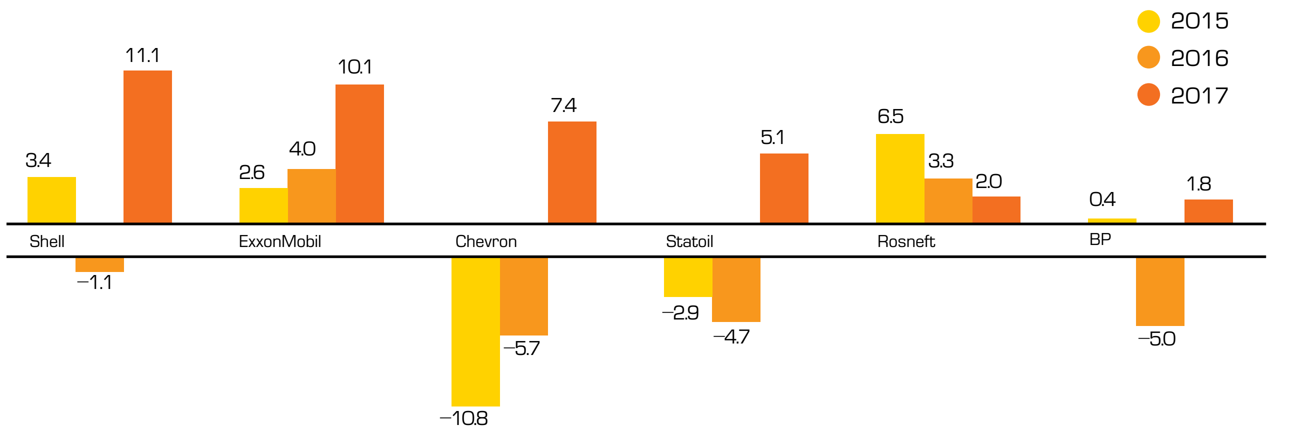
In 2017, Rosneft retained its leading position in the oil industry among public oil and gas companies in terms of unit lifting costs while integrating new assets with high hydrocarbon lifting costs.

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,[1] USD per boe



[1] Per boe of produced hydrocarbons, including affiliates.

02
STRATEGY OF THE COMPANY

2.1. NEW ROSNEFT–2022 STRATEGY

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.

1
INCREASE PROFITABILITY

AND IMPROVE EXISTING ASSET PERFORMANCE

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

Strategic Initiatives

BECOME A TOP 25% GLOBAL OIL AND GAS COMPANY IN HEALTH, SAFETY, AND ENVIRONMENT

ROSNEFT 2022

- ENSURE ORGANIG GROWTH IN LIQUID HYDROCARBONS PRODUCTION
- STRONG OPERATIONAL EFFICIENCY – THE LOWEST LIFTING COSTS PER BARREL AMONG PEERS.
- ACHIEVE GAS PRODUCTION OF OVER 100 BCM
- ENHANCE EXPERTISE AND TECHNOLOGICAL COMPETENCE IN OILFIELD SERVICE BUSINESS
- DEVELOP PETROCHEMICAL AND GAS CHEMICAL BUSINESSES
- ADOPT A HOLDING MANAGEMENT STRUCTURE, PILOT A RETAIL PROJECT
- STRENGTHEN THE ON TIME / ON BUDGET INVESTMENT AND PROJECT MANAGEMENT PROCESS
- ACCELERATE THE TECHNOLOGICAL BREAKTHROUGH AND DIGITIZE THE ENTIRE BUSINESS

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%)

IMPROVED PERFORMANCE

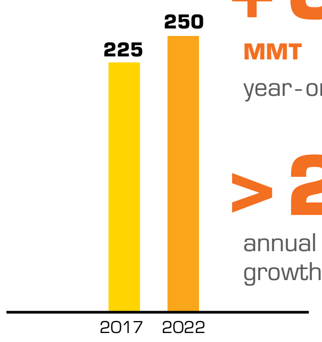
- Optimize capex (by 10% for similar well construction, by 10% for linear objects)
- Optimize opex (by 2%–3% per year on a comparable basis)
- Engage in partnerships for capital intensive and high risk projects

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

LONG-TERM GOALS

Total LH Production, mmt

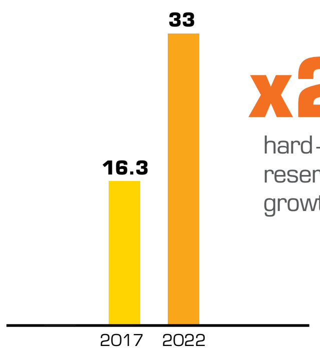


+30 MMT year-on-year

>2% annual production growth

~20% production at new projects in Russia in total LH production[1] by 2022

Production from Hard-to-Recover Reserves, mmt



x2 hard-to-recover reserves production growth

[1] Projects launched starting from 2016 (including Taas-Yuryakh, Trebs and Titov, Rospan projects).

ACHIEVEMENTS

Exploration drilling success rate reached 86%, with a 404 mmtoe growth of reserves driven by exploration.

Production drilling increased by 29.5% year-on-year.

Share of comissioned horizontal wells increased to 36%, 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 60%.

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.

Gas

STRATEGIC OBJECTIVES AND PRIORITIES

COMMISSIONING PROJECTS ON TIME AND ON BUDGET

- Produce over 100 bcm
- Develop major gas production projects including Rospan and Kharampur

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

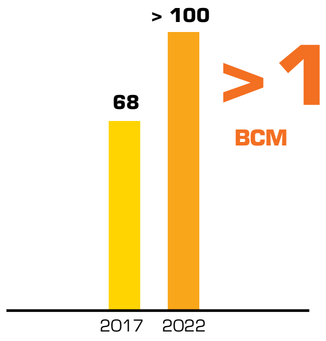
- Develop Turonian deposits
- Increase APG utilization including through the development of captive power generation and petrochemicals
- Develop LPG and NGL production

IN THE FUTURE

- Monetize gas reserves within Eastern Siberia and the Far East, including through gas-to-chemicals development

LONG-TERM GOALS

Gas Production, bcm



>100 BCM

>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 AB1C1+B2C2 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

SUBSTANTIAL PROFITABILITY GROWTH

Complete ongoing refinery development projects in Russia to substantially increase profitability

Debottleneck to unlock potential

Improve performance and optimize opex

DEVELOPMENT OPTIONS

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 SOLUTIONS AND MANAGEMENT

Digital Plant

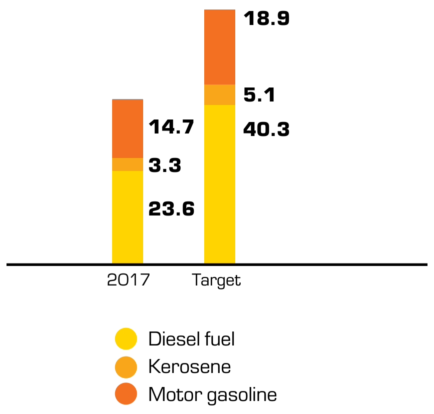
Automation, including use of robots

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

LONG-TERM GOALS

Production of Motor Fuels Complying with the Technical Regulations[1], mmt



+55%
motor fuels production growth

x2–3
EBITDA growth

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.

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

Commerce, Logistics, and Retail

STRATEGIC OBJECTIVES AND PRIORITIES

COMMERCE AND LOGISTICS

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)

RETAIL

Promote strong brands and high service standards at filling stations

Expand non-fuel business (introduce new categories of goods and open new cafés)

Improve performance and optimize costs

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

Expand small-scale wholesale through differentiated sales channels

DIGITAL SOLUTIONS AND MANAGEMENT

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

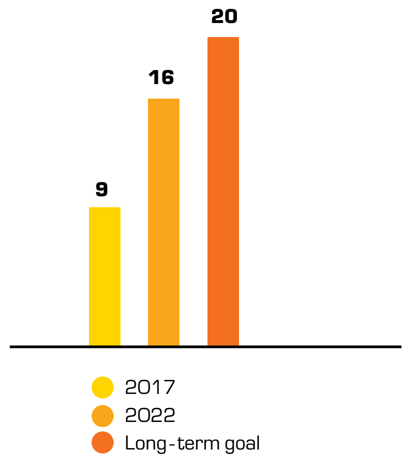
Start Digital Filling Station and Digital Supply Chain programs

Automation, including use of robots

Improve accounting systems to reduce losses

LONG-TERM GOALS

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



x1.5–2
growth by 2022

ACHIEVEMENTS

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).

Industrial Safety and Environmental Protection

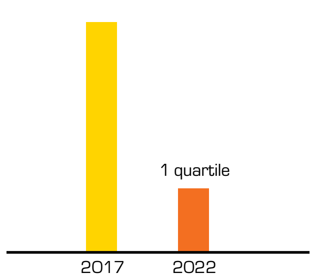
STRATEGIC OBJECTIVES AND PRIORITIES

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

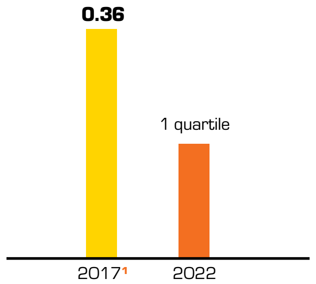
Achieve leadership and constantly improve injury, integrity, environmental protection, reporting transparency, and road traffic accident KPIs

LONG-TERM GOALS

Tier 1 Process Safety Event Rate (PSER-1)

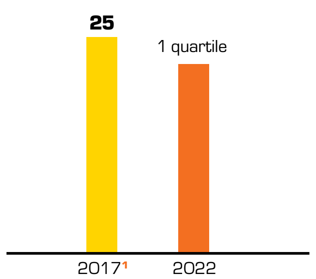


Lost Time Injury Frequency (LTIF)



Relative Greenhouse Gas Emissions (GHG)

Upstream, tonnes CO_2 eq. / thousand boe



Rosneft puts a strong focus on securing occupational health and safety of its employees

2.2. LONG-TERM DEVELOPMENT PROGRAM AND PROGRESS REPORT

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).

Pursuant to Directive No. 4955-P13 of the Russian Government dated 17 July 2014, Rosneft's Long-Term Development Program should be updated on an annual basis. In 2017, the Program was updated to include revised strategic guidelines reflecting the Company's new corporate structure, some detailed action plans to achieve long-term goals, and updated initiatives which had been developed pursuant to the Russian Government Directives[2]. The updated Long-Term Development Program was approved by Rosneft's Board of Directors (Minutes No. 6 dated 17 November 2017).

The Program details the Company's strategic focus, targets, and goals for all its businesses and corporate functions; it also includes a list of key initiatives for achieving strategic targets and completing the Strategy for the medium term (five years).

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 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 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 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.

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

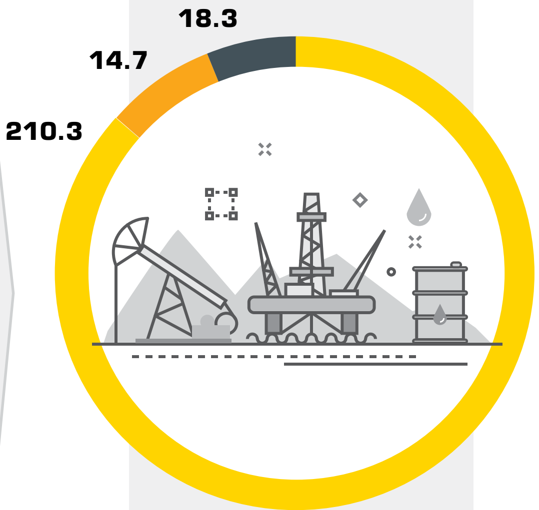
[1] Preliminary data.
[2] No. 4955p-P13 dated 17 July 2014, No. 7558p-P13 dated 12 November 2014, No. 1346p-P13 dated 5 March 2015 and No. 2303p-P13 dated 16 April 2015, No. 7389p-P13 dated 31 October 2014, No. 1472p-P13 dated 3 April 2016, No. 4531p-P13 dated 28 June 2016, No. 4750p-P13 dated 4 July 2016, No. 830p-P13 dated 6 February 2017.

2.3. BUSINESS MODEL

EXPLORATION

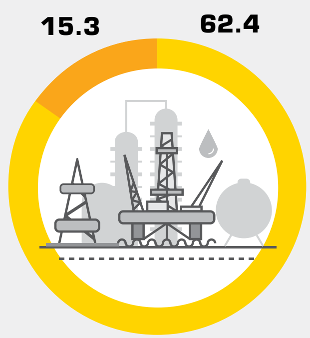
OIL PRODUCTION

Oil
mmt



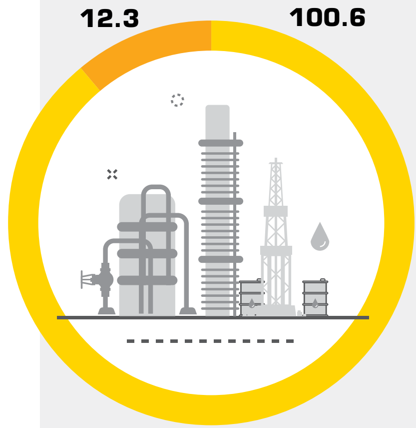
GAS PRODUCTION

Gas
bcm

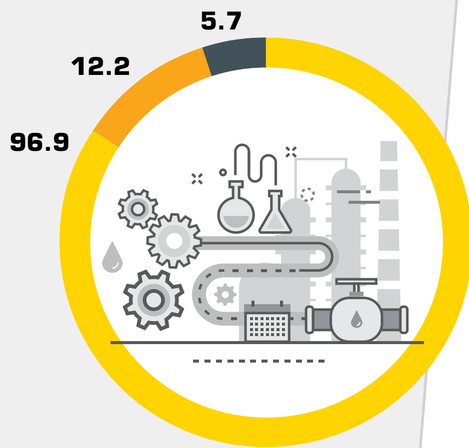


OIL REFINING AND PETROCHEMICALS

Oil Refining
mmt

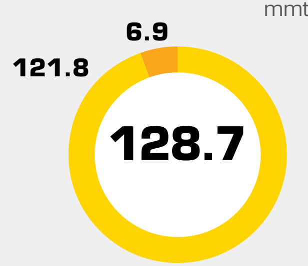


Petroleum Products
mmt

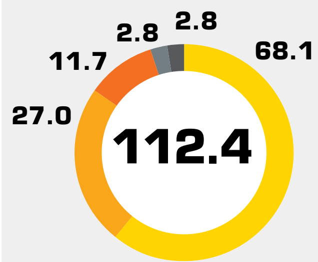


COMMERCE, LOGISTICS, AND RETAIL

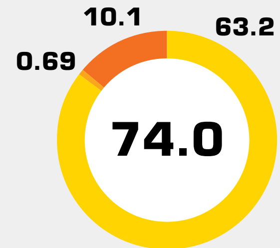
Oil Sales
mmt



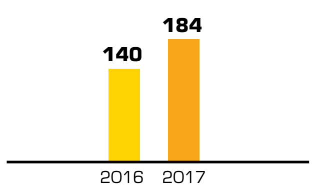
Petroleum Product and Petrochemical Sales
mmt



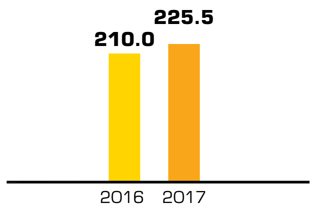
Gas Applications
bcm



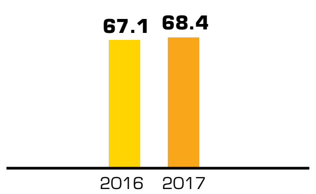
Reserve Replacement with Liquid Hydrocarbons, %[3]



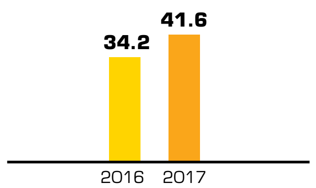
LH Production, mmt



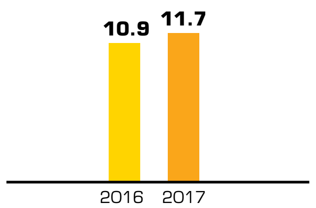
Gas Production, bcm[5]



Production of Motor Fuels Complying with the Technical Regulations, mmt[6]



Retail Sales of Petroleum Products in Russia, mmt



- 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

Difference between oil and gas resources and sales is due to their consumption for own operational needs, intra-group supplies, changes in reserves, and technological losses.

[1] Production at subsidiaries and proportionally consolidated companies.
[2] Gas purchases from associates and third parties.
[3] Organic 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.

2.4. KPI SYSTEM

KPI Structure

CORPORATE STRATEGY

KPI PURPOSE

The Company introduced KPIs to translate its Strategy and the Long-Term Development Program into specific day-to-day management performance indicators, to evaluate progress against target, and to create a basis for efficient management decision-making. A strong motivation tool for employees, KPIs ensure the step-by-step achievement of the Company's strategic goals.

LONG-TERM DEVELOPMENT PROGRAM

CONSOLIDATED BUSINESS PLAN
- Corporate KPIs
- Individual KPIs of the Chief Executive Officer

BUSINESS PLANS OF BUSINESSES
- Group KPIs of businesses
- Individual KPIs of the Company's managers responsible for the performance of businesses

BUSINESS PLANS OF GROUP SUBSIDIARIES
- Group KPIs of Group Subsidiaries
- Individual KPIs of Group Subsidiaries' managers

REPORT PROGRESS AGAINST KPIS

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 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.).

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)
- hydrocarbon production rate
- EBITDA
- workforce productivity
- ratio of Rosneft's total shareholder return (TSR), equal to or exceeding the Russian industry average
- cost reduction in the reporting period year-on-year, on a comparable basis
- financial leverage (Net Debt / EBITDA)
- integrated KPI for innovations
- compliance rate for instructions issued by the Board of Directors and the Management Board.

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 2015).

All normalized KPI targets for 2016–2017 were met.

Actual Progress Against KPI Targets

KPI	2017	Progress in 2017	2016
	ACTUAL		ACTUAL
Hydrocarbon production rate, mmtoe	281.7	Above target	265.2
EBITDA, RUB bln	1,403	Above target	1,278
ROACE, %	11.6	Above target	13.9
Net debt / EBITDA[1]	2.1	Above target	1.5
Ratio of Rosneft's total shareholder return (TSR), equal to, or exceeding the Russian industry average, %	9.3	Not below the Russian industry average	11.2
Integrated KPI for innovations, %[2]	100	On target	100

[1] In USD.
[2] Based on the Company's management reports.

2.5. KEY OPERATING AND FINANCIAL RESULTS

Key Operating Results

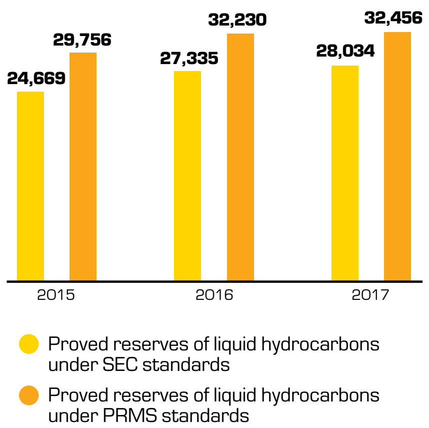
Metric	2017	2016	Change	2015
Proved reserves of hydrocarbons under SEC standards (mmboe)	39,907	37,772	6%	34,465
Proved reserves of hydrocarbons under PRMS standards (mmboe)	46,520	46,075	1%	42,917
Proved marketable gas reserves under SEC standards (bcm)[3]	1,949	1,714	14%	1,609
Proved marketable gas reserves under PRMS standards (bcm)[3]	2,309	2,273	2%	2,161
Hydrocarbon reserve life under PRMS standards (years)	23	24		23
LH production (mmt)	225.5	210.0	7%	202.8
Gas production (bcm)	68.4	67.1	2%	62.5
Oil sales abroad (mmt)	121.8	114.9	6%	109.1
Oil refining (mmt)	112.8	100.3	12%	96.9
Petroleum product and petrochemical output (mmt)	109.1	98.2	11%	95.4
Petroleum product sales abroad (mmt)[3]	71.9	67.4	7%	65.8
Retail sales of petroleum products in Russia (mmt)	11.7	10.9	7%	10.9

Key Financial Results

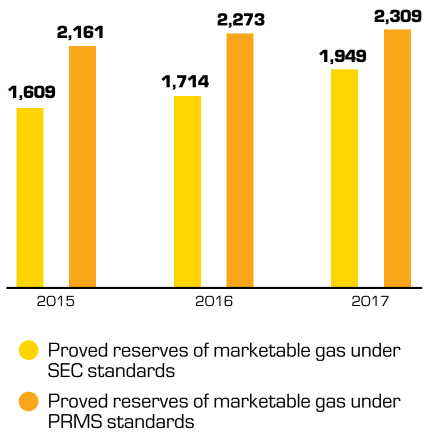
Metric	2017	2016	Change	2015
Sales revenue and income from associates and joint ventures (RUB bln)	6,014	4,988	21%	5,150
EBITDA (RUB bln)	1,403	1,278	10%	1,245
EBITDA margin	22.6%	25.0%	–2.4 p.p.	23.8%
Taxes (RUB trln)	2.6	2.0	30%	2.3
Net profit (RUB bln)	297	192	55%	356
Net profit margin	4.9%	3.8%	1.1 p.p.	6.9%
ROACE	11.6%	13.9%	–2.3 p.p.	13.4%
ROAE	5.6%	5.2%	0.4 p.p.	12.2%
CAPEX (RUB bln)	922	709	30%	595
Unit upstream CAPEX (USD/boe)[4]	7.1	5.0	42%	4.3
Unit production OPEX (USD/boe)[4]	3.2	2.5	28%	2.6
Free cash flow (RUB bln)	245	439	–44%	802
Dividend per share (RUB)	10.48[5]	5.98	75%	11.75
Total accrued dividends (RUB bln)	111.1[5]	63.4	75%	124.5

[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.

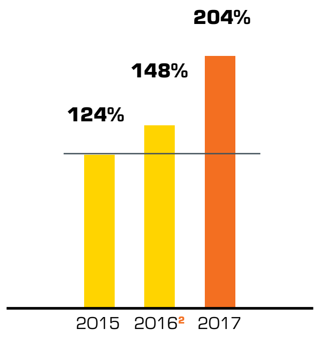
Proved Reserves of Liquid Hydrocarbons, mmb



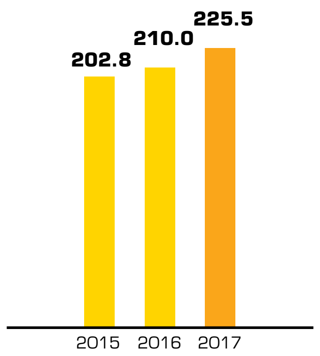
Proved Reserves of Marketable Gas, bcm



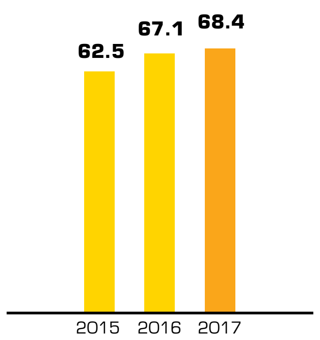
Hydrocarbon Reserve Replacement Ratio, SEC[1]



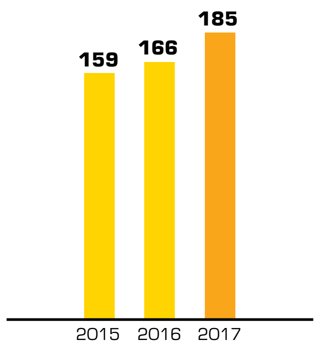
LH Production, mmt



Gas Production, bcm



Upstream OPEX, RUB per boe[3]



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 Petromonagas JV, Venezuela, in May 2016. Key drivers of organic oil and liquid hydrocarbons production growth were accelerated production growth at RN-Yuganskneftegaz driven by ramped-up production drilling using advanced well survey and completion technologies, development of new major projects – the Suzunskoye, Yurubcheno-Tokhomskoye, and East Messoyakha fields, as well as enhanced production at a number of mature fields.

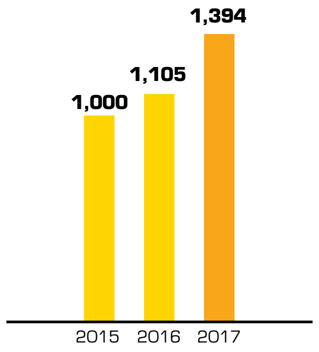
The Company is in full compliance with the overall oil output cuts agreed earlier by OPEC and non-OPEC major oil producers.

In 2017, gas 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 Varyoganneftegaz 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.

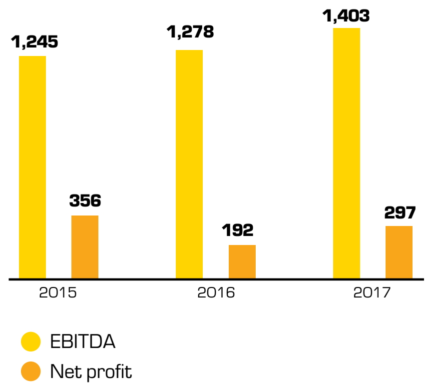
[1] Hydrocarbon reserve replacement ratio is calculated in metric units.
[2] Pro-forma data.
[3] Unit opex per boe, excluding expenses on the acquired Bashneft assets, amounted to RUB 177 per boe (USD 3.0 per boe) in 2017 and RUB 163 per boe (USD 2.5 per boe) in 2016.

OPEX of Russian Refineries per Tonne of Refined Oil, RUB per tonne



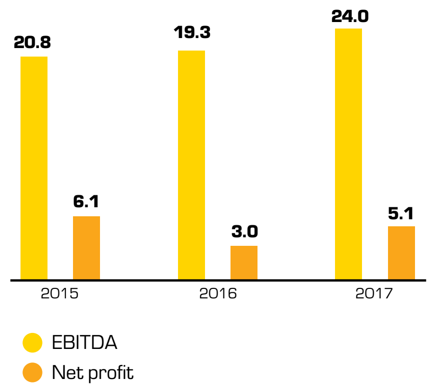
In 2017, unit OPEX per tonne of refined oil at the Company's Russian refineries was up 26.2% year-on-year due to growing tariffs of natural monopolies and salary indexation, as well as the acquisition of Bashneft's assets, which were characterized by more complex technological refining processes such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

EBITDA and Net Profit, RUB bln



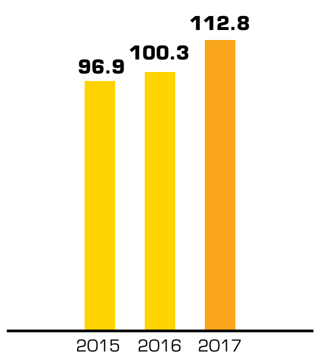
EBITDA increased 9.8% in RUB terms for full year 2017 to RUB 1,403 bln (USD 24.0 bln, up 24.4%).
The considerable improvement in full-year EBITDA was achieved through the successful realization of synergies from new asset integration and involvement in international projects, as well as close control of current operating costs.

EBITDA and Net Profit, USD bln



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.

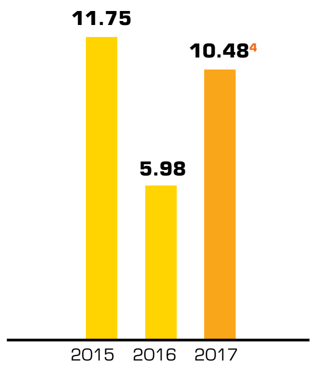
Refining Throughput, mmt



Refinery utilization within Russia has been optimized to meet the current demand. During 2017, the Company's oil refining volumes increased 12.5% year-on-year due mostly to the Bashneft assets acquired in Q4 2016.

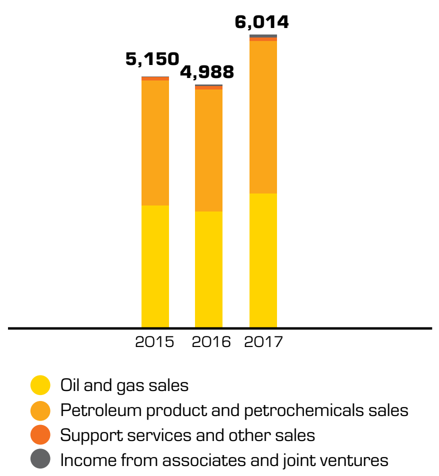
The Ufa group of refineries started supplies of high-octane components to Rosneft's refineries as part of the ongoing process to integrate Bashneft's refining assets into the Company's unified plant production chain.

Dividend per Share, RUB per share



On 25 April 2018, the Board of Directors recommended for payment of the final dividend of 6.65 RUB per share for 2017. After being approved at the Annual Shareholders' Meeting and including semi-year dividends of 2017 the final dividend amounts to 10.48 RUB per share which constitutes 50% of the net income under IFRS.

Revenue, RUB bln



The increase in sales volumes in 2017 was driven by expansions in trade operations, positive changes in the market price trend (oil price growth in rubles by 9.9%), and integration of new assets.

[4] 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.

2.6. THE INVESTMENT PROGRAM IN 2017

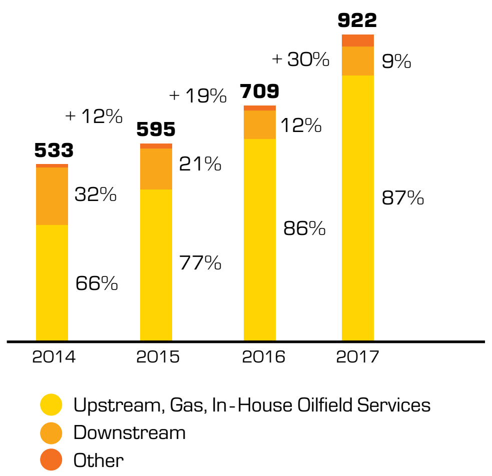
Rosneft's 2017+ investment program was approved as part of the Business Plan for 2017–2018 at the Board of Directors meeting held on 23 December 2016 (Minutes No. 17 dated 26 December 2016). Rosneft's 2018+ investment program was approved as part of the Business Plan for 2018–2019 at the Board of Directors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

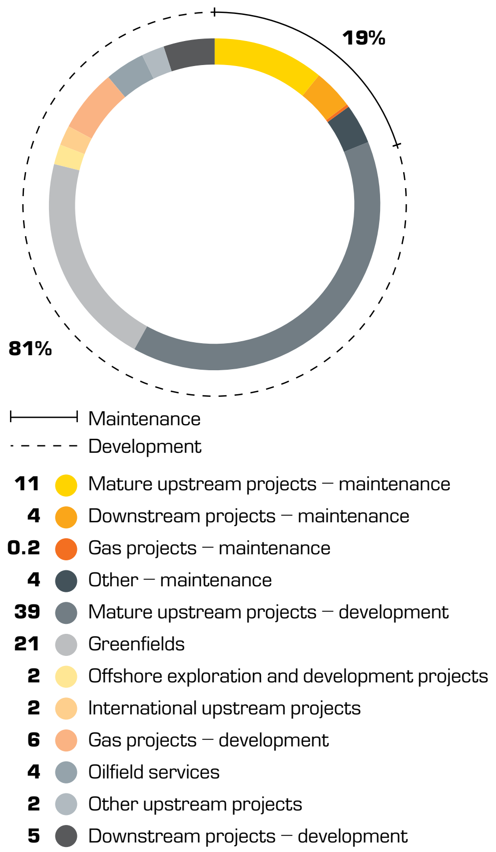
Capex Financing, 2014–2017, RUB bln



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

2017 Investment Program Split, %



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.

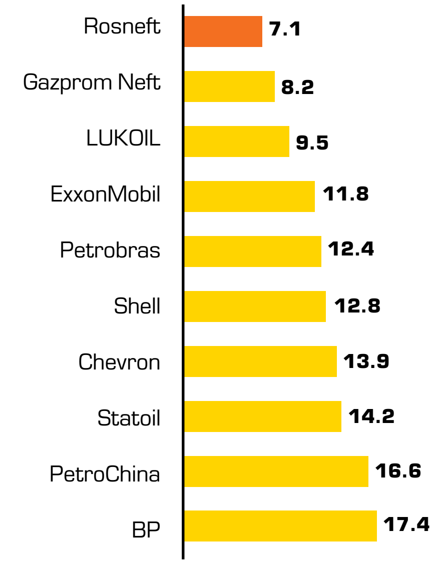
The Company increased its investments in:

- 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



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, Tagulskoye, 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 Khatangsky 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 59 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-Urengoysky and Vostochno-Urengoysky 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.

In-House Service Development

In 2017, Rosneft invested over RUB 36 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.

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

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.

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

- A disciplined investment strategy through comprehensive project-screening and improving relevant identification and classification processes
- Compliance with the Company's principles regarding its high social responsibility to environmental and industrial safety, safe working conditions, healthcare, a higher quality of life for employees and their families, educational support, and contribution to the social and economic development of local communities

Delegating: Investment Bodies and Limits of Authority

LIMITS OF AUTHORITY	IVESTMENT BODIES	
>1,500 USD MLN	BOARD OF DIRECTORS	10% of total 1% of requests
500–1,500 USD MLN	MANAGEMENT BOARD	7% of total 2% of requests
200–500 USD MLN	INVESTMENT COMMITTEE	36% of total 4% of requests
0–200 USD MLN	SEGMENT SUBCOMMITTEES	47% of total 93% of requests

Upstream | Downstream | Gas | Corporate Center

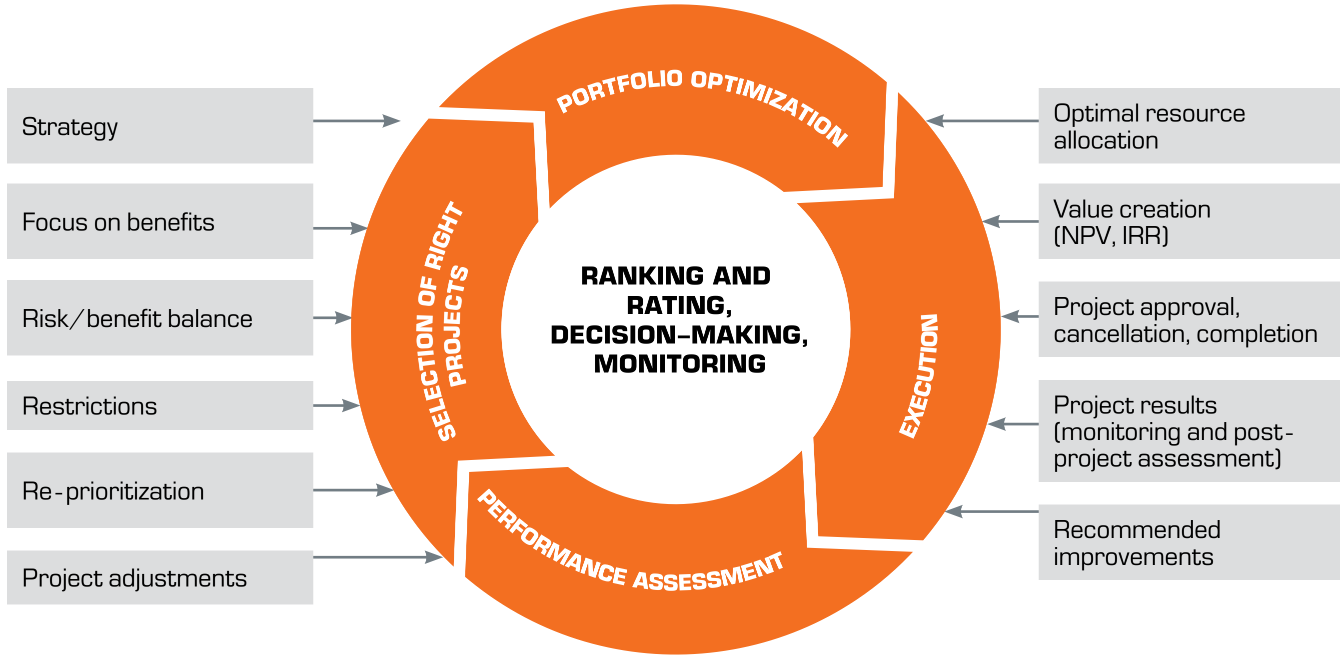
Rosneft's investment management is guided by best global practices, its improvement continuing throughout 2017 from a focus on higher investment maturity and maintaining a disciplined investment strategy:

- 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 reallocating 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. The system is to be rolled out in 2018–2019
- 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

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.

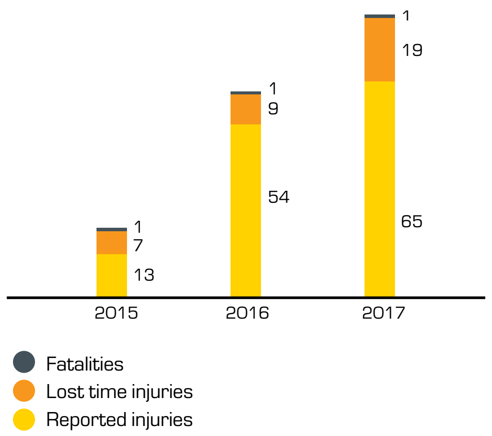
Rosneft's high standards of industrial and fire safety, occupational safety and health, and environment protection are mandatory for all its employees and form part of its partner relations including contractors.

The Company's key HSE principles:

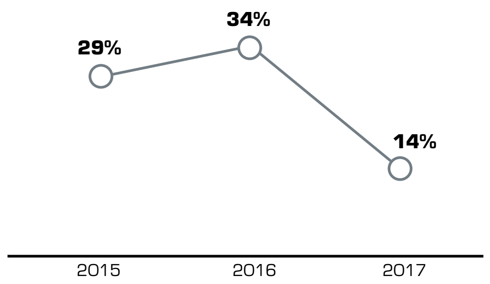
- Absolute priority of the lives, health, and safety of people over the Company's performance
- Prioritizing preventative measures over measures to contain and respond to emergencies
- Sustainable use of natural resources in the Company's operations, and efforts to protect, restore, and rehabilitate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

Injury Reports Transparency[1]



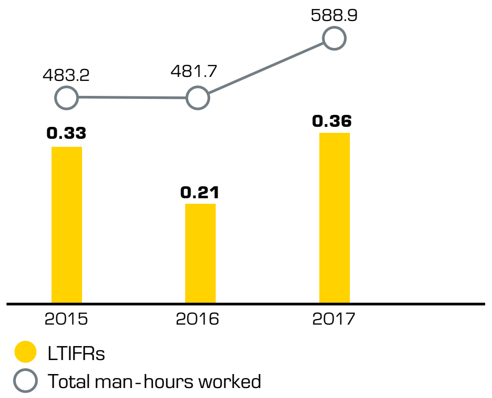
Severity of Injuries, share of severe accidents in the total number of accidents involving lost time injuries



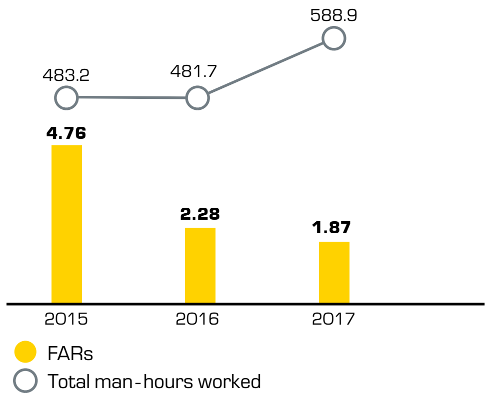
SUMMARY

- Report transparency rate up 31%
- Injury severity down 20%
- Much lower fatality levels

Lost Time Injury Frequency (LTIF)



Fatality Accident Rate (FAR)



INTEGRATED HSE MANAGEMENT SYSTEM

Rosneft operates an integrated health, safety, and environment (HSE) management system.

Proposals made by Rosneft's relevant business units and Group Subsidiaries on finalizing improvements to the HSE process control procedure were collected, analyzed, and consolidated to improve HSE management controls, and scheduled internal corporate audits of the Health, Safety, and Environment Integrated Management System (HSE IMS) were also conducted.

In 2017, the British Standards Institution (BSI) conducted its second compliance audit of the Company's HSE IMS compliance with the ISO 14001 and OHSAS 18001 standards, resulting in approval and confirmation of the System's effectiveness.

Two new Group Subsidiaries, Samotlorneftegaz and LLC RN-Lubricants, were included in the HSE IMS scope in 2017.

The Company took further steps to align its operations with the ISO 14001:2015 international standard, and the number of Group Subsidiaries to be included within the scope of the Company's HSE IMS certification of compliance with ISO 14001 and OHSAS 18001 standards will be expanded in 2018.

In adapting and integrating international best practice into its HSE management system, the Company developed and updated several HSE standards and regulations, including Waste Management, Contaminated and Disturbed Land Reclamation Management, Rosneft's and Group Subsidiaries' Obligations in Industrial and Fire Safety, Occupational Safety and Health, and Environment Protection.

[1] Rates do not show absolute values.

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

> 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

Safety is Rosneft's key priority

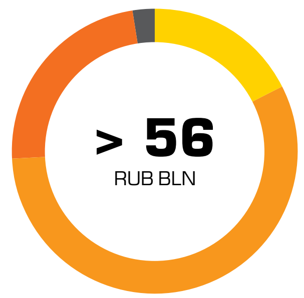
8. An inventory of worn-out tanks with multiple service life extensions was taken, followed by the development of strategies to improve tank farms at some Group Subsidiaries, including the replacement, overhaul, renovation, and upgrades of tanks that are past their service life

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

Health and Safety Expenditures in 2017, RUB BLN



10.0	Occupational safety and health
31.9	Industrial safety
13.1	Fire safety
1.4	Well control

> 1.7 THSD
TRAINING SESSIONS

on Rosneft's HSE conducted in 2017 across Group Subsidiaries

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.

RUB 29.7 bln were allocated to implement the eight priority environmental projects in 2017, with the total planned investments exceeding RUB 100 bln.


Renovation of the integrated biological wastewater treatment plants at Bashneft (Rosneft's subsidiary)

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.

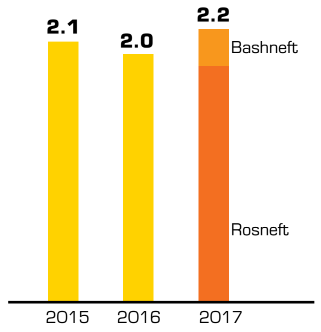
Rosneft was awarded a diploma of the annual Environmental Responsibility Rating compiled by the World Wide Fund for Nature (WWF) Russia and CREON Group for Consistent Mitigation of Environmental Impact in 2014–2017.

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.

102
RUB BLN
allocated by Rosneft to environmental protection and sustainable use of natural resources, up 38% y-o-y

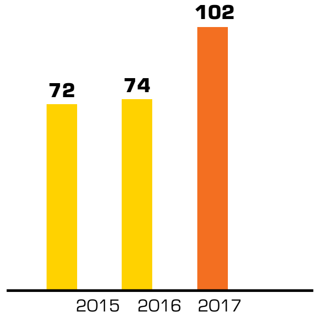
Rosneft's gross atmospheric emissions increased by 0.36 mmt[1] in 2017 due to identification of new emission sources and acquisition of new assets including Bashneft.

Water Consumption, bcm



A 12% year-on-year increase in Rosneft's water consumption in 2017 was primarily due to the acquisition of Bashneft assets. Water consumption across Bashneft assets in 2017 was 0.25 bcm.

Expenditures on Environmental Protection and Sustainable Use of Natural Resources, RUB bln



Expenditures on environmental protection increased by 47% y-o-y as part of the Year of the Environment, including Bashneft's expenditures of RUB 12 bln (54% of the total increase).

PROGRAM FOR MARINE ECOSYSTEM BIODIVERSITY CONSERVATION

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

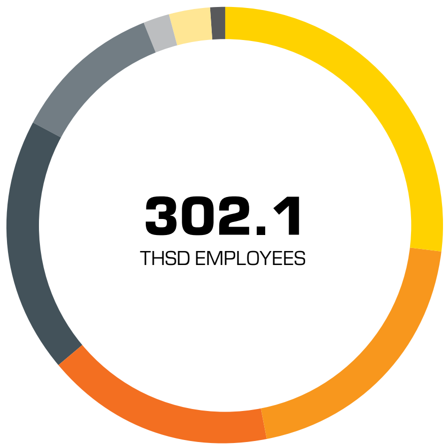
The Company's leading asset is its highly-qualified professionals who are focused on efficiency.

Throughout 2017, the average headcount of Rosneft Group Subsidiaries totaled 302.1 thousand[2], 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).

302.1
THSD EMPLOYEES[1]
the average headcount of Rosneft Group Subsidiaries in 2017

Average Headcount in 2017



- **27%** Upstream, including gas
- **20%** In-house service (oilfield services)
- **17%** Oil refining and petrochemicals
- **19%** Commerce and logistics
- **11%** Corporate services
- **2%** Other
- **3%** Research
- **1%** Head Office (Rosneft)

Average Headcount as at 31 December 2017

- **28%** Upstream, including gas
- **19%** In-house service (oilfield services)
- **17%** Oil refining and petrochemicals
- **19%** Commerce and logistics
- **11%** Corporate services
- **2%** Other
- **3%** Research
- **1%** Head Office (Rosneft)

[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.

The Company carries out comprehensive work in developing its management talent pool for maintaining requisite levels of skilled personnel through utilizing a multi-stage skills assessment system for candidate selection, by which 7 thousand employees have been assessed since early 2017.

Approximately 3 thousand succession pool members benefited from Rosneft's training programs throughout 2017.

> 3 THSD
succession pool members had training in 2017

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.

533.3
THSD MAN-COURSES
of compulsory vocational and management training taught in 2017

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 the 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.

> 2
THSD YOUNG
engineers in the upstream business to join Rosneft's career planning and development program

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 Novokuibyshevsk Refinery.

> 12
THSD EMPLOYEES
trained in compliance

64.9
THSD EMPLOYEES
of Commerce were involved with the professional development program

287
MAN-COURSES
for Oil Refining and Petrochemicals were taught in 2017

Development of In-House Training Expertise

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.

48%
OF TRAINING
provided internally through corporate training centers with in-house coaches, experts, and workplace mentors

> 67
THSD MAN-COURSES
taught through distance learning

Training of Foreign Citizens

Rosneft engages 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, Petróleos 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 29 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.

International and joint projects alongside personnel exchange programs will enable Rosneft to develop the capabilities required to reach its strategic goals.

INTRODUCING NATIONAL PROFESSIONAL STANDARDS

In 2017, the Company continued to introduce professional standards.

In pursuance of Directive of the Russian Government No. 5119p-P13 dated 14 July 2016, Rosneft's Board of Directors reviewed the Introduction of Professional Standards in the Business of Rosneft and Group Subsidiaries during two meetings.

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.

30
standards are Rosneft's mandatory qualification prerequisites

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 Company's corporate and managerial skills assessment is based on Rosneft's Corporate and Management Skills Model, approved by the Chief Executive Officer in 2016. The Model reflects the Company's culture and values, and includes an outline of each senior managers' skills. In 2017, the Company used its Skills Model for over 15 thousand employee assessments.

The professional and technical skills assessment of personnel is based on materials detailed in the Target Innovative Project (TIP) titled The Skills-Based Method for Personnel Development in All Business Segments of the Company.

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.

> 13
THSD EMPLOYEES
had professional and technical skills assessments

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 Mirny, 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.

111
ROSNEFT CLASSES
operated successfully in 2017

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 supporting
- 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 internship and work placements. In 2017, 6,597 students did an internship at Rosneft's 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.

> 20 THSD

students took part in Rosneft's career guidance activities

> 6 THSD

interns at Rosneft's enterprises in 2017

Opening of Rosneft's Offshore Drilling Science and Education Center at the Gubkin Russian State University of Oil and Gas

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 656 corporate scholarships and 195 corporate grants in 2017, and totaling 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".

870.3

RUB MLN

in assistance to educational institutions of higher and vocational education

1,437

GRADUATES

hired by Rosneft in 2017

SUPPORTING THE NATIONAL POLICY ON EDUCATION

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 Samara 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


Teambuilding at RN-Yuganskneftegaz

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 72 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 per 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.

4,161
YOUNG SPECIALISTS
employed at 108 Rosneft Group Subsidiaries in 2017

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 partnerships at Rosneft are developed at a high level. A well-established and mutually beneficial relationship with the Interregional Trade Union Organization of Rosneft (ITUO Rosneft) enables the Company to make optimal decisions in increasing the social protection of its employees.

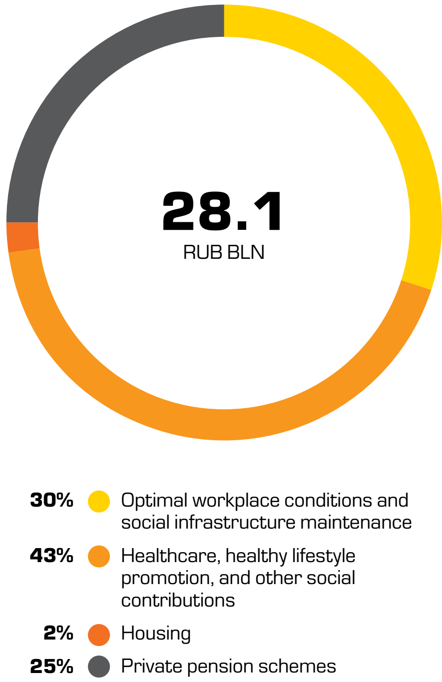
Social Programs

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 its employees with healthcare and social guarantees.

For many years, Rosneft's management has been committed to meeting high social security standards for its employees.

28.1
RUB BLN
allocated to creating optimal working conditions, promoting healthy lifestyles, and providing employees with healthcare and social guarantees

Key Social Policy Costs in 2017



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.

6.84
RUB BLN
pension contributions made by the Company under private pension schemes for employees


The Company's veteran support program has been running for over 10 years

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.

829
FAMILIES
improved their living conditions through long-term mortgages provided by Rosneft in 2017

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

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 exercizing 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.

> 274
THSD EMPLOYEES
covered by VHI

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.

3.3. SOCIAL AND ECONOMIC DEVELOPMENT OF REGIONS AND CHARITY IN 2017

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.

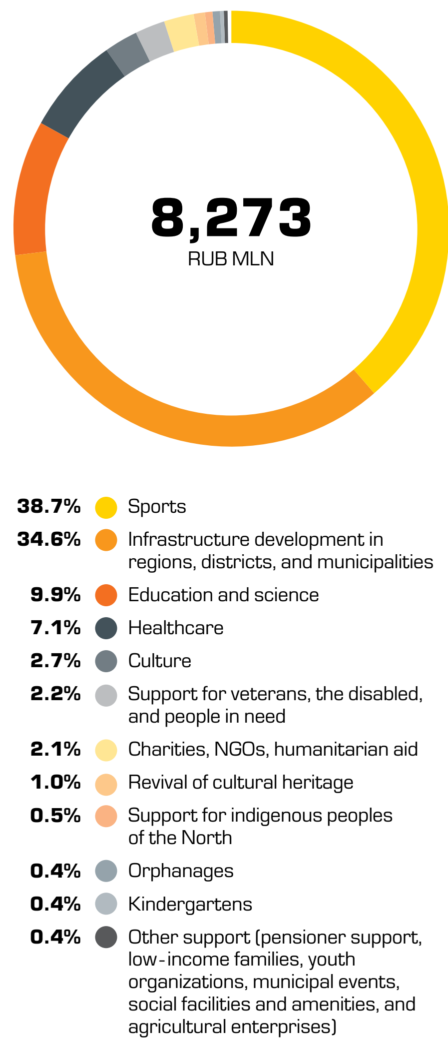
The Company implements socio-economic initiatives under individual charitable projects and agreements with regional authorities and uses a systematic approach to social investments and impactful socio-economic initiatives, to reduce social risk and achieve its key social objectives:

- 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, %



PRINCIPLES UNDERLYING THE COMPANY'S CHARITABLE ACTIVITIES:

- Legal compliance
- Social responsibility
- Openness and transparency
- Prevention of corruption

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.

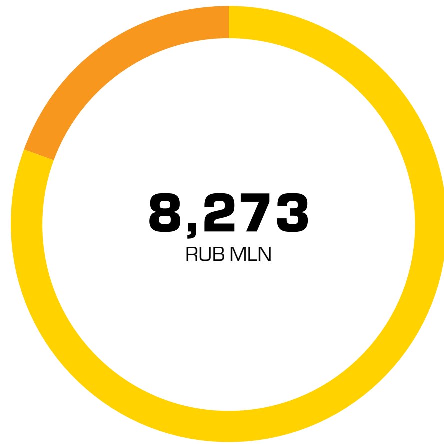
The Company has financed over 50 projects in healthcare and medical development, including the construction, overhauls, and renovation of healthcare facilities (civil and military hospitals and polyclinics), as well as upgrading their material and technical resources with advanced medical equipment,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

Rosneft allocated more than RUB 40 mln to support indigenous communities in the Tyumen Region, Krasnoyarsk Territory, Irkutsk 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.

> 8
RUB BLN
in charity expenses in 2017

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.

Financing of Charity in 2017, RUB mln



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.

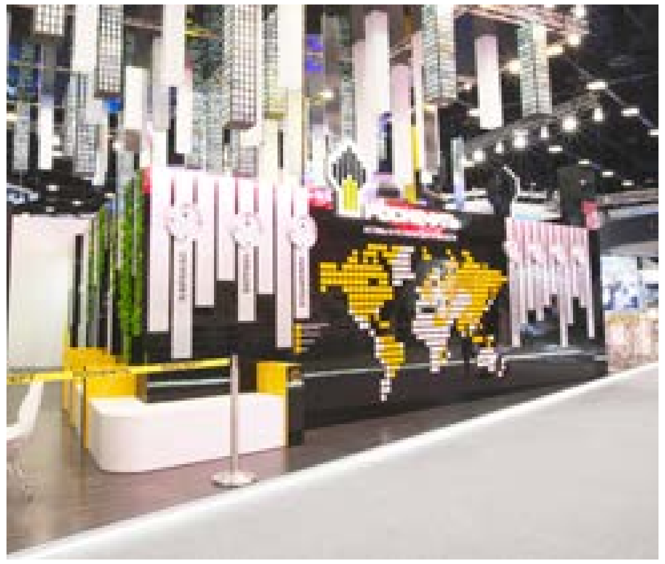
Sponsorship activity of the Company and Group Subsidiaries helps strengthen Rosneft's reputation as a socially responsible business while promoting, publicizing, and maintaining a positive image of the Company across high-profile venues in Russia and abroad, and during major industry events.

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.

1.2
RUB BLN
total sponsorship expenses in 2017 amounted



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.

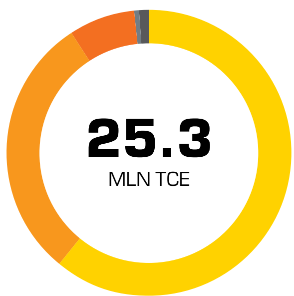
In 2017, the Company's[1] fuel and energy resources consumption totalled 25,322 thousand tonnes of coal equivalent (tce).

25.3
MLN TCE
in the Company's fuel and energy consumption during 2017

Energy Consumption by Business Segment in 2017

Segment	Fuel and Energy Consumption			In thsd tce	Share, %
	electricity, thsd kWh	**heat, thsd Gcal**	**fuel, thsd tonnes**		
Oil and gas production	36,937,553	2,834	1,652	15,471	61.1
Oil refining	4,096,125	13,543	3,036	7,577	29.9
Petrochemicals and gas processing	1,787,791	6,062	249	1,868	7.4
Gas production and distribution	53,074	59	–	27	0.1
Marketing and distribution	321,402	68	–	127	0.5
Services	566,197	380	–	252	1.0
Total	**43,762,143**	**22,946**	**4,937**	**25,322**	**100**

Energy Consumption by Business Segment



61.1% Oil and gas production
29.9% Oil refining
7.4% Petrochemicals and gas processing
0.1% Gas production and distribution
0.5% Marketing and distribution
1.0% Services

[1] Assets consolidated under Rosneft's 2017 Energy Saving Program.

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

Segment	Savings in 2017			In thsd tce	Share, %
	electricity, thsd kWh	**heat, thsd Gcal**	**fuel, tce**		
Oil and gas production	1,707,600	18	22,793	613	51.2%
Oil refining	134,598	1,117	322,200	535	44.7%
Petrochemicals and gas processing	17,156	144	11,273	39	3.2%
Gas production and distribution	100	5.5	141	1.0	0.08%
Marketing and distribution	17,434	4	753	7.4	0.6%
Services	2,063	1.0	878	1.7	0.1%
Total	**1,878,951**	**1,290**	**358,039**	**1,196**	**100%**

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 Company's Commission for Energy Efficiency approved the 2018–2022 Roadmap for Enhancing Energy Efficiency and Implementing and Developing the Energy Management System at Rosneft
- 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 Company's Reference Guide, "Best Available Technologies, Technical Solutions, and Equipment for Enhancing Energy Efficiency and Energy Saving in Hydrocarbon Processing" was initiated, and a similar Reference Guide for upstream operations was adopted in 2016
- 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 Neftegazodobycha);
- 110/35/10 kV 2X40 MVA North substation (Taas-Yuryakh Neftegazodobycha).

Transformer capacity in the 110 kV voltage class was increased by 286 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.

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

The projected localization level of foreign equipment manufacturing in Russia is

70%

BY 2025

INDUSTRIAL AND SHIPBUILDING CLUSTER IN THE RUSSIAN FAR EAST

Upon instruction from the President of the Russian Federation, a consortium formed by Rosneft, Gazprombank, and ROSNEFTEGAZ represented by the joint venture, JSC Modern Shipbuilding Technologies (MST), is creating an industrial and shipbuilding cluster in the Russian Far East through OJSC Far Eastern Shipbuilding and Ship Repair Center (FESRC), with a project to build a new core shipyard, the Zvezda shipbuilding complex in Bolshoy Kamen.

The cutting-edge Zvezda shipbuilding complex is scheduled for two phases:

- Construction from 2012 to 2019 of a hull production block, paint rooms, outfitting docks with an open outfitting berth and a loadout barge for the construction of vessels and marine equipment such as ice-class supply ships, salvage vessels, seismic vessels, tankers, liquefied gas tankers, topsides of drilling and production platforms, floating drilling units, etc.
- Construction from 2016 to 2024 of a dry dock and full-cycle production shops for the construction of large-capacity vessels and marine equipment such as displacement marine equipment, offshore oil and gas facilities, large-capacity cargo vessels, as well as increasing production capacity for marine equipment and offshore oil and gas facilities

In 2016, the hull production block and paint rooms were commissioned, and commissioning of the open outfitting berth was approved in August 2017.

The project ensures the commissioning of the most modern Russian shipyard, with a metal working capacity of 330 ktpa.

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 automation, with automated production lines and equipment with numerical control.

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.

In 2017, the construction of a steerable thrusters production plant was launched in Bolshoy Kamen.

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.

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 oil 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.

SAPPHIRE APPLIED ENGINEERING AND TRAINING CENTER

PROJECT TO DESIGN STEERABLE THRUSTERS

Rosneft, General Electric, and LLC Sapphire Applied Engineering and Training Center (Sapphire Center) are conducting a project to design and localize the production of steerable thrusters, a key component of marine electric propulsion systems.

In 2017, a research contract with General Electric was signed at the St. Petersburg International Economic Forum for the purpose of developing a new design for steerable thrusters for large-capacity vessels, which will complement the plant's product range by increasing the capacity up to 15 MW on large-capacity tankers and LNG carriers.

Currently, the draft design of 7.5 MW steerable thrusters is in development for reinforced ice-class multi-functional support vessels, which are currently under construction at the Zvezda Shipbuilding Complex. Technical documents were officially approved by the Russian Maritime Register of Shipping, initiating the procedure of procuring and manufacturing long-lead components.

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 are plans to construct a coastal support base on the premises for offshore projects, as well as an oilfield service equipment production block, and an infrastructure to produce concrete gravity-based structures with a facility for assembling topsides for oil and gas platforms and LNG plants.

The project was driven by the need to reduce dependence on foreign manufacturers, cut production costs, and localize the production of high-tech components.

In the reporting year, Rosneft completed survey operations and proceeded to design development in the residential area of Roslyakovo in Murmansk.

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.

   In 2017, the Company finalized its procedures covering the following types of goods, works, and services procured under domestic and international long-term contracts: tubular products, submersible cable, chemicals, substations, pumping equipment, buildings, shut-off and control valves, pumps, well logging, geophysical surveys and operations in wells, perforating operations, hydro-mechanical slotting perforation, hydraulic fracturing, sidetracking, seismic surveys, well servicing and workovers, transportation, production drilling, and drilling services.

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.

6.4
RUB TRLN
annual procurement of goods, works, and services by the Company from external counterparties

97.9
RUB BLN
share of procurement from SMEs in 2017

6. The Company pursues its import substitution program approved in 2015 and updated in 2016.

   The Company's Regulations on the Procurement of Goods, Works, and Services enable the Company to prioritize domestically produced goods, works performed, and services provided by Russian entities in the cases and manner stipulated by applicable legislation.

7. The Company is committed to promoting cooperation with small- and medium-sized enterprises (SMEs). To provide SMEs with wider 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. 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

Rosneft carries out its innovative activities in accordance with the Innovative Development Program approved by the Rosneft Board of Directors.

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.

29.9
RUB BLN
R&D costs in 2017


Digitalized refinery control room

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.

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 8 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 Kharampurskoye 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.

49
INTELLECTUAL PROPERTY APPLICATIONS
submitted by the Company in 2017

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-sheet dynamics, the physical and mechanical properties of ice, as well as weather profile and water mass conditions.
- 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 ices 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 Ph.D. 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+B2C2 reserves
- 100% of Rosneft's oil and gas production projects supported (approvals secured for 378 project design documents from the Central Development Commission of Rosnedra (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 planned by the Company

INNOVATIONS IN REFINING AND PETROCHEMICALS

The Company used its own refinery feedstocks to successfully run independent comparative tests of IDZ-028RN isodewaxing and HG-017RN 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 ktpa 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 composition and method of catalyst synthesis were developed for producing synthetic high-viscosity polyalphaolefin base oils. These oils are used as feedstock for gearbox oils and in production of high-load assemblies and mechanisms.

Hydrogenation technique to convert acetone into isopropanol was developed as a laboratory method. Hydrogenation of acetone to isopropanol is one of the easiest solutions for phenol/acetone producers in improving efficiency through shifting production to higher margin products.

Specifications and testing programs were developed for RN-RKM7 and RN-RKM10 synthetic oils for the aerospace industry. The Company demonstrated the possibility 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 adaption 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.

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.

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.

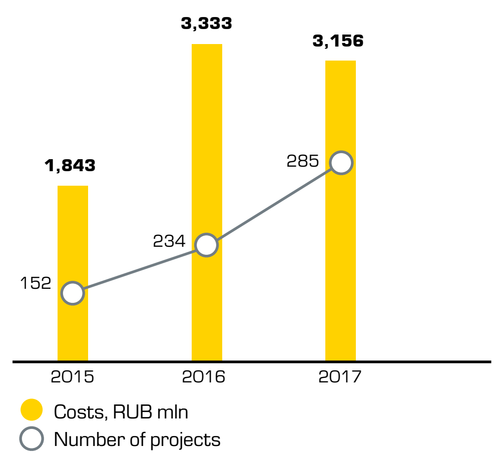
Following the pilot test projects, 109 technologies were tested at 16 subsidiaries in 2017. The Company and relevant business units review the results and assess the economic viability of implementing the proposed new technologies, as well as prepare plans for their roll-out and implementation.

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



684
TESTS
conducted as part of pilot test projects

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

04

OPERATING RESULTS

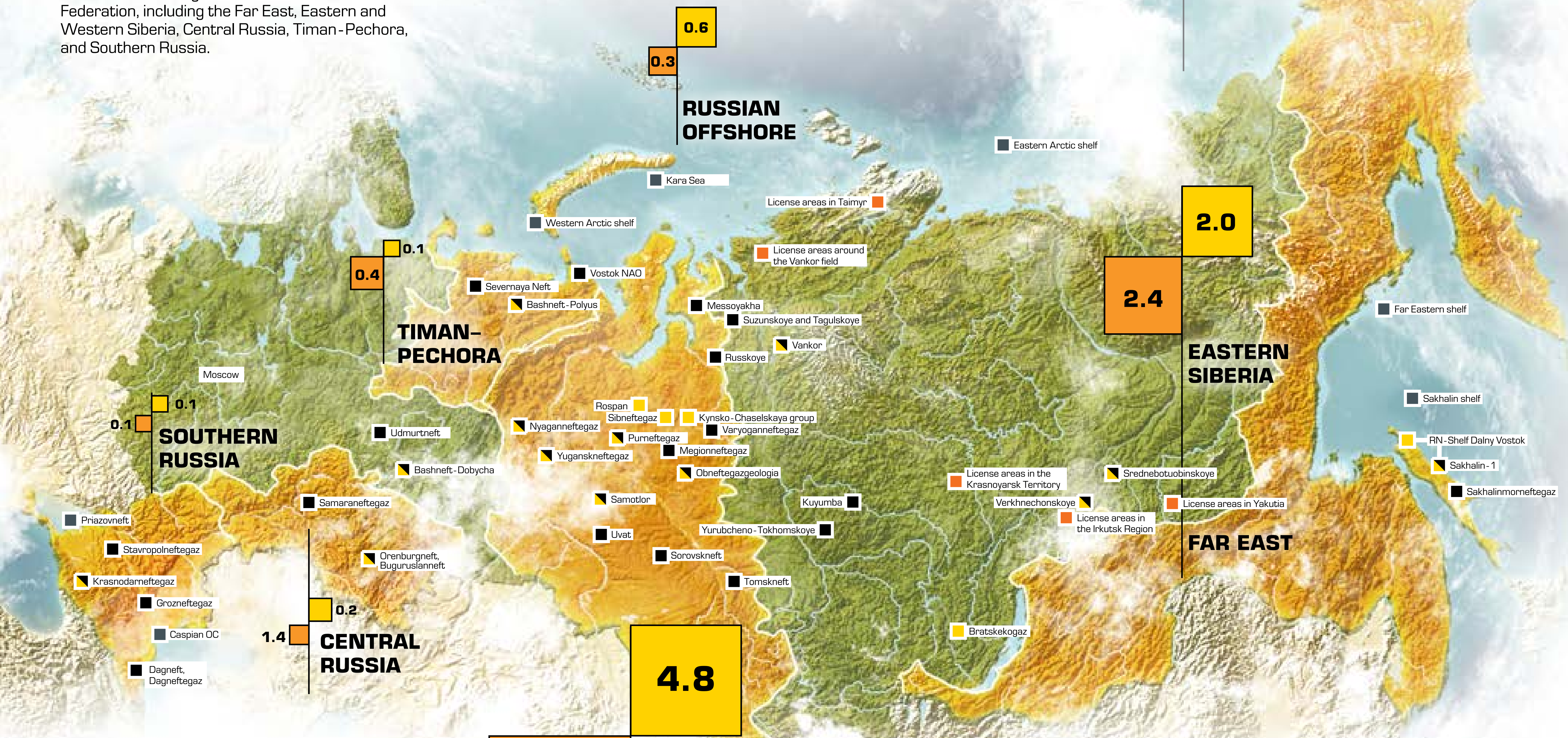
4.1. ROSNEFT'S EXPLORATION AND RESERVE REPLACEMENT

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.

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
- AB1C1+B2C2 oil and gas condensate reserves by region, bln tonnes
- AB1C1+B2C2 gas reserves by region, tcm



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)

12.7 BLN TONNES total oil and gas condensate reserves in Russia

7.9 TCM total gas reserves in Russia

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 7,000 linear km, while 3D seismic surveys totaled 10 thousand 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

122% – liquid hydrocarbons reserve replacement ratio through exploration

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 of AB1C1+B2C2148 reserves

RESERVE REPLACEMENT BY REGION

Western Siberia

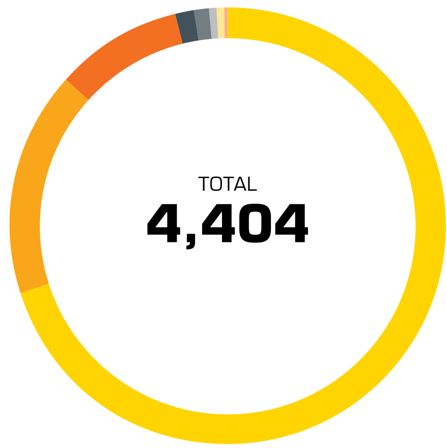
Rosneft's reserve increases in Western Siberia and the Far East amounted to 155.8 mmt of oil and gas condensate and 127.1 bcm of gas. 55 exploration wells were completed and tested with a success rate of 91%. 2D seismic surveys totaled over 2 thousand linear km, while 3D seismic surveys totaled over 3 thousand 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 Priobskoye field situated within the Erginsky license area, as well as the Zapadno-Erginskoye, Kondinskoye, Chaprovskoye, and Novo-Endyrskoye fields. As at 1 January 2018, recoverable reserves (AB1C1+B2C2) amounted to 256 mmt of oil, and the total size of license areas was over 5 thousand 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.

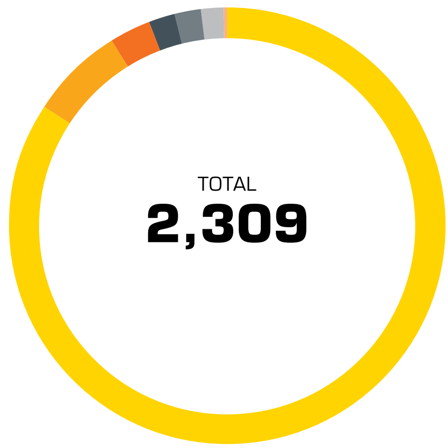
Rosneft's reserves in Western Siberia and the Far East increased to 155.8 mmt of oil and gas condensate and 127.1 bcm of gas.

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



3,091	Western Siberia
725.4	Central Russia
422.7	Eastern Siberia
56.0	Timan-Pechora
53.5	Foreign assets
24.3	Southern Russia
22.8	Offshore
7.9	Far East

Breakdown of Proved Marketable Gas Reserves under PRMS Standards, bcm



1,948.7	Western Siberia
161.3	Eastern Siberia
68.9	Central Russia
43.5	Southern Russia
42.6	Offshore
40.6	Foreign assets
2.0	Timan-Pechora
1.5	Far East

The Prirazlomnoye field of RN–Yuganskneftegaz

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.

77.1
MMT
total reserve additions in the Volga-Urals region, Timan-Pechora, and Southern Russia

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 mmt of oil and gas condensate and 24 bcm of gas.

Independent International Audit of Reserves

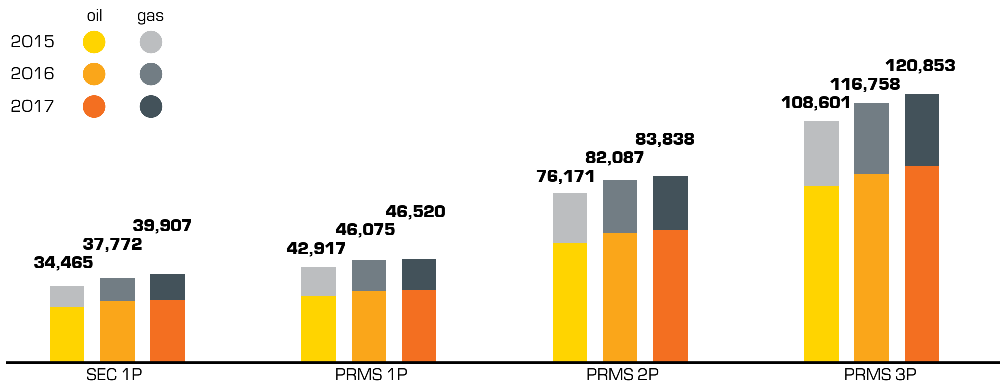
According to the audit performed by DeGolyer & MacNaughton under the SEC (U.S. Securities and Exchange Commission) life-of-field classification, Rosneft's proved hydrocarbon reserves totaled 39,907 mmboe (5,395 mmtoe) as at 31 December 2017. Hydrocarbon reserves grew by 2,135 mmboe (284 mmtoe), or 6%, year-on-year. In 2017, Rosneft's organic SEC-proved reserve replacement ratio stood at 184%,[1] 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.[2]

20 YEARS
Rosneft's SEC-proved reserve life

Hydrocarbon Reserves under International Standards, mmboe



[1] Reserve replacement ratio is calculated in tonnes of oil equivalent; Rosneft's reserve replacement ratio in barrels of oil equivalent was 186%.
[2] Reserves are measured in metric units.

4.2. PRODUCTION OF LIQUID HYDROCARBONS

Rosneft's hydrocarbon production volumes in 2017 grew 6.2% year-on-year to 281.7 mmtoe (5.72 mmboe per day).

In 2017, the Company produced 225.5 mmt of liquid hydrocarbons (4.58 mmboe 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 72% 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 launch 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 66.5 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 1.6%), Varyoganneftegaz (by 0.7%), and Samaraneftegaz (by 1.4%).

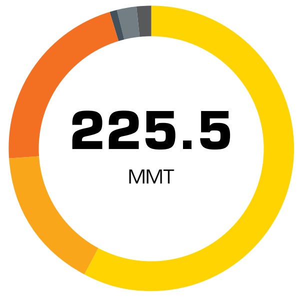
Production started at several major development projects: the start-up complex at the Erginsky cluster was commissioned. Comprehensive technological testing of the oil treatment unit (OTU-1) commenced at the Yurubcheno-Tokhomskoye field.

Active development of major projects: Suzun and Messoyakhaneftegaz. 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 Suzunskoye 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 AB1C1+B2C2 reserves totaled approximately 54 mmt of oil.

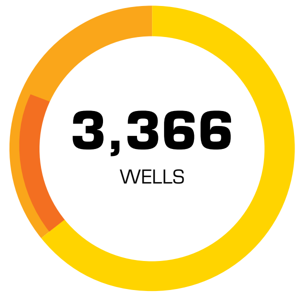
Investment incentives for the Samotlorskoye field in the form of annual MET reductions of RUB 35 bln over 10 years enabled the Company to reaffirm its commitment to drill more than 2.4 thousand of wells in 2018–2027, which are projected to contribute over 50 mmt in incremental production.

Oil, Gas Condensate, and Liquid Hydrocarbons Production, mmt



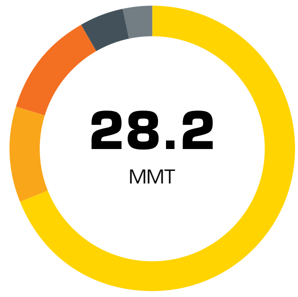
- **130.3** Western Siberia
- **36.8** Eastern Siberia and the Far East
- **48.0** Central Russia
- **2.0** Southern Russia (including the Krasnodar Territory and Priazovneft)
- **5.2** Timan-Pechora
- **3.2** Foreign assets

Commissioning of New Wells by Type, wells



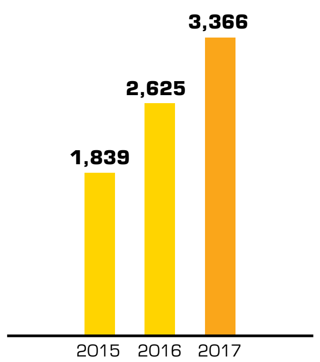
- **2,162** Directional
- **1,204** Horizontal
- **719** including MSHF

Incremental Production from New Wells and Well Interventions, mmt

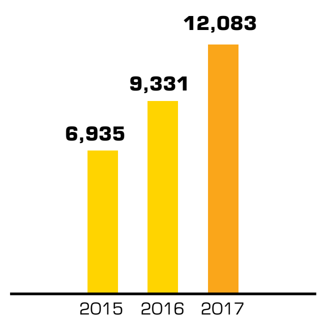


- **19.5** Production from new wells
- **3** Well interventions at production wells
- **3.4** Sidetracking
- **1.4** Recompletion and commingling
- **0.9** Other

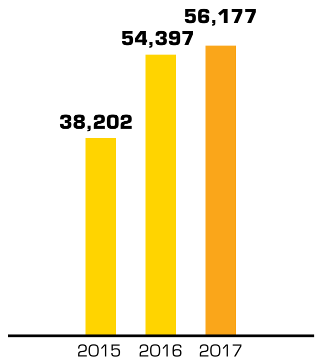
Commissioning of New Wells by Type, wells



Production drilling, thsd meters



Existing Well Stock, wells



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 Erginsky 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 Priobskoye field – one of its most resource-rich fields with a well-developed infrastructure. Integrated development of the Kondinskoye group of fields and the Erginsky 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 Priobskoye, Mamontovskoye, Malobalykskoye, and Prirazlomnoye fields. 2017 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 Priobskoye 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 modelling, 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 8- 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

RN-YUGANSKNEFTEGAZ RECORD ACHIEVEMENTS

Monthly drilling record of 606,439 m (in August 2017), exceeding that of any Russian or Soviet production company in history

A new record-high of 1.7 thousand new wells commissioned in 2017

> 66.5
MMT
annual production

In 2017, the deployment of advanced technologies and successful development of new license areas improved the field's average annual flow rate from new wells by 10% from 2016.

> 200
NEW WELLS
drilled using MSHF commissioned

400
SIDETRACKS
drilled in 2017

24.3
MMTOE
hydrocarbon production in 2017

4,740
METERS
average length of wells with increased step-out drilled in 2017 to tap undeveloped marginal areas of the field

The main objective in maintaining the field's production is implementing advanced technologies and developing untapped reserves.

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.

Samotlornefegaz

Samotlorneftegaz operates 11 licenses (including 10 licenses as the subsoil user). Hydrocarbon production totaled approximately 24.3 mmtoe in 2017, with liquid hydrocarbons production exceeding 19.5 mmt (including Yugraneft 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 96.0%.

Samotlornefegaz completed the construction of three wells with a unique trajectory for the Samotlorskoye field in 2017, allowing up to 1.5 thousand m long horizontal sidetracks to be drilled 2.4 thousand m away or more from the wellhead in an approximately 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 139 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.

Under Federal Law No. 335-FZ On Amendments to Parts One and Two of the Tax Code of the Russian Federation and Certain Legislative Acts of the Russian Federation dated 27 November 2017 annual MET reductions of RUB 35 bln over 10 years were approved for the Samotlorskoye field since 1 January 2018.

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 50 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 Urnenskoye 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 mmtoe 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 11.6 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-Tyamkinskoye, 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.

In 2017, RN-Uvatneftegaz launched commercial production at three new fields: the Severo-Tyamkinskoye, Kosukhinskoye, and Severo-Tamarginskoye fields.

The Uvat project is developed from the Eastern and Central development hubs, which are responsible for the project's further development, as well as for the development of the Kalchinskoye field.

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 achieve 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, Tagulskoye, and Lodochnoye fields located in the Turukhansky and Taymyrsky 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.

> 10%

drilling cycle reduction demonstrated during pilot batch drilling operations at the Verkhnechonskoye field

> 159

MMT

oil and gas condensate production since the start-up of commercial production at the Vankor cluster

30.4

MMT

oil production at the Vankor cluster and the Verkhnechonskoye field in 2017

Drilling rig at the Yurubcheno–Tokhomskoye field operated by East Siberian Oil and Gas Company

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 Yurubcheno-Tokhomskoye field, located in the Evenki 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

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

~ 1.7

MMT

oil production since development launch at the Yurubcheno-Tokhomskoye field

1.2
MMT
liquid hydrocarbons production by Taas-Yuryakh Neftegazodobycha in 2017

9.5%
increase in liquid hydrocarbons production by RN-Sakhalinmorneftegaz in 2017

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

the Yurubcheno-Tokhomskoye field are now considered core practices, and Rosneft plans to roll them out to other subsidiaries.

Taas-Yuryakh Neftegazodobycha

Taas-Yuryakh Neftegazodobycha operates 10 licenses (including two licenses as the subsoil user) in the Republic of Sakha (Yakutia).

Taas-Yuryakh Neftegazodobycha is currently developing the Central Block and the Kurungsky license area of the Srednebotuobinskoye oil and gas condensate field, which is one of Rosneft's three largest assets in the Eastern Siberia oil cluster.

In 2017, oil production by Taas-Yuryakh Neftegazodobycha grew by 14% year-on-year to 1.2 mmt. The growth was due to an expansion in the company's production capacity under Phase 2 development program, and commissioning of a high-pressure pipeline to transport oil from the Srednebotuobinskoye field.

The company has successfully tested multilateral technology for productive formations with complex geology, constructing five multilateral wells at the Srednebotuobinskoye field – including three using the Fishbones Stimulation Technology.

Using the Fishbones Stimulation Technology, a unique multilateral well was constructed with a record 5,030 m-long horizontal section in a pay zone. The main borehole of well No. 2039 is 1,530 m long with seven 500 m long sidetracks. Well construction was completed in less than 60 days – a much shorter timeframe than drilling two conventional wells.

The innovative well drilling technique allows drilling efficiency improvements in areas with complex geology, while eliminating certain technological constraints during field development. The average initial flow rate of wells drilled using the Fishbones Stimulation Technology is four times that of conventional horizontal wells.

RN-Sakhalinmorneftegaz

RN-Sakhalinmorneftegaz operates 28 onshore licenses on Sakhalin Island and three offshore licenses in the Sea of Okhotsk, and Rosneft is the subsoil user for all of them.

Approximately 70% of RN-Sakhalinmorneftegaz's reserves are concentrated in five fields: the Odoptu-Sea, Katangli, Mongi, Mirzoev, and Nabil fields.

Due to successful well interventions and drilling programs in 2017, liquid hydrocarbons production exceeded 1.2 mmt, a 9.5% growth year-on-year. In January 2017, commercial production was launched at well No. 18 at the Lebedinskoye field with a flow rate of over 400 tonnes per day.

Central Russia

In 2017, the Company's oil and gas condensate production in the region amounted to 48 mmt – 21% of Rosneft's total production.

Gas production in the region totaled about 3 bcm in 2017, produced mostly at the fields operated by Orenburgneft, Samaraneftegaz, 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, Sorochinsko-Nikolskoye, Garshinskoye, and Pokrovskoye fields.

Hydrocarbon production totaled 17.1 mmtoe 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.

Samaraneftegaz

Samaraneftegaz operates 168 licenses (including 167 licenses as the subsoil user) located in the Samara and Orenburg Regions. About half of all proved reserves are concentrated in 10 major fields, including the Mukhanovskoye, Kuleshovskoye, Barinovsko-Lebyazhinskoye, Mikhailovsko-Kokhanskoye, and Neklyudovskoye fields.

In 2017, hydrocarbon production totaled 13.0 mmtoe, with liquid hydrocarbons production increasing to 12.7 mmt. The production growth was driven by a 16% increase in new wells commissioned, use of advanced technologies, and effective implementation of a range of well interventions.

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 Arlanskoye, Yugomashevskoye, and Tuimazinskoye fields.

17.1
MMTOE
hydrocarbon production by Orenburgneft in 2017

Samaraneftegaz's average daily production in 2017 grew by 1.4%, bringing total production for the year to to 12.7 mmt.

Bashneft-Dobycha's hydrocarbon production totaled 17 mmtoe in 2017, with liquid hydrocarbons production of 16.6 mmt.

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-Troitskoye field.

In 2017, hydrocarbon production totaled 2.8 mmtoe, while liquid hydrocarbons production amounted to 0.8 mmt.

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, Khasyreyskoye, Srednemakarikhinskoye, and Cherpayuskoye.

Hydrocarbon production amounted to 3.4 mmtoe 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 – Osoveyskoye, Labaganskoye, and Naulskoye – is a promising focus area for RN-Severnaya Neft's business.

Bashneft–Polyus

Bashneft-Polyus conducts a development project for the Trebs and Titov fields located in the Nenets Autonomous Area, totalling 2 mmt of liquid hydrocarbons production in 2017[1].

65
MMT
a cumulative oil production milestone reached by RN–Severnaya Neft's since commencement of operations

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[2] 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 (AB1C1+B2C2).

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 90% of the Company's resource base of hard-to-recover reserves.

The Company's recoverable reserves of high-viscosity oil[3] 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 Kondinskoye group of fields, where hard-to-recover reserves exceed 150 mmt and the Erginsky License Area, the reserves of which amount to103 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.

16.3
MMT
oil production from hard-to-recover reserves in 2017

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-2022 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 Bazhenov, 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 Bazhenov 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 Bazhenov 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 Samara 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 Messoyakhskoye project fields.

2.5
BLN TONNES OF OIL
total hard-to-recover reserves

0.55
BLN TONNES
Rosneft's high-viscosity oil reserves

[1] Refers to 100% consolidated share in production.
[2] According to Federal Law No. 213-FZ dated 23 July 2013.
[3] A viscosity of more than 200 mPa according to Federal Law No. 151-FZ dated 27 July 2006.

2017 RESULTS

In 2017, exploration and development projects on hard-to-recover reserves delivered further positive results.

The Company continued implementing its innovative project 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.


Drilling rig at a Vankor cluster field

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[1]. 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 PWDU-North low-pressure gas compression station, and the PWDU 1 and PWDU 3 compressor stations of the Tomskneft VNK Sovetskoye field
- gas transportation infrastructure: gas pipelines "Alatorka Gas Processing Plant – Ilyino Modular Pump Station" and "Ilyino PWDU – 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 Prirazlomnoye 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

90.7%
APG utilization rate in 2017 (excludes fields at early stages of development[1])

Assets	APG Production in 2017, bcm	2017 Achievements
The Vankor cluster	6.8	Launch of low-pressure compression station to collect gas from low-stage separation with total capacity of 204 mmcm per annum at PWDU-South free water knock-out unit
Samotlorneftegaz	5.8	Maintaining APG utilization rate at the Samotlor field at 97%.
RN-Yuganskneftegaz	4.6	APG utilization rate of 98% at commissioning of the Chupalsky license area
RN-Purneftegaz	4.1	Increased production of liquid hydrocarbons from APG through enhanced recovery at the condensate stabilization unit at the Tarasovskoye field gas treatment plant.
Varyoganneftegaz	3.8	Launch of the second string of the pipeline to the Tyumen compressor station, and commissioning of new gas wells at well pad 300 at the Severo-Varyoganskoye field with 16% higher gas supplies to processing facilities
RN-Nyaganneftegaz	1.8	A 12% increase in production due to the construction and commissioning of new wells at the Yem-Yegovskoye field.

[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.

> 5

THSD SQ. KM

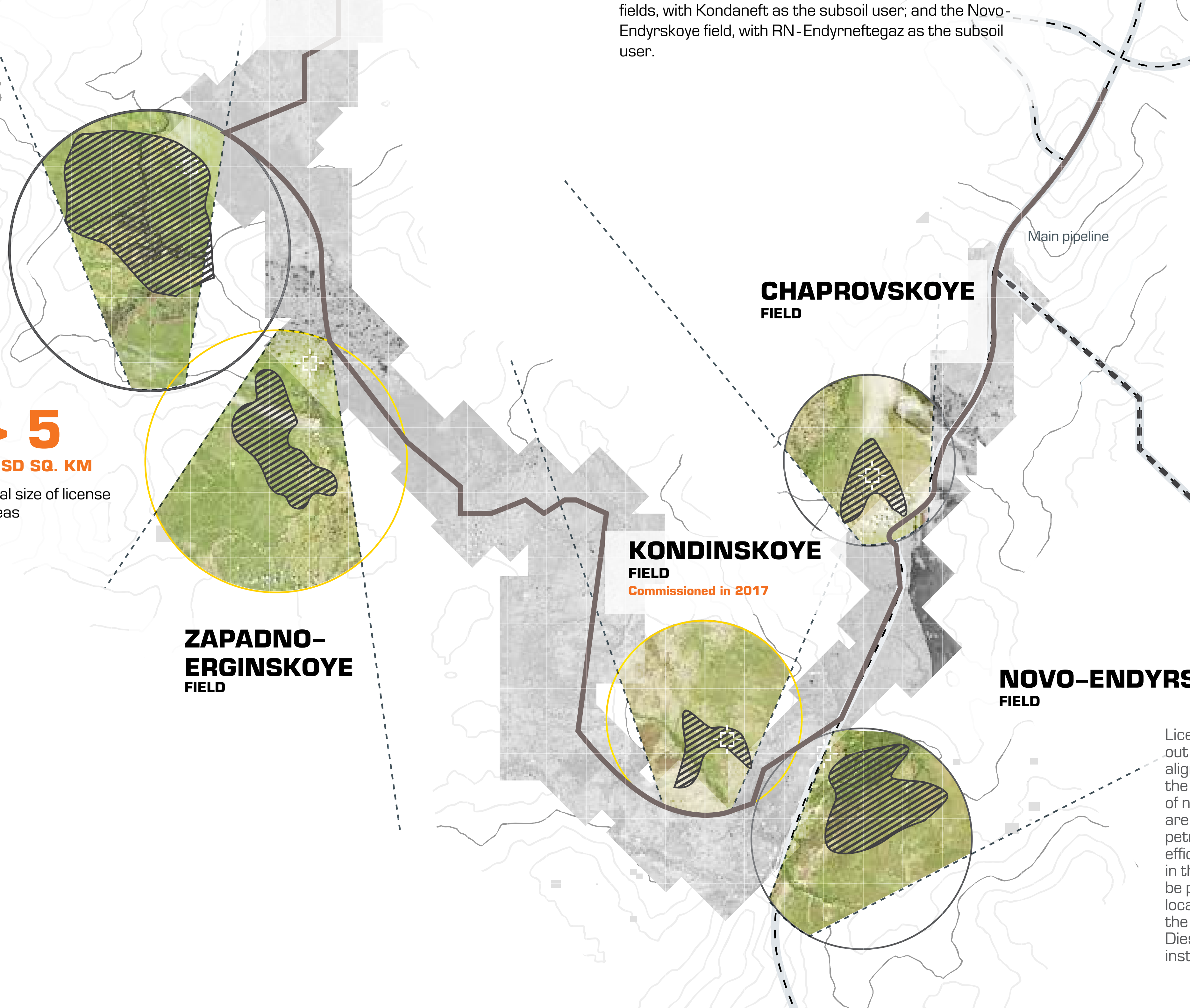
total size of license areas

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 Erginskoye, 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.

256

MMT OF OIL

recoverable reserves of the Erginsky cluster fields (AB1C1+B2C2) as at 1 January 2018

A large portion of recoverable reserves of the Erginsky cluster fields is hard-to-recover oil reserves.

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 Yurubcheno-Tokhomskoye Field

The Yurubcheno-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 62 producing wells and its oil production reached approximately 1.7 mmt as at 1 January 2018. The Yurubchenskaya 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 development of an expanded high-priority area of the Yurubchenskaya deposit at the Yurubcheno-Tokhomskoye field (the most productive part of the Yurubchenskaya deposit). In 2017, Vostsibneftegaz began 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 Yurubchenskaya deposit.

Phase 3 will bring into development all deposits at the Yurubcheno-Tokhomskoye field within the Yurubchensky and Tersko-Kamovsky (southern section) license areas.

In 2017, eight drilling rigs were used on-site and 23 wells were constructed.

In January 2018, the second multilateral well was completed at the Yurubcheno-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 Yurubcheno-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.

DETAILS

The project has been granted MET tax credits, and is focused on delivering oil to the ESPO pipeline via the Kuyumba–Taishet oil trunk pipeline

The project's development will result in a new large production hub in Eastern Siberia

Suzunskoye Field Development

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

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

DETAILS

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

The project's development benefits from synergies with the already-operational Vankor field by sharing power supply, oil transport (via the Vankor central production facility oil is delivered to 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).

In 2017, the construction, installation, and pre-commissioning operations at the infrastructure's main facilities were continued for the first and second oil treatment start-up complexes, with a design capacity of 5.2 mmt per annum, and the oil pipeline connecting the Suzun OTU and Vankor OTU; as well as the current development of six well pads and their related infrastructure. The existing oil well stock as at 1 January 2018 is 40 wells, and the existing injection well stock is 21 wells. In 2017, production amounted to 4.1 mmt of oil.

4.1
MMT
oil production at the Suzunskoye field in 2017

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.

3.2
MMT
oil and gas condensate production at the East Messoyakha field in 2017 (100% of the project)

East Messoyakha field

39
multilateral wells began producing oil in 2017

Planned construction of new well pads is underway, and infield infrastructure that was planned for 2017 has been constructed and commissioned.

A hydraulic fracturing pilot program is being implemented, the technology's feasibility has been proven for vertical wells penetrating PK1–3 layers, and its effectiveness in increasing well productivity has been confirmed. Average growth in flow rates amounted to 40% compared to horizontal wells in similar geological conditions. Measures are prepared and carried out to increase the efficiency of the Fishbones Stimulation Technology, the roll-out of which has been approved.

In February 2018, the construction of the first horizontal production well reaching into deep reservoirs of the East Messoyakha field was completed. The initial oil flow rate amounted to 250 tonnes per day, which confirmed the high potential of developing the underlying productive formations containing lighter oil than the main productive formation.

Pilots at the well include multi-stage hydraulic fracturing, as well as hydrodynamic and geophysical surveys to revise design solutions for well development and make decisions regarding the further drilling program.

250

TONNES PER DAY

initial oil flow rate of a horizontal well reaching into deep reservoirs of the East Messoyakha field

Srednebotuobinskoye Field Development (Phase 2)

Taas-Yuryakh Neftegazodobycha holds the subsoil use license for the Central Block of the Srednebotuobinskoye field and the Kurungsky 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 TAAS INDIA PTE. LTD.

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

The field's oil and gas condensate production in 2017 was 1.2 mmt, a 14% increase compared to 2016. The existing oil well stock as at year-end 2017 was 106 wells. The start-up complex of key infrastructure facilities (oil pipeline, CPF, and metering station) was launched during the pilot production phase.

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.

1.2

MMT

oil and gas condensate production at the Srednebotuobinskoye field in 2017

In 2017, five multilateral wells were completed, including those drilled using the Fishbones Stimulation Technology, with a total of 18 thousand meters drilled.

Kuyumbinskoye Field Development

The Kuyumbinskoye field located in the Evenki District of the Krasnoyarsk Territory is developed by LLC Slavneft-Krasnoyarskneftegaz, a subsidiary of NGK Slavneft. NGK Slavneft's major shareholders are Rosneft and Gazprom Neft. Currently Gazprom Neft manages the project's day-to-day operations.

The field was discovered in 1972. The project has been granted MET tax credits and export customs duty relief.

The Kuyumbinskoye field development project comprises several phases. Phase 1 includes current construction operations at the field and the launch of the first start-up complex, an allocated area with the most explored reserves. Subsequent stages envisage bringing into development the remaining deposits within the Kuyumbinsky license area.

As part of pilot development, Head Pump Station No. 1 was connected, and oil is delivered to the Kuyumba–Tayshet trunk pipeline. Main operations are underway at the key facility, CPF: installation of core process equipment, racks, and tanks. Construction and installation work is underway at the Right Bank of the Podkamennaya Tunguska–CPF oil and gas gathering pipeline. As at the end of 2017, the field contained 53 producing wells. Production drilling was continued at five well pads.

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 PK1–7 formation gas cap and the underlying PK layers, and layers containing gas and condensate in the Achimov and Jurassic deposits. The completion of asset retesting in the Jurassic deposits determined a development strategy, and an additional reserves exploration project is currently under development.

83 wells were drilled in 2017, including 71 production wells, two gas wells, and 10 water supply wells. During the pilot production phase in 2016–2017, eight multilateral wells were drilled, including three using the Fishbones Stimulation Technology. A well possessing unique trajectory was successfully constructed, with a vertical depth of 867 m and its total length amounting to 2,915 m, following a drilling time of 26 days.

The critical ground infrastructure was constructed on-site. The oil is transported by cargo trucks to the closest oil treatment and gathering facility located 404 km away, near the town of Gubkinsky.

Construction and installation operations covering 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.

83

WELLS

were drilled at the Russkoye field in 2017

8

MULTILATERAL WELLS

including 3 using the Fishbones Stimulation Technology, were drilled during the pilot production phase

Tagulskoye Field Development

The Tagulskoye field operated by RN-Vankor is located within the Turukhansk District of the Krasnoyarsk Territory. LLC Tagulskoye 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 2016. The project has been granted MET tax credits.

Its objective is commissioning the Tagulskoye 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 Taugulskoye 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.

0.3
MMT OF OIL
were produced at the Tagulskoye field


Drilling at the Tagulskoye field

Lodochnoye Field Development

The Lodochonye 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 PWDU-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.

To assess the production potential of core assets in the most promising areas, pilot production was started at the field in 2017.


Well pad at the Lodochnoye field

4.5. DEVELOPMENT OF A HIGH-TECH OILFIELD SERVICES BUSINESS

Drilling

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 Kondaneft, 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.

The fleet of in-house service drilling rigs in 2017 amounted to 283 units at an average age of 11 years, and the number of drilling crews increased to 257. The share of in-house drilling services remained flat at 60%, with a 20% increase in meters drilled year-on-year and over 2.1 thousand wells drilled. The commercial drilling speed increased by 9% year-on-year.

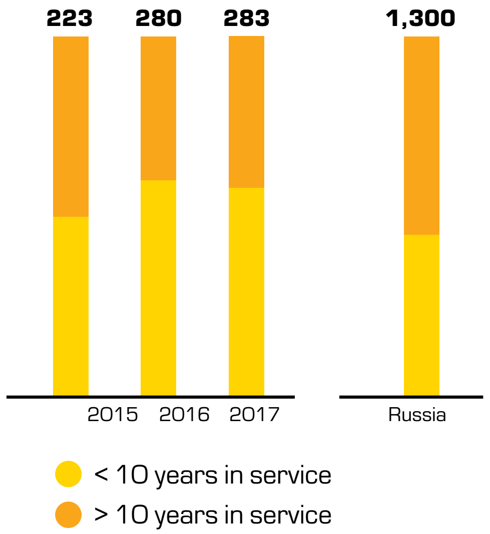
As part of the project to develop the Khatangsky license area in the Krasnoyarsk Territory's north, the drilling crew of the RN-Burenie East Siberian branch drilled the first Central Olginskaya-1 appraisal well on the East Arctic shelf, and well tests are scheduled for 2018.

At a RN-Yuganskneftegaz project, a drilling crew with RN-Burenie's Nefteyugansk branch set a Rosneft record of 100 thousand meters drilled in 2017.

~ 60%

in-house services share in Rosneft's total production drilling

Own Drilling Rigs



60%

OF OWN DRILLING RIGS

in service for less than 10 years

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 Ufa 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.

DETAILS

RN-Service is currently the largest well workover and servicing enterprise, with branches in 13 Russian regions

The company provides well servicing to 18 Rosneft upstream companies, taking a 41% market share in the workover and servicing of Rosneft wells and a 23% share in the workover and servicing of wells in Russia

As at December 2017, the number of active well workover and servicing crews totaled 702

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:

- 25% – 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 (OJSC KNG-Mashzavodservice and LLC Samarskiy ITC) under the management agreement.

In 2017, LLC Targin-Mekhanoservice, 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.

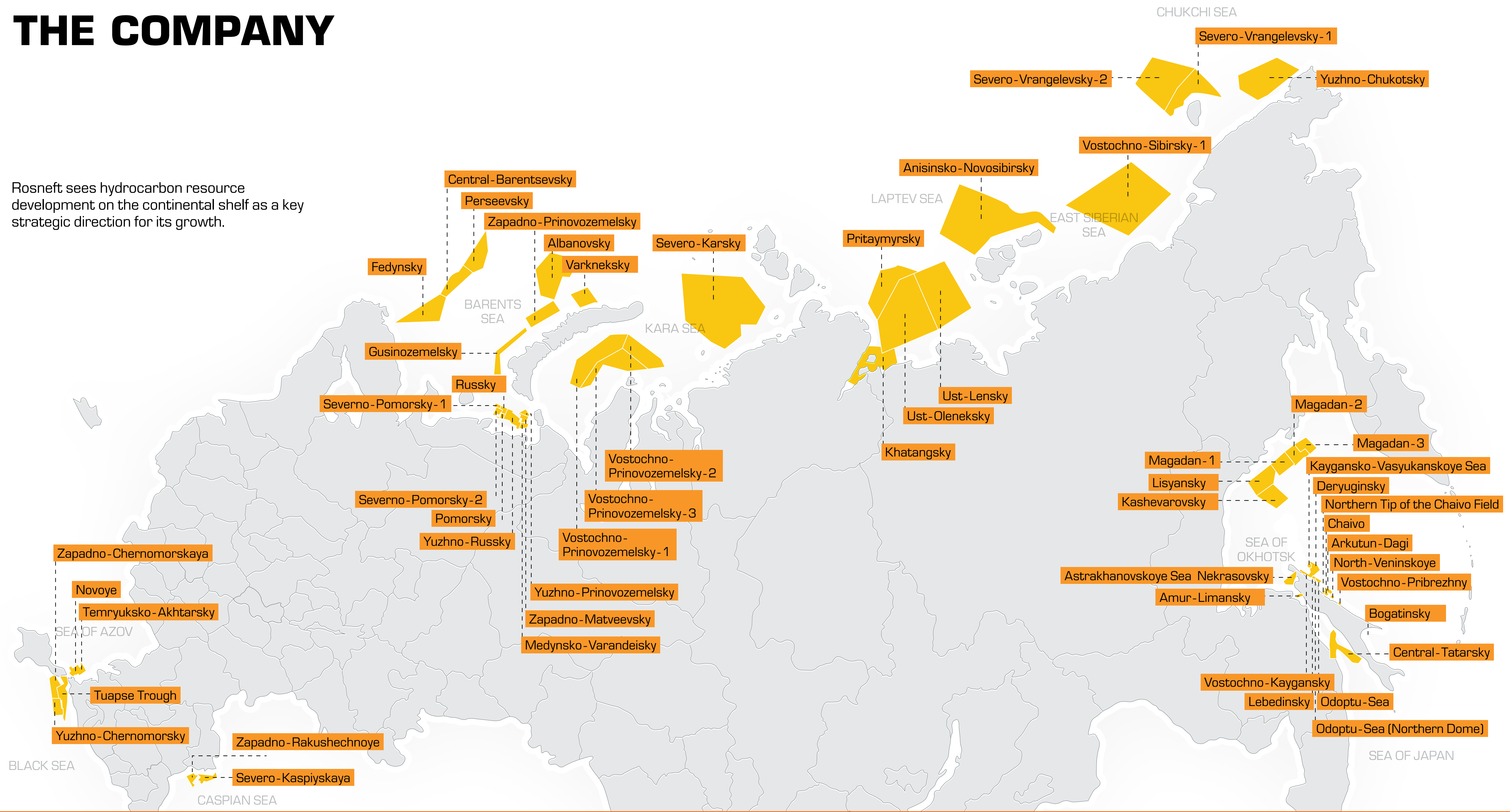
LLC RN-Remont NPO provided oilfield equipment maintenance services in the amount of 1,574,081 days and 645,065 items of equipment, repairing 607,069 items of oilfield equipment and tubing, and manufacturing 316,626 spare parts and other products.

LLC Targin-Mekhanoservice provided oilfield equipment maintenance services in the amount of 1,117,763 days and 3,040,448 items of equipment, repairing 543,312 items of oilfield equipment and tubing, and manufacturing 85,285 spare parts and other products.

LLC RN-Remont NPO operates in the Sakhalin Region, the Krasnoyarsk Territory, the Khanty-Mansi Autonomous Area – Yugra, the Yamal-Nenets Autonomous Area, the Komi Republic, the Republic of Bashkortostan, the Samara Region, the Stavropol Territory, and the Krasnodar Territory.

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

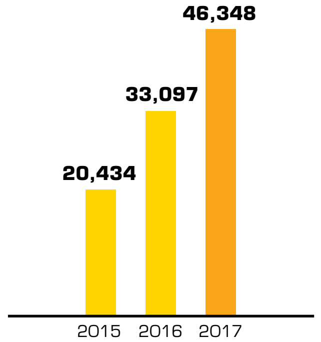
Results of Offshore Exploration in Russia

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 license 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.

Growth in 2D Seismic Data Acquisition, linear km



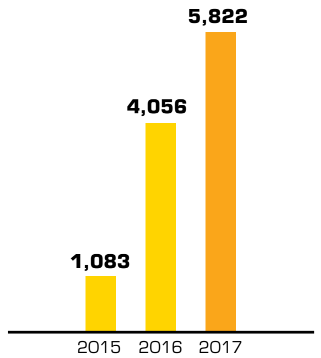
3D SEISMIC SURVEYS

To detail the geology of prospects and support planning for exploration drilling on selected prospects, 5,822 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.

All 2017 exploration programs covering the waters of Russian seas were carried out in strict compliance with the Russian environmental regulation and in line with all applicable environmental and industrial safety standards. Continuous observations of marine wildlife were carried out during the marine exploration campaigns.

Growth in 3D Seismic Data Acquisition, sq. km



EXPLORATION DRILLING

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.

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: Gusinozemelsky (the Barents Sea), Pritaimyrsky (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.

The surveys yield input data for environmental initiatives, environmental impact assessments for different exploration activities, and damage and compensation calculations for offshore project planning and implementation.

Rosneft also performs industrial environmental control and monitoring for all its offshore activities, including marine mammals and birds observations at 19 license areas in the Arctic region and two license areas in the Far East during G&G studies in Russian seas in 2017.

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.

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 produced from an onshore site using super-extended reach horizontal wells. At the Chaivo field, oil is extracted from an onshore site and the Orlan platform using 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, %

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

Orlan offshore drilling platform

In 2017, the Sakhalin-1 project produced a total of over 9,2 mmt of oil and gas condensate (Rosneft's share was approximately 1.8 mmt). Over 2.3 bcm of gas (Rosneft's share of 0.46 bcm) were supplied to consumers.

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.

Oil production at the northern tip of the Chaivo Field involves five wells that have a unique, complex design and extended reach. The wells are equipped with high-tech completion systems comprising inflow control devices to minimize gas breakthroughs and maximize cumulative oil production.

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

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.

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.

332
THSD TONNES
actual production from the Lebedinskoye field in 2017

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 5–8 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, outbound pipelines to transport oil, gas, and water, and power generation facilities were constructed as part of the field setup.

371
THSD TONNES
actual production from the Odoptu-Sea Field in 2017

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[1]. 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 tcm, 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 Yurubchensky subsoil area of 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.

20%

share of gas in the Company's total hydrocarbon production in 2017

68.41

BCM

total gas production in 2017[2]

Construction of a tank farm

[1] Source: CDU TEK.
[2] Recovered gas volume excluding flared gas and gas used for liquid hydrocarbons production.

ACHIEVEMENTS IN GAS BUSINESS DEVELOPMENT

STRATEGY

- In December 2017, the Company'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, and on increasing returns on the Company's existing assets

GAS PRODUCTION

- 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%

EXPLORATION AND RESOURCE BASE DEVELOPMENT

- Recoverable AB1C1+B2C2 gas reserves rose by 4% year-on-year, reaching 7.9 tcm

INTERNATIONAL COOPERATION

- 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

STRATEGIC OBJECTIVES OF GAS BUSINESS

The following strategic objectives were set for implementing the Rosneft-2022 Strategy in gas business:

- Development of major gas production projects, including Rospan and Kharampur, on time and within budget, thereby raising production to more than 100 bcm per annum

- Improving the cost efficiency of gas sales in the Russian Federation, particularly by creating a favorable regulatory environment such as equal access to infrastructure and consumers

- Improvements in production performance and expansion upon technological competence, securing:
  - development of reserves of the Turonian deposit
  - development of LPG[3] and NGL[4] production
  - increased APG utilization, including through the development of captive power generation and petrochemicals
  - gas reserve monetization in the long term within Eastern Siberia and the Far East, including through petrochemicals development

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

[3] LPG – liquefied petroleum gas.
[4] NGL – natural gas liquids.

Gas Production

In 2017, Rosneft's gas production both in Russia and abroad totaled 68.41[1] 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 67.62 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.[2] 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 mmtpa, and commercial butane and propane mixture production of up to 1.3 mmtpa. Active construction operations continued on key infrastructure facilities throughout 2017, such as the gas and condensate treatment unit at the Vostochno-Urengoysky license area, the condensate stabilization unit and methane removal system for propane-butane, the Vostochno-Urengoysky Gas Turbine Power Plant, the Korotchaevo 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.

Kharampur

Operations at the Kharampurskoye 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-Chaselsky 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 Verkhnechonskneftegaz, which is currently developing the Verkhnechkosnkoye 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 PetroResources Limited.

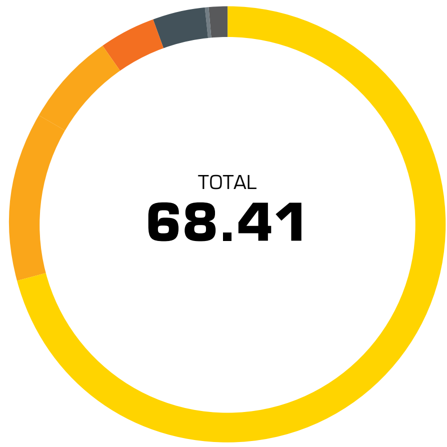
ACHIEVEMENTS IN GAS PRODUCTION IN 2017

Russia's gas production grew by 1.5 bcm – 2.3% compared to 2016. The following factors predominantly contributed to the growth:

- higher production of associated petroleum gas (APG) and natural gas in 2017 due to new well start-ups by Varyoganneftegaz, and higher gas deliveries through the Tyumen compressor station following its renovation
- acquisition of Bashneft assets in Q4 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



48.5	Western Siberia
13.26	Eastern Siberia and the Far East
2.85	Southern Russia
2.74	Central Russia
0.27	Other (including Timan-Pechora)
0.79	Foreign assets

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 Varyeganneftegaz fields.

In Eastern Siberia, gas is produced at the Vankor group of fields, which are 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 onshore fields and offshore Sakhalin Island, where RN-Shelf-Dalny Vostok provided the bulk of the 4.63 bcm of total gas production in 2017.

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.

Gas production in Central Russia totaled 2.74 bcm in 2017, and was primarily provided by the Orenburgneft and Samaraneftegaz fields, as well as the Bashneft-Dobycha assets acquired in 2016.

Gas production abroad as part of the Company's foreign projects was carried out in Vietnam, Venezuela, Egypt, and Canada.

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 Patao field projects. Operator with rights to export the produced gas.

Vietnam

A 35% stake in the gas and condensate production project at Block 06.1 (Operator). A 32.67% stake in the Nam Con Son gas pipeline.

Brazil

A 100% stake in the Solimões Basin blocks where exploration is currently underway. Operator.

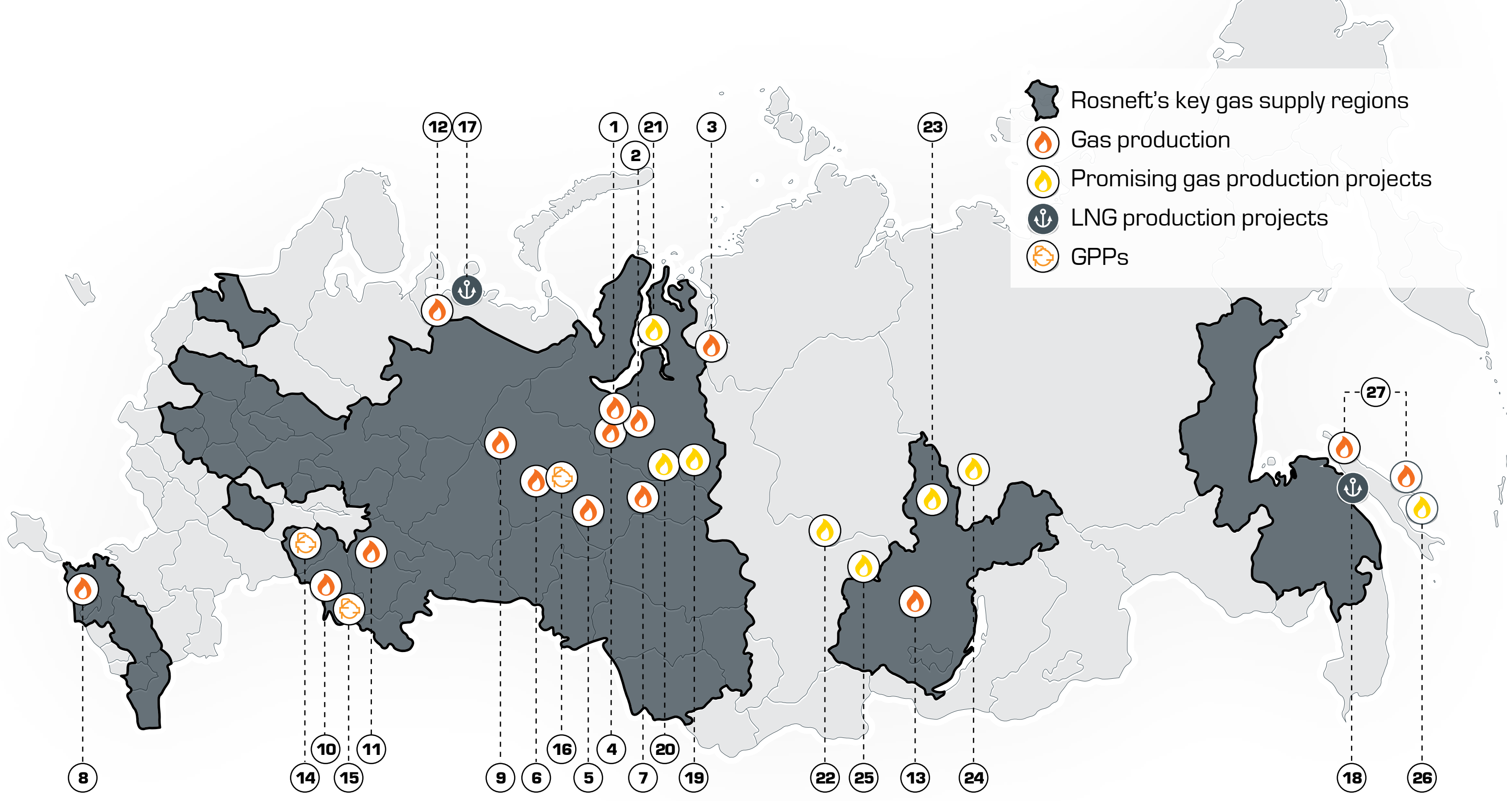
Mozambique

In 2015, a consortium comprising Rosneft and ExxonMobil was awarded three offshore gas blocks (A5-B, Z5-C, and Z5-D) where Rosneft has a 20% stake.

[1] Recovered gas volume excluding flared gas and gas used for liquid hydrocarbons production.
[2] Source: CDU TEK.

For more details on implemented projects see Section 4.8.

Map of Key Assets and Promising Projects of the Company's Gas Business



① ROSPAN
Rospan is the Company's key hub for long-term hydrocarbon production growth through to 2020. In 2017, natural gas production amounted to 6.45 bcm.

The target annual production is over 19 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 at 1 January 2018, the total recoverable AB1C1 + B2C2 reserves at the Vostochno-Urengoysky, Novo-Urengoysky, and Resursny license areas of Rospan International amounted to 1 tcm of gas and over 200 mmt of gas condensate and oil.

② SIBNEFTEGAZ
The Company's largest gas-producing asset in 2017, with its production totaling 12.58 bcm.

In 2017, production increased by 0.44 bcm year-on-year, primarily due to new well start-ups and optimization of the existing well operations.

In the short term, the Company plans to continue implementing production maintenance programs at existing fields and developing its project to produce gas from the lower deposits of the Beregovoye field. In the medium term, annual gas production is projected to reach 17 bcm.

③ VANKOR GROUP
Total production of 8.4 bcm.

④ RN-PURNEFTEGAZ
Total production of 6.07 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.

⑤ SAMOTLORNEFTEGAZ[2]

Total production of 5.82 bcm.

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

⑥ RN-YUGANSKNEFTEGAZ
Total production of 4.64 bcm.

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

⑦ VARYOGANNEFTEGAZ[3]
Total production of 3.97 bcm.

Gas production increased by 16.8% 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.

⑧ KRASNODARNEFTEGAZ

Total production of 2.47 bcm.

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

⑨ RN-NYAGANNEFTEGAZ
Total production of 1.79 bcm, a 12.6% increase compared to 2016 due to the construction and commissioning of new wells at the Yem-Yegovskoye field.

⑩ ORENBURGNEFT
Total production of 1.74 bcm.

⑪ BASHNEFT-DOBYCHA
The enterprise totaled a 93.8% 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 "Alatorka Gas Processing Plant – Ilyino Modular Pump Station" and "Ilyino PWDU – Iskra Block Modular Power Plant", among a number of other facilities.

⑫ BASHNEFT-POLYUS
Both Rosneft and its partner, LUKOIL, develop the Trebs and Titov fields in the Timan-Pechora oil and gas province. Facilities aiding the increase of APG utilization rates are currently under construction.

⑬ BRATSKEKOGAZ
Supplies gas to consumers in the Irkutsk Region.

⑭ OTRADNENSKY AND NEFTEGORSKY GPPS IN THE SAMARA REGION

⑮ ZAYKINSKY GPP AND THE POKROVSKAYA GAS TREATMENT PLANT IN THE ORENBURG REGION
Production centers offering high added value products. The Zaykinsky GPP and the Pokrovskaya gas treatment plant merged in 2017 to enhance performance, following their spin-off from Orenburgneft and formation of a new enterprise named LLC RN-Buzuluksky GPP.

⑯ RN-YUGANSKGAZPERERABOTKA
The subsidiary LLC RN-YuganskGazPererabotka was established to carry out the construction project of the Maysky gas processing complex, where design activities and surveys have begun.

⑰ PECHORA LNG
A joint venture with ALLTECH Group.

⑱ AR EASTERN LNG (PART OF THE SAKHALIN-1 PROJECT)
Field surveys were completed near the De-Kastri settlement and the Nevelskoy Strait during the 2017 season, and optimization projects aimed at reducing investment costs while increasing the efficiency of the plant's construction were carried out.

⑲ KHARAMPUR
One of Rosneft's most crucial active gas business development projects.

FEED is being completed, production wells are being drilled, preparatory activities have begun, and contractors have been mobilized to build an outbound has pipeline.

Following the start-up of the Cenomanian deposits development, gas production will reach approximately 11 bcm per annum in the medium term. The use of cutting-edge technology will provide a full-scale development of the Turonian deposit's hard-to-recover reserves, with a potential for further production growth of up to 24 bcm.

⑳ KYNSKO-CHASELSKY LICENSE AREA

A promising project.

Following the launch of development on this group of fields, gas production is expected to reach about 11 bcm per year in the long term, with potential for further growth of up to 16 bcm per year.

㉑ MINKHOVSKOYE
A promising gas production project in the northern part of the Yamalo-Nenets Autonomous Area; further exploration of reserves is currently underway on the Gydan Peninsula.

㉒ YURUBCHENO-TOKHOMSKAYA GROUP OF FIELDS
A promising project to develop one of the largest oil and gas condensate fields with strong gas potential in the south of the Krasnoyarsk Territory.

㉓ VERKHNECHONSKNEFTEGAZ
A promising project to develop an oil and gas condensate field with large gas production potential in the Irkutsk Region.

㉔ TAAS-YURYAKH NGD
A promising project to develop the Srednebotuobinskoye oil and gas condensate field in Yakutia.

㉕ AGALEEVSKY LICENSE AREA
A promising gas production project in the Krasnoyarsk Territory at the stage of further exploration of reserves.

㉖ NORTH-VENINSKOYE
A promising gas production project on the Sakhalin shelf.

㉗ RN-SHELF-DALNY VOSTOK, RN-SAKHALINMORNEFTEGAZ, SAKHALIN-1
Supply gas to consumers in the Sakhalin Region and the Khabarovsk Territory.

[1] NGL – natural gas liquids.
[2] Including JSC Yugraneft Corporation.
[3] 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 of 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 closed a deal to acquire a 30% 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 was granted a production license for the Patao and Mejillones fields 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 Iraqi Kurdistan.

Operations were launched by the joint venture Perforosven, S.A. (51% Rosneft, 49% PDVSA Servicios Petroleros, S.A.) as part of a project to develop oilfield services for oil production joint ventures.

Pilot oil production was launched by Petrovictoria JV at the early production site at the Orinoco oil belt (Carabobo 2/4 project).

VENEZUELA

Rosneft is one of the largest international investors in the Bolivarian Republic of Venezuela (BRV). 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%), Petroperijá (40%), Boquerón (26.67%), Petromiranda (32%), and Petrovictoria (40%). Oil production from the Company's projects in Venezuela was 8.06 mmt in 2017, with 3.14 mmta attributable to Rosneft, a 17,6% increase year-on-year. The production growth was driven by Rosneft raising its stake in Petromonagas JV in May 2016, increased production at Petromiranda JV, and start-up of pilot production at the Carabobo 2/4 project (Petrovictoria JV).

Higher production volumes were achieved at mature fields in Venezuela. The average well construction time at Petromonagas JV 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 JV 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 scenario, and the most attractive options were selected for further pre-project activities. The expected synergies between the projects operated by Petromonagas JV and Petrovictoria JV 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 times 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 Patao fields, part of the Mariscal 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 Chávez 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 30 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.

Starting from 2014, the Company has signed a number of contracts to purchase oil and petroleum products from PDVSA state oil company on a prepayment basis. As at the end of 2017, PDVSA supplied over USD 2.5 billion worth of oil and petroleum products, including supplies worth USD 1.9 billion in 2017, against the prepayments made, including the interest accrued.

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.

3.14 MMT

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.

PROJECTS OFFSHORE VIETNAM

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 2016 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.

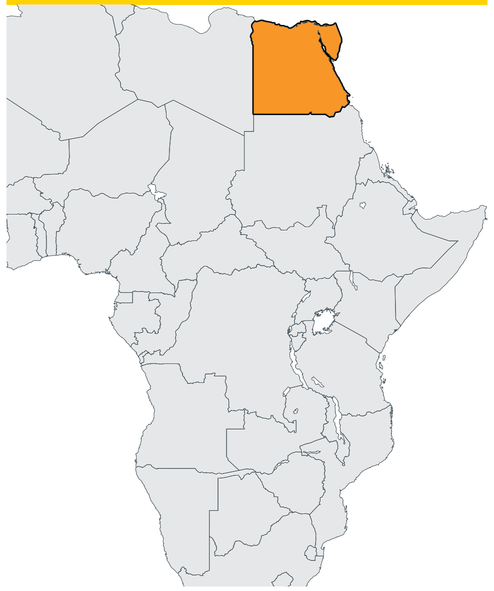
The Nam Con Son pipeline has a capacity of 7.7 bcm per year, carrying approximately 6.03 bcm of gas in 2017, including the gas produced from Block 06.1 and other operators in the Nam Con Son Basin. In 2017, the Governments of Vietnam and Indonesia signed a memorandum on potential hydrocarbon supplies 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.

7.7
BCM PER YEAR
Capacity of the Nam Con Son pipeline

THE ZOHR PROJECT IN EGYPT



In 2016, Rosneft signed binding documents with ENI for acquisition of a stake in the Shorouk Block concession to develop the super-giant Zohr gas field located 190 km off the Egyptian coast in the southern part of the Mediterranean Sea.

In October 2017, Rosneft closed a deal to acquire a 30% stake in the concession, with Eni (60%) and BP (10%) holding the remaining stakes.

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 the biggest 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.

Rosneft became a full-fledged participant in the Zohr project in 2017, with a 30% stake.

> 850
BCM
the field's estimated in-place gas reserves

Gas production at the field started in December 2017.

BRAZIL

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)

On the sidelines of the 21st St. Petersburg International Economic Forum, Rosneft and the Government of Iraq's autonomous Kurdistan Region signed a series of agreements on cooperation in the exploration and production of hydrocarbons, particularly regarding five blocks with significant geological potential in Iraqi 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 mln 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

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.

20%

the Company's stake in the Rosneft–ExxonMobil consortium

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 analyses. The Company is the project operator, holding a 90% stake in the production sharing 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 Norwegian sector of the Barents Sea through its subsidiary RN Nordic Oil AS (RNNO).

4.9. DOWNSTREAM

36%

ROSNEFT'S SHARE IN RUSSIA'S TOTAL OIL REFINING CAPACITY

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

	2015	2016[1]	2017	Change 2016/2017[3]
Crude oil distillation capacity, mmt per year	95.1	100.9	118.4[2]	17.3%
Oil refined, mmt per year	84.7	87.5	100.6	15.0%
Refinery utilization rate, %	89.1	86.7	85.0	–1.7 p.p
Petroleum product and petrochemical output	82.9	84.8	96.9	14.3%
Refining depth, %	66.5	72.0	75.2	3.2 p.p.
Light product yield, %	55.3	56.6	58.4	1.8 p.p.

[1] Including effect from Bashneft purchase in October 2016.
[2] As at 1 January 2018, excluding non-operational capacities undergoing overhauls, including mini-refineries.
[3] Counted from non-rounded data.

Russian Oil Refining and Petrochemicals Business Product Mix

Product	2015 mmt	2016 mmt[1]	2017 mmt	Change 2016/2017,[3] %
Diesel fuel[4]	26.3	27.5	33.0	20.0%
Motor gasolines	11.3	12.6	15.3	21.1%
Fuel oil	26.6	22.7	23.0	1.7%
Naphtha	5.6	6.0	6.2	4.2%
Kerosene	3.1	3.1	3.3	8.2%
Petrochemicals	1.0	0.9	1.5	68.9%
Other	9.1	12.0	14.5	20.6%
Total in Russia	**82.9**	**84.8**	**96.9**	**14.3%**

[4] 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 III 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 of assets (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)

Rosneft is the largest oil refiner in Russia, controlling oil refineries with a combined throughput capacity of 116.5 mmt of oil per year in key regions of Russia. The average Nelson Index of the Company's refineries in Russia is approximately 7.0.

The Company also owns several mini-refineries in Russia, the largest of which is Nizhnevartovsk Oil Refining Association.

In addition, Rosneft owns a number of refining assets abroad.

In Germany, the Company holds stakes ranging from 24% to 54% in three refineries through its subsidiary, Rosneft Deutschland GmbH, controlling over 12% of oil refining capacities and ranking third by oil refining capacity in the country. The average Nelson Index of the Company's refineries in Germany is 9.1.

In Belarus, Rosneft indirectly owns 21% of shares in the Mozyr Refinery. The Company works with partners in the Asia-Pacific Region to explore opportunities in building new oil refineries in both China and Indonesia.

The Company holds a 49% stake in the high-tech Vadinar Refinery, the second-largest in India, with a throughput capacity of 20 mmt of oil per year and a Nelson Index of 11.8.

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 synergetic action plan's implementation granted savings of approximately RUB 4 bln 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.

In 2017, investment decisions were made following assessments on the Company's major investment projects for the maintenance and development of its Integrated Refining Complex.

The projects were integrated with Bashneft's updated refining strategy and their investments have been included in the 2018–2022 Business Plan.

Certain projects in the Company's investment portfolio require further assessment throughout 2018 to ascertain their feasibility.

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.

Oil Refining in Russia

In 2017, refining throughput at the Company's refineries in Russia amounted to 100.6 mmt, compared to 87.5 mmt in 2016[1]. The sharp increase was due to Bashneft's assets integration in Q4 2016 and improved market conditions. In 2017, light product yield grew by 1.8 percentage points year-on-year to 58.4%, and refining depth grew by 3.2 percentage points to 75.2%. Refinery throughput at the Company's mini-refineries in Russia amounted to 1.9 mmt in 2017, with Nizhnevartovsk Oil Refining Association accounting for a majority 1.5 mmt of the oil refined.

In 2017, the Company's oil refining activities were focused on:

- meeting market demand for quality petroleum products through ongoing refinery maintenance and upgrade programs
- developing and implementing effective projects in refinery debottlenecking and bitumen production development
- improving operational performance and driving operating cost down.

Going forward into 2018 and through to 2020, the Company aims to bolster the segment's resilience to tax and macroeconomic developments by prioritizing projects at near completion, as well as high-impact and fast-payback projects, including:

- debottlenecking and operational efficiency improvement projects
- renovation of the Bashneft-Ufaneftekhim Refinery's hydrocracking unit
- the completion of the hydrocracking unit construction at the Tuapse, Achinsk, Novokuibyshevsk, and Komsomolsk Refineries, as well as the installation of catalytic cracking plants at the Kuibyshev and Syzran Refineries.

100.6
MMT
refining throughput at the Company's refineries in Russia in 2017

The Company's refining strategy was updated in 2017 during development of the Rosneft-2022 Strategy, along with the rankings within its segment investment portfolio for the prioritization and fast-tracking of its most efficient projects.

[1] Including Bashneft's performance since its purchase in October 2016.

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 hydrotreating unit at the Angarsk Refinery

FRS funding for refinery upgrade projects implemented by the Company's Oil Refining and Petrochemicals Business amounted to RUB 31.4 bln in 2017.

Construction completed
Construction to be completed in 2018 or later
Renovation completed
Renovation to be completed in 2018 or later

Refinery Upgrade: Completion Status

	Ryazan Refinery	Angarsk Refinery	Novokuibyshevsk Refinery	Syzran Refinery	Kuibyshev Refinery	Komsomolsk Refinery	Effect
Crude distillation	Construction to be completed in 2018 or later		Construction to be completed in 2018 or later				↑ Oil refined
Vacuum distillation	Construction completed						↑ Refining depth
Isomerization	Construction completed	Construction completed	Construction completed; Renovation completed	Construction completed	Construction completed		↑ Euro 5 gasoline
Catalytic cracking				Construction to be completed in 2018 or later	Construction completed		↑ Light product yield
Hydrotreating	Renovation to be completed in 2018 or later	Construction to be completed in 2018 or later; Construction to be completed in 2018 or later	Construction to be completed in 2018 or later	Construction to be completed in 2018 or later	Construction to be completed in 2018 or later	Construction to be completed in 2018 or later	↑ Euro 5 fuel
Reforming			Construction completed	Renovation completed; Renovation completed	Renovation completed	Renovation completed	↑ Euro 5 gasoline
Alkylation		Construction to be completed in 2018 or later			Construction to be completed in 2018 or later		↑ Euro 5 gasoline
Coking[1]			Renovation to be completed in 2018 or later			Construction completed	↑ Refining depth
Hydrocracking	Construction to be completed in 2018 or later		Construction to be completed in 2018 or later			Construction to be completed in 2018 or later	↑ Light product yield
MTBE	Construction to be completed in 2018 or later	Construction completed		Construction to be completed in 2018 or later	Construction completed		↑ Euro 5 gasoline

	Tuapse Refinery	Achinsk Refinery	Saratov Refinery	Ufa Group of Refineries	Effect
Crude distillation	Construction completed		Renovation completed		↑ Oil refined
Vacuum distillation		Construction to be completed in 2018 or later			↑ Refining depth
Isomerization	Construction to be completed in 2018 or later	Construction completed	Construction completed		↑ Euro 5 gasoline
Catalytic cracking					↑ Light product yield
Hydrotreating	Construction to be completed in 2018 or later	Construction to be completed in 2018 or later; Renovation completed	Renovation completed	Construction completed	↑ Euro 5 fuel
Reforming	Construction to be completed in 2018 or later				↑ Euro 5 gasoline
Alkylation				Construction completed	↑ Euro 5 gasoline
Coking[1]	Construction to be completed in 2018 or later	Construction to be completed in 2018 or later		Construction to be completed in 2018 or later	↑ Refining depth
Hydrocracking	Construction to be completed in 2018 or later	Construction to be completed in 2018 or later	Construction to be completed in 2018 or later	Renovation to be completed in 2018 or later	↑ Light product yield
MTBE					↑ Euro 5 gasoline

[1] Delayed coking or flexicoking.

The Company's oil refining operations are focused primarily on the strategic task of supplying high-quality petroleum products to the Russian domestic market, including remote Russian regions such as Eastern Siberia and the Far East.

Some of the Company's refineries, unlike those of most other Russian producers, are located very far from export markets, which limits the potential for boosting economic efficiency and return on capital employed in the Company's oil refining business. Therefore, the Company continues the efforts to connect its facilities to the pipeline infrastructure, and maintains active dialogue with authorities to create sustainable tax mechanisms stimulating the development of the oil refining industry.

PETROLEUM PRODUCT QUALITY CONTROL

The motor fuels produced by Rosneft's refineries have high performance characteristics and meet the K5 ecological class requirements outlined in the Technical Regulations of the Customs Union CU TR 013/2011 On Requirements for Motor and Aviation Gasoline, Diesel and Marine Fuels, Fuels for Jet Engines, and Fuel Oil.

Quality management systems at the Company's refineries meet the requirements of the ISO 9000 international standards and ensure high-quality production and minimization in customer claims.

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 multi-stage monitoring and quality control of components and marketable products throughout all stages of the 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 anti-wear additives produced by Company-owned facilities in Russia. A number of the Company's refineries are now utilizing the Russian VES-410D pour point depressant additive produced by the Angarsk Plant for Catalysts and Organic Synthesis.

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
- 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
- Successful construction of a central laboratory at the Kuibyshev 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

FRS funding for refinery maintenance projects implemented by the Oil Refining and Petrochemicals Business amounted to RUB 24.3 bln in 2017.

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 Novokuibyshevsk Refinery and TS-1 jet fuel at the Ryazan Refinery using alternative anti-wear additives, as well as the launch of improved motor fuels at the Komsomolsk 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, Novokuibyshevsk, Bashneft-Ufaneftekhim, and Ryazan Refineries for weaponry, military equipment, and special equipment

In 2017, Rosneft successfully ensured through a set of initiatives that its key export products comply with international technical regulations (REACH, CLP, GHS), developing 24 Safety Data Sheets in accordance with international standards.

55.7
RUB BLN

invested by Rosneft in projects aimed at refinery upgrades and maintenance in 2017

IMPROVED OPERATIONAL PERFORMANCE OF REFINERIES

Rosneft consistently improves the operational performance across the Group's refining assets.

In 2017, the Company:

- optimized hydrotreating 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 RUB 22.6 bln

22.6
RUB BLN

economic benefit of improved operational performance across refineries

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

In 2017, the Company implemented the previously approved Oil Refining and Petrochemicals Business Energy Savings Directive. The actual effect was 534.5 tce, exceeding the targeted 503.5 tce.

Main Areas of Focus and Activities for the Operational Efficiency Improvement Program in 2017

Focus	Activities
Capacity and product yield optimization	• Overhaul of refineries' product utilization schemes • Refitting of product shipment systems • Optimizing oil and petroleum product loading/unloading rack operations • Implementation of optimized process control systems at refineries
Energy consumption reduction	• Overhauling steam and heat exchanger networks at facilities • Improving the efficiency of waste heat boilers • Improving furnace efficiency • Improving the efficiency of heat exchangers
Reliability and mechanical availability	• Optimizing overhauls of refinery facilities and processing operation times without workload reduction • Procedures extending the functional operation times between refinery facility repairs • Optimizing repairs and turnaround schedules following assessments of equipment condition
Reduction in oil and petroleum product losses	• Increasing hydrogen-rich gas refined by PSA-unit 2 • Reducing raw APG flaring • Equipping petroleum product tanks with floating roofs

REDISTRIBUTION OF COMPONENT FLOWS BETWEEN THE GROUP'S REFINERIES

In 2017, Rosneft continued the successful redistribution of component flows between the Group's refineries.

- MTBE produced at the Kuibyshev Refinery was introduced into the process flow
- Processing of the butane-butylene fraction produced at the Kuibyshev 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 pour point depressant additives produced by Rosneft's plants

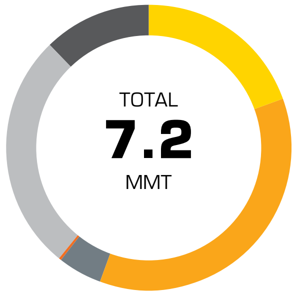
The successful initiatives enabled an improved performance across the Company's plants while reducing operating costs.

Refineries in the Russian Federation

NOVOKUIBYSHEVSK REFINERY

Capacity, mmt
Refinery throughput, mmt

Petroleum Product and Petrochemical Output, 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 offsite 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

73.9% refining depth

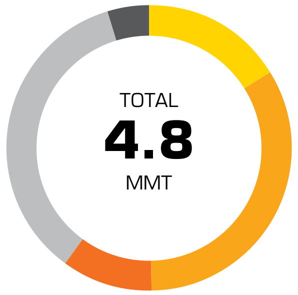
55.1% light product yield

[1] As at 1 January 2018, excluding non-operational capacities undergoing overhauls.

KUIBYSHEV REFINERY

Capacity, mmt
Refinery throughput, mmt

Petroleum Product and Petrochemical Output, mmt



0.789	Motor gasolines
1.618	Diesel fuel
0.491	Naphtha
1.693	Fuel oil
0.225	Other

Key Focus Areas in 2017

- Catalytic cracking complex construction continued (FCC unit offsite 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

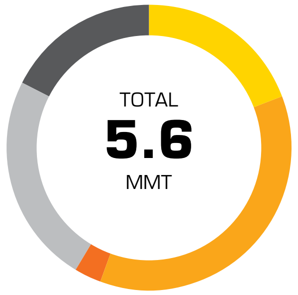
65.4% refining depth

58.1% light product yield

SYZRAN REFINERY

Capacity, mmt
Refinery throughput, mmt

Petroleum Product and Petrochemical Output, mmt



1.081	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 offsite 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.

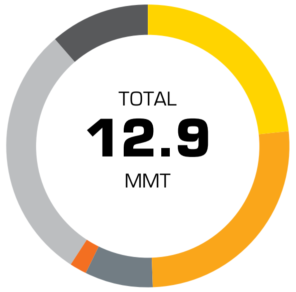
76.2% refining depth

57.2% light product yield

RYAZAN REFINERY

Capacity, mmt
Refinery throughput, mmt

Petroleum Product and Petrochemical Output, mmt



3.033	Motor gasolines
3.381	Diesel fuel
0.997	Kerosenes
0.250	Naphtha
3.821	Fuel oil
1.444	Other

Key Focus Areas in 2017

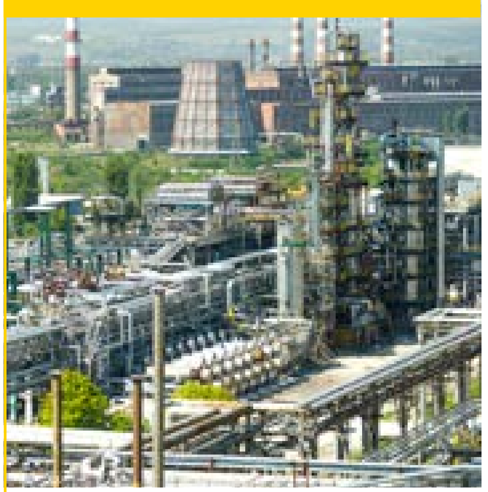
- Facility maintenance
- Comprehensive enterprise development program continued
- Large-scale repair and upgrade program completed on the AT-6 atmospheric distillation unit, the gas fractionation unit (with a dry gas desulfurizer) upgraded, the LPG tank farm re-equipped, and the bitumen production unit provided with a new oxidation feedstock preparation component

70.7% refining depth

57.8% light product yield

[2] As at 1 January 2018, excluding non-operational capacities undergoing overhauls.

SARATOV REFINERY

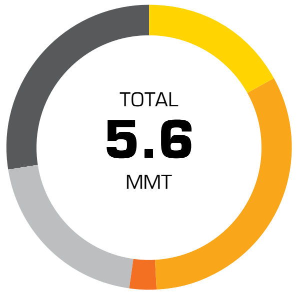


■ Capacity, mmt
■ Refinery throughput, mmt

79.4% refining depth

50.8% light product yield

Petroleum Product and Petrochemical Output, mmt



- **0.945** Motor gasolines
- **1.796** Diesel fuel
- **0.176** Naphtha
- **1.116** Fuel oil
- **1.529** Other

Key Focus Areas in 2017

- Facility maintenance
- Operational efficiency improvement projects
- Expansion upon highly efficient projects to debottleneck the refinery configuration
- FEED phase of the vacuum gas oil hydroconversion complex

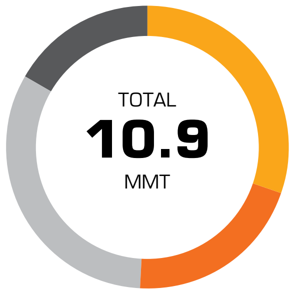
TUAPSE REFINERY

■ Capacity, mmt
■ Refinery throughput, mmt

67.4% refining depth

50.5% light product yield

Petroleum Product and Petrochemical Output, mmt



- **3.316** Diesel fuel
- **2.248** Naphtha
- **3.565** Fuel oil
- **1.801** Other

Key Focus Areas in 2017

- Large-scale refinery upgrade
- Construction of hydrocracking and hydrotreating complex with offsite facilities
- Construction of the second start-up complex, commissioning of ready-to-use offsite facilities

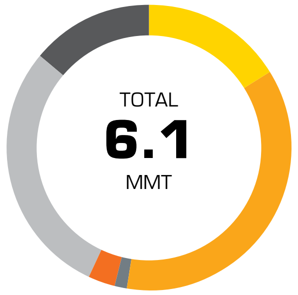
ACHINSK REFINERY

■ Capacity, mmt
■ Refinery throughput, mmt

70.4% refining depth

56.0% light product yield

Petroleum Product and Petrochemical Output, mmt



- **0.977** Motor gasolines
- **2.212** Diesel fuel
- **0.086** Kerosenes
- **0.182** Naphtha
- **1.751** Fuel oil
- **0.839** Other

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 AI-92 Class 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 begun 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

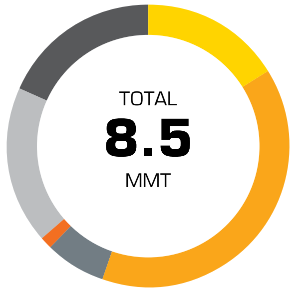
ANGARSK REFINERY

■ Capacity, mmt
■ Refinery throughput, mmt

81.3% refining depth

63.3% light product yield

Petroleum Product and Petrochemical Output, mmt



- **1.369** Motor gasolines
- **3.340** Diesel fuel
- **0.594** Kerosenes
- **0.110** Naphtha
- **1.541** Fuel oil
- **1.540** Other

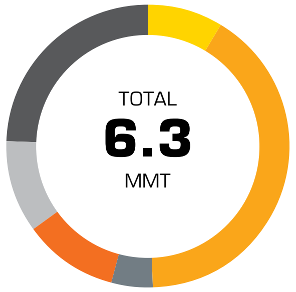
Key Focus Areas in 2017

- 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 sulfuric acid alkylation units, catalytic cracking gasoline hydrotreaters, and a diesel fuel hydrotreating complex with associated offsite facilities
- Facility maintenance and operational efficiency improvement projects

KOMSOMOLSK REFINERY

■ Capacity, mmt
■ Refinery throughput, mmt

Petroleum Product and Petrochemical Output, mmt



0.548 Motor gasolines
2.592 Diesel fuel
0.298 Kerosenes
0.682 Naphtha
0.656 Fuel oil
1.543 Other

Key Focus Areas in 2017

- High-octane MTBE additive content in AI-92 Class 5 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

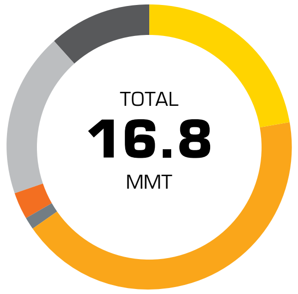
89.2%
refining depth

64.0%
light product yield

BASHNEFT'S OIL REFINING BUSINESS[1]

■ Capacity, mmt
■ Refinery throughput, mmt

Petroleum Product and Petrochemical Output, mmt



3.767 Motor gasolines
7.232 Diesel fuel
0.205 Kerosenes
0.530 Naphtha
3.125 Fuel oil
1.931 Other

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

81.9%
refining depth

66.0%
light product yield

[1] Comprises Bashneft–Novoil, Bashneft–Ufaneftekhim, Bashneft–UNPZ.

Oil Refining Assets Abroad

OIL REFINING ASSETS IN GERMANY

With the restructuring of Ruhr Oel GmbH, Rosneft was able to drastically strengthen its position in one of the most promising petroleum product markets in Europe – its traditional target region.

The Company holds stakes in three efficient refineries, Bayernoil (25%), MiRO (24%), and PCK Schwedt (54.17%), through its subsidiary, Rosneft Deutschland GmbH, controlling over 12% of oil refining capacities in Germany with a total throughput of 12.5 mmt per year.

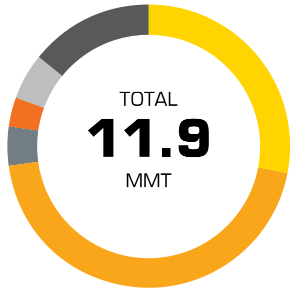
Rosneft Deutschland GmbH successfully transitioned from operating through the ROG joint venture to independent operation in 2017. Over 12 mmt of oil was refined, reliable and safe operation of three refineries ensured, and initiatives to improve operational performance of refineries implemented for Rosneft Deutschland GmbH.

12%
Rosneft's share of Germany's refining capacity

GERMAN REFINERIES

■ Capacity, mmt
■ Refinery throughput, mmt

Petroleum Product and Petrochemical Output, mmt



3.347 Motor gasolines
5.358 Diesel fuel
0.517 Kerosenes
0.391 Naphtha
0.639 Fuel oil
1.670 Other

Key Focus Areas in 2017

- Rosneft Deutschland GmbH successfully transitioned from operating through the ROG joint venture to independent operation in 2017, over 12 mmt of oil was refined
- Ensured reliable and safe operation of three refineries
- The MiRO Refinery successfully prepared to replace coke drums creating new opportunities to refine REBCO
- Bayernoil almost completely shut down fuel oil production and increased bitumen output
- A fleet comprising 105 thousand tank cars, 207 thousand tanker trucks, and one thousand barges was used to ship petroleum products to customers

91.0%
Refining depth

81.8%
Light product yield

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.

2.1
MMT
Rosneft's share in the throughput of the Mozyr Refinery

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 crudes, 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.

The EOL's business includes a vast network of over 4.1 thousand filling stations operating across India under the Essar brand.

Vadinar Refinery

Petrochemicals

Petrochemical assets 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.

FAR EASTERN PETROCHEMICAL COMPANY (FEPCO)

The FEPCO project provides for creating the largest refining and petrochemical complex in the Far Eastern Federal District.

The project was supported by the President of the Russian Federation Vladimir Putin (Instruction No. Pr-2579 dated 29 December 2016), the Prime Minister of the Russian Federation Dmitry Medvedev (Instruction No. DM-P9-705p dated 31 January 2014), and regional authorities.

The project will drive the social and economic development of the region through the creation of a petrochemical cluster. The FEPCO complex will help make the most of the Asia-Pacific market environment and export high value-added commercial products.

In 2016, 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.

In 2017, Russia's Main Directorate of State Expert Review (GlavgosExpertiza) issued positive opinions for refining and petrochemical facilities and external infrastructure facilities, including a marine terminal.

PETROCHEMICAL COMPLEX COMPRISES:

- Angarsk Polymer Plant (APP)
- Novokuibyshevsk Petrochemical Company (NPCC)
- Ufaorgsintez (UOS)

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 polystyrene, among others.

Currently, Angarsk Polymer Plant is the only business in Eastern Siberia producing polystyrene 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 Sayanskkhimplast 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.

1
APP
leading HDPE manufacturer in Eastern Siberia

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

Production of high-octane additives for TAME motor fuels

UFAORGSINTEZ

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.

Ufaorgsintez is a leading manufacturer of organic synthesis products, including unique products unrivalled in Russia.

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 Otradnensky Gas Processing Plant processed 273 mmcm of associated petroleum gas derived from the oil and gas assets 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 376 mmcm of associated petroleum gas derived from the oil and gas assets 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 Otradnensky 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:

- Otradnensky Gas Processing Plant (OGPP)
- Neftegorsky Gas Processing Plant (NGPP)
- Tuymazinskoye Gas Processing Plant (TGPP)
- Shkapovskoye Gas Processing Plant (ShGPP)
- RN-Buzulukskoye Gas Processing Plant (BGPP)

TUYMAZINSKOYE 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.

29
MMCM
APG throughput of the Tuymazinskoye Gas Processing Plant in 2017

SHKAPOVSKOYE 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 Ishimbayneft 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.

63
MMCM
APG throughput of the Shkapovskoye Gas Processing Plant in 2017

BUZULUKSKOYE 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.

1,583
MMCM
APG and unstable gas condensate throughput of the Buzulukskoye Gas Processing Plant in 2017

Production of Catalysts and Organic Synthesis Products

NOVOKUIBYSHEVSK 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 hydrotreating 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 Refinery, and pour point depressant additives to the Syzran Refinery, the Saratov Refinery, and Bashneft-UNPZ.

60%
share of ACOSP's reforming catalysts used by the Company's refineries


Angarsk Catalyzers and Organic Synthesis Plant is Rosneft's leading catalysts producer

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.

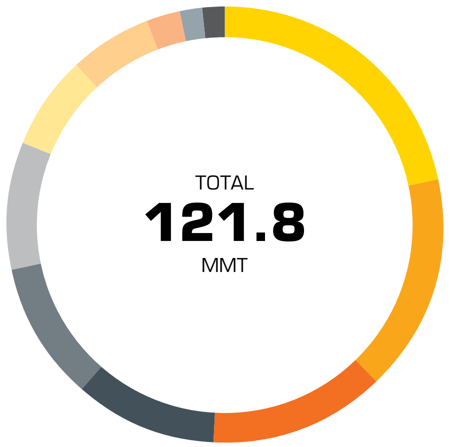
The Company continuously monitors the cost efficiency of its oil monetization channels to maximize the share of high-margin channels in its overall sales structure.

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 to the oil supplies shipped to its own refineries in Russia during 2017, the Company shipped 4.5 mmt of own oil to German refineries partially owned by the Company, a 3% growth year-on-year.

The total sales of crude oil shipped to third parties in 2017 totaled 128.7 mmt, including 6.9 mmt of oil sold domestically.

Breakdown of Exports, %



21.7	China (pipeline)
16.3	Central and Eastern Europe (pipeline)
12.9	Primorsk (sea)
10.7	Kozmino (sea)
10.2	Ust-Luga (sea)
9.5	International trading
6.9	Belarus (pipeline)
5.9	Novorossiysk (sea)
2.6	De-Kastri (sea)
1.8	Rail
1.4	Varandey (sea)

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 11.6 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.

KEY EXPORT ACHIEVEMENTS

In 2017, eastbound oil supplies grew 10.7% to 47.7 mmt

The Company's oil supplies to China including international trading reached a record high of 39.1 mmt

Supplies to China under long-term contracts increased 9.5% to 30.0 mmt

Sokol single-point oil terminal, De-Kastri port

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,

MEETING FEDERAL DEMAND

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.


Rosneft's marine terminal in Nakhodka

RN-Kyrgyznefteprodukt, for resale via own retail network and wholesale channels. In 2017, supplies of petroleum products to the Republic totaled 90.3 thousand tonnes.

The Company continues to focus on expanding its international footprint and diversifying its supply routes. In 2017, the Company 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), Demiroren Group (Turkey), and Mabanaft 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.

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 gas processing plants, as well as by the third parties, SIBUR Holding and Surgutneftegas.

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 sales companies in almost 40 regions.

Rosneft maximizes gas monetization by developing a commodity transport flow optimization system used for calculating the operational gas balance.

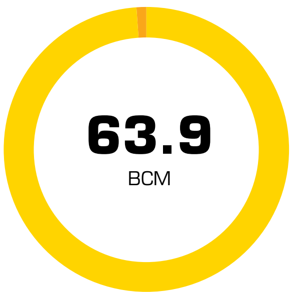
In 2017, the volume of gas sold by Rosneft on the domestic market amounted to 63.2 bcm, including 36.13 bcm in Western Siberia and the Ural Federal District, 2.40 bcm in Southern Russia, 0.85 bcm in the Far East, and 23.84 bcm in European Russia and other regions. Gas sales revenue increased by 1.2% 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's long-term development strategy is aimed at becoming a leading independent gas supplier on the domestic market of the Russian Federation.

Chart: Gas Sales, bcm



63.2 In Russia

0.7 Abroad

Rosneft's filling stations have 1,899 shops and 1,128 cafés

RETAIL SALES AND SMALL-SCALE WHOLESALE DISTRIBUTION

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 housing 1,899 shops and 1,128 cafés. As at 31 December 2017, the Company had 137 oil depots with a combined capacity of 2.2 mmcm and approximately a thousand gasoline tanker trucks in operation.

Including the integration of Bashneft in Q4 2016, petroleum product retail sales amounted to 11.7 mmt in 2017, constituting a 8% increase compared to 2016 and petroleum product sales per filling station averaging 10.8 tonnes per day.

Initiatives within the Company's retail business development strategy entailed the following:

- Commencement of fuel portfolio unification by transitioning to a unified Pulsar fuel brand for Rosneft- and TNK-branded filling stations in Moscow, the Moscow Region, and St. Petersburg
- Successful improvement upon the efficiency of branded fuel production through the transitioning to a single additive utilized in the production of fuel intended for filling stations across the Company's retail network brand portfolio.
- Implementation of the Android Pay 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
- Completion of the nation-wide roll-out of a customer loyalty program, "Family Team", at 2,159 Rosneft and TNK filling stations in 56 regions of Russia
- As at the end of 2017, 5.4 million customers were enrolled in the program. Starting from 21 June 2017, 1.1 million

2,966
Rosneft's filling stations in operation, including 65 filling stations in Abkhazia, Kyrgyzstan, and the Republic of Belarus

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 installations 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 Russia, the Ministry of Internal Affairs of the Russian Federation, and the National Guard Services of Russia
- exchange sales development: in 2017, 19 Rosneft Group Subsidiaries from 29 regions of the Russian Federation traded motor fuels at the St. Petersburg International Mercantile Exchange (JSC SPIMEX)
- 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

137
OIL DEPOTS

~ 1 THSD
gasoline tanker trucks

Rosneft's customers include major air carriers based in Russia and abroad

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 KazKontrakt 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.

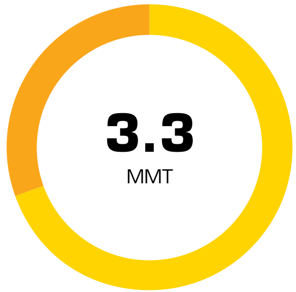
Bunkering Business

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 RMG380 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

+ 10%
jet fuel sales during 2017

Jet Fuel Consumer Structure on the Domestic Market in 2017:



2.3 Airlines and refueling complexes controlled by Rosneft

1.0 Bulk sales, including exchange trading (0.5 mmt)

- 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 provide bunkering services to fishing vessels in the Barents Sea and the Kara Sea

Sales of Bitumen Products

In 2017, sales of bitumen materials increased by 23% year-on-year to 2.6 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.

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.

Sales of Lubricants

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.

RN-Bitum – Rosneft's specialized subsidiary, is one of the leading bitumen suppliers in the Russian market

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
- In efforts to promote lubricants in the retail channel for passenger vehicles, the Company now has a presence in 12,948 outlets
- As part of Rosneft's strategy to boost sales to a key clients, the Company signed a contract with key client KAMAZ, providing for sales of transmission fluids for the factory-fill of KAMAZ vehicles and quenching oils for production needs

679
THSD TONNES
of lubricants sold in the domestic market

PRODUCTION PLANNING AND LOGISTICS

MAIN RESULTS IN 2017

- The Company met its oil and petroleum product shipment targets
- Refineries production program developed and petroleum product sales destinations approved with a view to maximize refining margins including for the output of Bashneft
- Agreements signed with Russian Railways to provide discounted railway transportation for supplies from the Saratov Refinery
- Reduced rates provided by railway operators transporting the Company's products from the Ufa group of refineries
- New effective logistics channels established to support petroleum product sales (by river from Bashneft's refineries)
- Existing logistics routes optimized, including the expansion of petroleum product shipment channels in the Far East. Due to restrictions on transshipment in the Baltic region, backup routes via Baltic Sea and Black Sea ports were organized

KEY STRATEGIC PRIORITIES

- Improving the efficiency of production programs at refineries, optimizing shipment schemes, and reducing the Company's costs
- Further optimization of production programs at refineries and petroleum product sales to the most profitable destinations
- Development and implementation of a motor fuel stockpiling program to provide consumers with gasoline during periods of increased demand
- Reduction of logistics costs involved with product transportation by diversifying modes of transport and optimizing costs of the Company's own logistics assets
- 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

RN-MORSKOY TERMINAL TUAPSE

- Terminal capacity, mtpa
- Transshipment volume, mtpa

Supply sources

1. **Rosneft refineries:**
   - Tuapse Refinery
   - Achinsk Refinery
   - Kuibyshev Refinery
   - Novokuibyshevsk Refinery
   - Saratov Refinery
   - Nizhnevartovsk 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)

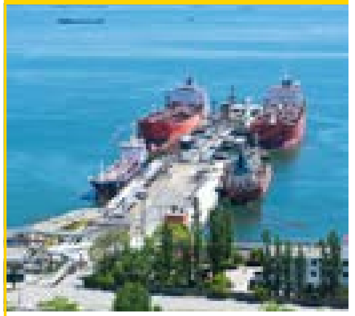
Key Achievements in 2017, in numbers

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



- Terminal capacity, mtpa
- Transshipment volume, mtpa

Supply sources

1. **Rosneft refineries:**
   - Komsomolsk Refinery
   - Achinsk Refinery
   - Angarsk Petrochemical Company
2. **Third-party suppliers**

Product flows

Petroleum product exports

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

- Terminal capacity, mtpa
- Transshipment volume, mtpa

Supply sources

1. **Rosneft refineries:**
   - YANOS
   - Ryazan Refinery
2. **Third-party suppliers**

Product flows

Petroleum product exports

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.

PRINCIPLES OF THE CORPORATE GOVERNANCE

The corporate governance framework adopted by the Company delivers on these objectives and is based on the following principles

1. Ensuring the exercise and protection of shareholder rights
2. Strategic management of the Company by an efficient and competent Board of Directors, due control by the Board of Directors over the Company's executive bodies, accountability of the Board of Directors and executive governing bodies to shareholders
3. Recognition and protection of stakeholders' rights stipulated by law, active cooperation with stakeholders in order to promote the Company's financial well-being, ensure compliance of the Company's operations with social responsibility standards and create jobs
4. Ensuring timely and accurate disclosure of all material information such as financial position, performance, property, Company management, and material corporate actions
5. Building an efficient internal control and risk management system providing reasonable assurance that the Company will achieve its goals

CORPORATE GOVERNANCE CODE OF ROSNEFT

The Company's principles as well as the set of underlying rules in corporate governance are detailed in Rosneft's Corporate Governance Code (the Code). The Code is based on corporate governance principles[1] recognized by the global economic community and complies with key recommendations of the Corporate Governance Code of the Bank of Russia (the Bank of Russia's Code)

Corporate Governance Code of Rosneft: https://www.rosneft.com/Investors/Documents/

The Code is designed to provide additional guarantees and ensure the exercise of shareholder rights to:

- govern the Company
- receive dividend income
- 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 strategic management of the Company by the Board of Directors:

- Board of Directors membership and independence criteria
- Proceedings 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 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 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 defines key rules followed by the Company in developing its information policy, which aim to maximize openness and transparency of the Company while guaranteeing proper protection of confidentiality.

[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 improving the Company's corporate governance framework.

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 29 September 2017. The new Board of Directors has 11 seats, 4 of which 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 the Procedure for Managing 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 Holding by Members of Rosneft's Board of Directors of Rosneft Shares, Shares of, and Equity Stakes in, Group Subsidiaries, which document the rules and principles of and the Company's approaches to holding Rosneft Shares and Shares of Group Subsidiaries by members of Rosneft's Board of Directors
   - Regulations on Evaluation of Rosneft's Board of Directors Performance
   - Rosneft Information Policy documenting, in particular, a list of information which the Company commits to disclose to supplement 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 performed self-assessment of its performance in the 2016–2017 corporate year. The self-assessment covered the activities of the Board, the Board Committees, the Board members, the Chairman of the Board of Directors and the Corporate Secretary.

Self-assessment of performance of the Board of Directors was based on a questionnaire approved by the HR and Remuneration Committee of the Board of Directors. The analysis of submitted questionnaires suggests strong performance of the Board of Directors, improved composition and structure of the Board due to increased number of independent directors, and the achievement of optimal composition across the Board Committees, as well as high performance across the key functions and highly effective Board processes.

Higher performance of the Board of Directors in the 2016–2017 corporate year, as suggested by the self-assessment results, was due among other factors to the implementation during 2017 of the Action Plan to Improve the Board of Directors' Performance adopted following the performance assessment of the Board of Directors covering the 2015–2016 corporate year. In particular:
- Regular assessments were carried out to check that Board candidates and the elected members of the Board of Directors meet the independence criteria, with the Board of Directors determining (upon preliminary recommendation by the HR and Remuneration Committee of the Board of Directors) that directors were independent
- The procedures for preparing the meetings schedule of the Board of Directors (the Committees of the Board of Directors) were optimized, including planning of the Board in-person meetings
- Arrangements for ongoing effective cooperation with the executive offices of the Board members were put in place, covering inter alia monitoring for potential conflicts of interest related to transactions, as well as reviewing materials and information prepared for the Board meetings
- In 2017, the Audit Committee of the Board of Directors and the Board of Directors regularly discussed matters related to internal audit arrangements, including the results of review and monitoring of potential conflicts of interest, as well as reports on the internal audit function's performance.

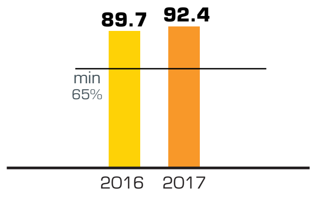
The Board of Directors Resolutions are disclosed on Rosneft's official website at https://www.rosneft.com/Investors/Disclosure/

All documents approved by the Board of Directors are posted on the Company's official website: https://www.rosneft.com/Investors/Documents/

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 complies with 92.4% of recommendations of the Bank of Russia 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 focused manner and in line with the highest national and global standards.

Compliance of Rosneft's Corporate Governance with the Bank of Russia Code, %



92.4%
RECOMMENDATIONS
of the Bank of Russia's Code (the minimum threshold being 65%) are complied with by the Company, a 2.7% p.p. improvement year-on-year

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 inter alia 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
- performance audit of the risk management framework and internal controls
- assessments to check that Board candidates and the elected members of the Board of Directors meet the independence criteria set out in the Bank of Russia's Code and the Moscow Exchange Listing Rules.

Corporate Governance and Control Structure

Reporting

Reporting

Election

Set-up, assessment

GENERAL SHAREHOLDERS MEETING

Rosneft's supreme governing body responsible for decision-making on key matters of the Company's business

BOARD OF DIRECTORS

Rosneft 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

Reporting

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

Head of Internal Audit is appointed by the Board of Directors

Administrative subordination

The Head of Internal Audit is in direct contact with the Committee

Set-up

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

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

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

Functional subordination

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

AUDIT COMMISSION

The Audit Commission is an elected body that monitors the financial and business operations of Rosneft and performance of its governing bodies, executives, business units and functions, branches and representative offices

Reporting

Election

Approval

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).

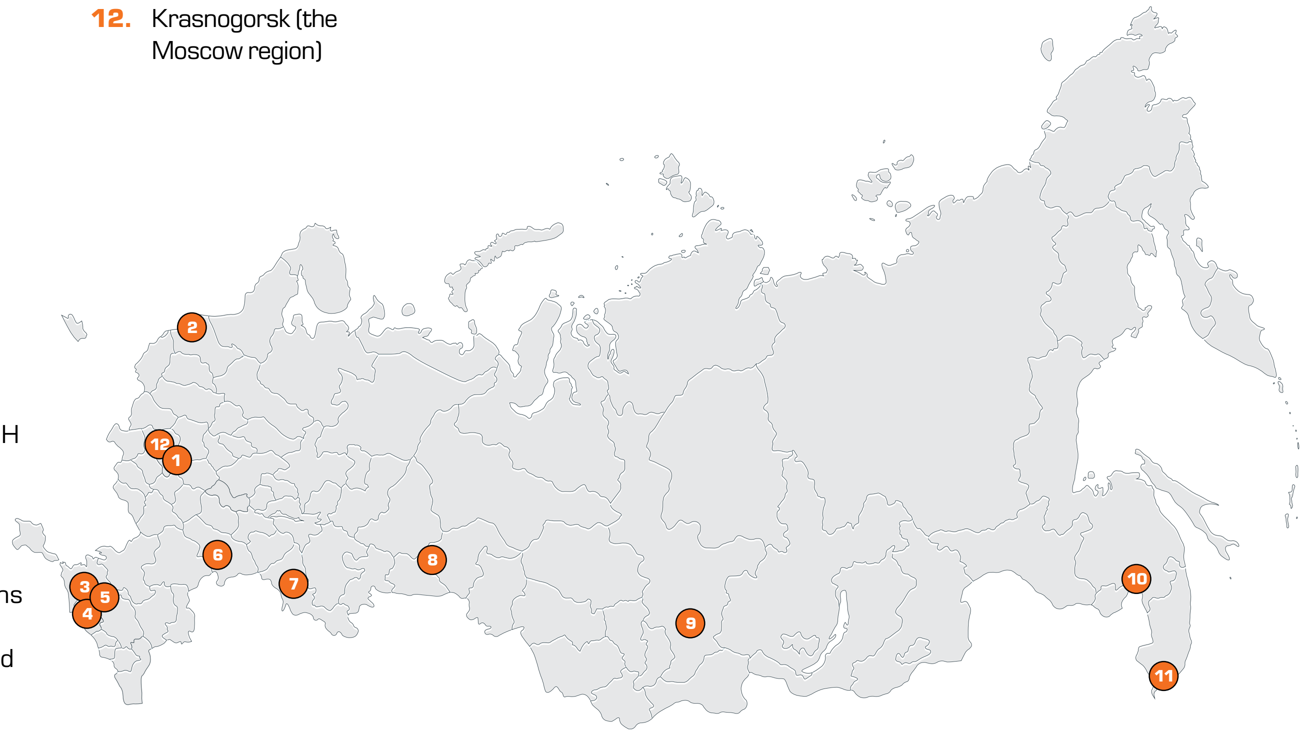
The Annual General Shareholders Meeting approved amendments to the Charter, driven by enhanced joint-stock company laws and Rosneft's corporate governance practice. The Meeting also approved a number of related party transactions.

The Meeting was broadcast live to shareholders in locations where the Company is present: Gubkinsky, Krasnodar, Krasnoyarsk, Moscow, Neftekumsk, Nefteyugansk, Ryazan, Samara, St. Petersburg, Tyumen, Tuapse, Usinsk, Ufa, and the Vankor field. While viewing the broadcast, shareholders could ask their questions on the agenda.

As at 31 December 2017, the resolutions adopted by the Annual General Shareholders Meeting were fully complied with.

The map of venues for the General Shareholders Meeting

1. Moscow
2. St. Petersburg
3. Krasnodar
4. Sochi
5. Stavropol
6. Saratov
7. Orenburg
8. Tyumen
9. Krasnoyarsk
10. Khabarovsk
11. Vladivostok
12. Krasnogorsk (the Moscow region)



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.

Details on the membership and proceedings of the Board of Directors, which are required by the law, recommendations of the Bank of Russia's Code, and Rosneft's Information Policy, are disclosed on Rosneft's official website: https://www.rosneft.com/governance/board/

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 may, in their opinion, result in such a conflict 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, Robert 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.

4

INDEPENDENT DIRECTORS

on the Board of Directors

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.

1998–2005: Chancellor of Germany.

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.

2000–2004: Deputy Head of the Executive Office of the President of the Russian Federation.

2004–2008: Deputy Head of the Executive Office of the President of the Russian Federation – Aide to the President of the Russian Federation.

2008–2012: Deputy Prime Minister 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 ROSNEFTEGAZ, 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

Born in 1954.

Graduated from Merton Technical College in 1978.

2012 – 2018: President of Research and Development at Qatar Foundation.

2018 – present: Representative of Qatar Investments Authority.

Member of Rosneft's Board of Directors since June 2017.

Holds no shares of Rosneft.

ANDREY BELOUSOV

Member of the Strategic Planning Committee of the Board of Directors

Born in 1959.

Graduated from Lomonosov Moscow State University in 1981. Doctor of Economics.

2006 – present: chief research fellow (part-time) at the Institute of Economic Forecasting of the Russian Academy of Sciences.

2008–2012: Director of the Economics and Finance Department of the Government of the Russian Federation.

2012–2013: Minister of Economic Development of the Russian Federation.

2013 – present: Aide to the President of the Russian Federation.

Member of Rosneft's Board of Directors since June 2015, Chairman of Rosneft's Board of Directors from June 2015 to September 2017.

Member of the supervisory board at State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank), Autonomous Non-Profit Organization Agency for Strategic Initiatives to Promote New Projects, and State Space Corporation ROSCOSMOS, member of the board of trustees at the Charity Foundation Deaf-blind Support Foundation So-edinenie (Connection), State Tretyakov Gallery, and Holy Trinity-Saint Seraphim-Diveyevo Monastery of the Nizhny Novgorod Diocese of the Russian Orthodox Church (Moscow Patriarchate), member of the board of directors at JSC ROSNEFTEGAZ and JSC Russian Export Center.

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

Born in 1952.

Graduated from Lomonosov Moscow State University in 1974. PhD in physics and mathematics.

2004–2007: Head of the Federal Financial Markets Service.

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

Born in 1957.

Graduated from the University of the Witwatersrand in 1981, and the University of Southern California in 1983.

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.

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.

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.

2011–2015: President of BP Exploracion do 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.

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.

2008–2012: Deputy Minister of Finance of the Russian Federation.

2012 – present: Minister of Energy of the Russian Federation.

Member of Rosneft's Board of Directors from June 2015 to June 2017. Re-elected to Rosneft's Board of Directors in September 2017.

Chairman of the board of directors at PJSC ROSSETI and PJSC Transneft, member of the Board of Directors at PJSC Gazprom, Chairman of the Board of Trustees at National Research University Moscow Power Engineering Institute, member of the Board of Guardians at Siberian Federal University, member of the Board of Trustees at the Gubkin Russian State University of Oil and Gas, member of the Supervisory Board at ROSATOM, Chairman of the Russian National Committee of the World Energy Council.

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 Exxon Mobil 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).

Directors' Attendance at Board and Committee Meetings in 2017.[1]

Board of Directors				Audit Committee	HR and Remuneration Committee	Strategic Planning Committee
Director	**Executive**	**Independent**	**Attendance at meetings**			
Gerhard Schroeder		√	7*/10			
Igor Sechin	√		28/28			
Matthias Warnig		√	24*/28	14/14	14/14	
Faisal Alsuwaidi			15/16			6/6
Andrey Belousov			27/28			5/5
Oleg Viyugin		√	28/28	14/14		11/11
Ivan Glasenberg			16/16			6/6
Robert Dudley			25*/28			10*/11
Guillermo Quintero			28/28		14/14	
Alexander Novak			20/22			9/10
Donald Humphreys		√	26*/28	14/14	14/14	
Andrey Akimov (resigned from the Board of Directors in 2017)			12/12			5/5

* Chairman of the Board of Directors Gerhard Schroeder and members of the Board of Directors Matthias Warnig, Robert Dudley, and Donald Humphreys did not attend the meetings with agendas that could give rise to a potential conflict of interest on legal or business grounds.

Performance of the Board of Directors in 2017

In 2017, the Board of Directors held 28 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**[2] 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
- **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 (in 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 Warnig, Oleg Viyugin, 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 results of 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
- **Approving the Company's internal documents:**
  - Amendments to Rosneft Dividend Policy
  - Policy on Sustainable Development
  - Information Policy
  - Policy on Innovation Activity
  - Company's Credit Policy and amendments to the Available Cash Policy
  - Amendments to the Policy on Internal Audit
  - Regulations on the Procedure for Managing Conflicts of Interest in Rosneft and Group Subsidiaries and amendments thereto
  - Regulations on Evaluation of Rosneft's Board of Directors Performance
  - Regulations on Holding by Members of Rosneft's Board of Directors of Rosneft Shares, Shares of, and Equity Stakes in, Group Subsidiaries
  - Amendments to the Regulations on the Procedure for Formation and Work of Board of Directors Committees
- **On approval/review of Rosneft's programs and reports:**
  - Energy Saving Program for 2018–2022 and the progress report on the Company's 2016–2020 Energy Saving Program for 2016
  - Progress report on the Company's Innovative Development Program for 2016
  - Report on the Company's compliance with legislative requirements to countering the misuse of insider information and market manipulation for 2H 2016 and 1H 2017
  - Reports on the Company's internal audit results for 2016 and 1H 2017
- **As part of the incentive system –** approval of the 2017 KPIs for Rosneft's top managers, and normalized top manager KPIs for the purposes of the 2016 annual bonus program, as well as their achievement of these KPIs and remuneration in 2016
- **On membership of Rosneft's Management Board** (in 2017, Yuri Kurilin and Vlada Rusakova were appointed to the Management Board)
- **On approval of the Exchange-Traded Bonds Program** in the total amount of up to RUB 1.3 trln (to refinance the existing loans and bonds and finance the investment program and Rosneft's foreign projects)
- **On approval of over 70 related party transactions.** In addition, according to the amendments to the Federal Law On Joint-Stock Companies dated 1 January 2017, the Board of Directors reviewed more than 250 related party transactions, as established by paragraph 1.1 of Article 81 of the Federal Law On Joint-Stock Companies[3]

18 DECEMBER 2017

the Board of Directors approved the Rosneft-2022 Strategy

Meetings of the Board of Directors are run on a scheduled basis, taking into account deadlines for processing the Company's strategic matters. Action plans are approved by the Board of Directors every six months, assuming its meetings have to be held at least once in six weeks.

The Board of Directors' action plan also contains items outlined in directives of the Russian Government, which need to be regularly reviewed by the Board of Directors, items relating to the preparation of the General Shareholders Meeting, as well as standard items such as approval of the Company's transactions, business projects, and local regulations, determining the stance on significant matters of Group Subsidiaries' operations, etc.

Press releases are posted on the Company's official website: https://www.rosneft.com/press/releases/

Information on the most significant matters is disclosed by the Company on an ongoing basis in press releases and statements of material facts.

Pro-forma statements of material facts are posted on the Company's official website at: https://www.rosneft.com/Investors/Disclosure/

[1] The first figure shows the number of meetings attended by a member of the Board of Directors, and the second figure is the total number of meetings they were entitled to attend in 2017.

[2] Approved by the Board of Directors in December 2014.

[3] The Report on Rosneft's Related Party Transactions in 2017 was approved by Rosneft's Board of Directors on 25 April 2018 and posted on the Company's official website in the Investors section.

Strategic matters are discussed by the Board of Directors in person. The Charter determines a list of matters to be decided in person only. Rosneft's Corporate Governance Code also determines matters that the Board of Directors seeks to consider in person. The format of a meeting is determined by the Chairman of Rosneft's Board of Directors.

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.

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[1] (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.

Approval of team and individual management KPIs, normalization of targets, progress assessment, and determining remuneration amounts for the Company's top managers.

Review of reports on:

- Introducing professional standards in the Company's operations;
- Progress under the Non-Core Assets Disposal Program;
- The Company's HSE activities;
- Internal audit of the Company's operations;
- The Company's compliance with legislative requirements to countering the misuse of insider information and market manipulation.

The results of the self-assessment of the Board of Directors' performance, etc.

[1] Approved by the Board of Directors in December 2014.

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.

For more details on the Board of Directors' Committees see the Company's official website: https://www.rosneft.com/governance/board/committees/

AUDIT COMMITTEE

- monitors completeness and reliability of the Company's accounting (financial) statements and other reports
- ensures independent, 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 the system for reporting potential wrongdoings by the Company's employees (including misuse of insider or 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 previewing 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

Audit Committee

Donald Humphreys
Chairman, Independent Director

Matthias Warnig
Independent Director

Oleg Viyugin
Independent Director

HR and Remuneration Committee

Matthias Warnig
Chairman, Independent Director

Donald Humphreys
Independent Director

Guillermo Quintero

Strategic Planning Committee

Robert Dudley
Chairman (since 29 September 2017, member of the Committee in the reporting year)

Alexander Novak[1]
Deputy Chairman

Oleg Viyugin
Independent Director (Chairman until 29 September 2017)

Faisal Alsuwaidi
(since 22 June 2017)

Andrey Belousov
(since 29 September 2017)

Ivan Glasenberg
(since 22 June 2017)

[1] Member of the Committee in the reporting year until 22 June 2017, re-elected to the Committee on 29 September 2017

Performance of the Board Committees in 2017

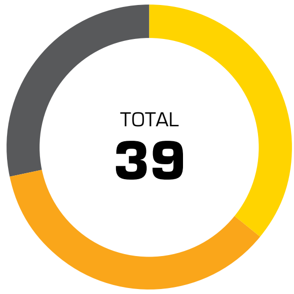
In 2017, the Audit Committee held 14 meetings, during which the Committee:

- **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 2017–2019
  - 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
- **as part of assuring objective and independent internal audit:**
  - reviewed internal audit reports for 2016 and the first six months of 2017, and information on independence and objectivity of internal audit, endorsed the Internal Audit Action Plan for 2017
  - on a quarterly basis, reviewed information on assessment and monitoring of potential conflicts of interest related to the head of Internal Audit holding the position of a Member of Rosneft's Management Board
  - previewed and recommended for approval by the Board of Directors amendments to the Company's Internal Audit Policy
- **as part of corporate governance –** previewed and recommended for approval by the Board of Directors amendments to the Company's Regulations on the Procedure for Managing Conflicts of Interest in Rosneft and Group Subsidiaries
- **as part of communication with the Audit Commission –** reviewed the opinion of the Audit Commission based on the financial and business audit results of Rosneft for 2016.

The Committee also recommended for approval by the Board of Directors:

- amendments to the Rosneft Dividend Policy, aimed at increasing the Company's investment appeal and creating a favorable environment to increase the Company's market capitalization and attract investors
- proposals to the General Shareholders Meeting on distribution of the Company's profit for the financial year 2016, the amount of dividend and dividend payout procedure for 2016 and six months of 2017.

Number of Meetings of Committees of the Board of Directors



- 14 Audit Committee
- 14 HR and Remuneration Committee
- 11 Strategic Planning Committee

Workshops (conference calls) with the Head of Internal Audit, representatives of the external auditor, and members of Rosneft's Audit Commission are conducted by the Audit Committee as a systematic effort.

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 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
  - previewed and recommended for approval by the Board of Directors of Rosneft the Regulations on Holding by 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
  - previewed and recommended for approval by the Board of Directors the Regulations on Evaluation of the Board of Directors Performance.

Evaluated the nominees to the Board of Directors against their eligibility criteria and reviewed the assessment of compliance of the members of the Board of Directors elected on 29 September 2017 by the General Shareholders Meeting with independence criteria described by the Moscow Exchange Listing Rules

The HR and Remuneration Committee endorsed Rosneft's 2016 Sustainability Report posted on the Company's official website: https://www.rosneft.com/Development/Sustainability_Reports/

5.4. ROSNEFT'S EXECUTIVE BODIES

ROSNEFT'S EXECUTIVE BODIES RESPONSIBLE FOR THE MANAGEMENT OF THE COMPANY'S DAY-TO-DAY OPERATIONS

MANAGEMENT BOARD	CHIEF EXECUTIVE OFFICER
The collective executive body	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. 24 dated 7 April 2017)
- On 15 July 2017, Rosneft's Vice President Vlada Rusakova was appointed to the Management Board to reinforce the Management Board with a top manager responsible for the gas business (Minutes of the Board of Directors No. 2 dated 14 July 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.

Regulations on the Management Board are posted on the Company's official website: https://www.rosneft.com/Investors/Documents/

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.

2000–2004: Deputy Head of the Executive Office of the President of the Russian Federation.

2004–2008: Deputy Head of the Executive Office of the President of the Russian Federation – Aide to the President of the Russian Federation.

2008–2012: Deputy Prime Minister 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 ROSNEFTEGAZ, 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

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.

1998–2004: Deputy Minister of Justice of the Russian Federation.

2004–2009: Director of the Federal Penitentiary Service (FPS) of Russia.

2009-2010: Deputy Minister of Justice of the Russian Federation.

2010–2012: representative of the Penza Region Legislative Assembly in the Federation Council of the Federal Assembly of the Russian Federation.

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).

ERIC MAURICE LIRON

First Vice President of Rosneft

Born in 1954.

Graduated from the School of Radio Engineering, Electronics and Computer Science (Paris, France) in 1980.

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 Verkhnechonskneftegaz and LLC RN-Upstream, member of the board of directors at OJSC NGK Slavneft, LLC National Petroleum Consortium, LLC RN-GAZ, LLC RN-Resource, and LLC RN-Foreign Projects.

Holds 543,804 shares of Rosneft (0.0051% of the Company's charter capital).

GENNADY BUKAEV

Vice President, Head of Internal Audit of Rosneft

Born in 1947.

Graduated from Ufa State Oil Technical University in 1971. PhD in Economics.

Holder of government and ministerial awards.

2000–2004: Minister of the Russian Federation for Taxes and Levies.

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 2015: 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 ROSNEFTEGAZ, member of the Management Board at Autonomous Non-Profit Organization Hockey Club Salavat Yulaev.

Holds no shares of Rosneft.

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 OJSC NGK Slavneft, OJSC NGK Slavneft-YANOS, Rosneft Global Trade S.A., JSC SPIMEX, Rosneft Techno S.A., PJSOC Bashneft, LLC RN-Foreign Projects, member of the Board of Directors at SIA ITERA Latvija.

Holds 457,598 shares of Rosneft (0.0043% of the Company's charter capital).

YURI KURILIN

Vice President, Chief of Staff 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.

2008–2011: Commercial Director at BP Group companies: BP Trading Ltd, BP Exploration Company Ltd.

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.

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 Promissory 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 Holding, Executive Financial Director of JSC RN Management.

Holds 448,066 shares of Rosneft (0.0042% of the Company's charter capital).

YURY NARUSHEVICH

Vice President for In-House Services of Rosneft

Born in 1968.

Graduated from Ivano-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 6,888 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 Oil 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).

VLADA RUSAKOVA

Vice President of Rosneft

Born in 1953.

Graduated from, and completed a post-graduate programme at the Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1977 and 1984, respectively.

Holder of government and ministerial awards.

1998–2003: Head of the Prospective Development Forecasting Division, Prospective Development, Science and Ecology Department at PJSC Gazprom.

2003–2012: Head of the Prospective Development, Science and Ecology Department, Head of the Strategic Development Department, Head of the Prospective Development Department at PJSC Gazprom.

Since April 2013: Vice President of Rosneft in charge of the gas business.

Member of Rosneft's Management Board since July 2017.

Chairman of the board of directors at LLC RN-GAZ and SIA ITERA Latvija, member of the Supervisory Board at the Union of Oil and Gas Organizations Russian Gas Society, member of the Board of Directors at LLC RN-Foreign Projects, LLC RN-Refining.

Holds 4,071 shares of Rosneft (0.00004% of the Company's charter capital).

ANDREY SHISHKIN

Vice President for Energy, Localization and Innovations of Rosneft

Born in 1959.

Graduated from the Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1996, State Academy under the Government of the Russian Federation in 2002, and Moscow International Higher Business School MIRBIS in 2002.

Holder of government and ministerial awards.

2005–2010: General Director of OJSC Ural Energy Management Company, OJSC TGK-10, OJSC Tyumen Energy Selling Company.

2008–2009: First Vice President of OJSC Integrated Energy Systems (IES Holding).

2010–2012: Deputy Minister of Energy of the Russian Federation.

Since July 2012: Vice President of Rosneft, since March 2013: Vice President of Rosneft for Energy, Health, Safety and Environment, since August 2014: Vice President of Rosneft for Energy and Localization, since April 2016: Vice-President of Rosneft for Energy, Localization and Innovation.

Member of Rosneft's Management Board since April 2015.

Chairman of the board of directors at JSC FESRC, JSC 82 SRF, JSC Okhinskaya TETS, RIG Research Pte. Ltd., LLC Zvezda-Hyundai, JSC Lazurit CDB, and LLC Arctic Research Center, member of the board of directors at PJSC RusHydro, JSC USC, LLC SNGT, LLC Zvezda Marine Technology, Antares Singapore Pte. Ltd., JSC TomskNIPIneft, PJSC Giprotyumenneftegaz, OJSC VNIPIneft, LLC RN-Assets, LLC RN-Upstream, LLC RN-Commerce, LLC RN-Refining, and OJSC SPA Burovaya Technika, General Director at LLC RN-Assets, President, Chairman of the Management Board, Deputy Chairman of the Board of Directors at PJSOC Bashneft, member of the Presidium at the Russian National Committee of the World Energy Council.

Holds 377,114 shares of Rosneft (0.0036% of the Company's charter capital).

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 / review of the terms of transactions for oil and oil products supply to foreign and domestic markets, and transactions for gas supply to the domestic market, with prices capped by the Charter of Rosneft
  - liquidation and reorganization of Group Subsidiaries to optimize 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).

5 YEARS
the term of office of the Chief Executive Officer, Chairman of Rosneft's Management Board

Regulations of the Chief Executive Officer are posted on the Company's official website: https://www.rosneft.com/Investors/Documents/

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 Gritskevich.

THE CORPORATE SECRETARY ALSO:

- organizes compliance with the requirements of the Russian legislation and the Company's local regulations on countering the misuse of insider information
- is responsible for communication with the registrar and government bodies authorized to regulate corporate relations and the securities market
- acts as secretary of Rosneft's Board of Directors and Management Board.

SVETLANA GRITSKEVICH

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).

Posted on the Company's official website: https://www.rosneft.com/governance/board/Corporate_Secretary/

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 500,000 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 set limits on transactions with such shares: following the recommendations of the Bank of Russia's Code, directors are recommended not to sell the greater part of their shares of the Company (50% or more) and abstain from using any hedging options during all acting period and within at least one year after their withdrawal from the Board of Directors.

The Regulations on Payment of Remuneration and Compensation of Expenses of Members of the Board of Directors are posted on Rosneft's official website: https://www.rosneft.com/Investors/Documents/

The Regulations on Payment of Remuneration and Compensation of Expenses of Members of the Board of Directors determine the list of expenses to be compensated to members of the Board of Directors, and their compensation procedure.

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 a member of the HR and 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 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)
- **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 Strategic Planning 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 the Chairman of the Audit Committee, and USD 15,000 as remuneration for discharging the functions of a member of the HR and Remuneration Committee (pro-rata to the time spent discharging these functions in the corporate year (23 December 2016 to 22 June 2017)).

The fixed remuneration of a member of the Board of Directors is set on par with global director remuneration practices in major vertically integrated oil companies.

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 Belousov (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.

As of 31 December 2017, Rosneft fully discharged its obligation to pay remuneration to members of its Board of Directors.

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 bln.[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%.

KEY MANAGEMENT REMUNERATION PRINCIPLES

Commitment to achievement of Rosneft's strategic goals for the benefit of its shareholders

Performance-based remuneration of top managers ensured by the Company's KPIs

KPI	RUB
Remuneration for service on a governing body	117,012,919
Salary	643,935,416
Bonuses[2]	1,774,252,475
Fees	0
Benefits	0
Payments for business trips, and other remunerations	1,360,222,414
Reimbursement of expenses	31,677,723
TOTAL	**3,927,100,947**

[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.

5.7. 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 issue 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 / 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.

The Company has approved and posted on its official website the Code of Business and Corporate Ethics declaring prevention and settlement of any conflicts of interest as one of the Company's priorities. https://www.rosneft.com/Investors/Documents/.

Pursuant to the Code of Business and Corporate Ethics, Rosneft has established the Council for Business Ethics, which contributes to managing conflicts of interest.

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 System[1] 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.

In 2017, following the decision of the Chief Executive Officer on migration to a centralized RM&ICS model, the coordination of RM&ICS processes was consolidated within the Risks and Internal Control Department.

The Company's Policy on the Risk Management and Internal Control System is posted on the Company's official website: https://www.rosneft.com/Investors/Documents/

[1] The Company's Policy on the Risk Management and Internal Control System No. P4-01 P-01 approved by Rosneft's Board of Directors, Minutes No. 8 dated 16 November 2015.

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.

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
- reinsures the Company's risks in Russian and international insurance markets
- settles insurance claims on risks realized.

INTERNAL AUDIT SERVICE
- assesses the RM&ICS reliability and performance
- conducts audits
- 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.

AUDIT COMMISSION
- performs audits of the Company's financial and business operations, verifies 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.

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 annual reports, annual accounting (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.

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.

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).

Holder of a ministerial award – Certificate of Honor of the Russian Ministry of Energy.

Chief Accountant – Head of the Finance and Economics Service of 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 Rosneft's Audit Commission[1] are posted on the Company's official website: https://www.rosneft.com/Investors/Documents/

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:[2]

Alexey Afonyashin – RUB 220,000;

Oleg Zenkov – RUB 220,000

Sergey Poma – RUB 220,000

[1] Regulations on Rosneft's Audit Commission were approved by the General Shareholders Meeting of Rosneft on 27 June 2014 (minutes w/n), with Amendments No. 1 (approved by the General Shareholders Meeting on 15 June 2016, minutes w/n).
[2] 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).

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 implement 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

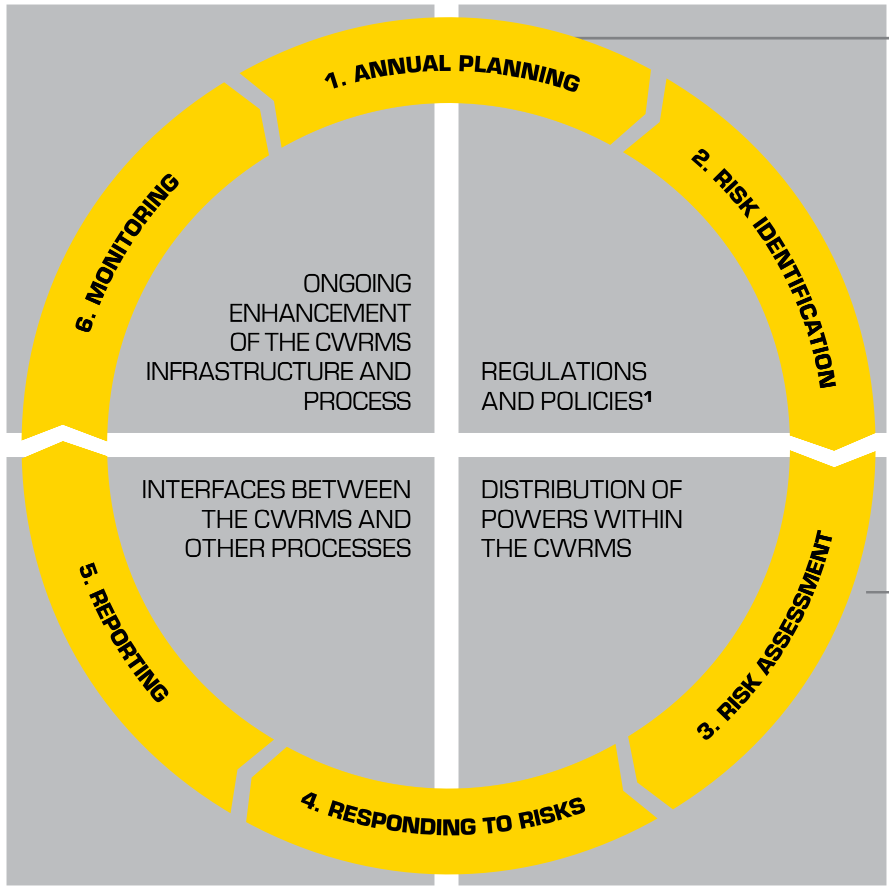
- Conducting internal audit to assess reliability and efficiency of the ICS

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:



RISK MANAGEMENT PROCESS

A combination of risk management elements supported by the existing organization, internal policies and regulations, risk management procedures and methods, applied across the Company and its functions to make the Company's risks acceptable in the context of achieving Rosneft's strategic goals.

RISK MANAGEMENT INFRASTRUCTURE

A set of elements that provide Company-wide basis, organizational tools, and framework for risk management.

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.

[1] 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 Regulations on the Risk Management Committee
- the Company's Regulations on Market Risk Management.

ROSNEFT'S RISKS

UPSTREAM

- Risks related to the actual amount of reserves
- Risks related to statutory regulation of subsoil use

CORPORATE FUNCTIONS

- Risks related to inspections by regulators
- Risks related to changes in FX regulation
- Risks related to changes in tax legislation
- Risks related to statutory regulation of land use
- Risks related to environmental and industrial safety
- Risks related to ongoing court proceedings in which the Company is involved

BUSINESS RISKS

- Risks related to changes in interest rates
- Inflation risk
- Risks related to the country and region of operation
- Geographic and climatic risks
- US and EU sanctions
- Currency risks
- HSE risks
- Risks related to unavailability of core IT systems and IT services due to cyber-attacks

DOWNSTREAM

- Risks related to crude oil, gas, and petroleum product prices
- Risks related to monopolies on oil and petroleum product transportation services and associated tariffs
- Risks related to competition
- Risks related to changes in customs regulation
- Risks related to changes in anti-trust laws

GAS BUSINESS

- Risks related to the sale of natural gas

Risk management is an integral part of the Company's key business processes, including the drafting of Rosneft's business plan.

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 RUB/USD exchange rate and global oil prices are heavily correlated at the moment. On top of that, the FX rate is sensitive to the ratio of RUB and USD interest rates, so the Company has to focus on the aggregate impact by the market risk portfolio when assessing its market risks.

To assess the exposure of the Company's performance to the market risk portfolio, Rosneft recurs to mathematic modeling based on interfaces identified between individual market risk factors.

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[1] trade-off while maintaining an acceptable risk level (risk appetite).

[1] Risk management measures are analyzed for cost-effectiveness. The scope and complexity of such measures must be necessary and sufficient to achieve risk mitigation goals and objectives.

Risk Appetite

In 2017, the Company put in place the Guidelines for Determining and Applying Risk Appetite which provide for Company-wide requirements to assessing its risk appetite and applying its value in risk management.

ROSNEFT ASSESSED ITS RISK APPETITE FOR 2018:

FINANCIAL AND ECONOMIC PERFORMANCE

- The Company does not accept the risk of credit rating downgrade against Russian sovereign ratings and strictly complies with the covenants of its loan agreements. The Company ensures that all its short- and long-term commitments are discharged as they fall due

CORPORATE GOVERNANCE

- The Company has zero tolerance for any form or manifestation of corruption in its operating, investment or any other activities
- The Company considers unacceptable any form of fraud, irrespective of the amount of damage incurred by the Company, and puts extensive efforts into combating fraud in its operations

HEALTH, SAFETY, AND ENVIRONMENT

- Recognizing the nature and scale of the footprint of its business, products, and services, the Company provides safe operation, protects the health and safety of its employees and the local residents in regions of its operation
- To prevent potential adverse impact, the Company makes relevant commitments and carries out all necessary activities focused on environmental safety and natural resource conservation and restoration

Corporate Insurance

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 other persons)
- business risks.

The most material risks are reinsured 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 accident of 16 July 2016 (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 a Company-wide 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 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 control
- Piloted Internal Control and Risk Management information tools as part of automating RM&ICS processes

The key RM&ICS focus and enhancement areas are detailed in the RM&ICS Holistic Development Plan.

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 exchanging 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, ensure 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 bribing 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 Company is working on instilling 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.

PROCEDURE FOR MANAGING CONFLICTS OF INTEREST IN ROSNEFT AND GROUP SUBSIDIARIES

As part of implementing its Code of Business and Corporate Ethics and the Anti-Corruption Policy, and to comply with Article 11 of Federal Law No. 273-FZ On Counteracting Corruption dated 25 December 2008, and Resolution of the Russian Government No. 594 On Amending Certain Acts of the Government of the Russian Federation on Matters Related to Prevention and Settlement of Conflicts of Interest dated 28 June 2016, Rosneft's Board of Directors approved the Company's Regulations on the Procedure for Managing Conflicts of Interest in Rosneft and Group Subsidiaries (the Regulations) on 9 June 2017.

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, 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 legislation, 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.

ANTI-CORRUPTION EFFORTS

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 on cooperation with law enforcement authorities, etc.

Posted on the Company's official website: https://www.rosneft.com/Development/Corruption_control/

- 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, 735 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 inventories, perform capital construction projects, and provide oilfield and non-operating services), with 2,618 bids rejected

During 2017, the Security Hotline received 20,486 calls (13,801 in 2016, up 48.4%), 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

- The Company is vetting job applicants on an ongoing basis to identify potential conflicts of interest, including affiliation
- Additionally, the Company has in place a number of organizational measures to meet the requirements for hiring former government officials, collect and verify information on income, property, and property obligations for certain categories of employees; enhance the commitment of the Company's management to preventing corruption, including conflicts of interest, by entering relevant provisions into employment contracts, and including provisions on liability for failure to comply with anti-fraud and anti-corruption requirements of the Company's local regulations in employee job descriptions

Internal Audit

5
business units are engaged in 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 the Company will achieve its goals. It also helps ensure:
- the accuracy, reliability, and integrity of information on the Company's financial and business operations, including those of Group Subsidiaries
- the efficiency and effectiveness of the Company's operations, including those of Group Subsidiaries
- identification of internal reserves for improving the Company's financial and business performance, including that of Group Subsidiaries
- protection of the Company's assets, including those of Group Subsidiaries.

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 shortcomings, 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.

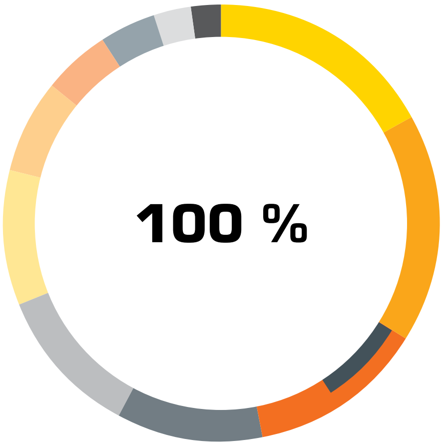
Over 90.0% of thematic inspections and audits were assessing the RM&ICS performance, improving the efficiency of the Company's business processes in Key Group Subsidiaries, and assessing the business performance of Group Subsidiaries.

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.

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.

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.

Key Focus Areas of Internal Audit in 2017



- **17** Oil and gas exploration and production, including joint ventures and foreign projects
- **17** Oil refining, gas processing, and petrochemicals
- **13** Production support
  - **7** including supply system
- **11** Commerce and logistics
- **11** Technologies and innovations
- **10** Capital construction and investments
- **7** Corporate governance and property
- **5** Health and safety
- **4** Corporate services
- **3** Finance, accounting, and taxation
- **2** Planning and control

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.

> 300
INSPECTIONS
conducted by the Internal Audit Service in 2017

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:

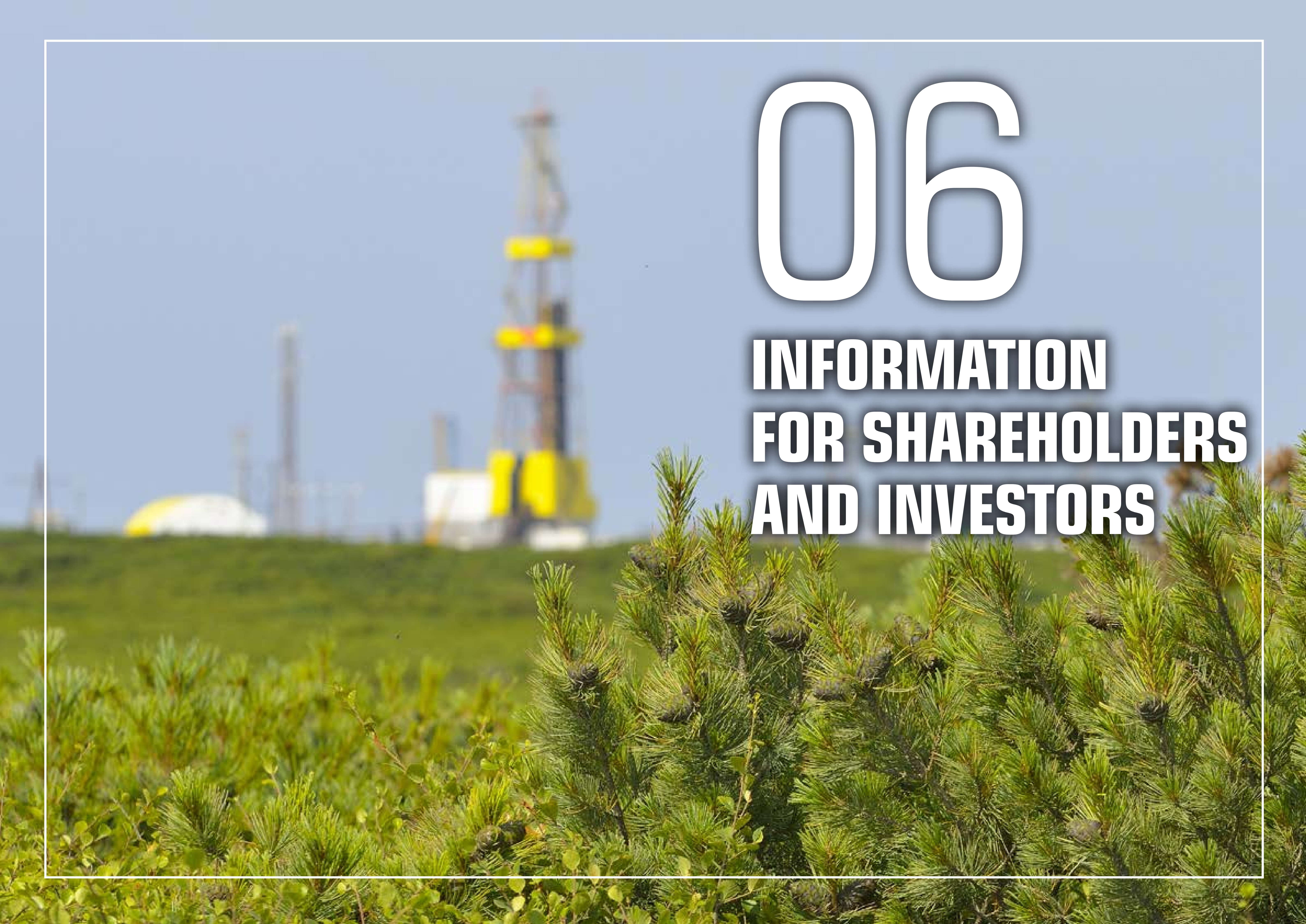
- Statutory audit of accounting (financial) statements prepared under the Russian Accounting Standards (RAS)
- Statutory audit of consolidated financial statements of Rosneft Group prepared under the International Financial Reporting Standards (IFRS)
- Audit review of the Company's interim consolidated 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.

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 98,194,904.74**, inclusive of VAT



06

INFORMATION FOR SHAREHOLDERS AND INVESTORS

6.1. SHARE CAPITAL

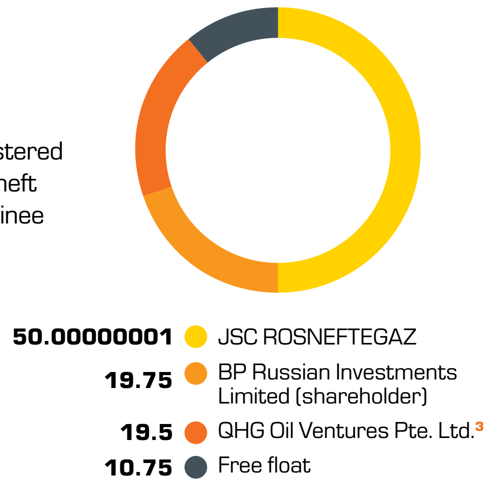
As at 31 December 2017, Rosneft's charter capital was RUB 105,981,778.17 divided into 10,598,177,817 ordinary registered book-entry shares with a par value of RUB 0.01 each.

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).

Share Capital Structure[1]



[1] Based on data from Rosneft's Shareholder Register.

Share Capital Structure[1]

	As at 31 December 2016		As at 31 December 2017	
Shareholders	**number of shares**	**stake in share capital, %**	**number of shares**	**stake in share capital, %**
JSC ROSNEFTEGAZ[2] (shareholder)	5,299,088,910	50.00000001	5,299,088,910	50.00000001
BP Russian Investments Limited (shareholder)	2,092,900,097	19.75	2,092,900,097	19.75
QHG Oil Ventures Pte. Ltd.[3] (shareholder)	2,066,727,473	19.50	2,066,727,473	19.50
National Settlement Depository (nominee central depository)	1,098,600,619	10.37	1,099,838,162	10.38
Other shareholders				
Other legal entities holding less than 5% of shares	1,492,677	0.01	1,438,588	0.01
Russian Federation represented by the Federal Agency for State Property Management	1	Less than 0.01 year	1	Less than 0.01 year
Individuals	39,256,385	0.37	38,072,053	0.36
Account of unidentified persons	111,655	Less than 0.01 year	112,533	Less than 0.01 year
TOTAL	**10,598,177,817**	**100.00**	**10,598,177,817**	**100.00**

Order of the Federal Service for Financial Markets No. 06-1380/pz-i dated 20 June 2006 authorizes placement of, and trading in, 2,140,000,000 ordinary registered book-entry shares of Rosneft outside the Russian Federation.

In July 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.

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/

[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% in Rosneft's charter capital.
[3] Shareholder's former name – QHG Shares Pte. Ltd.

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. The target payout frequency – at least twice a year.

Rosneft's Charter provides for a five-year period during which shareholders may claim the declared dividends that have been unpaid due to missing address or banking details, which is longer than required by Russian law.

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%.

RUB 40,591 mln were paid as dividend for 1H 2017. The dividend payout ratio (dividends / consolidated net profit under IFRS) was 50%, in line with amendments to the Dividend Policy approved in 2017.

RUB 51,984 mln paid out in 2017 to JSC ROSNEFTEGAZ, the largest shareholder in Rosneft, add to the Russian Government's revenue.

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).

Rosneft's Dividend History

Year	Dividend per Share,[1] RUB	Total Dividends Declared, RUB mln	Total Dividends Paid, RUB mln	Dividend Payout Ratio under RAS, %
1999	0.0221	200	200	3.4%
2000	0.0887	800	800	5.3%
2001	0.1219	1,100	1,100	11.0%
2002	0.1663	1,500	1,500	16.8%
2003	0.1650	1,500	1,500	8.1%
2004	0.1931	1,775	1,775	10.0%
2005	1.25	11,335	11,335	20.0%
Dividends Paid Out Following the Initial Public Offering Completed on 18 July 2006				
2006	1.33	14,096	14,082	13.3%[2]
2007	1.60	16,957	16,943	10.5%
2008	1.92	20,349	20,335	14.4%
2009	2.30	24,374	24,359	11.7%
2010	2.76	29,251	29,234	15.2%
2011	3.45	36,564	36,544	33.1%
	4.08	41,928	41,905	
2012	8.05	85,315	85,272	28.2%
2013	12.85	136,187	136,119	99.9%
2014	8.21	87,011	86,968	17.4%
2015	11.75	124,529	124,500	52.0%
2016	5.98	63,377	63,362	63.9%
1H 2017	3.83	40,591	40,581	27.7%

As at 31 December 2017, Rosneft had no payouts outstanding to JSC ROSNEFTEGAZ.

As at 31 December 2017, the Company discharged 99.98% of its obligation to pay out dividends for FY2016 and 1H 2017. 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.

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. The total amount of dividends recommended for FY2017 is RUB 111.1[3] bln or RUB 10.48[3] per share. The dividend payout ratio (dividends / non-consolidated net profit under RAS) for 2017 is 80%, while the dividend payout ratio (dividends / consolidated net profit under IFRS) is 50%.

The Dividend Policy, payout details, payout history, and notices on dividend payouts are posted on the Company's official website: https://www.rosneft.com/Investors/Dividends/

[1] The 1:100 share split of September 2005 is factored in the amount of dividends per share.
[2] Net profit for 2006 is adjusted for one-off items.
[3] Including the dividend for 1H 2017 and the dividend recommended by the Board of Directors to be approved at the General Shareholders Meeting in June 2018.

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.

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

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.

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.

At 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 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 on time and in the amount declared.

The Company paid out outstanding declared dividends for previous years to those shareholders (and heirs of shareholders) who claimed such payouts but had been unable to receive them for the lack of valid payment details, and who had updated their details in the Shareholder Register and/or with the nominee shareholder.

Resolutions of the General Shareholders Meeting are posted on the Company's official website: https://www.rosneft.com/Investors/Shareholders_meeting/

TThe Right to Receive Necessary Information on the Company on a Timely and Regular Basis

Information on Rosneft's operations is disclosed to shareholders in line with the requirements of the applicable Russian legislation, regulations of the Bank of Russia, which describe the process of disclosing information to shareholders, and the Company's internal documents.

The procedure and timeline for disclosing information to shareholders are detailed in Rosneft's Regulations on Provision of Information to Rosneft's Shareholders. All shareholders have equal and unhindered access to documents.

When providing information to shareholders, the Company maintains a reasonable balance between the interests of shareholders and its own interests which imply preserving the confidentiality of important commercial information and other legally protected information that may materially affect its competitiveness.

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.

The Regulations on Provision of Information to Rosneft Shareholders are posted on the Company's official website: https://www.rosneft.com/Investors/Documents/

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 standalone offices of the Company's registrar, 29 transfer agent outlets at regional branches of LLC Reestr-RN's partner registrars, 5 transfer agent outlets at Rosneft's 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.

Contact details of the registrar and service outlets are posted on the Company's official website: https://www.rosneft.ru/Investors/shareholdersinfo/shareholderslist/

Frequently Asked Questions (FAQs)

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 Meeting:
- 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 replied to all questions put by shareholders.

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): 8 800 500 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.

Answers to frequently asked questions are posted on the Company's official website: https://www.rosneft.ru/Investors/shareholdersinfo/QandA/

6.4. INVESTOR RELATIONS

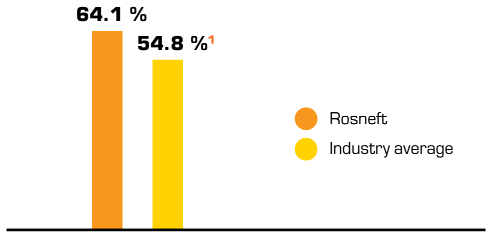
Rosneft shares are among the most attractive investment opportunities in the Russian stock market. 10.75% of its shares are free float, including 6.6% in the form of Global Depositary Receipts (GDR) traded on the London Stock Exchange (LSE). The Company enjoys a diversified investor base of over 700 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 at major international investment forums, and over 200 one-on-one and group meetings between the Company's management and top investment funds. Feedback from investors is reported to Rosneft's management on a regular basis.

19 investment banks currently provide analytical coverage of the Company. Wood&Co initiated analytical coverage of Rosneft in November 2017. The Chairman of the Management Board of Rosneft and heads of relevant core functions maintain regular communications with the investor community. At such meetings, investors, analysts, and representatives of international rating agencies are updated on strategic trends in the Company's development, its operations, and financial management directly by the Company's management. Rosneft holds quarterly conference calls for investors involving heads of economics, finance, and operations and providing detailed coverage of the Company's performance in the reporting period. Shareholder and investor materials, such as press releases, presentations, Rosneft's Annual Report and Sustainability Report, and material facts on resolutions of the Company's Board of Directors are posted on the Company's official website: www.rosneft.ru.

Total Shareholder Return of Rosneft and Russian Peers in 2014–2017



2018 PRIORITIES
- Improve disclosure standards
- Focus on investor and shareholder relations
- Promote fast, high-quality, and skilful communications

As at March 2018, 17 major investment banks recommend to "buy" or "hold" Rosneft shares / GDRs.

[1] The industry average total shareholder return is calculated based on the data for the following oil and gas companies: Gazprom, Lukoil, Novatek, Rosneft, Surgutneftegas, Tatneft, Transneft, Gazprom neft

2017 IR Highlights

Disclosure
Conference
Meetings/NDRs

JANUARY

Investor meetings at Deutsche Bank's CEEMEA Conference, London

Investor meetings at ATON's investment conference, Moscow

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 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

MARCH

Investor meetings at J.P. Morgan's Credit Emerging Markets 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

Investor meetings at Credit Suisse's Non-Deal Road Show, The Hague, Rotterdam, Brussels

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

Investor meetings at Morgan Stanley's CEEMEA Conference, London

Investor meetings at Goldman Sachs' Top Projects & European Oil Services Symposium, London

Investor meetings at HSBC's Non-Deal Road Show (HSBC), Copenhagen, Tallinn, Stockholm, London

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 EEMEA & LATAM, London

Investor meetings at Deutsche Bank's Global EMEA, US

Investor meetings at Citi's Non-Deal Road Show, Boston

OCTOBER

Investor meetings at VTB Capital's Investment Forum RUSSIA CALLING!, Moscow

NOVEMBER

Disclosure of the Company's performance for Q3 2017

Investor conference call involving heads of finance, economics, and operations

Investor meetings at Goldman Sachs' Global Natural Resources conference, London

Investor meetings at UBS's Global Emerging Markets One-on-One Conference, US

DECEMBER

Investor meetings at Wood & Company's Winter Emerging Europe Conference, Prague

Investor meetings at MOEX 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 IOB	4.48
MICEX	5.84
SCI[1]	18.76

Bank	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	–[1]	Hold	
Renaissance Capital	Hold	Buy	↑
Uralsib	Hold	Hold	
Aton	Hold	Buy	↑
VTB Capital	Put on review	Put on review	

[1] Analytical coverage was initiated in November 2017.

6.5. BONDS AND CREDIT RATINGS OF THE COMPANY

BB+
credit rating by Standard & Poor's

Baa3
credit rating by Moody's

In January 2018, Moody's upgraded its outlook to "Stable" at Baa3 and Standard & Poor's affirmed its rating at BB+,w outlook "Positive", in February 2018.

The Company is one of the major high quality Russian borrowers in the domestic market.
Rating Agency "Expert RA" assigned its highest rating of debt instruments' reliability (ruAAA) to all ruble bonds 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 421 bln.

In November 2017, the Company registered its fifth multi-currency Exchange-Traded Bond Program with a total par value of RUB 1.3 trln 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.

Par Value, mln	Currency	Coupon	Series / Issue Number	Issue Date	Maturity Date	Issuer
Eurobonds						
800	USD	6.625%	Series 4	March 2007	March 2017	Rosneft Finance S.A.
1,100	USD	7.875%	Series 6	October 2007	March 2018	Rosneft Finance S.A.
500	USD	7.25%	Series 8	February 2010	February 2020	Rosneft Finance S.A.
1,000	USD	3.149%	Series 1	December 2012	March 2017	Rosneft International Finance Ltd.
2,000	USD	4.199%	Series 2	December 2012	March 2022	Rosneft International Finance Ltd.
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, 09, 10	June 2013	May 2023	Rosneft
40,000	RUB	7.95%	Series BO 05, BO 06	December 2013	December 2023	Rosneft
35,000	RUB	8.9%	Series BO 01, BO 07	February 2014	February 2024	Rosneft
225,000	RUB	9.4%[1]	Series BO 02, BO 03, BO 04, BO 08, BO 09, BO 10, BO 11, BO 12, BO 13, and BO 14	December 2014	November 2024	Rosneft
400,000	RUB	7.85%[1]	Series BO 15, BO 16, BO 17, BO 24	December 2014	December 2020	Rosneft
400,000	RUB	8.6%[1]	Series BO 18, BO 19, BO 20, BO 21, BO 22, BO 23, BO 25, BO 26	January 2015	January 2021	Rosneft
600,000	RUB	8.35%[1]	001P01	December 2016	November 2026	Rosneft
30,000	RUB	9.39%	001P02	December 2016	December 2026	Rosneft
20,000	RUB	9.50%	001P03	December 2016	December 2026	Rosneft
40,000	RUB	8.65%	001P04	May 2017	April 2027	Rosneft
15,000	RUB	8.6%	001P05	May 2017	May 2025	Rosneft
266,000	RUB	8.5%	001P06, 001P07	July 2017	July 2027	Rosneft
100,000	RUB	8.6%[1]	001P08	October 2017	September 2027	Rosneft
600,000	RUB	8.35%[1]	002P01, 002P02	December 2017	November 2027	Rosneft
30 000	RUB	7.75%	002P03	December 2017	December 2027	Rosneft

[1] 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).

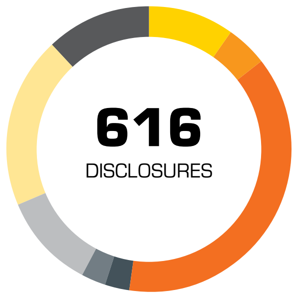
In disclosing its information, Rosneft is guided by the applicable Russian legislation, requirements of Moscow Exchange and the London Stock Exchange, the Company's Regulations on the Information Policy, and other requirements and regulations.

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 RAS, 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 Disclosure[1], 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



- 61 Meetings and resolutions of Rosneft's governing bodies
- 28 Completed transactions and projects, including stakes held in other entities
- 234 Licenses for operations that are material for the issuer
- 17 Disclosure of, and access to, the issuer's reports (Annual Report, quarterly reports, accounting statements, consolidated financial statements, list of affiliates)
- 17 Controlled entities
- 67 Bond issues
- 119 Accrued and paid income on bonds and shares
- 73 Other

Relevant information is posted on: http://www.e-disclosure.ru/portal/company.aspx?id=6505

[1] Regulations of the Bank of Russia No. 454-P On Disclosure of Information by Issuers of Issue-Grade Securities dated 30 December 2014.

Increasing Information Transparency

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.

Sustainability Reports are prepared in line with the GRI Sustainability Reporting Guidelines and undergo an independent audit by Ernst & Young LLC.

APPENDIX 1

CONSOLIDATED FINANCIAL STATEMENTS OF ROSNEFT OIL COMPANY FOR THE YEAR ENDED 31 DECEMBER 2017 WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

to the Shareholders and Board of Directors
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 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).

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 ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA 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. 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 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. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of 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 matter	How our audit addressed the key audit matter
Impairment of non-current assets	
We considered this matter to be one of most significance in our audit due to the materiality of the balances of non-current assets to the financial statements, the high level of subjectivity in assumptions underlying the impairment analysis and the significant judgements and estimates made by management. In addition, the combination of the volatility in oil prices and the Russian ruble exchange rate, as well as change in inflation and cost of debt in recent years, points to the instability of the economic conditions that could thus result in an impairment of the Company's assets. Significant assumptions included discount rates, forecast prices of oil and petroleum products and production forecasts. Significant judgements and estimates included future capital expenditure and oil and gas reserves available for development and production. Information on non-current assets and the impairment test performed is disclosed in Note 25 to the consolidated financial statement.	We involved our business valuation specialists in the analysis of management's testing of impairment and calculation of recoverable amounts. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts. We compared the discount rate and long-term growth rate to general market indicators and other available evidence. We tested the mathematical accuracy of the impairment models, sensitivity analysis and consistency of use of models (formulas and calculations) with prior periods.
Estimation of oil and gas reserves and resources	
We considered this matter to be one of most significance in our audit due to the fact that the estimate of hydrocarbon reserves and resources has a significant impact on the impairment test, depreciation, depletion and amortization and decommissioning provisions. Information on the estimation of oil and gas reserves and resources is disclosed in Note 4 to the consolidated financial statements as part of significant accounting estimates.	We performed procedures to assess competence, capabilities and objectivity of the external expert engaged by the Company to estimate volumes of oil and gas reserves and resources. We assessed the assumptions used by the external expert and compared the assumptions to the macroeconomic indicators, hydrocarbon production, operating costs, capital expenditures forecasts and other performance indicators, approved by the Company's management. We compared the estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and amortization and decommissioning provisions.

OTHER MATTER

The information accompanying the consolidated financial statements which has been disclosed as Supplementary oil and gas disclosure on page 87 is presented for purposes of additional analysis and is not within the scope of IFRS. Such information has not been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, accordingly, we do not express an opinion on it.

OTHER INFORMATION INCLUDED IN THE MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND ANNUAL REPORT

Other information comprises management's discussion and analysis of financial condition and results of operations for 2017 (but does not include the consolidated financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the 2017 Annual report, which is expected to be made available to us after that date. Management is responsible for the 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.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors is responsible for overseeing the Company's financial reporting process

THE AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue the auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always 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 expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism 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 the 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.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an 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 all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related 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 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 Konstantin Petrov.

Dmitry Lobachev
Partner, General Director
Ernst & Young LLC

19 March 2018

Details of the audited entity
Name: Rosneft Oil Company
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 1027739707203.
Address: 77 Sadovnicheskaya 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 11603050648.

CONSOLIDATED BALANCE SHEET (RUB BLN)

	Notes	As at 31 December 2017	2016 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	19	**322**	790
Restricted cash	19	**13**	2
Other short-term financial assets	20	**336**	446
Accounts receivable	21	**843**	486
Inventories	22	**324**	283
Prepayments and other current assets	**23**	**454**	**293**
Total current assets		**2,292**	**2,300**
Non-current assets			
Property, plant and equipment	24	**7,923**	7,151
Intangible assets	25	**71**	59
Other long-term financial assets	26	**606**	808
Investments in associates and joint ventures	27	**638**	411
Bank loans granted		**121**	26
Deferred tax assets	16	**26**	22
Goodwill	25	265	256
Other non-current non-financial assets	28	285	84
Total non-current assets		**9,935**	**8,817**
Total assets		**12,227**	**11,117**
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	29	**971**	676
Loans and borrowings and other financial liabilities	30	**2,229**	1,578
Income tax liabilities		**39**	6
Other tax liabilities	31	**278**	222
Provisions	32	29	29
Prepayment on long-term oil and petroleum products supply agreements	33	264	255
Other current liabilities		**26**	7
Total current liabilities		**3,836**	**2,773**
Non-current liabilities			
Loans and borrowings and other financial liabilities	30	**1,783**	1,914
Deferred tax liabilities	16	813	813
Provisions	32	245	203
Prepayment on long-term oil and petroleum products supply agreements	33	**1,322**	1,586
Other non-current liabilities	34	**45**	46
Total non-current liabilities		**4,208**	**4,562**
Equity			
Share capital	36	**1**	1
Additional paid-in capital	36	627	603
Other funds and reserves		(322)	(497)
Retained earnings		3,313	3,195
Rosneft shareholders' equity		**3,619**	**3,302**
Non-controlling interests	17	564	480
Total equity		**4,183**	**3,782**
Total liabilities and equity		**12,227**	**11,117**

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)

	Notes	For the Years Ended 31 December 2017	2016 (restated)
REVENUES AND EQUITY SHARE IN PROFITS OF ASSOCIATES AND JOINT VENTURES			
Oil, gas, petroleum products and petrochemicals sales	8	**5,877**	4,887
Support services and other revenues		**77**	75
Equity share in profits of associates and joint ventures	27	**60**	26
Total revenues and equity share in profits of associates and joint ventures		**6,014**	**4,988**
Costs and expenses			
Production and operating expenses		**607**	559
Cost of purchased oil, gas, petroleum products and refining costs		**837**	614
General and administrative expenses		**172**	129
Pipeline tariffs and transportation costs		**596**	575
Exploration expenses		**15**	14
Depreciation, depletion and amortization	24, 25	**586**	489
Taxes other than income tax	9	**1,919**	1,296
Export customs duty	10	**658**	657
Total costs and expenses		**5,390**	**4,333**
Operating income		**624**	655
Finance income	11	**107**	91
Finance expenses	12	**(225)**	(193)
Other income	13	**109**	49
Other expenses	13	**(77)**	(79)
Foreign exchange differences		**3**	(70)
Cash flow hedges reclassified to profit or loss	6	**(146)**	(147)
Income before income tax		**395**	306
Income tax expense	16	**(98)**	(114)
Net income		**297**	192
Net income attributable to:			
▪ Rosneft shareholders		**222**	174
▪ non-controlling interests	17	**75**	18
Net income attributable to Rosneft per common share, RUB – basic and diluted	18	**20.95**	16.42
Weighted average number of shares outstanding, mln		**10,598**	10,598

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (RUB BLN)

	Notes	For the Years Ended 31 December 2017	2016, (restated)
Net income		**297**	**192**
Other comprehensive income – to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences on translation of foreign operations		**51**	143
Foreign exchange cash flow hedges	6	**145**	155
Income from changes in fair value of financial assets available-for-sale		**10**	5
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods	6, 17	**(31)**	(32)
Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax		**175**	**271**
Total comprehensive income, net of tax		**472**	**463**
Total comprehensive income, net of tax, attributable to:			
▪ Rosneft shareholders		**397**	445
▪ non-controlling interests		**75**	18

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (RUB BLN, EXCEPT SHARE AMOUNTS)

	Number Shares, mln	Share Capital	Additional Paid-In Capital	Other Fund and Reserves	Retained Earinings	Total Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at 1 January, 2016	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	–	–	–	–	174	174	18	192
Other comprehensive loss	–	–	–	271	–	271	–	271
Total comprehensive (loss)/income	–	–	–	271	174	445	18	463
Change of non-controlling interest in subsidiaries (Note 17)	–	–	96	–	–	96	180	276
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	–	234	234
Disposal of subsidiaries	–	–	–	–	–	–	(2)	(2)
Dividends declared on common stock (Note 36)	–	–	–	–	(125)	(125)	–	(125)
Other movements	–	–	–	–	–	–	7	7
Balance at 31 December 2016 (restated)	10,598	1	603	(497)	3,195	3,302	480	3,782
Net income	–	–	–	–	**222**	**222**	**75**	**297**
Other comprehensive income	–	–	–	**175**	**–**	**175**	**–**	**175**
Total comprehensive income	–	–	–	**175**	**222**	**397**	**75**	**472**
Change of non-controlling interest in subsidiaries (Note 17)	–	–	**24**	**–**	**–**	**24**	**44**	**68**
Disposal of subsidiaries	–	–	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Dividends declared on common stock (Note 36)	–	–	–	–	**(104)**	**(104)**	**(43)**	**(147)**
Other movements	–	–	–	–	**–**	**–**	**9**	**9**
Balance at 31 December 2017	**10,598**	**1**	**627**	**(322)**	**3,313**	**3,619**	**564**	**4,183**

CONSOLIDATED STATEMENT OF CASH FLOWS (RUB BLN)

	Notes	For the Years Ended 31 December 2017	2016 (restated)
OPERATING ACTIVITIES			
Net income		**297**	192
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation, depletion and amortization	24, 25	**586**	489
Loss on disposal of non-current assets	13	**13**	16
Dry hole costs		**3**	5
Foreign exchange gain on non-operating activities		**(24)**	(16)
Cash flow hedges reclassified to profit or loss	6	**146**	147
Offset of prepayments received on oil and petroleum products supply agreements	33	**(255)**	(122)
Offset of other financial liabilities		**(105)**	(41)
Equity share in profits of associates and joint ventures	27	**(60)**	(26)
Non-cash income from disposal of subsidiaries and shares in joint operations	13	**–**	(29)
Gain on out-of-court settlement	13	**(100)**	–
Loss from disposal of subsidiaries and non-production assets	13	**3**	2
Changes in bad debt provision		**16**	–
Loss from changes in estimates, impairment and receivables write-off		**25**	25
Finance expenses	12	**225**	193
Finance income	11	**(107)**	(91)
Income tax expense	16	**98**	114
Changes in operating assets and liabilities			
Increase in accounts receivable, gross		**(184)**	(27)
Increase in inventories		**(41)**	(29)
Increase in restricted cash		**(10)**	–
(Increase)/decrease in prepayments and other current assets		**(27)**	10
Increase in long-term prepayments made on oil and petroleum products supply agreements	28	**(207)**	(95)
Increase/(decrease) in accounts payable and accrued liabilities		**24**	(58)
Increase in other tax liabilities		**56**	57

	Notes	For the Years Ended 31 December 2017	2016 (restated)
Decrease in current provisions		–	(1)
Decrease in other current liabilities		–	(3)
Increase in other non-current liabilities		–	1
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		**(10)**	(15)
Net increase in operating assets of subsidiary banks		**(144)**	(39)
Net increase in operating liabilities of subsidiary banks		**170**	32
Proceeds from sale of trading securities	20	**3**	4
Net cash provided by operating activities before income tax and interest		**391**	**695**
Income tax payments		**(112)**	(85)
Interest received		**37**	58
Dividends received		**21**	11
Net cash provided by operating activities		**337**	**679**
INVESTING ACTIVITIES			
Capital expenditures		**(922)**	(709)
Acquisition of licenses and auction fee payments		**(34)**	(11)
Acquisition of short-term financial assets		**(103)**	(178)
Proceeds from sale of short-term financial assets		**258**	689
Acquisition of long-term financial assets	26	**(58)**	(403)
Proceeds from sale of long-term financial assets		**127**	19
Financing of joint ventures		**(2)**	(24)
Acquisition of interest in associates and joint ventures	27	**(219)**	(65)
Acquisition of interest in subsidiary, net of cash acquired, and joint arrangements	7	**(215)**	(292)
Proceeds from sale of subsidiary, net of cash acquired		–	(5)
Proceeds from sale of property, plant and equipment		**5**	8
Placements under reverse REPO agreements		**(1)**	(4)
Receipts under reverse REPO agreements		**2**	2
Net cash used in investing activities		**(1,162)**	**(973)**
FINANCING ACTIVITIES			
Proceeds from short-term loans and borrowings	30	**1,431**	1,155
Repayment of short-term loans and borrowings		**(787)**	(661)
Proceeds from long-term loans and borrowings	30	**508**	1,125
Repayment of long-term loans and borrowings		**(806)**	(1,048)
Proceeds from other financial liabilities		**336**	49
Repayment of other financial liabilities		**(22)**	(14)
Interest paid		**(219)**	(143)
Proceeds from sale of non-controlling share in subsidiary	17	**73**	300
Other financing		**9**	8
Payment of dividends on common stock	36	**(104)**	(125)
Dividends paid to minority		**(38)**	(1)
Net cash provided by financing activities		**381**	**645**
Net (decrease)/increase in cash and cash equivalents		**(444)**	**351**
Cash and cash equivalents at the beginning of the year	19	**790**	559
Effect of foreign exchange on cash and cash equivalents		**(24)**	(120)
Cash and cash equivalents at the end of the year	**19**	**322**	**790**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

ROSNEFT OIL COMPANY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 2017 (ALL AMOUNTS IN TABLES ARE IN BILLIONS OF RUSSIAN RUBLES, EXCEPT AS NOTED OTHERWISE)

1. GENERAL

Public Joint Stock Company ("PJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries (collectively, the "Company") are principally engaged in exploration, development, production and sale of crude oil and gas and refining, transportation and sale of petroleum products in the Russian Federation and in certain international markets.

Rosneft State Enterprise was incorporated as an open joint stock company on 7 December 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with ownership rights to other privatized oil and gas companies belonging to the Government of the Russian Federation (the "State"). The transfer of assets and liabilities was made in accordance with Russian Government Resolution No. 971 dated September 29, 1995, On the Transformation of Rosneft State Enterprise into Open Joint Stock Company "Oil Company Rosneft". These transfers involved the reorganization of assets under the common control of the State and, accordingly, were accounted for at their book value. In 2005, the State contributed the shares of Rosneft to the share capital of JSC ROSNEFTEGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by JSC ROSNEFTEGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, JSC ROSNEFTEGAS's ownership interest decreased through the additional issue of shares during Rosneft's Initial Public Offering ("IPO") in Russia, an issue of Global Depository Receipts ("GDR") for shares on the London Stock Exchange and the share swap completed during the merger of Rosneft and certain subsidiaries in 2006. In March 2013 in the course of the acquisition of TNK-BP Limited and TNK Industrial Holdings Limited, its subsidiary (collectively with their subsidiaries, "TNK-BP"), JSC ROSNEFTEGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). In December 2016 JSC ROSNEFTEGAS signed an agreement to sell 19.5% of Rosneft shares to a consortium of foreign investors. As at 31 December 2017 JSC ROSNEFTEGAS's ownership interest in Rosneft amounted to 50% plus one share.

Under Russian legislation, natural resources, including oil, gas, precious metals and minerals and other commercial minerals situated in the territory of the Russian Federation, are the property of the State until they are extracted. Law of the Russian Federation No. 2395-1, On Subsurface Resources, regulates relations arising in connection with the geological study, use and protection of subsurface resources in the territory of the Russian Federation. Pursuant to the law, subsurface resources may be developed only on the basis of a license. A license is issued by the regional governmental body and contains information on the site to be developed and the period of activity, as well as financial and other conditions. The Company holds licenses issued by competent authorities for the geological study, exploration and development of oil and gas blocks, fields, and shelf in areas where its subsidiaries are located.

The Company is subject to export quotas set by the Russian Federation State Pipeline Commission to allow equal access to the limited capacity of the oil pipeline system owned and operated by PJSC AK Transneft. The Company exports certain quantities of crude oil through bypassing the PJSC AK Transneft system thus achieving higher export capacity. The remaining production is processed at the Company's and third parties' refineries for further sale on domestic and international markets.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, including all International Financial Reporting Standards ("IFRS") and Interpretations issued by the International Accounting Standards Board ("IASB") and effective in the reporting period, and are fully compliant therewith.

These consolidated financial statements have been prepared on a historical cost basis, except certain financial assets and liabilities measured at fair value (Note 37).

Rosneft and its subsidiaries maintain their books and records in accordance with statutory accounting and taxation principles and practices applicable in respective jurisdictions. These consolidated financial statements were derived from the Company's statutory books and records.

The Company's consolidated financial statements are presented in billions of Russian rubles ("RUB"), unless otherwise indicated.

The consolidated financial statements were approved and authorized for issue by the Chief Executive Officer of the Company on March 19, 2018.

Subsequent events have been evaluated through March 19, 2018, the date these consolidated financial statements were issued.

3. SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the Company's statutory books, which are appropriate for presenting the financial position, results of operations and cash flows in accordance with IFRS. The principal adjustments relate to: (1) recognition of certain expenses; (2) valuation and depreciation of property, plant and equipment; (3) deferred income taxes; (4) valuation allowances for unrecoverable assets; (5) accounting for the time value of money; (6) accounting for investments in oil and gas property and conveyances; (7) consolidation principles; (8) recognition and disclosure of guarantees, contingencies, commitments and certain assets and liabilities; (9) business combinations and goodwill; (10) accounting for derivative instruments; (11) purchase price allocation to the identifiable assets acquired and the liabilities assumed.

The consolidated financial statements include the accounts of majority-owned, controlled subsidiaries and special-purpose entities where the Company holds a beneficial interest. All significant intercompany transactions and balances have been eliminated. The equity method is used to account for investments in associates in which the Company has the ability to exert significant influence over the associates' operating and financial policies. Investments in entities where the Company holds the majority of shares, but does not exercise control, are also accounted for using the equity method. Investments in other companies are accounted for at fair value or cost adjusted for impairment, if any.

Business combinations, goodwill and other intangible assets

Acquisitions by the Company of controlling interests in third parties (or interest in their charter capital) are accounted for using the acquisition method.

The date of acquisition is the date when effective control over the acquiree passes to the Company.

The cost of an acquisition is measured as an aggregate of the consideration transferred, measured at acquisition date fair value, and the amount of any non-controlling interest in the acquiree. For each business combination, the Company elects whether it measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or a liability should be recognized within profit or loss for the period if they do not represent measurement-period adjustments. If the contingent consideration is classified as equity, it should not be re-measured.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests over the fair value of net identifiable assets acquired and liabilities assumed. If the aggregate of the consideration transferred and the amount of non-controlling interest is lower than the fair value of the net assets of the subsidiary acquired and liabilities assumed, the difference is recognized in profit or loss for the period.

Associates

Investments in associates are accounted for using the equity method unless they are classified as non-current assets held for sale. Under this method, the carrying value of investments in associates is initially recognized at the acquisition cost.

The carrying value of investments in associates is increased or decreased by the Company's reported share in the profit or loss and other comprehensive income of the investee after the acquisition date. The Company's share in the profit or loss and other comprehensive income of an associate is recognized in the Company's consolidated statement of profit or loss or in the consolidated statement of other comprehensive income, respectively. Dividends paid by the associate are accounted for as a reduction of the carrying value of investments.

The Company's net investments in associates include the carrying value of the investments in these associates as well as other long-term investments that are, in substance, investments in associates, such as loans. If the share in losses exceeds the carrying value of the investments in associates and the value of other long-term investments related to investments in these associates, the Company ceases to recognize its share in losses when the carrying value reaches zero. Any additional losses are provided for and liabilities are recognized only to the extent that the Company has legal or constructive obligations or has made payments on behalf of the associate.

If the associate subsequently makes profits, the Company resumes recognizing its share in these profits only after its share of the profits equals the share of losses not recognized.

The carrying value of investments in associates is tested for impairment by reconciling its recoverable amount (the higher of its value in use and fair value less costs to sell) to its carrying value, whenever impairment indicators are identified.

Joint arrangements

The Company participates in joint arrangements either in the form of joint ventures or joint operations.

A joint venture implies that the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture involves establishing a legal entity where the Company and other participants have respective equity interests. Equity interests in joint ventures are accounted for under the equity method.

The Company's share in net profit or loss and in other comprehensive income of joint ventures is recognized in the consolidated statement of profit or loss and in the consolidated statement of other comprehensive income, respectively, from the date when joint control commences until the date when joint control ceases. A joint operation implies that the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. In relation to its interest in a joint operation the Company recognizes its assets, including its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation, and expenses, including its share of any expenses incurred jointly.

Cash and cash equivalents

Cash represents cash on hand, in the Company's bank accounts, in transit and interest bearing deposits which can be effectively withdrawn at any time without prior notice or any penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. They are carried at cost plus accrued interest, which approximates fair value. Restricted cash is presented separately in the consolidated balance sheet if its amount is significant.

Financial assets

The Company recognizes financial assets in its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.
When financial assets are recognized initially, they are classified as one of the following, as appropriate: (1) financial assets at fair value through profit or loss, (2) loans issued and accounts receivable, (3) financial assets held to maturity, or (4) financial assets available for sale.
Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as financial assets at fair value through profit or loss at initial recognition. Financial assets held for trading are those which are acquired principally for the purpose of sale or repurchase in the near future or are part of a portfolio of identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of actual short-term profit taking, or which are derivative instruments (unless the derivative instrument is defined as an effective hedging instrument). Financial assets at fair value through profit or loss are classified in the consolidated balance sheet as current assets and changes in the fair value are recognized in the consolidated statement of profit or loss as Finance income or Finance expenses.
All derivative instruments are recorded in the consolidated balance sheet at fair value in either current financial assets, non-current financial assets, current liabilities related to derivative instruments, or non-current liabilities related to derivative instruments. The recognition and classification of a gain or loss that results from recognition of an adjustment of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement are recognized immediately in the profit or loss for the period.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.
If no active market exists for financial assets, the Company measures the fair value using the following methods:

- analysis of recent transactions with peer instruments between independent parties;
- current fair value of similar financial instruments;
- discounting future cash flows.

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 forgoing other projects.
Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of profit or loss. The losses arising from impairment or gains from impairment reversals are recognized in the consolidated statement of profit or loss.
The Company does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Company has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity, unless: (1) the financial asset was close enough to maturity or the call date so that changes in the market rate of interest did not have a significant effect on the financial asset's fair value; (2) after substantially all of the financial asset's original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that was beyond the Company's control and could not have been reasonably anticipated by the Company.
Dividends and interest income are recognized in the consolidated statement of profit or loss on an accrual basis. The amount of accrued interest income is calculated using the effective interest rate.
All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, the shares of other companies not included in the first category are designated as available for sale. In addition, the Company may include any financial asset in this category at the initial recognition.

Financial liabilities

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 liabilities are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.
When financial liabilities are recognized initially, they are classified as one of the following:

- financial liabilities at fair value through profit or loss;
- other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to the delivery of unquoted equity instruments.
At the initial recognition, the Company may include in this category any financial liability, except for equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. After initial recognition, however, the liability cannot be reclassified.
Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, and loans and borrowings payable.
Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the consolidated statement of profit or loss. Other financial liabilities are carried at amortized cost.
The Company writes off a financial liability (or part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognized as gains and losses for the period.
Certain prior period indicators have been reclassified to conform to the current year presentation. In particular, due to significant increase in the operating activities of subsidiary banks of the Company and the need for reliable and consistent reporting in the consolidated financial statements, the presentation of cash flows from the operating activities of subsidiary banks was revised. Such activities are now included within operating activities of the Consolidated Statement of Cash Flows. Further, the operating assets of the subsidiary banks, including short-term interbank deposits placed, were reclassified to Accounts Receivable, operating liabilities, including interbank loans, customer deposits, promissory notes and REPO obligations reclassified from Loans and borrowings and other financial liabilities to Accounts payable and accrued liabilities.

Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these consolidated financial statements is equal to the amount of diluted earnings per share.

Inventories

Inventories consisting primarily of crude oil, petroleum products, petrochemicals and materials and supplies are accounted for at the weighted average cost unless net realizable value is less than cost. Materials that are used in production are not written down below cost if the finished products into which they will be incorporated are expected to be sold above cost.

Repurchase and resale agreements

Securities sold under repurchase agreements ("REPO") and securities purchased under agreements to resell ("reverse REPO") generally do not constitute a sale of the underlying securities for accounting purposes, and so are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in Finance expense or Finance income, respectively, at the contractually specified rate using the effective interest method.

Exploration and production assets

Exploration and production assets include exploration and evaluation assets, mineral rights and oil and gas properties (development assets and production assets).

Exploration and evaluation costs

The Company recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6 Exploration for and Evaluation of Mineral Resources. Under this method, costs related to exploration and evaluation (license acquisition costs, exploration and appraisal drilling) are temporarily capitalized in cost centers by field (well) until the drilling program results in the discovery of economically feasible oil and gas reserves.
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 that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed to Exploration expenses in the consolidated statement of profit or loss.
Exploration and evaluation costs, except for costs associated with seismic, topographical, geological, and geophysical surveys, are initially capitalized as exploration and evaluation assets. Exploration and evaluation assets are recognized at cost less impairment, if any, as property, plant and equipment until the existence (or absence) of commercial reserves has been established. The initial cost of exploration and evaluation assets acquired through a business combination is formed as a result of purchase price allocation. The cost allocation to mineral rights to proved properties and mineral rights to unproved properties is performed based on the respective oil and gas reserves information. Exploration and evaluation assets are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, an impairment test is performed.
If, subsequently, commercial reserves are discovered, the carrying value, less losses from impairment of the respective exploration and evaluation assets, is classified as oil and gas properties (development assets). However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Development and production

Oil and gas properties (development assets) are accounted for on a field-by-field basis and represent (1) capitalized costs to develop discovered commercial reserves and to put fields into production, and (2) exploration and evaluation costs incurred to discover commercial reserves reclassified from exploration and evaluation assets to oil and gas properties (development assets) following the discovery of commercial reserves.
The cost of oil and gas properties (development assets) also includes the expenditures to acquire such assets, directly identifiable overhead expenses, capitalized financing costs and related asset retirement (decommissioning) obligation costs. Oil and gas properties (development assets) are generally recognized as construction in progress.
Following the commencement of commercial production, oil and gas properties (development assets) are reclassified as oil and gas properties (production assets).

Other property, plant and equipment

Other property, plant and equipment is stated at historical cost as of the acquisition date, except for property, plant and equipment acquired prior to January 1, 2009, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of maintenance, repairs, and the replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.
Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

Depreciation, depletion and amortization

Oil and gas properties are depleted using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production.
In applying the unit-of-production method to mineral licenses, the depletion rate is based on total proved reserves. In applying the unit-of-production method to producing wells and the related oil and gas infrastructure, the depletion rate is based on proved developed reserves.
Other property, plant and equipment are depreciated using the straight-line method over their estimated useful lives from the time they are ready for use, except for catalysts which are amortized using the unit-of-production method.
Components of other property, plant and equipment and their respective estimated useful lives are as follows:

Property, plant and equipment	Useful life, not more than
Buildings and structures	30-45 years
Plant and machinery	5-25 years
Vehicles and other property, plant and equipment	6-10 years
Service vessels	20 years
Offshore drilling assets	20 years

Land generally has an indefinite useful life and is therefore not depreciated.
Land leasehold rights are amortized on a straight-line basis over their expected useful life, which averages 20 years.

Construction grants

The Company recognizes construction grants from local governments when there is a reasonable assurance that the Company will comply with the conditions attached and that the grant will be received. The construction grants are accounted for as a reduction of the cost of the asset for which the grant is received.

Impairment of non-current assets

The Company assesses at each balance sheet date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or cash-generating unit.
In assessing whether there is any indication that an asset may be impaired, the Company considers internal and external sources of information. It considers at least the following:
External sources of information:

- 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;
- significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- the carrying amount of the net assets of the Company is more than its market capitalization.

Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner 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);
- information on dividends from a subsidiary, joint venture or associate;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Such evidence includes the existence of:
  - cash flows on acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
  - actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
  - a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted losses, flowing from the asset;
  - operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

The following factors indicate that exploration and evaluation assets may be impaired:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverable amount of an asset or a cash-generating unit is the higher of:

- the value in use of an asset (cash-generating unit); and
- the fair value of an asset (cash-generating unit) less costs to sell.

If the asset does not generate cash inflows that are largely independent of those from other assets, its recoverable amount is determined for the asset's cash-generating unit.
The Company initially measures the value in use of a cash-generating unit. When the carrying amount of a cash-generating unit is greater than its value in use, the Company measures the unit's fair value for the purpose of measuring the recoverable amount. When the fair value is less than the carrying value an impairment loss is recognized.
Value in use is determined by discounting the estimated value of the future cash inflows expected to be derived from the asset or cash-generating unit, including cash inflows from its sale. The value of the future cash inflows from a cash-generating unit is determined based on the forecast approved by management of the business unit to which the unit in question pertains.

Impairment of financial assets

At each balance sheet date the Company analyzes whether there is objective evidence of impairment for all categories of financial assets, except those recorded at fair value through profit or loss. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include (but is not limited to) indications that debtors or a group of debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Capitalized interest

Interest expense on borrowed funds used for capital construction projects and the acquisition of property, plant and equipment is capitalized provided that the interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation.
Capitalized borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Leasing agreements

Leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the asset, are classified as financial leases and are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance expenses and reduction of the lease liability in order to achieve a constant rate of interest on the remaining balance of the liabilities. Finance expenses are charged directly to the consolidated statement of profit or loss.

Leased property, plant and equipment are accounted for using the same policies applied to the Company's own assets. In determining the useful life of a leased item of property, plant and equipment, consideration is given to the probability of the title being transferred to the lessee at the end of the lease term.

If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. Where such certainty exists, the asset is depreciated over its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term.

Asset retirement (decommissioning) obligations

The Company has asset retirement (decommissioning) obligations associated with its core business activities. The nature of the assets and potential obligations are as follows:

The Company's exploration, development and production activities involve the use of wells, related equipment and operating sites, oil gathering and treatment facilities, tank farms and in-field pipelines. Generally, licenses and other regulatory acts require that such assets be decommissioned upon the completion of production. According to these requirements, the Company is obliged to decommission wells, dismantle equipment, restore the sites and perform other related activities. The Company's estimates of these obligations are based on current regulatory or license requirements, as well as actual dismantling and other related costs. These liabilities are measured by the Company using the present value of the estimated future costs of decommissioning of these assets. The discount rate is reviewed at each reporting date and reflects current market assessments of the time value of money and the risks specific to the liability.

In accordance with IFRS Interpretations Committee ("IFRIC") Interpretation 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities, the provision is reviewed at each balance sheet date as follows:

- upon changes in the estimates of future cash flows (e.g., the costs of and timeframe for abandoning one well) or the discount rate, changes in the amount of the liability are included in the cost of the item of property, plant, and equipment, whereby such cost may not be negative and may not exceed the recoverable value of the item of property, plant, and equipment;
- any change in the liability due to its nearing maturity (change in the discount) are recognized in Finance expenses.

The Company's refining and distribution activities involve refining operations, marine and other distribution terminals, and retail sales. The Company's refining operations consist of major petrochemical operations and industrial complexes. Legal or contractual asset retirement (decommissioning) obligations related to petrochemical, oil refining and distribution activities are not recognized due to the limited history of such activities in these segments, the lack of clear legal requirements as to the recognition of obligations, as well as the fact that decommissioning periods for such assets are not determinable.

Because of the reasons described above, the fair value of an asset retirement (decommissioning) obligation in the refining and distribution segment cannot be reasonably estimated. Due to continuous changes in the Russian regulatory and legal environment, there could be future changes to the requirements and contingencies associated with the retirement of long-lived assets.

Income tax

Since 2012 Russian tax legislation has allowed income taxes to be calculated on a consolidated basis. The main subsidiaries of the Company were therefore combined into a consolidated group of taxpayers (Note 40). For subsidiaries which are not included in the consolidated group of taxpayers, income tax is calculated on an individual subsidiary basis. Deferred income 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.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts 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 goodwill;
- the initial recognition of an asset or liability in a transaction which:
  - is not a business combination; and
  - affects neither accounting profit, nor taxable profit;
- investments in subsidiaries when the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

A prior period tax loss planned to be used to reduce the current or future amount of income tax is recognized as a deferred tax asset.

A deferred tax asset is recognized only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

The Company recognizes deferred tax assets for all deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures, to the extent that the following two conditions are met:

- the temporary difference will reverse in the foreseeable future; and
- taxable profit will be available against which the temporary difference can be utilized.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the taxation authority of the same jurisdiction and the Company intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date.

The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized.

Deferred tax assets and liabilities are classified as Non-current Deferred tax assets and Non-current Deferred tax liabilities, respectively.

Deferred tax assets and liabilities are not discounted.

Recognition of revenues

Revenues are recognized when risks and rewards pass to the customer, which usually occurs when the title passes to the customer, provided that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title generally passes at the border of the Russian Federation and the Company covers transportation expenses (except freight), duties and taxes on those sales (Note 10). Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Transportation expenses

Transportation expenses recognized in the consolidated statement of profit or loss represent all expenses incurred by the Company to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and any additional railroad transportation costs, handling costs, port fees, sea freight and other costs).

Refinery maintenance costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Environmental liabilities

Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve financial guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Taxes collected from customers and remitted to governmental authorities

Refundable taxes (excise and value-added tax ("VAT")) are deducted from revenues. Other taxes and duties are not deducted from revenues and are recognized as expenses in Taxes other than income tax in the consolidated statement of profit or loss.

VAT and excise receivable and payable are recognized as Prepayments and other current assets and Other tax liabilities in the consolidated balance sheet, respectively.

Functional and presentation currency

The consolidated financial statements are presented in Russian rubles, which is the functional currency of Rosneft Oil Company and all of its subsidiaries operating in the Russian Federation. The functional currency of the foreign subsidiaries is generally the U.S. dollar.

Transactions and balances

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 settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the profit or loss for the period.

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 reclassified to profit or loss in the period when the hedged item affects profit or loss.

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 measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The Company's subsidiaries

The results and financial position of all of the Company's subsidiaries, joint ventures and associates that have a functional currency which is different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of profit or loss and each statement of other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

Prepayment on oil and petroleum products supply agreements

In the course of business the Company enters into long-term oil supply contracts. The contract terms may require the buyer to make a prepayment.

The Company considers long-term oil supply contracts to be regular-way sale contracts entered into and continued to be held for the purpose of the receipt or delivery of non-financial items in accordance with the Company's expected purchase, sale or usage requirements. Regular-way sale contracts are exempted from the scope of IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

Conditions for meeting the definition of a regular-way sale are not met if either of the following applies:

- the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the Company has a practice of settling similar contracts net in cash or via another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
- for similar contracts, the Company has a practice of taking delivery of the underlying goods and selling them within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or from a dealer's margin.

Prepayments for the delivery of goods or respective deferred revenue are accounted for as non-financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations effective as of January 1, 2017.

The following amendments were applied for the first time in 2017:

- Disclosure Initiative – amendments to IAS 7 Statement of Cash Flows. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. The above mentioned reconciliation is presented in Note 31 "Loans and borrowings and other financial liabilities".
- Deferred Tax Assets for Unrealised Losses – amendments to IAS 12 Income Taxes. These amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Application of these amendments had no significant impact on the Company's financial position or results of operations.

Certain prior period balances have been reclassified to conform to the current year presentation.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make a number of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The actual results, however, could differ from those estimates.

The most significant accounting estimates and assumptions used by the Company's management in preparing the consolidated financial statements include:

- estimation of oil and gas reserves;
- estimation of rights to, recoverability and useful lives of non-current assets;
- impairment of goodwill (Note 25 "Intangible assets and goodwill");
- allowances for doubtful accounts receivable and obsolete and slow-moving inventories (Note 21 "Accounts receivable" and Note 22 "Inventories");
- assessment of asset retirement (decommissioning) obligations (Note 3 "Significant accounting policies", section: "Asset retirement (decommissioning) obligations", and Note 32 "Provisions");
- assessment of legal and tax contingencies, recognition and disclosure of contingent liabilities (Note 40 "Contingencies");
- assessment of deferred income tax assets and liabilities (Note 3 "Significant accounting policies", section: "Income tax", and Note 16 "Income tax");
- assessment of environmental remediation obligations (Note 32 "Provisions" and Note 40 "Contingencies");
- fair value measurements (Note 37 "Fair value of financial instruments");
- assessment of the Company's ability to renew operating leases and to enter into new lease agreements;
- purchase price allocation to the identifiable assets acquired and the liabilities assumed (Note 7 "Acquisition of subsidiaries and shares in joint operations").

Significant estimates and assumptions affecting the reported amounts are those used in determining the economic recoverability of reserves.

Such estimates and assumptions may change over time when new information becomes available, e.g.:

- more detailed information on reserves was obtained (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- supplemental activities to enhance oil recovery were conducted;
- changes were made in economic estimates and assumptions (e.g. a change in pricing factors).

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018. In April 2016, the IASB issued amendments to IFRS 15, which have the same effective date as the new standard: January 1, 2018. As a result of the analysis performed by the Company, the conclusion was made that there will be no significant impact of the standard on the consolidated financial statements. In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the "incurred loss" model used in IAS 39 with a new "expected credit loss" model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after January 1, 2018. In October 2017, the IASB issued amendments to IFRS 9 effective on January 1, 2019.

The Company is currently assessing the impact of the standard on the opening balance of retained earnings as of January 1, 2018 as a result of the shift from the “incurred loss” impairment model to “expected credit loss” model, as well as the change in classification for certain significant financial assets of the Company – from the “amortized cost” category to the “fair value through profit or loss” category.

In September 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These narrow scope amendments clarify that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB has postponed the date by when the entities must change these aspects of accounting for transactions between investors and equity accounted investees. Application of the amendments, initially planned for annual periods beginning on or after January 1, 2016, has been deferred. The Company does not expect the amendments to have a material impact on the consolidated financial statements, as their requirements are already incorporated in the accounting policy of the Company.

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and establishes a single lessee accounting model. The most significant effect of the new requirements for the lessee will be an increase in lease assets and financial liabilities. The new standard replaces the previous leases standard, IAS 17 Leases, and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment entitled Classification and Measurement of Share-based Payment Transactions. The amendments provide requirements for the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. 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 amendments to IFRS 4 Insurance Contracts entitled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. The amendments introduce two approaches, which should reconcile the timing of the application of the two new standards. Under the first approach, the amendments become effective on the date of first-time adoption of IFRS 9; under the second, the amendments become 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 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 on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is 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 as their requirements are already incorporated in the accounting policy of the Company.

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 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 disclosures. The new standard replaces IFRS 4 Insurance Contracts. The standard is effective for annual periods beginning on or after January 1, 2021. The Company does not expect the standard to have a material impact on the consolidated financial statements.

In June 2017, the IASB issued IFRIC 23 Interpretation entitled Uncertainty over 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 to be accepted by the tax authorities. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In October 2017, the IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures. These amendments clarify that the companies should apply IFRS 9 Financial Instruments, including impairment requirements, for the long-term investments in associates and joint ventures, which are accounted for otherwise than using the equity method, including long-term loans given to associates and joint ventures. The amendments are effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. The impact of the amendments was assessed within the assessment of the impact of IFRS 9 Financial Instruments (see above).

6. CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital management

The Company's capital management objectives are to ensure its ability to continue as a going concern and to optimize the cost of capital in order to enhance value to shareholders.

Total capital employed and financial liabilities less liquid financial assets are non-IFRS measure.

The Company's management performs a regular assessment of the financial liabilities less liquid financial assets to capital employed ratio to ensure it meets the Company's requirements to fulfil the Company's commitments and to retain strong financial stability.

The Company's employed capital is calculated as the sum of equity attributable to equity holders of Rosneft: share capital, reserves, retained earnings and non-controlling interests; financial liabilities, which include long and short-term loans and borrowings, other financial liabilities, as reported in the consolidated balance sheet, less liquid financial assets, including cash and cash equivalents, other short-term financial assets and certain long-term deposits. The Company's financial liabilities less liquid financial assets to capital employed ratio was as follows:

	As of December 31	
	2017	2016 (restated)
Financial liabilities less liquid financial assets to capital employed ratio, %	**40.8%**	32.2%

Financial risk management

In the normal course of business the Company is exposed to the following financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

The Company has developed, documented and approved the relevant policies pertaining to market, credit and liquidity risks and the use of derivative financial instruments.

Foreign currency risk

The Company undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying values of monetary assets and liabilities denominated in foreign currencies are presented in the table below:

	Assets		Liabilities	
	As of December 31		As of December 31	
	2017	2016	2017	2016
US$	**903**	1,358	**(1,885)**	(2,226)
EUR	**425**	153	**(67)**	(87)
Total	**1,328**	1,511	**(1,952)**	(2,313)

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 from the correlation between income and expenses. The Company chooses the currency in which to hold cash, such as the Russian ruble, U.S. dollar or other currency for short-term risk management purposes.

The long-term risk management strategy of the Company may involve the use of derivative or non-derivative financial instruments in order to minimize foreign exchange rate risk exposure.

Cash flow hedging of the Company's future exports

The Company designated certain U.S. dollar denominated borrowings as a hedge of the expected highly probable U.S. dollar denominated export revenue stream in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

A portion of future monthly export revenues expected to be received in U.S. dollars was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects the profit or loss.

The Company's foreign currency risk management strategy is to hedge future export revenue in the amount of the net monetary position in U.S. dollars. The Company aligns the hedged nominal amount to the net monetary position in U.S. dollars on a periodical basis.

Changes in the nominal hedging amount during 2017 are presented in the table below:

	US$ million	The equivalent amount at the CBR exchange rate as at 31 December 2017, RUB billion
Nominal amount as at 31 December 2016	1,763	102
Hedging instruments designated	1,000	58
Realized cash flow foreign exchange hedges	(164)	(10)
Hedging instruments de-designated	(1,726)	(100)
Nominal amount as at 31 December 2017	**873**	**50**

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	2017			2016		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
Total recognized in other comprehensive (loss)/income as of the beginning of the year	**(435)**	**87**	**(348)**	(590)	118	(472)
Foreign exchange effects recognized during the year	**(1)**	**–**	**(1)**	8	(2)	6
Foreign exchange effects reclassified to profit or loss	**146**	**(29)**	**117**	147	(29)	118
Total recognized in other comprehensive (loss)/income for the year	**145**	**(29)**	**116**	155	(31)	124
Total recognized in other comprehensive (loss)/income as of the end of the year	**(290)**	**58**	**(232)**	(435)	87	(348)

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:

Year	2018	2019	2020	2021	Total
Reclassification	(146)	(146)	2	–	**(290)**
Income tax	29	29	–	–	**58**
Total, net of tax	**(117)**	**(117)**	**2**	**–**	**(232)**

The expected reclassification is calculated using the Central Bank of Russia ("CBR") exchange rate as at 31 December 2017 and may be different using actual exchange rates in the future.

Analysis of sensitivity of financial instruments to foreign exchange risk

The level of currency risk 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.

	U.S. dollar effect		Euro effect	
	2017,	2016,	2017,	2016,
Currency rate change in %	**10.09%**	20.16%	**11.34%**	20.83%
Gain/(loss)	**72/(72)**	147/(147)	**19/(19)**	11/(11)
Equity	**(91)/91**	(234)/234	**2/(2)**	2/(2)

Interest rate risk

Loans and borrowings raised at variable interest rates expose the Company to interest rate risk arising from the possible movement of variable elements of the overall interest rate. As at 31 December 2017, the Company's variable rate liabilities totaled RUB 1,543 billion (net of interest payable). The Company analyzes its interest rate exposure, including by performing scenario analysis to measure the impact of an interest rate shift on annual income before income tax.

The table below summarizes the impact of a potential increase or decrease in interest rates on the Company's profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increase/decrease is based on management estimates of potential interest rate movements.

	Increase/decrease in interest rate	Effect on income before income tax
	basis points	RUB billion.
2017	**+6**	**(1)**
	–6	**1**
2016	+5	(1)
	-5	1

The sensitivity analysis is limited to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared with the assumption that the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. The interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions that may accompany the relevant changes in market interest rates.

Credit risk

The Company controls its own exposure to credit risk. All external customers and their financial guarantors, other than related parties, undergo a creditworthiness check (including sellers of goods and services who act on a prepayment basis). The Company performs an ongoing assessment and monitoring of the financial position and the risk of default. In the event of a default by the parties on their respective obligations under the financial guarantee contracts, the Company's exposure to credit risk will be limited to the corresponding contract amounts. As at 31 December 2017, management assessed such risk as remote.

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 the Russian subsidiaries of large international banking institutions 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 mature 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, analyzes the repayment schedules of the existing financial assets and liabilities, including upcoming un-accrued interest payments, and performs annual detailed budgeting procedures.
The contractual maturities of the Company's financial liabilities are presented below:

Year ended at 31 December 2017	On demand	< 1 year	1 to 5 years	> 5 years	Total
Loans and borrowings and other financial liabilities	–	2,247	1,407	814	**4,468**
Finance lease liabilities	–	9	24	21	**54**
Accounts payable to suppliers and contractors	–	451	–	–	**451**
Salary and other benefits payable	–	81	–	–	**81**
Current operating liabilities of subsidiary banks	89	247	–	–	**336**
Dividends payable	–	5	–	–	**5**
Other accounts payable	–	46	–	–	**46**
Derivative financial liabilities	–	74	–	–	**74**

Year ended at 31 December 2016 (restated))	On demand	< 1 year	1 to 5 years	> 5 years	Total
Loans and borrowings and other financial liabilities	–	1,605	1,460	800	**3,865**
Finance lease liabilities	–	4	16	24	**44**
Accounts payable to suppliers and contractors	–	337	–	–	**337**
Salary and other benefits payable	–	80	–	–	**80**
Current operating liabilities of subsidiary banks	41	94	–	–	**135**
Other accounts payable	–	22	–	–	**22**
Derivative financial liabilities	–	98	–	–	**98**
Voluntary offer to acquire shares	–	50	–	–	**50**

As at 31 December 2017, the Company's current liabilities exceeded its currents assets. Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities 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 attracting other short-term borrowings under repurchasing agreement 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 a 30% interest in the concession agreement for the development of the Zohr field

In October 2017 the Company finalized the acquisition of a 30% stake in the concession agreement for the development of the Zohr field from Eni S.p.A. Participation in the exploration of this deep-water gas field in offshore Egypt together with Eni (60%) and BP plc (10%), the Company's strategic partners, will allow the Company to substantially increase its gas production abroad within a short period and strengthen its positions in this promising and strategically significant region. The acquisition price amounted to US$ 1.1 billion, while the compensation of the 30% share of past project costs to Eni S.p.A., which is subject to reimbursement according to the terms of the concession agreement, amounted to US$ 1.1 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 interests in accordance with IFRS 11, Joint Arrangements.
As at 31 December 2017 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of assets acquired and liabilities assumed of its 30% share in the concession agreement. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date.

Acquisition of JSCB Peresvet

In June 2017, the Company acquired a 99.9% share in JSCB Peresvet, a financial institution engaged in banking services. Through August 2017, JSCB Peresvet underwent financial restructuring managed by the Deposit Insurance Agency ("DIA"), a state corporation. In August 2017, control over JSCB Peresvet was transferred to the Company.
As at 31 December 2017, the Company had not yet completed the fair value estimation of JSCB Peresvet's assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date.
The following table summarizes the Company's preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Cash and cash equivalents	1
Obligatory reserves with the Bank of Russia	1
Loans to customers	27
Investment securities available for sale	21
Investment securities held to maturity	13
Expected future benefits from DIA's financial aid in the form of a reduced rate loan	17
Investment property	3
Current profit tax assets	2
Total assets	**85**
LIABILITIES	
Amounts due to credit institutions	18
Amounts due to customers	15
Debt securities issued	7
Other borrowings	32
Other liabilities	15
Other provisions	2
Total liabilities	**89**
Total identifiable net assets at fair value	**(4)**
JSCB Peresvet's liabilities to the Company existing prior to the acquisition	16
Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition	**12**
Fair value of cash consideration transferred	–
Intercompany liabilities and claims existing prior to the acquisition	16
Consideration transferred to be included for the purpose of goodwill	**16**
Excluding identifiable net assets of JSCB Peresvet	(12)
Goodwill	**4**

As at 31 December 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 31 December 2017 (Note 13).
The estimated equity component of convertible bonds representing a non-controlling interest is zero.
The fair value of the cash consideration transferred at the acquisition date was RUB 10 million.
Cash flows arising on the JSCB Peresvet acquisition:

Cash acquired as a result of the JSCB Peresvet acquisition	1
Cash paid	–
Net cash inflow	**1**

The book value of the loans to customers approximates their fair value as of the date of the acquisition. There are no loans to customers that are not expected to be collected.
Had the JSCB Peresvet acquisition taken place at the beginning of the reporting period (January 1, 2017), revenues and net income of the combined entity would have been RUB 6,016 billion and RUB 312 billion, respectively, for the year ended at 31 December 2017.

Acquisition of LLC Independent Petroleum Company – Projects and LLC Drilling Service Technology

In April, 2017 the Company completed the acquisition of 100% of shares in LLC Independent Petroleum Company – Projects, an entity engaged in development of the Kondinsky, Zapadno-Erginsky, Chaprovsky and Novo-Endyrsky license areas in the Khanty-Mansiysk Autonomous District and of 100% of shares in LLC Drilling Service Technology, a company involved in the provision of drilling services in the Khanty-Mansiysk region. The consideration amounted to RUB 49 billion net of cash acquired.
The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Current assets	
Cash and cash equivalents	5
Other current assets	5
Total current assets	**10**
Non-current assets	
Property, plant and equipment	101
Deferred tax assets	2
Total non-current assets	**103**
Total assets	**113**
LIABILITIES	
Current liabilities	
Other current liabilities	9
Total current liabilities	**9**
Non-current liabilities	
Deferred tax liabilities	15
Loans and borrowings	44
Total non-current liabilities	**59**
Total liabilities	**68**
Total identifiable net assets at fair value	**45**
Goodwill	9
Total consideration transferred	**54**

Acquisition of TNK Trading International S.A.

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 its interest using the equity method.
As at 31 December 2017 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of TTI's assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date.
The following table summarizes the Company's preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Cash and cash equivalents	11
Prepayments on oil supply agreements	130
Intangible asset	9
Accounts receivable	13
Loans issued	9
Total assets	**172**

LIABILITIES	
Loans and borrowings	130
Accounts payable	12
Taxes payable	2
Total liabilities	**144**
Total identifiable net assets at fair value	**28**
Intercompany liabilities and claims existing prior to the acquisition (TTI net liabilities to the Company existing prior to the acquisition)	120
Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition	**148**
Fair value of cash consideration transferred	–
Carrying value of the Company's investment in joint operations	9
Intercompany liabilities and claims existing prior to the acquisition	120
Consideration transferred to be included for the purpose of goodwill	129
Finance liability to the bank	**19**
Excluding identifiable net assets of TTI	(148)
Goodwill	**–**

No cash consideration was transferred at the acquisition date.
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 flows arising from the TTI acquisition:

Cash acquired as a result of the TTI acquisition	11
Cash paid	–
Net cash inflow	**11**

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.
Had TTI's acquisition taken place at the beginning of the reporting period (January 1, 2017), revenues and net income of the combined entity would have been RUB 6,043 billion and RUB 305 billion, respectively, for the twelve month period ended at 31 December 2017

Acquisitions of 2016

Acquisition of shares in refineries in Germany

On at 31 December 2016 the Company acquired shares in refineries in Germany as part of the restructuring of Ruhr Oel 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 Bayernoil Raffineriegesellschaft mbH from 12.5% to 25%; in Mineraloelraffinerie Oberrhein GmbH from 12% to 24%; and in PCK Raffinerie GmbH (PCK) from 35.42% to 54.17%. In exchange, 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$ 1,522 million (RUB 92 billion at the CBR official exchange rate at the acquisition date).
The acquired interest 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 interests in accordance with IFRS 11, Joint Arrangements.
The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Current assets	
Accounts receivable	15
Inventories	2
Total current assets	**17**
Non-current assets	
Property, plant and equipment	132
Investments in associates and joint ventures	1
Total non-current assets	**133**
Total assets	**150**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	8
Loans and borrowings and other financial liabilities	2
Other tax liabilities	2
Total current liabilities	**12**
Non-current liabilities	
Deferred tax liabilities	34
Other non-current liabilities	12
Total non-current liabilities	**46**
Total liabilities	**58**
Total identifiable net assets at fair value	**92**
Total consideration transferred	**92**

Had the refineries 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 5,299 billion and RUB 219 billion, respectively, for the year ended at 31 December 2016.

Acquisition of JSC Targin

On December 30, 2016 the Company acquired a 100% interest in JSC Targin, a provider of oilfield services.
The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Current assets	
Accounts receivable	6
Inventories	2
Cash and cash equivalents	2
Total current assets	**10**
Non-current assets	
Property, plant and equipment	11
Total non-current assets	**11**
Total assets	**21**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	4
Loans and borrowings	4
Other current liabilities	1
Total current liabilities	**9**
Non-current liabilities	
Loans and borrowings	4
Total non-current liabilities	**4**
Total liabilities	**13**
Total identifiable net assets at fair value	**8**
Gain on bargain purchase	(4)
Total consideration transferred	**4**

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.
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 4,982 billion and RUB 196 billion, respectively, for the twelve month period ended at 31 December 2016.

Acquisition of PJSC Bashneft Oil Company

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 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").
The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
Current assets	
Cash and cash equivalents	41
Accounts receivable	14
Inventories	39
Prepayments and other current assets	24
Other financial assets	5
Total current assets	**123**
Non-current assets	
Property, plant and equipment	861
Intangible assets	3
Other non-current assets	5
Total non-current assets	**869**
Total assets	**992**
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	56
Loans and borrowings	19
Profit tax payable	2
Other tax liabilities	23
Prepayment on long-term oil and petroleum products supply agreements	58
Provisions	1
Total current liabilities	**159**
Non-current liabilities	
Loans and borrowings	93
Provisions	31
Deferred tax liabilities	119
Other liabilities	2
Total non-current liabilities	**245**
Total liabilities	**404**
Total identifiable net assets at fair value	**588**
Non-controlling interests measured at fair value	(234)
Liability for the mandatory offer	(50)
Goodwill	26
Total consideration transferred	**330**

Bashneft acquisition cash flow:

Net cash acquired	41
Cash paid	(330)
Net cash outflow	**(289)**

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.
In November 2016, in accordance with Russian legal requirements, Rosneft submitted a mandatory offer to Bashneft for the acquisition of 55,466,137 Bashneft ordinary shares. The Company included a liability of RUB 50 billion to record its liabilities under the mandatory offer in the purchase price allocation for Bashneft. Following the results of the mandatory offer, finalized in February 2017, the Company's interest in the share capital of Bashneft amounted to 60.33%.
Had the Bashneft 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 5,420 billion and RUB 225 billion, respectively, for the twelve month period ended at 31 December 2016.

Other acquisitions

On March 31, 2016 the Company acquired 100% 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 Targin, PJSC Bashneft, shares in refineries in Germany as part of the Ruhr Oel GmbH 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 acquisitions was finalized during 2017.

The following table summarizes the effect from the finalized estimations on the consolidated balance sheet as at 31 December 2016:

	Before finalized estimation	Effect from finalized estimation			After finalized estimation
		German refineries	Bashneft	Other acquisitions	
ASSETS					
Current assets	**2,300**	**–**	**–**	**–**	**2,300**
Non-current assets					
Non-current assets	7,090	24	41	(4)	7,151
Property, plant and equipment	59	–	–	–	59
Intangible assets	808	–	–	–	808
Other long-term financial assets	411	–	–	–	411
Investments in associates and joint ventures	26	–	–	–	26
Bank loans granted	22	–	–	–	22
Deferred tax assets	230	–	26	–	256
Goodwill	84	–	–	–	84
Other non-current non-financial assets	**8,730**	**24**	**67**	**(4)**	**8,817**
Total non-current assets	**11,030**	**24**	**67**	**(4)**	**11,117**
LIABILITIES AND EQUITY					
Current liabilities	**2,773**	**–**	**–**	**–**	**2,773**
Non-current liabilities					
Loans and borrowings and other financial liabilities	1,914		–	–	1,914
Deferred tax liabilities	785	21	8	(1)	813
Provisions	203		–	–	203
Prepayment on long-term oil and petroleum products supply agreements	1,586		–	–	1,586
Other non-current liabilities	43	3	–	–	46
Total non-current liabilities	**4,531**	**24**	**8**	**(1)**	**4,562**
Equity					
Share capital	1	–	–	–	1
Additional paid-in capital	603	–	–	–	603
Other funds and reserves	(497)	–	–	–	(497)
Retained earnings	3,202	–	(4)	(3)	3,195
Rosneft shareholders' equity	**3,309**	**–**	**(4)**	**(3)**	**3,302**
Non-controlling interests	417	–	63	–	480
Total equity	**3,726**	**–**	**59**	**(3)**	**3,782**
Total liabilities and equity	**11,030**	**24**	**67**	**(4)**	**11,117**

8. SEGMENT INFORMATION

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The Exploration and production segment is engaged in field exploration and the production of crude oil and natural gas. The Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as in the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities are not part of the operating segment and include corporate activity, activities involved in field development, the maintenance of infrastructure and the functioning of the first two segments, as well as banking and finance services, and other activities. Substantially all of the Company's operations and assets are located in the Russian Federation.
Segment performance is evaluated based on both revenues and operating income, which are measured on the same basis as in the consolidated financial statements, but with intersegment transactions revalued at market prices.

Operating segments in 2017:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	**3,180**	**6,099**	**123**	**(3,388)**	**6,014**
Including: equity share in profits of associates and joint ventures	42	16	2	–	60
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	2,076	5,919	197	(3,388)	4,804
Depreciation, depletion and amortization	462	116	8	–	586
Total costs and expenses	**2,538**	**6,035**	**205**	**(3,388)**	**5,390**
Operating income	**642**	**64**	**(82)**	**–**	**624**
Finance income	–	–	107	–	107
Finance expenses	–	–	(225)	–	(225)
Total finance expenses	**–**	**–**	**(118)**	**–**	**(118)**
Other income	–	–	109	–	109
Other expenses	–	–	(77)	–	(77)
Foreign exchange differences	–	–	3	–	3
Cash flow hedges reclassified to profit or loss	–	–	(146)	–	(146)
Income before income tax	**642**	**64**	**(311)**	**–**	**395**
Income tax expense	(120)	(10)	32	–	(98)
Net income	**522**	**54**	**(279)**	**–**	**297**

Operating segments in 2016 (restated):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
Total revenues and equity share in profits of associates and joint ventures	**2,542**	**5,012**	**90**	**(2,656)**	**4,988**
Including: equity share in profits of associates and joint ventures	17	8	1	–	26
Costs and expenses					
Costs and expenses other than depreciation, depletion and amortization	1,504	4,862	134	(2,656)	3,844
Depreciation, depletion and amortization	395	88	6		489
Total costs and expenses	**1,899**	**4,950**	**140**	**(2,656)**	**4,333**
Operating income	**643**	**62**	**(50)**	**–**	**655**
Finance income	–	–	91	–	91
Finance expenses	–	–	(193)	–	(193)
Total finance expenses	**–**	**–**	**(102)**	**–**	**(102)**
Other income	–	–	49	–	49
Other expenses	–	–	(79)	–	(79)
Foreign exchange differences	–	–	(70)	–	(70)
Cash flow hedges reclassified to profit or loss	–	–	(147)	–	(147)
Income before income tax	**643**	**62**	**(399)**	**–**	**306**
Income tax expense	(130)	(12)	28	–	(114)
Net income	**513**	**50**	**(371)**	**–**	**192**

Oil and gas and petroleum products and petrochemical sales comprise the following (based on the country indicated in the bill of lading):

,	2017	2016
International sales of crude oil, petroleum products and petrochemicals	**3,986**	3,403
International sales of crude oil and petroleum products – CIS,	**262**	183
other than Russia	**262**	183
Domestic sales of crude oil, petroleum products and petrochemicals	**1,414**	1,087
Sales of gas	**215**	214
Total oil, gas, petroleum products and petrochemicals sales	**5,877**	4,887

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 current receivables from the Company's largest customer totaled RUB 59 billion, or around 9% of the Company's trade receivables.

9. TAXES OTHER THAN INCOME TAX

Taxes other than income tax for the years ended December 31 comprise the following:

	2017	2016
Mineral extraction tax	**1,488**	1,007
Excise tax	**326**	197
Property tax	**38**	36
Social charges	**61**	50
Other	**6**	6
Total taxes	**1,919**	1,296

10. EXPORT CUSTOMS DUTY

Export customs duty for the years ended December 31 comprises the following:

	2017	2016
Export customs duty on oil sales	**480**	497
Export customs duty on petroleum products and petrochemicals sales	**178**	160
Total export customs duty	**658**	657

11. FINANCE INCOME

Finance income for the years ended December 31 comprises the following:

	2017	2016
Interest income on		
Deposits and certificates of deposit	**20**	24
Loans issued	**29**	29
Notes receivable	**5**	4
Bonds	**9**	4
Long-term advances issued (Note 28)	**29**	8
Current/settlement accounts	**1**	10
Other interest income	**1**	–
Total interest income	**94**	79
Net gain from operations with derivative financial instruments	**10**	10
Gain from disposal of financial assets	**3**	–
Other finance income	**–**	2
Total finance income	**107**	91

12. FINANCE EXPENSES

Finance expenses for the years ended December 31 comprise the following:

	2017	2016
Interest expenses on		
Loans and borrowings	**(113)**	(80)
Prepayment on long-term oil and petroleum products supply agreements (Note 33)	**(81)**	(90)
Other interest expenses	**(5)**	(7)
Total interest expenses	**(199)**	(177)
Increase in provision due to the unwinding of a discount	**(17)**	(15)
Loss from disposal of financial assets	**(8)**	–
Other finance expenses	**(1)**	(1)
Total finance expenses	**(225)**	(193)

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.

13. OTHER INCOME AND EXPENSES

Other income for the years ended December 31 comprises the following:

	2017	2016 (restated)
Liability write-off	**–**	5
Non-cash income from disposal of subsidiaries and shares in joint operations	**–**	33
Compensation payment for licenses from joint venture parties	**1**	2
Gain on out-of-court settlement (Note 40)	**100**	–
Other	**8**	9
Total other income	**109**	49

In December 2017, the Company, PJSFC Sistema and JSC Sistema-Invest signed an amicable agreement. According to the terms of this agreement, PJSFC Sistema and JSC Sistema-Invest guarantee to compensate the Company previously caused losses amounting to RUB 100 billion (Note 40). As at 31 December 2017, the Company received cash in the amount of RUB 20 billion.

The effect from the disposal of subsidiaries and shares in joint operations mainly includes the effect from the restructuring of Ruhr Oel GmbH. It is calculated as the difference between the fair value of the direct shareholding acquired in the refineries in Germany – Bayernoil Raffineriegesellschaft mbH, Mineraloelraffinerie Oberrhein GmbH and PCK (Note 7) – and the carrying value of the disposed assets and liabilities of Ruhr Oel GmbH as at 31 December 2016. The effect from the restructuring of Ruhr Oel GmbH includes the cumulative foreign exchange differences recognized in other comprehensive income, accumulated in shareholders' equity and reclassified to profit upon the disposal of Ruhr Oel GmbH.

Other expenses for the years ended December 31 comprise the following:

	2017	2016 (restated)
Sale and disposal of property, plant and equipment and intangible assets	**(13)**	(16)
Disposal of companies and non-production assets	**(3)**	(2)
Impairment of assets	**(26)**	(23)
Social payments, charity and financial aid	**(20)**	(16)
Other	**(15)**	(22)
Total other expenses	**(77)**	(79)

14. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31 comprise the following:

	2017	2016
Salary	**249**	211
Statutory insurance contributions	**62**	51
Expenses on non-statutory defined contribution plan	**7**	5
Other employee benefits	**13**	11
Total personnel expenses	**331**	278

Personnel expenses are included in Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

15. OPERATING LEASES

Operating lease agreements have various terms and conditions and primarily consist of indefinite tenancy agreements for the lease of land plots under oilfield pipelines and petrol stations, agreements for the lease of rail cars and rail tank cars for periods over 12 months, and agreements for the lease of land plots for industrial sites of the Company's oil refining plants. The agreements provide for an annual revision of the rental rates and contractual terms and conditions.

Total operating lease expenses for the years ended at 31 December 2017 and 2016 amounted to RUB 28 billion and RUB 28 billion, respectively. The expenses were recognized within Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

Future minimum lease payments under non-cancellable operating leases as of December 31 are as follows:

	2017	2016
Less than 1 year	**29**	26
From 1 to 5 years	**82**	83
Over 5 years	**198**	188
Total future minimum lease payments	**309**	297

16. INCOME TAX

Income tax expenses for the years ended December 31 comprise the following:

	2017,	2016 (restated)
Current income tax	**123**	39
Prior period adjustments	**(3)**	(4)
Current income tax expense	**120**	35
Deferred tax relating to the origination and reversal of temporary differences	**(22)**	79
Deferred income tax (benefit)/expense	**(22)**	79
Total income tax expense	**98**	114

In 2017 and 2016, the Company's subsidiaries domiciled in the Russian Federation applied the standard Russian income tax rate of 20%, except for applicable regional tax relief. The income tax rates applicable for subsidiaries incorporated in other jurisdictions may vary from 20% and are calculated according to local regulations.

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

	Consolidated balance sheet As of December 31		Consolidated statement of profit or loss for the years, ended December 31,	
	2017	2016 (restated)	2017	2016 (restated)
Other short-term financial assets	**2**	6	**(2)**	3
Short-term accounts receivable	**7**	7	**–**	2
Property, plant and equipment	**14**	10	**4**	2
Short-term accounts payable and accrued liabilities	**13**	9	**4**	–
Other current liabilities	**16**	20	**(4)**	(3)
Long-term loans and borrowings and other financial liabilities	**4**	5	**(1)**	(1)
Long-term provisions	**9**	10	**(1)**	–
Tax loss carry forward	**58**	29	**28**	(69)
Other	**9**	8	**1**	1
Less: deferred tax liabilities offset	**(106)**	(82)	**–**	–
Deferred tax assets	**26**	22	**29**	(65)
Short-term accounts receivable	**(1)**	(6)	**5**	(5)
Inventories	**(13)**	(10)	**(3)**	(4)
Property, plant and equipment	**(615)**	(596)	**(15)**	(11)
Mineral rights	**(267)**	(261)	**7**	7

	Consolidated balance sheet As of December 31		Consolidated statement of profit or loss for the years, ended December 31,	
	2017	2016 (restated)	2017	2016 (restated)
Intangible assets	**(4)**	(5)	**1**	3
Investments in associates and joint ventures	**(10)**	(9)	**(1)**	(2)
Other	**(9)**	(8)	**(1)**	(2)
Less: deferred tax assets offset	**106**	82	**–**	–
Deferred tax liabilities	**(813)**	(813)	**(7)**	(14)
Deferred income tax (expense)/benefit			**22**	(79)
Net deferred tax liabilities	**(787)**	(791)		
Recognized in the consolidated balance sheet as following				
Deferred tax assets	**26**	22		
Deferred tax liabilities	**(813)**	(813)		
Net deferred tax liabilities	**(787)**	(791)		

The reconciliation of net deferred tax liabilities is as follows:

	2017	2016 (restated)
As of January 1	**(791)**	(557)
Deferred income tax (expense)/benefit, recognized in the consolidated statement of profit or loss	**22**	(79)
Acquisition of subsidiaries and shares in joint operations (Note 7)	**(13)**	(157)
Deferred tax expenses recognized in other comprehensive income	**(5)**	2
As of December 31	**(787)**	(791)

The reconciliation between tax expense and the product of accounting profit multiplied by the 20% tax rate for the years ended December 31 is as follows:

	2017	2016 (restated)
Income before income tax	**395**	306
Income tax at statutory rate of 20%	**79**	61
Increase/(decrease) resulting from:		
Effect of change in unrecognized deferred tax assets	**4**	6
Effect of income tax rates in other jurisdictions	**2**	4
Effect of special tax treatments	**2**	3
Effect of income tax relief	**(12)**	(16)
Effect of equity share in profits of associates and joint ventures	**(8)**	(3)
Effect of tax on intercompany dividends	**1**	7
Effect of tax on controlled investments in foreign subsidiaries	**2**	–
Effect from goodwill write-off	**1**	–
Effect from disposal of a subsidiary	**(1)**	–
Effect from sale of shares in subsidiaries	**–**	38
Effect from restructuring of joint ventures	**–**	(6)
Effect of prior period adjustments	**1**	1
Effect of non-taxable income and non-deductible expenses	**27**	19
Income tax	**98**	114

Unrecognized deferred tax assets in the consolidated balance sheet for the years ended at 31 December 2017 and 2016 amounted to RUB 55 billion and RUB 48 billion, respectively, related to unused tax losses. In respect of recognized deferred tax assets on tax losses carried forward management considers it probable that future taxable profits will be available for the Company against which these tax losses can be utilized.
The total amount of temporary differences associated with investment in subsidiaries, for which deferred tax liabilities have not been recognized, amounted RUB 653 billion as at 31 December 2017.
In 2014 certain amendments were introduced in Russian tax legislation in respect of the profit of controlled foreign companies and income of foreign entities. According to these changes undistributed profit of foreign subsidiaries recognized as controlled foreign companies may form an additional tax base for Rosneft and for certain Russian subsidiaries holding investments in foreign entities. In particular, undistributed 2017 profits of controlled foreign companies are included in the Company's tax base as of December 31, 2018 and recorded in the tax declaration. The consequences of taxation of controlled foreign companies are accounted for within current and deferred tax liabilities.

17. NON-CONTROLLING INTERESTS

Non-controlling interests include:

		As at 31 December 2017	2017		As at 31 December 2016	2016
	Non-controlling interest (%)	Non-controlling interest as of the end of the year	Non-controlling interest in net income	Non-controlling interest (%)	Non-controlling interest as of the end of the year (restated)	Non-controlling interest in net income (restated)
PJSC Bashneft Oil Company	**39.67**	**221**	**40**	39.67	191	–
JSC Vankorneft	**49.90**	**140**	**28**	49.90	141	13
LLC Taas-Yuriakh Neftegazodobycha	**49.90**	**104**	**3**	49.90	92	2
PJSC Verkhnechonskneftegaz	**20.05**	**43**	**3**	0.06	–	–
LLC Sorovskneft	**39.67**	**20**	**1**	39.67	19	–
PJSC Ufaorgsintez	**42.66**	**19**	**1**	42.66	18	–
LLC Bashneft-Dobycha	**39.67**	**7**	**1**	39.67	6	–
Non-controlling interests in other entities	**various**	**10**	**(2)**	various	13	3
Total non-controlling interests		**564**	**75**		480	18

On June 29, 2017 the Company completed the sale of a 20% share in PJSC Verkhnechonskneftegaz, a subsidiary, to Beijing Gas Singapore Private Limited, a subsidiary of Beijing Gas Group Co., Ltd. for a consideration of US$ 1.1 billion (RUB 65 billion at the CBR official exchange rate at the transaction closing date).
In May 2016 the Company sold a 15% share in its subsidiary JSC Vankorneft to Oil and Natural Gas Corporation Videsh Limited for a consideration of RUB 72 billion.
In October 2016 the Company sold a 23.9% share in JSC Vankorneft to a consortium of companies, including Oil India Ltd, Indian Oil Corporation and Bharat Petroresources (the "Consortium") for a consideration of RUB 111 billion.
In October 2016 the Company sold an 11% share in JSC Vankorneft to a subsidiary of Oil and Natural Gas Corporation Videsh Limited for a consideration of RUB 52 billion.
In October 2016 the Company sold a 29.9% share in its subsidiary LLC Taas-Yuriakh Neftegazodobycha to the Consortium for a consideration of RUB 73 billion.
In October 2016 the Company acquired 50.0755% of shares in PJSC Bashneft Oil Company for a cash consideration of RUB 330 billion. The total non-controlling interest in PJSC Bashneft Oil Company and its subsidiaries recognized at the acquisition date, including the outcome of the voluntary offer to acquire PJSC Bashneft Oil Company ordinary shares held by minority shareholders, amounted to RUB 234 billion (Note 7). The total non-controlling interest in PJSC Bashneft Oil Company and its subsidiaries is valued at the fair value at the date of acquisition.

The summarized financial information of subsidiaries that have material non-controlling interests is provided below. This information is based on amounts before inter-company eliminations.

Summarized statement of comprehensive income for 2017	PJSC Bashneft Oil Company	JSC Vankorneft	LLC Taas-Yuriakh Neftegazo-dobycha»
Revenues	**614**	**330**	**29**
Costs and other income and expenses	**(486)**	**(260)**	**(21)**
Income before income tax	**128**	**70**	**8**
Income tax expense	**(27)**	**(12)**	**(2)**
Net income	**101**	**58**	**6**
incl. attributable to non-controlling interests	**40**	**28**	**3**

Summarized statement of comprehensive income for 2016	PJSC Bashneft Oil Company (restated)	JSC Vankorneft	LLC Taas-Yuriakh Neftegazo-dobycha
Revenues	135	299	25
Costs and other income and expenses	(136)	(202)	(19)
Income before income tax	(1)	97	6
Income tax expense	–	(16)	(1)
Net income	(1)	81	5
incl. attributable to non-controlling interests	–	13	2

Summarized balance sheet as at 31 December 2017	PJSC Bashneft Oil Company	JSC Vankorneft	LLC Taas-Yuriakh Neftegazo-dobycha
Current assets	**324**	**71**	**11**
Non-current assets	**792**	**292**	**215**
Total assets	**1,116**	**363**	**226**
Current liabilities	**234**	**36**	**7**
Non-current liabilities	**234**	**35**	**28**
Equity	**648**	**292**	**191**
Total equity and liabilities	**1,116**	**363**	**226**
incl. non-controlling interests	**221**	**140**	**104**

[1] From the acquisition date..

Summarized balance sheet as at 31 December 2016	PJSC Bashneft Oil Company (restated)	JSC Vankorneft	LLC Taas-Yuriakh Neftegazodobycha
Current assets	212	99	12
Non-current assets	832	266	189
Total assets	1,044	365	201
Current liabilities	205	35	7
Non-current liabilities	265	36	27
Equity	574	294	167
Total equity and liabilities	1,044	365	201
incl. non-controlling interests	191	141	92

18. EARNINGS PER SHARE

For the years ended December 31 basic and diluted earnings per share comprise the following:

	2017	2016 (restated)
Net income attributable to shareholders of Rosneft	**222**	174
Weighted average number of issued common shares outstanding (millions)	**10,598**	10,598
Total basic and diluted earnings per share (RUB)	**20.95**	16.42

19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	As of December 31	
	2017	2016
Cash on hand and in bank accounts in RUB	**44**	25
Cash on hand and in bank accounts in foreign currencies	**124**	153
Deposits and other cash equivalents in RUB	**142**	609
Other	**12**	3
Total cash and cash equivalents	**322**	790

Cash accounts denominated in foreign currencies represent primarily cash in U.S. dollars.
Deposits are interest bearing and denominated primarily in RUB.
Restricted cash includes the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 4 billion and RUB 2 billion as at 31 December 2017 and 2016, respectively.

20. OTHER SHORT-TERM FINANCIAL ASSETS

Other short-term financial assets comprise the following:

	As of December 31	
	2017	2016 (restated)
Financial assets available-for-sale		
Bonds and promissory notes	**135**	116
Stocks and shares	**44**	187
Financial assets held-to-maturity		
Bonds	**1**	2
Loans and accounts receivable		
Loans granted	**13**	4
Loans issued to associates	**32**	22
Notes receivable, net of allowance	**66**	55
Loans granted under reverse repurchase agreements	**–**	2
Deposits and certificates of deposit	**44**	54
Held-for-trading financial assets at fair value through profit or loss		
Corporate bonds	**–**	2
State bonds	**1**	2
Total other short-term financial assets	**336**	446

As at 31 December 2017 and 2016 available-for-sale bonds and notes comprise the following:

Type of security	2017			2016		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State and municipal bonds	**33**	5.0-14.15%	January 2018 – March 2033	65	7.5-14.15%	October 2017 – March 2030
Corporate bonds	**79**	3.08-14.25%	January 2018 – September 2032	31	3.72-12.85%	January 2017 – September 2032
Bank of Russia bonds	**4**	7.75%	January 2018	–		
Promissory notes	**19**	4.37%	September 2018	20	11.7%	December 2021
Total	**135**			116		

As at 31 December 2017 and 2016 held-to-maturity bonds comprise the following:

Type of security	2017			2016		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State and municipal bonds	**1**	7.7-11.4%	July 2018 – December 2034	1	7.94-12.1%	June 2017 – November 2019
Corporate bonds	**–**			1	5.38-6.0%	February 2017 – April 2017
Total	**1**			2		

As at 31 December 2017, notes receivable include corporate notes receivable that are denominated in U.S. dollars with a nominal interest rate from 3.8% to 4.5% p.a. and maturity through January 2022, as well as discounted corporate notes receivable that are denominated in U.S. dollars with a rate of return of 4.5% p.a. and maturity through February 2018.
As at 31 December 2016, notes receivable include corporate notes receivable that are denominated in euro with a nominal interest rate of 2.845% p.a. and maturity through April 2017, as well as discounted corporate notes receivable that are denominated in U.S. dollars with a rate of return of 4.5% p.a. and maturity through February 2017.
As at 31 December 2017, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 39 billion and earn interest ranging from 2.0% to 3.7% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 3 billion and bear interest rates ranging from 7.2% to 7.56% p.a.
As at 31 December 2016, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 47 billion and earn interest ranging from 1.1% to 4.0% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 7 billion and bear interest rates ranging from 9.9% to 14.0% p.a.
As at 31 December 2017 and 2016 trading securities comprise the following:

Type of security	2017			2016		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State and municipal bonds	**1**	7,28-10,9%	July 2018 – July 2021	2	2,5-10,9%	April 2017 – August 2023
Corporate bonds	**–**			2	5,38-11,7%	February 2017 – September 2032
Total	**1**			4		

21. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	As of December 31	
	2017	2016 (restated)
Trade receivables	**658**	437
Banking loans to customers	**108**	50
Other accounts receivable	**116**	29
Total	**882**	516
Allowance for doubtful accounts	**(39)**	(30)
Total accounts receivable, net of allowance	**843**	486

The allowance for doubtful accounts is recognized at each balance sheet date based on estimates of the Company's management regarding the expected cash inflows to repay accounts receivable.
The Company recognized an allowance for doubtful accounts for all significant past due accounts receivable as at 31 December 2017 and 2016.
As at 31 December 2017 and 2016 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

22. INVENTORIES

Inventories comprise the following:

	As of December 31	
	2017	2016
Crude oil and gas	**88**	67
Petroleum products and petrochemicals	**158**	137
Materials and supplies	**78**	79
Total	**324**	283

Petroleum products and petrochemicals include those designated both for sale and for own use.
For the years ended December 31:

	2017	2016
Cost of inventories recognized as an expense during the period	**977**	795

The cost of inventories recognized as an expense during the period is included in Production and operating expenses, 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:

	As of December 31	
	2017	2016
Value added tax and excise receivable	**180**	166
Prepayments to suppliers	**210**	64
Settlements with customs	**37**	29
Profit and other tax payments	**19**	23
Other	**8**	11
Total prepayments and other current assets	**454**	293

Settlements with customs primarily represent 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	Refining and distribution	Corporate and other unallocated activities	Total
Cost as of January 1, 2016 (restated)	6,410	1,525	94	8,029
Depreciation, depletion and impairment losses as of January 1, 2016 (restated)	(1,849)	(289)	(32)	(2,170)
Net book value as of January 1, 2016 (restated)	4,561	1,236	62	5,859
Prepayments for property, plant and equipment	9	27	6	42
as of January 1, 2016	9	27	6	42
Total as of January 1, 2016 (restated)	4,570	1,263	68	5,901
Acquisitions of subsidiaries and shares in joint operations (Note 7)	542	445	15	1,002
Additions	652	116	27	795
including capitalized expenses on loans and borrowings	46	17	1	64
Disposals and other movements	(40)	(23)	(12)	(75)
Foreign exchange differences	(73)	(11)	(5)	(89)
Cost of asset retirement (decommissioning) obligations	22	–	–	22
As at 31 December 2016 (restated)	7,513	2,052	119	9,684
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	(403)	(87)	(5)	(495)
Disposals and other movements	25	4	6	35
Impairment of assets	(1)	(1)	–	(2)
Foreign exchange differences	54	2	1	57
As at 31 December 2016 (restated)	(2,174)	(371)	(30)	(2,575)
Net book value as at 31 December 2016 (restated)	5,339	1,681	89	7,109
Prepayments for property, plant and equipment as at 31 December 2016	21	16	5	42
Total as at 31 December 2016 (restated)	5,360	1,697	94	7,151
Cost				
Acquisitions of subsidiaries and shares in joint operations (Note 7)	**277**	**–**	**4**	**281**
Additions	**948**	**125**	**20**	**1,093**
including capitalized expenses on loans and borrowings	**105**	**39**	**–**	**144**
Disposals and other movements	**(25)**	**(17)**	**(2)**	**(44)**
Foreign exchange differences	**(23)**	**12**	**(2)**	**(13)**
Cost of asset retirement (decommissioning) obligations	**29**	**–**	**–**	**29**
As at 31 December 2017	**8,719**	**2,172**	**139**	**11,030**
Depreciation, depletion and impairment losses				
Depreciation and depletion charge	**(474)**	**(113)**	**(9)**	**(596)**
Disposals and other movements	**11**	**8**	**1**	**20**
Impairment of assets	**(4)**	**(2)**	**(7)**	**(13)**
Foreign exchange differences	**13**	**–**	**1**	**14**
As at 31 December 2017	**(2,628)**	**(478)**	**(44)**	**(3,150)**
Net book value as at 31 December 2017	**6,091**	**1,694**	**95**	**7,880**
Prepayments for property, plant and equipment as at 31 December 2017	**9**	**7**	**27**	**43**
Total as at 31 December 2017	**6,100**	**1,701**	**122**	**7,923**

The cost of construction in progress included in property, plant and equipment was RUB 2,013 billion and RUB 1,570 billion as at 31 December 2017 and 2016, respectively.
The depreciation charge for the years ended at 31 December 2017 and 2016 includes depreciation which was capitalized as part of the construction cost of property, plant and equipment and the cost of inventory in the amount of RUB 15 billion and RUB 13 billion, respectively.
As at 31 December 2016 and 2015, certain items of property, plant and equipment previously allocated to the Refining and distribution and the Corporate and other unallocated activities segments were reallocated to the Exploration and production and Refining and distribution segments due to amendments to the management structure.
The Company capitalized RUB 144 billion (including RUB 117 billion in capitalized interest expense) and RUB 64 billion (including RUB 64 billion in capitalized interest expense) of expenses on loans and borrowings in 2017 and 2016, respectively.
During 2017 and 2016 the Company received government grants for capital expenditures in the amount of RUB 8 billion and RUB 8 billion, respectively. Grants are accounted for as a reduction of additions in the Exploration and production segment.

Exploration and evaluation assets

Exploration and evaluation assets included in the Exploration and production segment, including mineral rights to unproved properties, comprise the following:

	2017,	2016, (restated)
Cost as of January 1	**243**	251
Impairment losses as of January 1	**–**	(13)
Net book value as of January 1	**243**	238
Cost		
Acquisition of subsidiaries (Note 7)	**47**	7
Acquisition of interest in joint arrangements	**37**	–
Capitalized expenditures	**71**	26
Reclassified to development assets	**(8)**	(18)
Expensed	**(2)**	(5)
Utilization of impairment reserve	**–**	(13)
Foreign exchange differences	**(2)**	(5)
As of December 31	**386**	243
Impairment losses		
Utilization/(accrual) of impairment reserve	**–**	13
As of December 31	**–**	–
Net book value as of December 31	**386**	243

Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 98 billion and RUB 99 billion as at 31 December 2017 and 2016, respectively, and included in Property, plant and equipment.

25. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill comprise the following:

	Rights for land lease	Other intangible assets	Total intangible assets	Goodwill
Cost as of January 1, 2016	36	30	66	230
Amortization as of January 1, 2016	(12)	(6)	(18)	–
Net book value as of January 1, 2016	24	24	48	230
Cost				
Additions		19	19	
Acquisition of subsidiaries (Note 7)		3	3	26
Disposals	(1)	(4)	(5)	
Foreign exchange differences	(1)		(1)	
As at 31 December 2016 (restated)	34	48	82	256
Amortization				
Amortization charge	(2)	(5)	(7)	
Disposal of amortization		1	1	
Foreign exchange differences	1		1	
As at 31 December 2016 (restated)	(13)	(10)	(23)	
Net book value as at 31 December 2016 (restated)	21	38	59	256
Cost				
Additions	**–**	**10**	**10**	**–**
Acquisition of subsidiaries (Note 7)	**–**	**26**	**26**	**13**
Disposals	**–**	**(18)**	**(18)**	**(4)**
Foreign exchange differences	**–**	**–**	**–**	**–**
As at 31 December 2017	**34**	**66**	**100**	**265**
Amortization				
Amortization charge	**(2)**	**(5)**	**(7)**	**–**
Disposal of amortization	**–**	**1**	**1**	**–**
Foreign exchange differences	**–**	**–**	**–**	**–**
As at 31 December 2017	**(15)**	**(14)**	**(29)**	**–**
Net book value as at 31 December 2017	**19**	**52**	**71**	**265**

The Company performs its annual goodwill impairment test as of October 1 of each year. The impairment test is carried out at the beginning of the fourth quarter of each year using the data that was appropriate at that time. The excess of fair value over identified net assets comprised RUB 1,639 billion and RUB 239 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.
Goodwill acquired through business combinations is allocated to the relevant groups of cash generating units that are its operating segments – the Exploration and production segment and the Refining and distribution segment. In assessing whether goodwill has been impaired, the current values of the operating segments (including goodwill) were compared with their estimated value in use.

	As of December 31	
	2017	2016 (restated)
Goodwill		
Exploration and production	**85**	76
Refining and distribution	**180**	180
Total	**265**	256

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 rate that reflects current market assessments of the time value of money and the risks specific to each segment, for which the future cash flow estimates have not been adjusted.

The Company's business plan, 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 plan contains internal forecasts of oil and gas production, refinery throughputs, sales volumes of various types of refined products, revenues, operating and capital expenditures. As an initial step in the preparation of these plans, various assumptions, such as oil prices, natural gas prices, refining margins, petroleum product margins and cost inflation rates, are set. These assumptions take into account existing prices, U.S. dollar and RUB 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 calculated on the basis of the Company management's forecasts have been discounted and aggregated with the segments' terminal value. The use of a forecast period longer than five years originates from the industry's average investment cycle. In determining the terminal value of the Company's segments in the post-forecast period the Gordon model was used.

Key assumptions applied to the calculation of value in use

Discounted cash flows are most sensitive to changes in the following factors:

- The discount rate
  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 12.4% p.a. in 2017 (13.4% p.a. in 2016).
- RUB / U.S. dollar exchange rate
  The average annual RUB / U.S. dollar exchange rate applied was as follows: RUB 64.7 for 2018, RUB 66.9 for 2019, RUB 68.0 for 2020 and RUB 67.0 from 2021 onwards.
- Oil and petroleum products prices
  The forecasted Urals oil price applied was as follows: 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. The Company's petroleum products price forecasts with regard to the main sales destinations are based on these oil prices with a weighted average price of petroleum products (excluding petrochemicals) of RUB 25.9 thousand per tonne, RUB 25.7 thousand per tonne, RUB 27.0 thousand per tonne and RUB 28.6 thousand per tonne for 2018, 2019, 2020 and from 2021 onwards, respectively.
- Production volumes
  Estimated production volumes were based on detailed data for the fields and take into account the field development plans approved by management through the long-term planning process.

Sensitivity to changes in assumptions

The effects of changes in key assumptions are as follows:
Changes in the pre-tax weighted average cost of capital – the long-term increase in the weighted average cost of capital above 12.8% 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 decrease in oil prices below RUB 2,901 per barrel for the period 2018 onwards 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. A similar effect can be caused by a long-term decrease (in the forecast period from 2018 onwards) in the weighted average price of petroleum products (excluding petrochemicals) below RUB 27.9 thousand per tonne with oil prices at forecast levels.
Changes in tax regime – 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 current 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 pledged as collateral.

26. OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets comprise the following:

	As of December 31	
	2017	2016
Bonds	**13**	1
Bank deposits	**542**	494
Financial assets available for sale:		
Shares of PJSC INTER RAO UES	**4**	5
Shares of PJSC Russian Grids	**1**	2
Shares of JSC Modern Shipbuilding Technology	**11**	4
Long-term loans issued to associates and joint ventures	**25**	287
Long-term loans	**5**	12
Other	**5**	3
Total other long-term financial assets	**606**	808

Bank deposits of the Company are listed in rubles, US dollars and euros at interest rates ranging from 4.9% to 7.9% p.a.
Bonds consist of by federal loan bonds and are held on the balance sheet of JSCB Peresvet.
As at 31 December 2017 and 2016, there were no overdue long-term financial assets for which no impairment provision was created.
No long-term financial assets were pledged as collateral as at 31 December 2017 and 2016.
As at 31 December 2017 and 2016, no long-term financial assets were received by the Company as collateral.

27. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures comprise the following:

Name of investee	Country	Company's share as of December 31, 2017, %	As of December 31 2017	2016
Joint ventures				
Rosneft-Shell Caspian Ventures Limited	Russia	51.00	**–**	1
Taihu Ltd (OJSC Udmurtneft)	Cyprus	51.00	**47**	41
Fuel-filling complex of Vnukovo (Lanard Holdings Limited)	Russia	50.00	**18**	18
Arktikshelfneftegaz CJSC	Russia	50.00	**2**	2
National Oil Consortium LLC	Russia	80.00	**24**	24
OJSC NGK Slavneft	Russia	49.94	**156**	149
TNK Trading International S.A.	Switzerland	59.95	**–**	6
SIA ITERA Latvija	Latvia	66.00	**4**	3
PetroMonagas S.A.	Venezuela	40.00	**46**	41
PETROVICTORIA S.A.	Venezuela	40.00	**25**	26
Nizhnevartovskaya TPP JSC (NVGRES Holdings Limited)	Russia	25.01	**4**	6
RN Pechora LLC	Russia	50.10	**8**	8
Messoyahaneftegaz JSC	Russia	50.00	**15**	–
Associates				
Petrocas Energy International Ltd	Cyprus	49.00	**9**	8
Purgaz CJSC	Russia	49.00	**39**	39
Essar Oil Limited	India	49.13	**227**	18
Other associates	various	various	**14**	21
Total associates and joint ventures			**638**	411

The equity share in profits/(losses) of associates and joint ventures comprises the following:

	Company's share as of December 31, 2017, %	Share in income/(loss) of equity investees 2017	2016
Taihu Ltd	51.00	**7**	10
OJSC NGK Slavneft	49.94	**7**	5
Messoyahaneftegaz JSC	50.00	**11**	(1)
National Oil Consortium LLC	80.00	**1**	(1)
PetroMonagas S.A.	40.00	**8**	2
Petroperija S.A.	40.00	**5**	–
Boqueron S.A.	26.66	**4**	–
TNK Trading International S.A.	59.95	**10**	6
Essar Oil Limited	49.13	**5**	–
Petrocas Energy International Ltd	49.00	**1**	–
Other	various	**1**	5
Total equity share in profits of associates and joint ventures		60	26

The unrecognized share of losses of associates and joint ventures comprises the following:

Name of investee	As of December31, 2017	2016
LLC Veninneft	**2**	2
LLP Adai Petroleum Company	**7**	6
Boqueron S.A.	**6**	1
Petroperija S.A.	**3**	–
Total unrecognized share of losses of associates and joint ventures	**18**	9

Financial information of significant associates and joint ventures as at 31 December 2017 and 2016 is presented below:

Taihu Ltd	As of December 31 2017	2016
Cash and cash equivalents	**21**	10
Accounts receivable	**19**	12
Other current assets	**2**	2
Other non-current assets	**89**	86
Total assets	**131**	110
Short-term loans and borrowings	**–**	(3)
Income tax liabilities	**–**	–
Other current liabilities	**(17)**	(14)
Long-term loans and borrowings	**(1)**	–
Deferred tax liabilities	**(5)**	(6)
Other non-current liabilities	**(9)**	(7)
Total liabilities	**(32)**	(30)
Net assets	**99**	80
One-off adjustment in accordance with the joint-stock agreement	**(6)**	–
The Company's share, %	**51.00**	51.00
The Company's total share in net assets	**47**	41

Taihu Ltd	2017	2016
Revenues	**114**	101
Finance income	**1**	–
Finance expenses	**(1)**	(1)
Depreciation, depletion and amortization	**(5)**	(5)
Other expenses	**(84)**	(70)
Income before income tax	**25**	25
Income tax	**(5)**	(5)
Net income	**20**	20
One-off adjustment in accordance with the joint-stock agreement	**(6)**	–
The Company's share, %	**51.00**	51.00
The Company's total share in net income	**7**	10

The Company's share of the currency translation effect amounted to a loss of RUB 1 billion and an income of RUB 2 billion for the years ended at 31 December 2017 and 2016, respectively, which was included in foreign exchange differences in the translation of foreign operations in the consolidated statement of other comprehensive income for 2017 and 2016.

OJSC NGK Slavneft	As of December 31 2017	2016
Cash and cash equivalents	**4**	4
Accounts receivable	**45**	11
Other current assets	**11**	11
Other non-current assets	**447**	425
Total assets	**507**	451
Short-term loans and borrowings	**(10)**	(27)
Tax liabilities	**(27)**	(23)
Other current liabilities	**(29)**	(23)
Long-term loans and borrowings	**(88)**	(43)
Deferred tax liabilities	**(19)**	(17)
Other non-current liabilities	**(22)**	(19)
Total liabilities	**(195)**	(152)
Net assets	**312**	299
The Company's share, %	**49.94**	49.94
The Company's total share in net assets	**156**	149

OJSC NGK Slavneft	2017	2016
Revenues	**241**	215
Finance income	**1**	2
Finance expenses	**(7)**	(7)
Depreciation, depletion and amortization	**(47)**	(52)
Other expenses	**(171)**	(141)
Gain before income tax	**17**	17
Income tax	**(4)**	(6)
Net income	**13**	11
The Company's share, %	**49.94**	49.94
The Company's total share in net income	**7**	5

Investments in Essar Oil Limited

In August 2017 the Company completed the acquisition of a 49% stake in Essar Oil Limited, a modern oil refinery in the Asia-Pacific region in Vadinar, 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 rates at the payment dates).

Investments in Venezuela

In May 2016 the Company increased its stake in the Petromonagas joint venture with the state oil company of Venezuela Petróleos de Venezuela SA ("PDVSA") from 16.7% to 40%. The share of PDVSA 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).

28. OTHER NON-CURRENT NON-FINANCIAL ASSETS

Other non-current non-financial assets comprise the following:

	As of December 31	
	2017	2016
Long-term advances issued	**282**	83
Other	**3**	1
Total other non-current non-financial assets	**285**	84

In April 2017 the Company made an advance payment of US$ 1.0 billion (RUB 57 billion at the CBR official exchange rate at the transaction date) under a Petróleos de Venezuela, S.A. crude oil purchase contract. During the year 2017 the Company made advance payments totaling US$ 2.1 billion (RUB 122 billion at the CBR official exchange rates at the transaction dates) under a Kurdistan Government crude oil purchase contract.

29. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

	As of December 31	
	2017	2016 (restated)
Financial liabilities		
Accounts payable to suppliers and contractors	**451**	337
Current operating liabilities of subsidiary banks	**333**	134
Voluntary offer to acquire PJSC Bashneft Oil Company shares	**–**	50
Salary and other benefits payable	**81**	80
Dividends payable	**5**	–
Other accounts payable	**46**	22
Total financial liabilities	**916**	623
Non-financial liabilities		
Short-term advances received	**55**	53
Total accounts payable and accrued liabilities	**971**	676

Trade and other payables are non-interest bearing.

30. LOANS AND BORROWINGS AND OTHER FINANCIAL LIABILITIES

Loans and borrowings comprise the following:

		As of December 31	
	Currency	2017	2016 (restated)
Long-term			
Bank loans	RUB	**326**	173
Bank loans	US$, euro	**878**	1,107
Bonds	RUB	**427**	321
Eurobonds	US$	**213**	337
Borrowings	RUB	**71**	31
Borrowings	euro	**–**	1
Other borrowings	US$	**224**	613
Other borrowings	RUB	**16**	16
Less: current portion of long-term loans and borrowings		**(545)**	(710)
Long-term loans and borrowings		**1,610**	1,889
Finance lease liabilities		**32**	22
Other long-term financial liabilities		**146**	4
Less: current portion of long-term finance lease liabilities		**(5)**	(1)
Total long-term loans and borrowings and other financial liabilities		**1,783**	1,914
Short-term			
Bank loans	RUB	**237**	101
Bank loans	US$, euro	**10**	21
Borrowings	US$	**–**	33
Other borrowings	RUB	**919**	516
Other borrowings	US$	**346**	94
Current portion of long-term loans and borrowings		**545**	710
Short-term loans and borrowings and current portion of long-term loans and borrowings		**2,057**	1,475
Current portion of long-term finance lease liabilities		**5**	1
Other short-term financial liabilities		**93**	4
Short-term liabilities related to derivative financial instruments		**74**	98
Total short-term loans and borrowings and other financial liabilities		**2,229**	1,578
Total loans and borrowings and other financial liabilities		**4,012**	3,492

Long-term loans and borrowings

Long-term bank loans comprise the following:

Currency	Interest rate p.a.	Maturity date	As of December 31	
				2016
US$	LIBOR + 1.00% – LIBOR + 3.50%	2018-2029	**869**	1,081
EUR	EURIBOR + 0.35% – EURIBOR + 2.00%	2019-2020	**10**	27
RUB	8.30% – 9.75%	2018-2024	**326**	173
Total			**1,205**	1,281
Debt issue costs			**(1)**	(1)
Total long-term bank loans			**1,204**	1,280

Long-term bank loans from foreign banks to finance special-purpose business activities denominated in US$ are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with the express right of claim to contractual revenue in the amount of the late loan repayments, which the purchaser generally remits directly through transit currency accounts with the lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 22 billion and RUB 24 billion as at 31 December 2017 and 2016, respectively, and is included in Trade receivables of purchasers and customers.

In March 2013, the Company drew down four long-term unsecured loans from a group of international banks for a total of US$ 31 billion to finance the acquisition of TNK-BP. Two 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 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), including accrued interest.

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 fixed rate loans with repayable periods in 2020-2023.

Interest-bearing RUB denominated bearer bonds in circulation comprise the following:

	Security ID	Date of issue	Date of maturity	Total volume in RUB billions.	Coupon (%)	As of December 31	
						2017	2016
Bonds	04,05	10.2012	10.2022[1]	20	7.90%	**20**	20
Bonds	07,08	03.2013	03.2023	30	8.00%	**31**	31
Bonds	06,09,10	06.2013	05.2023	40	7.95%	**40**	40
SE Bonds [4]	БО-05, БО-06	12.2013	12.2023	40	7.95%	**11**	11
SE Bonds	БО-01, БО-07	02.2014	02.2024	35	8.90%	**36**	36
SE Bonds	БО-02, БО-03, БО-04						
	БО-094	12.2014	11.2024[1]	65	9.40%[5]	**55**	56
SE Bonds	БО-08, БО-10						
	БО-11, БО-12, БО-13						
	БО-14	12.2014	11.2024[1]	160	9.40%[5]	**–**	–
SE Bonds[4]	БО-15, БО-16						
	БО-17, БО-24	12.2014[1]	12.2020[1]	400	7.85%[5]	**–**	–
SE Bonds[4]	БО-18, БО-19, БО-20						
	БО-21, БО-22, БО-23						
	БО-25, БО-26	01.2015[2]	01.2021	400	8.60%[5]	**–**	–
SE Bonds[4]	001P-01	12.2016[2]	11.2026	600	8.35%[5]	**–**	–
SE Bonds	001P-02	12.2016	12.2026	30	9.39%[5]	**30**	30
SE Bonds	001P-03	12.2016	12.2026[1]	20	9.50%[5]	**20**	20
SE Bonds	001P-04	05.2017	04.2027	40	8.65%[5]	**41**	–
SE Bonds	001P-05	05.2017[2]	05.2025[1]	15	8.60%[5]	**15**	–
SE Bonds[4]	001P-06, 001P-07	07.2017	07.2027	266	8.50%[5]	**–**	–
SE Bonds[4]	001P-08	10.2017	09.2027	100	8.60%[5]	**–**	–
SE Bonds[4]	002P-01, 002P-02	12.2017	11.2027	600	8.35%[5]	**–**	–
SE Bonds	002P-03	12.2017	12.2027	30	7.75%[5]	**30**	–

	Security ID	Date of issue	Date of maturity	Total volume in RUB billions.	Coupon (%)	As of December 31 2017	As of December 31 2016
Bonds of subsidiary banks:							
SE Bonds	001P-01	10.2017	10.2020[1]	10	8.50%[5]	**10**	–
SE Bonds	БО-02	08.2014[3]	08.2034[1]	3	0.51%[5]	**–**	–
SE Bonds	БО-03	07.2015[3]	06.2035[1]	4	0.51%[5]	**–**	–
SE Bonds	БО-04	04.2015[2]	04.2018[1]	3	13.25%[5]	**3**	–
SE Bonds	БО-П01	09.2015[3]	08.2035[1]	5	0.51%[5]	**–**	–
SE Bonds	БО-П02	10.2015[3]	09.2035[1]	4	0.51%[5]	**1**	–
SE Bonds	БО-П03	11.2015[3]	10.2035[1]	1	0.51%[5]	**–**	–
SE Bonds	БО-П05	06.2016[3]	06.2036[1]	5	0.51%[5]	**–**	–
Convertible Bonds	C-01	02.2017[3]	02.2032[1]	69	0.51%[5]	**2**	**–**
Bashneft SE Bonds:							
Bonds	04[6]	02.2012	02.2022	10	0.10%[5]	**–**	–
Bonds	06, 08	02.2013	01.2023	15	8.65%[5]	**15**	15
Bonds	07, 09	02.2013	01.2023	15	8.85%[5]	**16**	16
SE Bonds	БО-05[6]	05.2014	05.2024	10	10.70%	**–**	–
SE Bonds	БО-03[6]	05.2015	05.2025	5	12.00%	**–**	–
SE Bonds	БО-04[6]	06.2015	05.2025	5	12.00%	**–**	–
SE Bonds	БО-07[6]	06.2015	06.2025	5	12.10%	**–**	–
SE Bonds	БО-02[6]	05.2016	05.2026	10	10.50%	**–**	–
SE Bonds	БО-06, БО-08	05.2016	04.2026	15	10.90%[5]	**16**	16
SE Bonds	БО-09	10.2016	10.2026	5	9.30%[5]	**5**	5
SE Bonds	БО-10	12.2016	12.2026	5	9.50%[5]	**5**	5
SE Bonds	001P-01R	12.2016	12.2024[1]	10	9.50%[5]	**10**	10
SE Bonds	001P-02R	12.2016	12.2023[1]	10	9.50%[5]	**10**	**10**
SE Bonds	001P-03R	01.2017	01.2024[1]	5	9.40%[5]	**5**	**–**
Total long-term RUB bonds						**427**	**321**

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 its discretion, may purchase/repay the bonds early with the possibility of subsequently placing the bonds in the market. Such purchase/repayment of the bonds does not constitute an early redemption.
Certain RUB denominated non-convertible bonds were acquired through the acquisitions of PJSC Bashneft Oil Company and JSCB Peresvet (Note 7).
Through the JSCB Peresvet acquisition the Company reported RUB denominated bonds with coupon payments at the end of the redemption and maturity periods of 3, 15 and 20 years. Part of the RUB denominated bonds series C01 consisted of convertible bonds.
Corporate Eurobonds comprise the following:

	Coupon rate (%)	Currency	Maturity	As of December 31 2017	As of December 31 2016
Eurobonds (Series 1)	3.149%	US$	2017	**–**	61
Eurobonds (Series 2)	4.199%	US$	2022	**117**	123
Eurobonds (Series 4)	6.625%	US$	2017	**–**	50
Eurobonds (Series 6)	7.875%	US$	2018	**65**	70
Eurobonds (Series 8)	7.250%	US$	2020	**31**	33
Total long-term Eurobonds				**213**	**337**

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 at par: one in the amount of US$ 1.0 billion with a coupon of 3.149% p.a. and maturity in March 2017, and the other in the amount of US$ 2.0 billion (RUB 115.2 billion at the CBR official exchange rate as at 31 December 2017) with a coupon of 4.199% p.a. and maturity in March 2022. The funds received were used for general corporate purposes.
In March 2017, the Company fully repaid Eurobonds (Series 1) of US$ 1.0 billion (RUB 58.4 billion at the CBR official exchange rate at the transaction date).
Eurobonds of the fourth, sixth and eighth series were assumed through the acquisition of TNK-BP.
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 acquisition.
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 Company under those transactions 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 instrument for those transactions.
The Company is obliged to comply with a number of restrictive financial and other covenants contained in several of its loan agreements. Such covenants include maintaining certain financial ratios.
As at 31 December 2017 and at 31 December 2016 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

In 2017 the Company drew down short-term funds from Russian banks under floating and fixed rates.
In 2017 the Company continued to meet its liabilities under repurchasing agreement operations and entered into new agreements. As at 31 December 2017 the liabilities of the 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 an instrument for those transactions.
In 2017 the Company was current on all payments under loan agreements and interest payments.

[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.
[6] For the coupon period effective as of day of early repurchase.

Finance leases

Repayments of finance lease obligations comprise the following:

	As at 31 December 2017: Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	**9**	**(4)**	**5**
From 1 to 5 years	**24**	**(11)**	**13**
Over 5 years	**21**	**(7)**	**14**
Total	**54**	**(22)**	**32**

	As at 31 December 2016: Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	4	(3)	1
From 1 to 5 years	16	(10)	6
Over 5 years	24	(9)	15
Total	44	(22)	22

Finance leases entered into by the Company do not contain covenants and are long-term agreements, with certain leases having purchase options at the end of the lease term.
Finance leases are denominated in RUB and US$.
Property, plant and equipment under capital leases recognized in Property, plant and equipment (Note 24) comprise the following:

	As of December 31 2017	As of December 31 2016
Buildings	**4**	4
Plant and machinery	**27**	12
Vehicles	**16**	16
Total cost	**47**	32
Less: accumulated depreciation	**(18)**	(11)
Total net book value of leased property	**29**	21

Liabilities related to derivative financial instruments

Short-term liabilities related to derivative financial instruments include liabilities related to cross-currency rate swaps.
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.
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:

	Issue date	Expiry date	Nominal amount as at 31 December 2017: US$ million	Nominal amount as at 31 December 2017: RUB billion[1]	Interest rate type	Fair value of the liabilities as of December 31: 2017	Fair value of the liabilities as of December 31: 2016
Swaps	2012	2017	–	–	floating	–	18
Swaps	2013	2018	**2,138**	**123**	floating	**52**	56
Swaps	2014	2019	**1,010**	**58**	floating	**22**	24
Total			**3,148**	**181**		**74**	**98**

Liabilities with respect to derivative financial instruments

Reconciliation of movements in financing activities in the Statement of cash flows with balance-sheet items of liabilities:

,	Long-term loans and borrowings	Short-term loans and borrowings	Finance lease liabilities	Other long-term financial liabilities	Other short-term financial liabilities	Short-term liabilities related to derivative financial instruments	Total
As of January 1, 2017, including	1,889	1,475	22	4	4	98	3,492
Financing activities (cash flow)							
Proceeds/repayment of loans and borrowings	**(298)**	**644**	**–**	**144**	**192**	**–**	**682**
Interest paid	(145)	(70)	(4)	–	–	–	(219)
Repayment of other financial liabilities	–	–	(7)	(1)	–	(14)	(22)
Operating and investing activities (non-cash flow)							
Foreign exchange gain/loss	**(196)**	**96**	**–**	**(1)**	**1**	**–**	**(100)**
Acquisition of interest in subsidiary, net of cash acquired	**61**	**(8)**	**3**	**–**	**–**	**–**	**56**
Offset of other financial liabilities	**–**	**–**	**–**	**–**	**(105)**	**–**	**(105)**
Acquisition	**–**	**–**	**14**	**–**	**–**	**–**	**14**
Finance expenses	**134**	**91**	**4**	**–**	**–**	**–**	**229**
Finance income	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**

[1] The equivalent nominal amount at the CBR official exchange rate as at 31 December 2017.

,	Long-term loans and borrowings	Short-term loans and borrowings	Finance lease liabilities	Other long-term financial liabilities	Other short-term financial liabilities	Short-term liabilities related to derivative financial instruments	Total
Others	–	**(6)**	–	–	**1**	–	**(5)**
Reclassification	**165**	**(165)**	–	–	–	–	–
As at 31 December 2017	**1,610**	**2,057**	**32**	**146**	**93**	**74**	**4,012**

31. OTHER SHORT-TERM TAX LIABILITIES

Other short-term tax liabilities comprise the following:

	As of December 31	
	2017	2016
Mineral extraction tax	**160**	115
VAT	**78**	69
Excise duties	**26**	25
Property tax	**10**	9
Personal income tax	**2**	2
Other	**2**	2
Total other tax liabilities	**278**	222

32. PROVISIONS

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
As of January 1, 2016, including	123	35	13	171
Non-current	119	23	1	143
Current	4	12	12	28
Provisions charged during the year (Note 40)	6	4	5	15
Increase/(decrease) in the liability resulting from:				
Changes in estimates	3	4	(3)	4
Changes in the discount rate	13	–	–	13
Foreign exchange differences	(5)	–	–	(5)
Unwinding of discount	12	3	–	15
Reclassification to assets held for sale	28	3	1	32
Utilized	(2)	(8)	(3)	(13)
As at 31 December 2016, including	178	41	13	232
Non-current	174	28	1	203
Current	4	13	12	29
Provisions charged during the year (Note 40)	**6**	**5**	**7**	**18**
Increase/(decrease) in the liability resulting from:				
Changes in estimates	**(5)**	**(1)**	–	**(6)**
Changes in the discount rate	**28**	–	–	**28**
Foreign exchange differences	**(1)**	–	–	**(1)**
Unwinding of discount	**14**	**3**	–	**17**
Acquisition of subsidiaries (Note 7)	–	–	**2**	**2**
Utilized	**(2)**	**(7)**	**(7)**	**(16)**
As at 31 December 2017, including	**218**	**41**	**15**	**274**
Non-current	**213**	**27**	**5**	**245**
Current	**5**	**14**	**10**	**29**

Asset retirement (decommissioning) obligations represent an estimate of the costs of liquidating wells, the reclamation of sand pits, slurry ponds, and disturbed lands, and the dismantling of pipelines and power transmission lines. The budget for payments under asset retirement obligations is prepared on an annual basis. Depending on the current economic environment the entity's actual expenditures may vary from the budgeted amounts.

33. PREPAYMENT ON LONG-TERM OIL AND PETROLEUM PRODUCTS SUPPLY AGREEMENTS

During 2013-2014 the Company entered into a number of long-term crude oil and petroleum products supply contracts which involve the receipt of prepayment. The total minimum delivery volume approximates 400 million tonnes. The crude oil and petroleum product prices are calculated based on current market prices. The prepayment is settled through physical deliveries of crude oil and petroleum products.

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 which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

	2017	2016
As of January 1	**1,841**	1,905
Acquisition of subsidiaries (Note 7)	–	58
Received	–	–
Reimbursed	**(255)**	(122)
Total prepayment on long-term oil and petroleum products supply agreements	**1,586**	1,841
Less current portion	**(264)**	(255)
Long-term prepayment as of December 31	**1,322**	1,586

The offset amounts under these contracts were RUB 255 billion and RUB 122 billion (US$ 7.59 billion and US$ 3.85 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date) for 2017 and 2016, respectively.

34. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprise the following:

	As of December 31	
	2017	2016 (restated)
Joint project liabilities	**23**	23
Liabilities for investing activities	**4**	7
Liabilities for joint operation contracts in Germany	**14**	13
Other	**4**	3
Total other non-current liabilities	**45**	46

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 expensed as accrued.

The Company also maintains a defined contribution corporate pension plan to finance the non-state pensions of its employees.

Pension contributions recognized in the consolidated statement of profit or loss were as follows:

	2017	2016
State Pension Fund	**53**	43
NPF Neftegarant	**7**	5
Total pension contributions	**60**	48

36. SHAREHOLDERS' EQUITY

Common shares

As at 31 December 2017 and 2016:

Authorized common shares	
quantity, millions	10,598
amount, billions of RUB	0.6
Issued and fully paid shares	
quantity, millions	10,598
amount, billions of RUB	0.6
Nominal value of 1 common share, RUB	**0.01**

On June 15, 2016, 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 35% of IFRS net income attributable to the Company's shareholders. Dividends were paid by the Company in July 2016.

On June 22, 2017 the Annual General Shareholders Meeting approved dividends on the Company's common shares for 2016 in the amount of RUB 63.4 billion, or RUB 5.98 per share, which comprised 35% of IFRS net income attributable to the Company's shareholders. Dividends were paid by the Company in July 2017.

In 2017 the Company revised its dividend policy. The minimum level of dividend payments was increased to 50% of IFRS net income attributable to the Company's shareholders, with the target frequency of payments being twice a year. In accordance with the above, on September 29, 2017 the Extraordinary Shareholders Meeting approved interim dividends on the Company's common shares for the first half of 2017 in the amount of RUB 40.6 billion, or RUB 3.83 per share, which comprised 50% of IFRS net income attributable to the Company's shareholders. Dividends were paid by the Company in October 2017.

The dividends are distributed from the net profit of PJSC Rosneft Oil Company calculated in compliance with the current legislation of the Russian Federation.

In 2017 and 2016 additional paid-in capital of the Company increased by RUB 24 billion and RUB 96 billion, respectively, as a result of the disposal of interests in subsidiaries (Note 17).

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 quoted on active liquid markets is determined in accordance with market prices;
- the fair value of other financial assets and liabilities is determined in accordance with generally accepted models and is based on discounted cash flow analysis that relies on prices used for existing transactions in the current market;
- the fair value of derivative financial instruments is based on market quotes. In illiquid and highly volatile markets fair value is determined on the basis of valuation models that rely on assumptions confirmed by observable market prices or rates as of the reporting date.

Assets and liabilities of the Company that are measured at fair value on a recurring basis in accordance with the fair value hierarchy are presented in the table below.

	Fair value measurement as at 31 December 2017			
	Level 1	Level 2	Level 3	Total
ASSETS				
Current assets				
Held-for-trading	**1**	–	–	**1**
Available-for-sale	**50**	**129**	–	**179**
Non-current assets				
Available-for-sale	–	**16**	–	**16**
Derivative financial instruments	–	–	–	–
Total assets measured at fair value	**51**	**145**	–	**196**
Derivative financial instruments	–	**(74)**	–	**(74)**
Total liabilities measured at fair value	–	**(74)**	–	**(74)**

	Fair value measurement as at 31 December 2016			
	Level 1	Level 2	Level 3	Total
ASSETS				
Current assets				
Held-for-trading	2	2	–	4
Available-for-sale	77	226	–	303
Non-current assets				
Available-for-sale	–	11	–	11
Derivative financial instruments	–	–	–	–
Total assets measured at fair value	79	239	–	318
Derivative financial instruments	–	(98)	–	(98)
Total liabilities measured at fair value	–	(98)	–	(98)

The fair value of financial assets available for sale, held-for-trading financial assets at fair value through profit or loss and derivative financial instruments included in Level 2 is measured at the present value of future estimated cash flows, using inputs such as market interest rates and market quotes of forward exchange rates.
The carrying value of cash and cash equivalents and derivative financial instruments recognized in these consolidated financial statements equals their fair value. The carrying value of accounts receivable, accounts payable, loans issued, other financial assets and other financial liabilities recognized in these consolidated financial statements approximates their fair value.
There were no transfers of financial liabilities between Level 1 and Level 2 during the period.

	Carrying value As of December 31		Fair value (Level 2) As of December 31	
	2017	2016 (restated)	2017	2016 (restated)
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	**(1,549)**[1]	(2,004)	**(1,467)**[1]	(1,792)
Loans and borrowings with a fixed interest rate	**(2,118)**	(1,360)	**(2,038)**	(1,376)
Finance lease liabilities	**(32)**	(22)	**(36)**	(23)

38. RELATED PARTY TRANSACTIONS

For the purpose of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In 2017 and 2016 the Company entered into transactions with shareholders and companies controlled by shareholders (including enterprises directly or indirectly controlled by the Russian Government and the BP Group), associates and joint ventures, key management and pension funds (Note 35).
Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms as transactions between unrelated parties.
The disclosure of related party transactions is presented on an aggregate basis for shareholders and companies controlled by shareholders, joint ventures and associates, and non-state pension funds. In addition, there may be additional disclosures of certain significant transactions (balances and turnovers) with certain related parties.
In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Antimonopoly Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on market interest rates. Taxes are accrued and paid in accordance with applicable tax law. The Company sells crude oil and petroleum products to related parties in the ordinary course of business at prices close to average market prices.

Transactions with shareholders and companies controlled by shareholders

Revenues and income

	2017	2016
Oil, gas, petroleum products and petrochemicals sales	**784**	595
Support services and other revenues	**6**	3
Finance income	**26**	23
	816	621

Costs and expenses

	2017	2016
Production and operating expenses	**14**	11
Cost of purchased oil, gas, petroleum products and refining costs	**73**	161
Pipeline tariffs and transportation costs	**473**	443
Other expenses	**15**	13
Financial expenses	**8**	4
	583	632

Other operations

	2017	2016
Acquisition of subsidiaries	**–**	330
Loans received	**297**	125
Loans repaid	**(58)**	(2)
Loans and borrowings issued	**–**	(30)
Repayment of loans and borrowings issued	**1**	–
Deposits placed	**(7)**	(47)
Deposits repaid	**2**	109

[1] Including financial instruments designated as hedging instruments with a carrying value of RUB 50 billion and a fair value of RUB 47 billion..

Settlement balances

	As of December 31	
	2017,	2016,
ASSETS		
Cash and cash equivalents	**57**	549
Accounts receivable	**68**	80
Prepayments and other current assets	**61**	36
Other financial assets	**636**	588
	822	1,253
LIABILITIES		
Accounts payable and accrued liabilities	**32**	47
Loans and borrowings and other financial liabilities	**655**	352
	687	399

Transactions with joint ventures

Crude oil is purchased from joint ventures at Russian domestic market prices.

Revenues and income

	2017	2016
Oil, gas, petroleum products and petrochemicals sales	**11**	24
Support services and other revenues	**10**	5
Finance income	**26**	22
	47	51

Costs and expenses

	2017	2016
Production and operating expenses	**5**	5
Cost of purchased oil, gas, petroleum products and refining costs	**285**	213
Pipeline tariffs and transportation costs	**9**	11
Other expenses	**4**	4
Finance expenses	**1**	–
	304	233

Other operations

	2017	2016
Acquisition of interest in associates and joint ventures	**(8)**	–
Loans received	**–**	7
Loans repaid	**–**	(9)
Loans and borrowings issued	**(2)**	(25)
Repayment of loans and borrowings issued	**127**	17

Settlement balances

	As of December 31	
	2017	2016
ASSETS		
Accounts receivable	**6**	9
Prepayments and other current assets	**–**	1
Other financial assets	**52**	306
	58	316
LIABILITIES		
Accounts payable and accrued liabilities	**85**	29
Loans and borrowings and other financial liabilities	**15**	8
	100	37

Transactions with associates

Revenues and income

	2017	2016
Oil, gas, petroleum products and petrochemicals sales	**222**	67
Support services and other revenues	**5**	3
Finance income	**–**	1
	227	**71**

Costs and expenses

	2017	2016
Production and operating expenses	**11**	5
Cost of purchased oil, gas, petroleum products and refining costs	**14**	9
Pipeline tariffs and transportation costs	**1**	–
Other expenses	**13**	8
	39	22

Other operations

	2017	2016
Loans and borrowings issued	**(32)**	–

Settlement balances

	As of December 31	
	2017	2016
ASSETS		
Accounts receivable	**33**	8
Prepayments and other current assets	**1**	–
Other financial assets	**41**	4
	75	12
LIABILITIES		
Accounts payable and accrued liabilities	**8**	6
Loans and borrowings and other financial liabilities	**124**	–
	132	6

Transactions with non-state pension funds

Costs and expenses

	2017	2016
Other expenses	**7**	5

Settlement balances

	As of December 31	
	2017	2016
LIABILITIES		
Accounts payable and accrued liabilities	**1**	1
	1	1

Compensation to key management personnel

For the purpose of these consolidated financial statements key management personnel include members of the Management Board of PJSC Rosneft Oil Company and members of the Board of Directors.

Short-term gross benefits of the Management Board members, taking into account personnel rotation, including payroll and bonuses, totaled RUB 2,711 million and RUB 2,884 million in 2017 and 2016, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 373 million and RUB 395 million, respectively). Short-term gross benefits 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 gross benefits for 2017 are disclosed in accordance with the Russian securities 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 Company's Board of Directors for the period of their service in the following amounts: Mr. Andrey Akimov – US$ 545,000 (RUB 32.7 million at the CBR official exchange rate on June 22, 2017); Mr. Matthias Warnig – US$ 580,000 (RUB 34.8 million at the CBR official exchange rate on June 22, 2017); Mr. Oleg Viyugin – US$ 580,000 (RUB 34.8 million at the CBR official exchange rate on June 22, 2017); Mr. Donald Humphreys – US$ 565,000 (RUB 33.9 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 Novak) 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 amounts: Mr. Andrey Akimov – US$ 560,000 (RUB 37.0 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 Viyugin – US$ 580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Donald Humphreys – 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 and Alexander Novak) or to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

39. KEY SUBSIDIARIES

Name	Country of incorporation	Core activity	2017		2016	
			Preferred and common shares %	Voting shares %	Preferred and common shares %	Voting shares %
Exploration and production						
PJSC Orenburgneft	Russia	Oil and gas development and production	**100.00**	**100.00**	100.00	100.00
JSC Samotlorneftegaz	Russia	Oil and gas development and production	**100.00**	**100.00**	100.00	100.00
JSC Tumenneftegaz	Russia	Oil and gas development and production	**100.00**	**100.00**	100.00	100.00
JSC Verkhnechonskneftegaz	Russia	Oil and gas development and production	**79.95**	**79.95**	99.94	99.94
JSC Vankorneft	Russia	Oil and gas development and production	**50.10**	**50.10**	50.10	50.10
LLC RN-Yuganskneftegaz	Russia	Oil and gas production operator services	**100.00**	**100.00**	100.00	100.00
PJSC Bashneft Oil Company	Russia	Oil and gas development and production	**60.33**	**70.93**	52.39	61.59
Refining, marketing and distribution						
JSC RORC	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Angarsk Petrochemical Company	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Novokuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
LLC RN-Komsomolsky Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Syzran Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Achinsk Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
JSC Kuybyshev Refinery	Russia	Petroleum refining	**100.00**	**100.00**	100.00	100.00
PJSC Saratov Oil Refinery	Russia	Petroleum refining	**85.48**	**91.13**	85.48	91.13
JSC PCEC	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
LLC RN-Commerce	Russia	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Rosneft Trading S.A.	Switzerland	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Rosneft Trade Limited	Cyprus Republic	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Rosneft Deutschland GmbH	Germany	Marketing and distribution	**100.00**	**100.00**	100.00	100.00
Other						
JSC RN Holding	Russia	Holding company	**100.00**	**100.00**	100.00	100.00
LLC Neft-Aktiv	Russia	Investing activity	**100.00**	**100.00**	100.00	100.00
Rosneft Finance S.A.	Luxemburg	Finance services	**100.00**	**100.00**	100.00	100.00
JSC Russian Regional Development Bank (VBRR)	Russia	Banking	**98.34**	**98.34**	98.34	98.34

40. CONTINGENCIES

Russian business environment

Russia continues economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. Ruble interest rates remain high. The combination of the above has resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect 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 circumstances.

The Company also has investments in associates and joint ventures and advances issued to contractors operating in international jurisdictions. Besides commercial risks being a part of any investment operation, assets in a number of regions of the Company's activities also bear political, economic and tax risks which are analyzed by the Company on a regular basis.

Guarantees and indemnities issued

An unconditional unlimited guarantee in favor of the Government and municipal authorities of Norway is effective in respect of the Company's operations on the Norwegian continental shelf. That guarantee fully covers all potential ongoing environmental liabilities of RN Nordic Oil AS. A parent company guarantee is required by Norwegian legislation and is an essential condition for licensing the operations of RN Nordic Oil AS on the Norwegian continental shelf jointly with Statoil ASA.

The Company's agreements with Eni S.p.A, Statoil ASA and the ExxonMobil Oil Corporation under the Russian Federation shelf exploration program contain mutual guarantees provided in 2013 and 2014 that are unconditional, unlimited and open-ended, and also provide that the partners will pay a commercial discovery bonus to the Company.

The partnership agreement with the ExxonMobil Oil Corporation for difficult to extract oil reserves in Western Siberia contains mutual guarantees that are unconditional, unlimited and open-ended, and provides for production bonus payments to the Company starting from the launch of commercial production.

In the fourth quarter of 2015 in accordance with the cooperation agreement on difficult to extract oil reserves with Statoil ASA, both parties issued parent guarantees on the discharging of the mutual liabilities of their related parties. These guarantees are unconditional, unlimited and open-ended.

In order to facilitate flexible terms and conditions for supplies and payments within hydrocarbon trading contracts, in 2016 the Company issued sureties to banks covering the period up to the year 2022 and totaling euro 6 billion. As of the period-end the probability of events triggering settlement of sureties was assessed as remote.

In the course of its investing activities, the Company issued sureties to third parties up to the equivalent amount of RUB 8 billion at the CBR official exchange rate as at 31 December 2017. As of the period-end the Company assesses the probability of settlement as remote.

Legal claims

Rosneft and Bashneft are involved in a number of legal disputes with PJSFC Sistema and JSC Sistema-Invest, related to the illegal ownership of Bashneft shares by PJSFC Sistema and Sistema-Invest, In particular, they are the co-plaintiffs against PJSFC Sistema and JSC Sistema-Invest in the case of a recovery of losses in favor of Bashneft in the amount of RUB 170.6 billion caused by the reorganization of Bashneft (case 1) as well as in the case of a recovery of losses in the amount of RUB 131.6 billion in connection with the payment of dividends to defendants during the period of their illegal possession of the Bashneft shares (case 2). They are also the co-defendants in the case of the PJSFC Sistema's claim for recovery of losses in the amount of RUB 330.4 billion arising following the actions of Rosneft and Bashneft to protect the legitimate interests of Bashneft (case 3).

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 on case 1. According to the settlement agreement, PJSFC Sistema and JSC Sistema-Invest guarantee to compensate the Company previously caused losses amounting to RUB 100 billion by March 30, 2018, after which the parties will file a waiver of mutual claims on cases 2 and 3.

On December 31, 2015, First National Petroleum Corporation ("FNPC") initiated arbitration proceedings under the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce against JSC Tyumenneftegaz ("TNG"), a subsidiary of the Company, seeking compensation of losses, interest and arbitration costs of over US$ 260 million (over RUB 15 billion at the CBR official exchange rate on at 31 December 2017) for alleged breach of the agreement between FNPC and TNG to incorporate a joint venture, Tumtex, on the territory of the Russian Federation. The decision is expected by the end of April 2018.

In October-November 2014 former shareholders of JSC RN Holding filed a lawsuit against the Company claiming recovery of damages caused by the improper (in the plaintiffs' view) assessment of the shares' value in the course of their repurchase in accordance with the Federal Law On Open Joint Stock Companies. The claims were dismissed by the court of first instance, whose ruling was subsequently upheld in a ruling of the appeal court. In January 2017 the cassation court left the rulings of the lower courts unchanged. In May 2017 the Supreme Court of the Russian Federation dismissed the cassation. The decision of the Supreme Court of the Russian Federation was appealed by the plaintiffs. The appeal was dismissed.

The amount and timing of any outflow related to the above claims cannot be estimated reliably. Rosneft and its subsidiaries are involved in other litigation which arises from time to time in the course of their business activities. Management believes that the ultimate result of that litigation will not materially affect the performance or financial position of the Company.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. Various legislative acts and regulations are not always clearly written, and their interpretation is subject to the opinions of the taxpayers, and local, regional, and national tax authorities, and the Ministry of Finance of the Russian Federation. Instances of inconsistent opinions are not unusual. In Russia, tax returns remain open and subject to inspection for a period of up to three years. The fact that a year has been reviewed does not close that year, or any tax return applicable to that year, from further review during the period of three calendar years preceding the year when the inspection started.

In accordance with Russian tax legislation, if an understatement of a tax liability is detected as a result of an inspection, penalties and fines to be paid might be material in respect of the tax liability misstatement.

Effective January 1, 2012, the rules for defining market prices for fiscal control purposes were changed and the list of entities that could be recognized as interdependent entities and the list of controlled transactions were expanded. Due to the absence of law enforcement precedents based on the rules, as well as certain contradictions in the provisions of the law, these rules cannot be considered clear or precise. To eliminate significant risks posed to the consolidated financial statements by related party transactions, the Company has developed methods for pricing major types of controlled transactions between related parties. The Company also researches databases to determine the market price levels (ROIs) for controlled transactions annually.

As part of the new regime for fiscal control over the pricing of related party transactions, the Company and the Federal Tax Service signed a number of pricing agreements in 2012-2017 with respect to the taxation of oil sales transactions in Russia.

To date, the Russian Federal Tax Service has not exercised its right to conduct tax audits under the rules of transfer pricing for 2012-2013 and these periods are closed to tax control measures. For subsequent periods the Company has provided explanations to the Russian Federal Tax Service and the regional tax authorities to the extent necessary for the completed transactions.

The Company believes that risks concerning related party transactions during 2017 and earlier will not have a material effect on its financial position or results of operations.

In accordance with the consolidated income tax taxpayer institute enacted in 2012 the Company has created a consolidated group of taxpayers which includes Rosneft and its 21 subsidiaries. Rosneft became the responsible taxpayer of the group from January 1, 2012. Since January 1, 2017, under the terms of the agreement the number of members of the consolidated group of taxpayers has been 64.

In 2014, amendments to tax legislation were adopted aimed at fiscal stimulation of the Russian economy via deoffshorization, and they took effect on January 1, 2015. In particular, these amendments embedded in Russian tax legislation the concepts of actual right to income, fiscal residence of legal entities, and income tax rules for controlled foreign companies. The Company's management has accounted for these amendments in its current and deferred income tax estimates.

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for 2013-2016. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service pre-court and in court.

The Company's management does not expect the outcome of the inspections to have a material impact on the Company's consolidated balance sheet or results of operations.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources that will be required to settle these liabilities. Potential liabilities that management has identified at the reporting date as those that may be subject to different interpretations of tax laws and regulations are not accrued in the consolidated financial statements.

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for the exploration and development of production facilities and the modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis.

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 716 billion and RUB 641 billion as at 31 December 2017 and 2016, respectively.

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as and when identified. Potential liabilities, that could arise as a result of changes in existing regulations or the settlement of civil litigation, or as a result of changes in environmental standards, cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage other than those recorded in these consolidated financial statements.

41. SUPPLEMENTARY OIL AND GAS DISCLOSURE (UNAUDITED)

IFRS do not require information on oil and gas reserves to be disclosed. While this information has been developed with reasonable care and is disclosed in good faith, it is emphasized that the data represents management's best estimates. Accordingly, this information may not necessarily represent the current financial condition of the Company and its future financial results.

The Company's activities are conducted primarily in Russia, which is considered as a single geographic area.

Capitalized costs relating to oil and gas production are presented below

Consolidated subsidiaries and joint operations

	As of December 31	
	2017	2016 (restated)
Oil and gas properties related to proved reserves	**8,333**	7,270
Oil and gas properties related to unproved reserves	**386**	243
Total capitalized costs	**8,719**	7,513
Accumulated depreciation, depletion and impairment losses	**(2,628)**	(2,174)
Net capitalized costs	**6,091**	5,339

Costs incurred in oil and gas property acquisition, exploration and development activities are presented below

Consolidated subsidiaries and joint operations

For the years ended December 31:

	2017	2016 (restated)
Acquisition of properties – proved oil and gas reserves	**193**	535
Acquisition of properties – unproved oil and gas reserves	**123**	17
Exploration costs	**45**	30
Development costs	**876**	621
Total costs incurred	**1,237**	1,203

The results of operations relating to oil and gas production are presented below

Consolidated subsidiaries and joint operations

For the years ended December 31:

	2017,	2016 (restated)
Revenue	**3,138**	2,525
Production costs (excluding production taxes)	**(379)**	(317)
Selling, general and administrative expenses	**(104)**	(100)
Exploration expense	**(15)**	(14)
Depreciation, depletion and amortization, impairment and liquidation losses	**(478)**	(395)
Taxes other than income tax	**(1,574)**	(1,073)
Income tax	**(120)**	(130)
Results of operations relating to oil and gas production	**468**	496

Reserve quantity information

Since 2014 the Company has disclosed its reserves calculated in accordance with the Petroleum Resources Management System (PRMS). For the purpose of the evaluation of reserves as at 31 December 2017 and 2016, the Company used oil and gas reserve information prepared by DeGolyer and MacNaughton, independent reservoir engineers. Proved reserves are those estimated quantities of petroleum which, through the analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable from a given date forward from known reservoirs and under defined economic conditions and operating methods. In certain cases, the recovery of such reserves may require considerable investments in wells and related equipment. Proved reserves also include additional oil and gas reserves that will be extracted after the expiry date of license agreements or may be discovered as a result of secondary and tertiary extraction which have been successfully tested and checked for commercial benefit. Proved developed reserves are those quantities of crude oil and gas expected to be recovered from existing wells using existing equipment and operating methods.

Proved undeveloped oil and gas reserves are reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Due to inherent industry uncertainties and the limited nature of deposit data, estimates of reserves are subject to change as additional information becomes available.

The Company management included in proved reserves those reserves which the Company intends to extract after the expiry of the current licenses. The licenses for the development and production of hydrocarbons currently held by the Company generally expire between 2019 and 2202, and the licenses for the most important deposits expire between 2038 and 2150. In accordance with the effective version of the law of the Russian Federation On Subsurface Resources (the "Law"), licenses are currently granted for a production period determined on the basis of technological and economic criteria applied to the development of the mineral deposit which guarantee the rational use of subsurface resources and necessary environmental protection. In accordance with the Law and upon the gradual expiration of old licenses issued under the previous version of the Law, the Company extends its hydrocarbon production licenses for the whole productive life of the fields. Extension of the licenses depends on compliance with the terms set forth in the existing license agreements. As of the date of these consolidated financial statements, the Company is generally in compliance with all the terms of the license agreements and intends to continue complying with such terms in the future.

The Company's estimates of net proved liquid hydrocarbons and sales gas reserves and changes thereto for the years ended at 31 December 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 oil equivalent ("boe") using an average ratio).

Consolidated subsidiaries and joint operations

	2017	2016
	million boe	million boe
Beginning of year	**43,217**	40,359
Revisions of previous estimates	**909**	1,169
Extensions and discoveries	**1,046**	1,038
Improved recovery	**1**	29
Purchase of new reserves	**470**	2,388
Sale of reserves	**–**	(10)
Production	**(1,862)**	(1,756)
End of year	**43,781**	43,217
Proved developed reserves	**20,436**	20,015
Minority interest in total proved reserves	**2,049**	1,881
Minority interest in proved developed reserves	**1,306**	1,327

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 related to the above oil and gas reserves is based on PRMS. Estimated future cash inflows from oil, condensate and gas production are computed by applying the projected prices the company uses in its long-term forecasts to year-end quantities of estimated net proved reserves. Future development and production costs are those estimated future expenditures necessary to develop and produce estimated proved reserves as of year-end based on current expenses and costs and forecasts. In certain cases, future values, either higher or lower than current values, were used as a result of anticipated changes in operating conditions.

Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimate future net pre-tax cash flows, net of the tax bases of related assets.

Discounted future net cash flows are calculated using a 10% p.a. discount factor. Discounting requires year-by-year estimates of future expenditures to be incurred in the periods when the reserves are extracted.

The information provided in the table below does not represent management's estimates of the Company's expected future cash flows or of the value of its proved oil and gas reserves. Estimates of proved reserves change over time as new information becomes available. Moreover, probable and possible reserves which may become proved in the future are excluded from the calculations. The arbitrary valuation requires assumptions as to the timing and the amount of future development and production costs. The calculations should not be relied upon as an indication of the Company's future cash flows or of the value of its oil and gas reserves.

Standardized measure of discounted future net cash flows

Consolidated subsidiaries and joint operations

	2017	2016
Future cash inflows	**79,122**	85,996
Future development costs	**(6,105)**	(5,410)
Future production costs	**(42,748)**	(45,667)
Future income tax expenses	**(5,206)**	(5,857)
Future net cash flows	**25,063**	29,062
Discount for estimated timing of cash flows	**(15,996)**	(18,718)
Discounted value of future cash flows as of the end of year	**9,067**	10,344

Share of other (minority) shareholders in discounted value of future cash flows

Consolidated subsidiaries and joint operations

	UOM	2017	2016
Share of other (minority) shareholders in discounted value of future cash flows	RUB billion	**717**	727

Changes therein relating to proved oil and gas reserves

Consolidated subsidiaries and joint operations

	2017	2016
Discounted value of future cash flows as of the beginning of year	**10,344**	9,750
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	**(1,081)**	(1,035)
Changes in price estimates, net	**(1,689)**	(607)
Changes in estimated future development costs	**(1,185)**	(1,042)
Development costs incurred during the period	**876**	621
Revisions of previous reserves estimates	**188**	271
Increase in reserves due to discoveries, less respective expenses	**216**	248
Net change in income taxes	**252**	289
Accretion of discount	**1,034**	975
Net changes due to purchases of oil and gas fields	**112**	876
Net changes due to sales of oil and gas fields	**–**	(2)
Discounted value of future cash flows as of the end of year	**9,067**	10,344

Company's share in costs, inventories and future cash flows of the joint ventures and associates

	UOM	2017	2016 (restated)
Share in capitalized costs relating to oil and gas producing activities (total)	RUB billion	**250**	218
Share in results of operations for oil and gas producing activities (total)	RUB billion	**42**	17
Share in estimated proved oil and gas reserves	million boe	**2,078**	2,192
Share in estimated proved developed oil and gas reserves	million boe	**1,119**	1,206
Share in discounted value of future cash flows	RUB billion	**483**	619

APPENDIX 2

KEY RISK FACTORS

Type	Risk description	Risk management measures
Industry–wide risks		
Related to crude oil, gas and petroleum product prices	Crude oil, gas and petroleum product prices are the key factor affecting Rosneft's financial and, indirectly, operational performance. Prices for the Company's products depend mainly on the global market environment and the supply and demand balance in some regions of Russia. Rosneft's ability to control its own product prices is significantly limited. A fall in oil, gas or petroleum product prices has an adverse impact on Rosneft's performance and financial position. A decrease in prices may result in less profitable oil and gas production by the Company, which will in turn entail a reduction of Rosneft's effective reserves and financial viability of exploration.	Rosneft has sufficient capability to redistribute its commodity flows in case of a significant price difference between the domestic and international markets. The Company is among the world's leaders by upstream costs per boe, and can promptly cut its capex and opex to meet its commitments and obligations if prices for oil, gas, and petroleum products should plummet. Besides, the negative impact of the price risk on the Company's financial performance is partially offset by changes in FX rates (natural hedge effect).
Related to the dependency on monopolistic providers of oil, gas and petroleum product transportation services and their tariffs	Rosneft depends on monopolistic providers of oil, gas and petroleum product transportation services and cannot control the infrastructure they operate and payments they charge. PJSC Transneft is a national monopoly providing oil and petroleum product transportation services via its trunk pipelines. During its cooperation with Transneft, the Company has not incurred any substantial loss due to failures or leaks in Transneft's pipelines. However, any serious failure in Transneft's pipeline operation or limited access to Transneft's capacities may disrupt oil and petroleum product transportation and adversely impact Rosneft's performance and financial position. Like other Russian oil producers, Rosneft is required to pay for transportation services provided by Transneft. Transneft's charges for pipeline transportation of oil and petroleum products are set by the tariff regulator. Transneft periodically increases charges for the use of its network. These increases in tariffs result in higher costs for the Company, which adversely impacts its performance and financial position. Similar risks may result from the use of Gazprom's pipeline system. The Company is also dependent on railway transportation of its oil and petroleum products. OJSC Russian Railways (RZD) is a national monopoly rendering railway transportation services. RZD tariffs are subject to anti-monopoly control, and traditionally they tend to grow. Further increases in tariffs entail higher costs of oil and petroleum product transportation and may have a negative effect on the Company's performance and financial position.	Rosneft takes into account the negative impact of changes in the natural monopolies' tariffs for hydrocarbon transportation when planning the Company's future business operations. Decisions to change transportation flows and optimize the schedule of the Company's product supply via the Russian oil and gas pipeline system are made depending on the degree of the risk impact.
Related to geographical And climatic conditions	The regions where Rosneft operates have a stable climate and generally are not exposed to natural calamities and disasters. However, abnormally low temperatures in winter in some northern regions can make the operation of the Company's oil-producing sites more difficult. Delays at export terminals can be caused by climatic characteristics of their locations. Rosneft exports some oil via its own marine terminals and Transneft-controlled terminals. Petroleum products are exported via its marine terminals in Tuapse (Krasnodar Territory) and Nakhodka (Primorsky Territory). Export via the terminals on the Black Sea to Mediterranean ports may be limited by the capacity of the Bosporus and weather conditions on the Black Sea (storms) in fall. Complex ice conditions in winter may require the shutdown of export terminals on the Baltic Sea and in De-Kastri (Khabarovsk Territory). Any long delay in export terminal operation may have a negative effect on the Company's performance and financial position.	Rosneft has the capability to redistribute commodity flows taking into account climatic conditions, including the use of alternatives for oil and petroleum product transshipment, as well as the shipment schedule adjustment.
Related to the sale of gas produced by the Company	The key factor that may have a negative impact on the Company's gas sales consists in the failure to take the required amount of gas on the part of consumers. Natural gas sales are also affected by the following factors: Non-compliance with the current requirements of PJSC Gazprom for the quality of gas sent to the gas transportation system, which may entail the risk of restriction of the volume of gas accepted by the transportation system due to qualitative characteristics, as well as penalties imposed by Gazprom. Gazprom capping the Company's gas volumes accepted by the GTS to reflect the amount of gas undistributed to consumers.	The Company diversifies its consumer portfolio to ensure that gas consumption targets are met, and makes claims to ensure efficient cash receipt for the sold gas. Risks related to the quality of gas sent to the gas transportation system can be mitigated by implementing technical measures to raise the quality of gas to meet the set standards. The Company continuously monitors conditions and ensures non-discriminating access to Gazprom's gas transportation system. The Company has also developed an action plan to mitigate the risk of restricted access to the gas transportation system, including changes in gas supply schedules, redistribution of volumes among various consumers and alternative arrangements for gas supply to consumers via third-party producers.

Type	Risk description	Risk management measures
Related to the actual amount of reserves	Data on oil and gas reserves are estimates and contain some uncertainties. The actual reserves may differ from these estimates. Regular re-estimation of the reserves considerably reduces the uncertainty of estimates. Data on PRMS and SEC oil and gas reserves provided in this Report are based primarily on the results of analysis performed by DeGolyer & MacNaughton, Rosneft's independent consultant for estimation of reserves and resources, oil and gas recovery rates, oil production technologies, etc. Valuation and estimation of the volume of economically recoverable oil and gas reserves, production volumes, future cash inflows, as well as cost periods for reserve development depend on a number of variables and assumptions and may be adjusted over time. The accuracy of any reserves and resources estimate depends on the quality of available information and interpretation of data on oil production technology and geology. Post-evaluation exploration drilling, data interpretation, testing, and production may require significant upward or downward adjustment of estimates of Rosneft's reserves and resources. Moreover, different experts responsible for estimation of reserves and resources may evaluate reserves and cash inflows differently using the same data. Actual production, revenue, and costs related to reserves and resources might differ from the estimate. There is also an element of uncertainty related to the Russian resource classification system. This system takes into account geological factors only and ignores the economic feasibility of production. Exploration drilling also entails multiple risks, including the risk of non-discovery of productive oil and gas reserves. The Company carries out exploration activities in different geographical regions, including areas with unfavorable climatic conditions and high costs. There is often uncertainty over well drilling, infrastructure, and operation costs. The factors contributing to such uncertainty include unforeseen geological conditions, abnormally high or low formation pressure, unforeseen heterogeneity within geological formations, unfavorable weather conditions, etc. As a result, Rosneft may incur additional costs or will have to downscale, suspend, or terminate drilling. If Rosneft cannot conduct efficient exploration or acquire assets with proven reserves, its proven reserves will decrease as the Company produces oil and gas and developed fields are depleted. The Company's future production greatly depends on successful discovery, acquisition, and development of oil and gas fields.	Rosneft is a global leader in terms of oil reserves and has huge potential to increase its resources minimizing any risk of lower oil production as a result of future re-estimation of reserves. Rosneft's SEC-proved reserve replacement ratio stays well above 184% for many years. Rosneft intends to replace at least 100% of its hydrocarbon production by increasing its SEC-proved reserves going forward.
Related to competition	There is strong competition in the oil and gas industry. Rosneft mainly competes with other leading Russian oil and gas companies to: ▪ obtain exploration and development licenses at auctions and during bidding procedures held by Russian authorities; ▪ acquire other Russian companies that might hold licenses or existing assets related to hydrocarbon production; ▪ engage leading independent services companies with limited service capacity; ▪ purchase equipment for capital construction projects in case of shortage; ▪ hire the most skilled and experienced staff; ▪ acquire existing retail outlets and land plots to establish new retail outlets; ▪ purchase or gain access to refining capacities. The Company is one of the industry leaders in Russia and globally, which significantly improves its competitive position. It has an extensive new project portfolio to maintain and improve its competitive standing in the future. Rosneft is also exposed to the risks of increased competition in its international target markets.	The following measures are taken to minimize risks during the sale of petroleum products in the highly competitive domestic market: ▪ The Company plans its refining capacity utilization based on market forecasts to prevent excess stockpiling of individual types of petroleum products; ▪ It promptly re-distributes regional commodity flows in the domestic market and between the domestic market and export taking into account the current oil refining and petroleum product mix and availability of the Company's own marketing and distribution facilities and contractors covering almost all Russian regions; ▪ The Company rebuilds its refineries to satisfy the growing demand for high-octane gasoline and low-sulfur petroleum products, which will help increase refinery throughput and conversion rates; ▪ The Company maintains a focus on the development of own filling stations and facilities that meet the latest European requirements as the most stable sector for petroleum product sales in the domestic market, which is less exposed to spontaneous price changes and declines in demand. Additionally, to capture new clients, especially corporate customers, a system for petroleum product delivery via filling stations using electronic cards is being implemented on a wide scale, together with a filling station service system accepting the cards issued by other market players. Our most effective responses to the risks of increased competition in the international market for crude oil and petroleum products include geographical diversification that allows redistributing product flows between regions.
HSE risks	▪The Company's HSE risks are connected with: ▪ emergencies, incidents, fi res and other contingencies characterized by damaging of operated facilities and equipment and deviation from the preset process parameters; ▪ damage caused to health of workers, counterparties and visitors, as well as to the population of adjacent territories; ▪ negative impact on the environment in the course of production and commercial operations; ▪ imposition of punitive sanctions and suspension of facilities' operation, as well as loss of business reputation and lowering of stakeholders' credibility level in case of non-compliance with applicable statutory requirements in the fi eld of HSE.	Rosneft has its own HSE management system, which combines resources and procedures needed for both prevention of and response to harmful events. Principles and approaches used at all the stages of facilities' lifecycle are designed to ensure the effective HSE risk management in accordance with applicable requirements to safe conduct of processes and operation of the facilities with allowance for existing advanced technologies.

Type	Risk description	Risk management measures
Risks related to unavailability of core IT systems and IT services due to cyber-attacks	In its operations, the Company uses multiple information systems that must provide reliable functionality to support proper performance of the Company's core processes. From year to year, the number of potential threats to the Company's information infrastructure is growing, as is their potential harmful effect.	Cyber-security is a strategic priority of the Company. Our cyber-security framework relies on a risk-oriented approach and takes into account legislative requirements and best international practices. Information security management processes are embedded into the Company's corporate governance framework. Within its operations, the Company also fully complies with government regulations ensuring information security. Rosneft's regulatory framework governing cyber-security arrangements is updated on an ongoing basis, with relevant functions set up within the Company. Its focus areas are threat intelligence and cyber awareness.
Country and regional risks		
Related to the country and region of operation	Rosneft operates in all federal districts of the Russian Federation. Regional development prospects and potential social and economic risks are outlined in the Program of Medium-Term Social and Economic Development of the Russian Federation. The Company believes that the risk of military conflicts, civil unrest, strikes and announcement of a state of emergency in the regions where it operates is insignificant. The Company notes the impact of risks related to changes in foreign policy on its operations. It also faces operational risks outside the Russian Federation. It is exposed to higher political, economic, social and legal risks in developing economies as compared to more developed countries. Risks related to operation in such countries are in many respects similar to or may be higher than in Russia, including due to possible changes in foreign policy.	In case of political, economic, or social risks arising in Rosneft's regions of operation, the Company's management will take every reasonable step to minimize their potential adverse impact. The actual profile of such measures will be decided on a case-by-case basis and may include negotiations with authorities, and streamlining/capping costs.
Financial risks		
Currency risks	A significant portion of Rosneft's gross revenue comes from oil and petroleum product exports. Therefore, fluctuations in ruble exchange rates impact the Company's financial and business performance, which is a currency risk factor.	The Company identifies and manages currency risks by using an integrated approach enabling the use of natural (economic) hedging. For short-term management of its currency risk, the Company selects a currency for free cash balances from among the Russian ruble, the US dollar and other foreign currencies. The Company's active currency risk management practices also involve the use of derivative and non-derivative instruments to mitigate the potential impact of FX fluctuations on the indicators of the Company's consolidated financial statements.
Changes in interest rates	As a major borrower, Rosneft is exposed to risks related to changes in interest rates. The Company mainly borrows in the international debt markets. Part of 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 service fees for Rosneft. Growth of borrowing costs for the Company may have a negative effect on its solvency and liquidity. As at end of 2017, the Company had the following credit ratings assigned by leading rating agencies: Moody's (Ba1), S&P(BB+)	The Company analyzes exposure to interest rate changes, including the development of various scenarios to assess the influence of interest rate changes on financial indicators.
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 the inflation rate on its financial performance, including the impact on the cost of procured materials and equipment, as well as changes in contractors' fees. The Company develops measures to mitigate the risk, including the search for alternative contractors and suppliers of materials and equipment.
Legal risks		
Related to inspections by regulators	In 2017, certain Group Subsidiaries underwent scheduled and unscheduled audits for compliance with subsoil, environmental, urban planning, labor, and other legislation. The audits identified no material violations; no liability that might lead to business interruption was imposed. Majority of the identified violations were promptly eliminated, and relevant action plans were prepared and are being implemented for violations that require time to eliminate.	Rosneft regularly monitors compliance with legal requirements; it takes into account the findings of inspections conducted by government bodies in its operations; it plans its operations taking into account detected violations, including those revealed during audits, and seeks to prevent such violations in the future.
Related to changes in FX regulation	Rosneft is actively involved in foreign trade. Some of the Company's assets and liabilities are denominated in foreign currencies. Therefore, government FX regulation impacts the Company's financial and business operations. On the whole, there were no significant amendments to Russian currency laws that could impact Rosneft's operations in the reporting period.	Rosneft regularly monitors changes in laws on FX regulation and control and rulings by supreme courts and assesses legal precedents.

Type	Risk description	Risk management measures
Related to changes in tax legislation	Rosneft is a major taxpayer, and its operations are based on the principles of good faith and transparent relationships with tax authorities. The Company pays VAT, excise tax, income tax, mineral extraction tax, property tax, land tax, as well as other taxes and duties. In 2017, the following changes that affect Rosneft's operations were introduced to tax legislation: **1.** Tax Calculation and Payment: **1.1** Federal Law No. 254-FZ On Amendments to Part Two of the Tax Code of the Russian Federation dated 29 July 2017, which extended until 2020 the application of the "additional component" to the MET rate for oil. This component of RUB 428 per tonne of oil represents the Kk coefficient, which is deductible from the coefficient describing the oil production profile (Dm) and is accordingly increasing the MET rate. **1.2** Federal Law No. 353-FZ On Amendments to Parts One and Two of the Tax Code of the Russian Federation and Individual Laws of the Russian Federation dated 27 November 2017, which: ▪ allowed companies producing oil from license areas located completely within the boundaries of the Nizhnnevartovsk District of the Khanty-Mansi Autonomous Area – Yugra under a subsoil use license issued before 1 January 2016, with initial recoverable oil reserves of 450 mmt or more as at 1 January 2016, to apply from 1 January 2018 through 31 December 2027 MET deduction of RUB 2,917 mln for a tax period (calendar month) ▪ exempted from the income tax proceeds from sale of shares (stakes) by companies that are subject to sanctions imposed by foreign countries and intergovernmental associations, provided that they fulfil a number of conditions contained in tax legislation; at the same time, expenses in the form of the cost of such shares (stakes) are not included in the taxable base for profit tax purposes ▪ clarified the taxation policy applicable to offshore projects so as to eliminate risks of tax disputes that existed before such amendments ▪ as of 1 January 2018, increased excise tax rates for certain petroleum products (Euro 5 motor gasoline, diesel fuel, middle distillates) ▪ modified certain criteria for classifying petrochemical products (straight-run gasoline, middle distillates) as excisable goods ▪ introduced a new excisable item: "receipt" and "recognition" of middle distillates ▪ introducing a grace period for property tax on the movable property: in 2018, the property tax rate for movable property that was previously exempted from the tax will not exceed 1.1% ▪ changing the procedure for deducting VAT on goods (works, services) purchased, and property rights for taxpayers where the share of their aggregate expenses for purchasing, producing and/or selling goods (works, services), or property rights the sale of which is not subject to VAT, does not exceed 5% of their total expenses: now only goods (works, services) or property rights that are used at the same time in VAT taxable and non-taxable transactions are eligible for deduction ▪ changing the procedure for recognizing VAT on goods (works, services) acquired by taxpayers with subsidies (government investments): VAT on relevant goods (works, services) passed by sellers through to taxpayers must be either included in their price directly without deduction, or clawed back and recognized as expenses (depending on when the taxpayer receives the subsidies (government investments)), while the VAT recognition procedure is no longer tied to the tax amount being recognized within the amount of the subsidy (government investment) **2.** Tax Accounting, Reporting, and Control: **2.1** Federal Law No. 163-FZ On Amendments to Part One of the Tax Code of the Russian Federation dated 18 July 2017, which introduced new provisions into the Russian Tax Code that limit the exercise of rights to calculate the tax base and tax liabilities (charges, insurance contributions) whereby the taxpayer is required to avoid misrepresentation of business facts and taxable items in its reporting, and to avoid representation of deals (transactions) that are entered into mainly to evade (or partially evade) taxation. These amendments might lead to stricter tax control over the execution and purpose of deals (transactions) made by the Company. **2.2** Federal Law No. 340-FZ On Amendments to Part One of the Tax Code of the Russian Federation Related to the Implementation of International Automated Exchange of Information and Documents on International Groups of Companies dated 27 November 2017, which introduced the requirement to submit country-level reports under international treaties of the Russian Federation, and requirements to automated exchange of financial information with foreign countries (territories) for tax purposes. The probability of risk related to amendments to tax legislation that came into force in the reporting period is assessed as low.	Rosneft continuously monitors amendments to tax laws, evaluates and forecasts the degree of their potential impact on its operations, follows the latest legal precedents taking into account amendments to the legislation in its operations; the Company's experts are regularly involved in various working groups responsible for drafting tax legislation.
Related to changes in customs regulation	Rosneft is involved in foreign trade. Therefore, the Company is exposed to risks related to changes in state regulation of foreign trade activity and the customs legislation regulating the procedure for transfer of goods through the customs border, determining and application of customs procedures; imposition, introduction, and collection of customs payments. In 2017, the Eurasian Economic Union adopted its Customs Code (EAEU Customs Code) effective since 1 January 2018. The main changes in the EAEU customs legislation are related to simplification of customs administration procedures and customs formalities, reduction of goods release time and number of submitted declaration documents, prioritizing e-declaration of goods and electronic document workflow between the customs bodies and the foreign trade operators, including automated registration and release of customs declarations via information systems. 2017 also saw the adoption of Federal Law No. 436-FZ dated 28 December 2017 that extended the existing customs regulation standards and procedure covering the foreign trade operator's custom formalities until the end of the transition period from the date the EAEU Customs Code takes effect till the moment when new national customs legislation is passed.	Rosneft continuously monitors changes in customs legislation, assesses, and forecasts the extent to which such changes might affect its operations. The Company's experts are regularly involved in various working groups responsible for drafting customs legislation. As part of working groups and expert panels, Rosneft's representatives were involved in the drafting of a new Federal Law, On Customs Regulation, resolutions of the Eurasian Economic Commission (EEC), and resolutions of the Russian Government across various platforms established by the EEC and Russian federal authorities to improve customs administration procedures.
Related to changes in anti-trust laws	Rosneft has a significant share on the Russian wholesale gasoline, diesel fuel, jet fuel and fuel oil market. Therefore, the Company has to meet additional requirements aimed at protecting competition and might face risks related to amendments to anti-trust laws. No material amendments that would affect the Company's operations were made to the Federal Law On Protection of Competition in 2017.	Rosneft continuously monitors amendments to anti-trust legislation and rulings by supreme courts and assesses legal precedents. In case of any legal precedents, Rosneft applies to government bodies for explanations and recommendations for implementing the specific regulations and submits proposals for updating anti-trust legislation.

Type	Risk description	Risk management measures
Related to statutory regulation of subsoil use	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 are related 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 prospecting and exploration work times in the Komi Republic to 7 years.	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.
Related to statutory regulation of land use	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 lease fees for state and municipal land to bring it in line with the market fee rates. There were no changes in 2017 that might have a negative impact on the Company's operations.	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 and applies to government bodies for explanations and recommendations for implementing the specific regulations.
Related to environmental protection and industrial safety	Amendments to laws on industrial safety and environmental protection made during the reporting period are minor. The likelihood of the occurrence of risks related to amendments that came into force in the reporting period is assessed as low.	Rosneft has implemented a health, safety and environment management system that comprises resources and procedures required for preventing hazardous events and responding to them. The principles and approaches followed at all stages of the life cycle of industrial facilities are designed to enable continuous improvement of the system and effective management of HSE risks in accordance with applicable requirements for process safety and safe 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.
Related to ongoing court proceedings in which the Company is involved	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 PJSFC Sistema and JSC Sistema-Invest over Bashneft shares unlawfully held by PJSFC Sistema and JSC Sistema-Invest, including as co-plaintiffs in a case against PJSFC Sistema and JSC Sistema-Invest whereby Bashneft sought to recover RUB 170.6 bln of losses caused by its restructuring (Dispute 1) and RUB 131.6 bln of losses incurred as a result of dividend payouts to the defendants when they unlawfully held Bashneft shares (Dispute 2), and as co-defendants in a case brought by PJSFC Sistema to recover RUB 330.4 bln of losses caused by the suits brought by Rosneft and Bashneft to defend 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 26 December 2017. Under the out-of-court agreement, PJSFC Sistema and JSC Sistema-Invest undertake to indemnify Bashneft until 30 March 2018 for RUB 100 bln of losses incurred by it, after which the parties to the disputes will waive their claims under Disputes 2 and 3. **2.** In October–November 2014, former shareholders of JSC RN Holding brought an action against Rosneft claiming losses caused by allegedly wrong (in view of the plaintiffs) valuation of shares bought back under Article 84.8 of the Federal Law On Joint-Stock Companies. The court of first instance ruled (with the ruling upheld by superior courts) to fully dismiss the claims. In May 2017, the Supreme Court of the Russian Federation dismissed a claim to refer the complaints to its 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 Arbitration Institute of the Stockholm Chamber of Commerce against JSC Tyumenneftegaz, a subsidiary of Rosneft, seeking recovery of losses and interest in the amount exceeding USD 260 million for alleged breach of certain provisions of the agreement to incorporate a joint venture, Tumtex, in the Russian Federation.In the award dated 30 March 2018, FNPC's claims were partially satisfied in the amount of USD 70 million plus interest. The risk associated with the dispute was transferred to the Company within the perimeter of the deal to acquire TNK-BP's assets, and was factored in when signing the deal. The Company intends to challenge the arbitration award. Rosneft is involved in a number of other legal proceedings that arise in the course of carrying out business. The resolution of such proceedings will not have a material impact on the results of operations or the financial position of the Company.	Rosneft regularly monitors rulings by supreme courts and assesses legal precedents created in district arbitration courts; it actively uses such precedents when protecting its rights and legal interests in court and when settling any legal issues arising during its operations. Therefore, risks related to changes in court practice are considered minor.
EU and US Sanctions	In 2014, the US and EU imposed a series of sectoral sanctions. The sanctions introduced 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 any region if such person holds (i) a stake equal to, or exceeding, 33%, or (ii) a majority stake in such project. A number of other countries have also imposed sectoral sanctions similar to the US and EU sanctions.	The Company takes these sanctions into account in its operations and continuously monitors them in order to minimize their negative impact.

APPENDIX 3

REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE THE BANK OF RUSSIA

This Corporate Governance Code Compliance Report The Bank of Russia (the Report) was discussed at the meeting of Rosneft's Board of Directors April 25, 2018 (Minutes No. 17 dated April 28, 2018) as part of the Annual Report for 2017.
The Board of Directors certifies that all data in this Report contain 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. IN 06-52/8 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 a Public Joint-Stock Company.
Material features of the corporate governance model and practice are outlined in Section 5 Corporate Governance of Rosneft's Annual Report for 2017.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
1.1	**The Company should treat all shareholders equally and fairly when they exercise their right to participate in the management of the Company.**			
1.1.1	The Company has created the best possible conditions for the shareholders to participate in the General Shareholders Meeting and conditions required for forming an informed opinion on the items of the agenda of the Meeting, aligning the shareholders' actions, and opportunities for them to express their opinion on matters under consideration.	1. An internal document of the Company adopted by the GeneralShareholders Meeting and establishing the procedures for conducting the General Shareholders Meeting is publicly available. 2. 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 every General Shareholders Meeting that took place during the reporting period.	☑ Complied with Complied with in part Not complied with	To maintain efficient shareholder relations, Rosneft has in place several communication options: a shareholder hotline, mail and e-mail communication channels, and fax. The Company does not consider setting up a dedicated Internet forum as it has in place efficient communication channels, as well as options for discussing agenda items such as at General Shareholders Meetings or through Rosneft's social networks, which are linked on Rosneft's official website.
1.1.2	The procedure for notifying of a General Shareholders Meeting and providing materials for the meeting enables the shareholders to prepare for it properly.	1. The notifi cation of the General Shareholders Meeting is posted on the Company's website at least thirty days before the date of the meeting. 2. The notifi cation of the General Shareholders Meeting specifi es the venue for the meeting and contains the list of documents required for admission to the premises. 3. Shareholders have been given access to the information on persons who had proposed agenda items and nominated candidates to the Board of Directors and the Company's Audit Commission.	☑ Complied with Complied with in part Not complied with	
1.1.3	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 and in a timely manner, as well as to ask the Company's executive bodies and members of the Company's Board of Directors questions and communicate with each other.	1. During the reporting period, shareholders were given an opportunity to ask members of the Company's executive bodies and members of the Company's Board of Directors questions in the run-up to the Annual General Shareholders Meeting and during the meeting itself. 2. The position of the Board of Directors (including dissenting opinions included in the minutes) on each agenda item of the General Shareholders Meetings held in the reporting period was included in the materials for the General Shareholders Meeting. 3. The Company provided authorized shareholders with access to the list of persons eligible for participation in the General Shareholders Meeting, starting from the date when this list was received by the Company; this applies to all such meetings in the reporting period	☑ Complied with Complied with in part Not complied with	
1.1.4	A shareholder's right to demand that the General Shareholders Meeting be convened, nominate candidates to governing bodies and propose agenda items for the General Shareholders Meeting was exercised without unnecessary diffi culties.	1. In the reporting period, shareholders were given an opportunity to propose agenda items for the Annual General Shareholders Meeting for at least 60 days after the end of the respective calendar year. 2. In the reporting period, the Company did not reject proposals regarding agenda items or candidates nominated to the Company's bodies because of misprints and other minor drawbacks in a shareholder's proposal.	☑ Complied with Complied with in part Not complied with	
1.1.5	Each shareholder could freely exercise his or her right to vote in the way that is the easiest and most convenient for him or her.	1. An internal document (internal policy) of the Company contains provisions whereby each participant of the General Shareholders Meeting may request a copy of the ballot filled in by him/her and certifi ed by the Company's ballot committee before the end of the respective meeting.	☑ Complied with Complied with in part Not complied with	
1.1.6	The procedure for holding the General Shareholders Meeting established in the Company provides all persons present at the meeting with equal opportunities for expressing their opinions and asking questions.	1. When conducting the General Shareholders Meeting in the form of a meeting (joint presence of shareholders), a sufficient amount of time was provided to make reports on agenda items and to discuss these agenda items. 2. Candidates nominated to the Company's governing and supervisory bodies were available for answering shareholders' questions at the meeting during which they were put to the vote. 3. When making decisions on the preparation and holding of General Shareholders Meetings, the Board of Directors addressed the issue of the use of telecommunications to provide shareholders with remote access enabling them to participate in General Shareholders Meetings in the reporting period.	☑ Complied with Complied with in part Not complied with	
1.2	**The shareholders are given equal and equitable opportunities to receive a share of the Company's profits by receiving dividends.**			
1.2.1	The Company has developed and implemented a transparent and clear mechanism for determining the amount of dividends and their payment.	1. The Company has developed and disclosed the dividend policy approved by the Board of Directors. 2. If the Company's results recorded in its financial statements are used for determining the amount of dividends in accordance with the Company's dividend policy, consolidated results recorded in the financial statements are considered in its relevant provisions.	☑ Complied with Complied with in part Not complied with	
1.2.2	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 operations, despite its formal compliance with the legislation.	1. The Company's dividend policy clearly stipulates financial/ economic circumstances under which the Company should not pay dividends.	☑ Complied with Complied with in part Not complied with	
1.2.3	The Company does not allow a deterioration in terms of dividend rights of existing shareholders.	1. The Company did not take any actions causing deterioration in terms of dividend rights of existing shareholders in the reporting period.	☑ Complied with Complied with in part Not complied with	
1.2.4	The Company aims to ensure that shareholders do not have any other ways to receive profi t (income) from the Company, except for dividends and liquidation value.	1. In order to prevent shareholders from using other means of gaining profit (income) from the Company, except for dividends and liquidation value, the Company's internal documents provide control mechanisms which ensure timely identification and approval of transactions with affiliates (associates) of major shareholders (persons entitled to exercise votes attached to voting shares) in such cases when the law does not officially recognize these transactions as related-party transactions.	☑ Complied with Complied with in part Not complied with	
1.3	**The corporate governance system and practices should ensure equitable treatment of all shareholders owning shares of one class (type), including minority (small) shareholders and foreign shareholders, and equal treatment of them by the Company.**			
1.3.1	The Company has created conditions necessary for ensuring that its governing bodies and controlling persons treat each shareholder fairly, including preventing abuse on the part of large shareholders with respect to minority shareholders.	1. In the reporting period, management of potential conflicts of interest of major shareholders was effi cient, and the Board of Directors paid due attention to conflicts between the shareholders, if any.	☑ Complied with Complied with in part Not complied with	
1.3.2	The Company does not take any actions which cause or may cause artificial redistribution of corporate control.	1. There were no quasi-treasury shares in the Company or they did not participate in voting in the reporting period.	☑ Complied with Complied with in part Not complied with	
1.4	**Shareholders are provided with reliable and effective methods of registering ownership of shares and an opportunity to freely and quickly dispose of their shares.**			
1.4.1	Shareholders are provided with reliable and effective methods of registering ownership of shares and an opportunity to freely and quickly dispose of their shares.	1. The quality and reliability of activities carried out by the Company's Registrar and related to keeping a register of security holders meet the needs of the Company and its shareholders.	☑ Complied with Complied with in part Not complied with	
2.1	**The Board of Directors is responsible for the strategic management of the Company; it formulates the basic principles and approaches to the development of the risk management and internal control system, supervises the work of the Company's executive bodies and performs other core functions.**			
2.1.1	The Board of Directors is responsible for making decisions related to the appointment and dismissal of executive bodies, including due to improper performance of their functions. The Board of Directors also ensures that the Company's executive bodies act in accordance with the approved development strategy and the Company's key areas of business.	1. The Board of Directors has the power to appoint and dismiss members of executive bodies, as well as to determine the terms and conditions of their contracts; these powers are stipulated in the Charter. 2. The Board of Directors has considered the report(s) of the sole executive body and members of the collective executive body on the implementation of the Company's strategy.	☑ Complied with Complied with in part Not complied with	

[1] The status "complied with" is indicated only if the Company meets all criteria for assessing compliance with a corporate governance principle. Otherwise the status "complied with in part" or "not complied with" should be indicated.
[2] Explanations are given for each criterion for assessing compliance with a corporate governance principle if the Company meets only some of the criteria or none of them. If the Company has indicated the status "complied with", no explanations are required.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
2.1.2	The Board of Directors decides on the main long-term strategic targets for the Company's operations, evaluates and approves key performance indicators and the Company's main business goals, evaluates and approves the strategy and business plans for the Company's core business areas.	1. In the reporting period, the Board of Directors addressed issues related to the implementation and review of the strategy, approval of the financial and economic plan (budget) of the Company, as well as consideration of criteria and indicators (including interim indicators) related to the implementation of the Company's strategy and business plans.	☑ Complied with Complied with in part Not complied with	
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.	1. The Board of Directors has determined the principles and approaches to the development of the risk management and internal control system in the Company. 2. The Board of Directors assessed the risk management and internal control system of the Company in the reporting period.	☑ Complied with Complied with in part Not complied with	
2.1.4	The Board of Directors determines the Company's policy on the payment of remunerations and (or) compensations (reimbursement) to the members of the Board of Directors, executive bodies or other key executives of the Company.	1. The Company has developed and implemented the policy (policies) on remunerations and (or) compensations (reimbursement) to the members of the Board of Directors, executive bodies and other key executives of the Company; the policy (policies) has (have) been approved by the Board of Directors. 2. In the reporting period, the meetings of the Board of Directors addressed issues related to the said policy (policies).	☑ Complied with Complied with in part Not complied with	
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.	1. The Board of Directors plays a key role in preventing, identifying and resolving internal conflicts. 2. The Company has created a system for identifying transactions involving a conflict of interest and a system of measures for resolving such conflicts.	☑ Complied with Complied with in part Not complied with	
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.	1. The Board of Directors has approved the Regulations on Information Policy. 2. The Company has appointed persons responsible for the implementation of the Information Policy.	☑ Complied with Complied with in part Not complied with	
2.1.7	The Board of Directors oversees the Company's corporate governance practice and plays a key role in the Company's significant corporate events.	1. In the reporting period, the Board of Directors considered the issue of the corporate governance practice in the Company.	☑ Complied with Complied with in part Not complied with	
2.2	**The Board of Directors is accountable to the Company's shareholders.**			
2.2.1	Information on the performance of the Board of Directors is disclosed and provided to shareholders.	1. The Annual Report of the Company for the reporting period includes information on attendance of meetings of the Board of Directors and Committees by individual directors. 2. The Annual Report includes information on the main results of performance assessment of the Board of Directors carried out in the reporting period.	☑ Complied with Complied with in part Not complied with	
2.2.2	The Chairman of the Board of Directors is available for communication with the Company's shareholders	1. The Company has a transparent procedure enabling shareholders to send their questions and opinions on them to the Chairman of the Board of Directors.	☑ Complied with Complied with in part Not complied with	
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 for efficient performance of its functions are elected to the Board of Directors.	1. The Company's procedure for performance assessment of the Board of Directors also includes evaluation of the professional qualifications of members of the Board of Directors. 2. In the reporting period, the Board of Directors (or the Nomination Committee) assessed candidates for the Board of Directors from the point of view of experience, knowledge, business reputation, lack of conflict of interest, etc.	☑ Complied with Complied with in part Not complied with	
2.3.2	Members of the Board of Directors are elected under a transparent procedure enabling shareholders to obtain information about the candidates which is sufficient to form an opinion about their personal and professional qualities.	1. In all cases when the agenda of a General Shareholders Meeting held in the reporting period included election to the Board of Directors, the Company provided its shareholders with biographical details of all candidates for the Board of Directors, results of their assessment carried out by the Board of Directors (or its Nomination Committee), as well as information on whether the candidate met the criteria of independence in accordance with recommendations No. 102 - 107 of the Code and the written consent of the candidates for election to the Board of Directors	☑ Complied with Complied with in part Not complied with	
2.3.3	The membership of the Board of Directors is balanced, including in terms of its members' qualifications, experience, knowledge and business skills, and enjoys the confi dence of shareholders.	1. As part of performance assessment of the Board of Directors in the reporting period, the Board of Directors analyzed its own needs for professional qualifications, experience and business skills.	☑ Complied with Complied with in part Not complied with	
2.3.4	The number of members of the Company's Board of Directors makes it possible to organize its work most effectively, including the opportunity to form Board Committees, as well as gives the Company's substantial minority shareholders an opportunity to elect a candidate for whom they vote to the Board of Directors.	1. As part of assessment of the Board of Directors carried out in the reporting period, the Board of Directors considered whether the number of its members met the needs of the Company and promoted the interests of its shareholders.	☑ Complied with Complied with in part Not complied with	
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 he 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 executive bodies of the Company, individual groups of shareholders or other stakeholders. At the same time, it should be noted that under normal circumstances a candidate (an elected member of the Board of Directors) associated with the Company, its major shareholder, major counterparty, competitor or the government cannot be considered independent.	1. In the reporting period, all independent members of the Board of Directors met all independence criteria specified in recommendations No. 102-107 of the Code or were recognized as independent by the Board of Directors.	☑ Complied with Complied with in part Not complied with	
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 carrying out the assessment, content should prevail over form.	1. In the reporting period, the Board of Directors (or the Nomination Committee) formed an opinion on the independence of each candidate nominated to the Board of Directors and provided the shareholders with the relevant statement. 2. In the reporting period, the Board of Directors (or the Nomination Committee) considered the independence of the current members of the Board of Directors who are specified in the Annual Report as Independent Directors of the Company at least once. 3. The Company has developed procedures stipulating the actions to be taken by a member of the Board of Directors if he or she ceases to be independent, including the obligation to inform the Board of Directors of it in a timely manner.	☑ Complied with Complied with in part Not complied with	
2.4.3	Independent directors comprise at least one third of the elected members of the Board of Directors.	1. Independent directors comprise at least one third of the membership of the Board of Directors.	☑ Complied with Complied with in part Not complied with	
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.	1. Independent directors (who have no conflict of interest) make a preliminary assessment of significant corporate actions involving potential conflict of interest and submit the results of this assessment to the Board of Directors.	☑ Complied with Complied with in part Not complied with	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
2.5	**The Chairman of the Board of Directors ensures that the functions assigned to the Board of Directors are performed as efficiently as possible.**			
2.5.1	The Board of Directors is chaired by an Independent Director, or a Senior Independent Director is selected from among elected Independent Directors to coordinate the activities of the Independent Directors and communicate with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an Independent Director or a Senior Independent Director has been selected from among Independent Directors.[3] 2. The role, rights and duties of the Chairman of the Board of Directors (and, if applicable, of the Senior Independent Director) are properly specified in the Company's internal documents.	☑ Complied with Complied with in part Not complied with	
2.5.2	The Chairman of the Board of Directors creates a constructive atmosphere at the meetings, facilitates open discussion of agenda items and supervises the implementation of resolutions adopted by the Board of Directors.	1. The performance of the Chairman of the Board of Directors was evaluated as part of the procedure for assessing the performance of the Board of Directors in the reporting period.	☑ Complied with Complied with in part Not complied with	
2.5.3	The Chairman of the Board of Directors takes necessary measures to ensure timely provision of the members of the Board of Directors with information required to adopt resolutions on agenda items.	1. The duty of the Chairman of the Board of Directors to take measures to ensure timely provision of the members of the Board of Directors with materials on agenda items of the meeting of the Board of Directors is stipulated in the Company's internal documents.	☑ Complied with Complied with in part Not complied with	
2.6	**Members of the Board of Directors act reasonably and in good faith in the interests of the Company and its shareholders on the basis of sufficient information, exercising due diligence and care.**			
2.6.1	Members of the Board of Directors adopt resolutions taking into account all available information, with no conflict of interest, ensuring equal treatment of the Company's shareholders, and within the limits of standard business risk.	1. 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 or a Board Committee prior to discussion of that issue. 2. The Company's internal documents stipulate that a member of the Board of Directors shall refrain from voting on any issue in relation to which he or she has a conflict of interest. 3. The Company has established a procedure which allows the Board of Directors to obtain professional advice on issues within its competence at the expense of the Company.	☑ Complied with Complied with in part Not complied with	
2.6.2	The rights and responsibilities of the members of the Board of Directors are clearly worded and set out in the Company's internal documents.	1. The Company has adopted and published an internal document which clearly determines the rights and responsibilities of the members of the Board of Directors.	☑ Complied with Complied with in part Not complied with	
2.6.3	Members of the Board of Directors have sufficient time to perform their duties.	1. Individual attendance of meetings of the Board and the Committees, as well as the time devoted to preparation for participation in the meetings, were taken into account when performing the assessment of the Board of Directors in the reporting period. 2. In accordance with the Company's internal documents, members of the Board of Directors shall inform the Board of Directors of their intention to join the governing bodies of any other organizations (apart from organizations controlled by or affiliated with the Company), and of the fact of such an appointment.	☑ Complied with Complied with in part Not complied with	
2.6.4	All members of the Board of Directors have equal access to the Company's documents and information. Newly elected members of the Board of Directors are provided with sufficient information on the Company and the work of the Board of Directors in the shortest time possible.	1. In accordance with the Company's internal documents, members of the Board of Directors have the right to access documents and make inquiries concerning the Company and its affiliated organizations, and the Company's executive bodies shall provide the said information and documents. 2. The Company has a formalized induction program for newly elected members of the Board of Directors.	☑ Complied with Complied with in part Not complied with	
2.7	**Meetings of the Board of Directors, preparation for them and participation of the members of the Board of Directors in the meetings enable efficient work of the Board of Directors.**			
2.7.1	Meetings of the Board of Directors are held when necessary, given the scale of the Company's operations and challenges facing the Company at any given time.	1. The Board of Directors held at least six meetings in the reporting year.	☑ Complied with Complied with in part Not complied with	

[3] Please specify which of the two alternative approaches provided for by the principle is used by the Company and explain the reasons for selecting this approach.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
2.7.2	The Company's internal documents set out a procedure for preparing and holding meetings of the Board of Directors ensuring that the members of the Board of Directors are able to prepare for them properly.	1. The Company has approved an internal document which determines the procedure for preparing and holding meetings of the Board of Directors and stipulates, among other things, that notifi cation of the meeting shall be generally given at least 5 days before the date of the meeting.	☑ Complied with Complied with in part Not complied with	
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 face-to-face meetings.	1. The Charter or an internal document of the Company stipulates that the most important issues (according to the list given in Recommendation 168 of the Code) shall be addressed at faceto- face meetings of the Board.	☑ Complied with Complied with in part Not complied with	
2.7.4	Resolutions concerning the most important issues of the Company's business are adopted at the meeting of the Board of Directors by a qualifi ed majority or by a majority of votes cast by all elected members of the Board of Directors.	1. The Company's Charter stipulates that resolutions concerning the most important issues specified in Recommendation 170 of the Code shall be adopted at the meeting of the Board of Directors by a qualifi ed majority comprising at least three quarters of votes, or by a majority of votes cast by all elected members of the Board of Directors.	Complied with ☑ Complied with in part Not complied with	Paragraph 10.5.5 of the Charter of Rosneft stipulates a number of issues to be resolved by the Board of Directors by a qualifi ed majority. Given the scale of Rosneft's operations, the number of matters reviewed by the Board of Directors, the membership of the Board of Directors, as well as economic sanctions imposed on the Company, expanding this list to include all matters set out in Recommendation 170 of the Code will create risks that make it very difficult or impossible to conduct decision-making on matters significant for the Company.
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 monitoring of the Company's fi nancial and business operations.	1. The Board of Directors has formed the Audit Committee consisting of Independent Directors only. 2. The Company's internal documents set out the duties of the Audit Committee, including those specified in Recommendation 172 of the Code. 3. At least one member of the Audit Committee who is an Independent Director has experience in and knowledge of preparation, analysis, evaluation and audit of fi nancial statements. 4. Meetings of the Audit Committee were held at least once a quarter in the reporting period.	☑ Complied with Complied with in part Not complied with	
2.8.2	A Remuneration Committee consisting of Independent Directors and chaired by an Independent Director who is not the Chairman of the Board of Directors has been established for preliminary consideration of any issues related to the establishment of an effi cient and transparent remuneration practice.	1. The Board of Directors has formed the Remuneration Committee consisting of Independent Directors only. 2. The Chairman of the Remuneration Committee is an Independent Director who is not the Chairman of the Board of Directors. 3. The Company's internal documents set out the duties of the Remuneration Committee, including those specified in Recommendation 180 of the Code.	Complied with ☑ Complied with in part Not complied with	The principle is not complied with as not only Independent Directors are included in the HR and Remuneration Committee of the Board of Directors. The HR and Remuneration Committee of the Board of Directors is made up mostly of independent directors. The elected Chairman of the HR and Remuneration Committee of the Board of Directors is an independent director. The competence of the HR and Remuneration Committee of the Board of Directors covers matters reserved for the HR and Remuneration Committee by the Corporate Governance Code. Taking into account: ▪ the number of members of the Company's Board of Directors (9 persons); ▪ the fact that three committees have been formed (the Audit Committee, the HR and Remuneration Committee, the Strategic Planning Committee); ▪ recommendations and restrictions imposed by the CGC (stipulating that the number of committee members should total at least 3 persons, stipulating the maximum number of committees which a member of the Board of Directors may sit on, the minimum number of Independent Directors on the committee (2 persons), and the need for creating the committees based on the relevant expert competencies of the members of the Board of Directors), implementation of the CGC principle of independence of all members of the HR and Remuneration Committee is deemed impossible.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
2.8.3	A Nomination (Appointment, HR) Committee consisting mostly of Independent Directors has been established for preliminary consideration of any issues related to workforce planning (succession planning), professional composition and performance of the Board of Directors.	1. The Board of Directors has established the Nomination Committee (or another committee performs its duties specified in Recommendation 186 of the Code[4]) consisting mostly of Independent Directors. 2. The Company's internal documents set out the duties of the Nomination Committee (or another committee with shared functions), including those specified in Recommendation 186 of the Code	☑ Complied with Complied with in part Not complied with	The Board of Directors has established the HR and Remuneration Committee, whose duties also include those assigned by the CGC to the Nomination Committee. The HR and Remuneration Committee of the Board of Directors is made up mostly of independent directors.
2.8.4	Given the scale of business and the risk level, the Company's Board of Directors has made sure that the membership of its committees meets all objectives of the Company's operations. Additional 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.).	1. In the reporting period, the Company's Board of Directors considered whether the membership of its committees was consistent with the duties of the Board of Directors and the objectives of the Company's operations. Additional committees have been either formed or considered unnecessary.	☑ Complied with Complied with in part Not complied with	
2.8.5	The membership of Committees is determined so that it would enable a comprehensive discussion of issues for preliminary consideration, taking into account different opinions.	1. Committees of the Board of Directors are chaired by Independent Directors. 2. The Company's internal documents (policies) contain provisions whereby persons who are not members of the Audit Committee, the Nomination Committee or the Remuneration Committee may only attend meetings of the Committees by invitation of the Chairman of the relevant Committee.	Complied with ☑ Complied with in part Not complied with	As recommended by the Code, the Audit Committee and the HR and Remuneration Committee of the Board of Directors are headed by independent directors. Taking into account restrictions and recommendations of the Corporate Governance Code (on the size of committees (at least three members), the maximum number of committees per member of the Board of Directors, the minimum number of independent directors on the Audit Committee and the HR and Remuneration Committee, and taking into account the need to establish committees based on the relevant expertise of members of the Board of Directors), it appears impossible to comply with the recommendation on electing chairmen of all of the Board of Directors' committees only from among independent directors. The Strategic Planning Committee is not headed by an independent director.
2.8.6	Chairmen of the Committees regularly inform the Board of Directors and its Chairman on the performance of their Committees.	1. In the reporting period, the chairmen of the Committees regularly reported to the Board of Directors on the performance of their Committees.	☑ Complied with Complied with in part Not complied with	
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, its Committees and members, determining whether their work meets the Company's development needs, intensifying the work of the Board of Directors and identifying opportunities for the improvement of its performance.	1. Self-assessment or an external assessment of performance of the Board of Directors carried out in the reporting period included the assessment of performance of its Committees, individual members and the Board of Directors as a whole. 2. Results of self-assessment or an external assessment of the Board of Directors carried out in the reporting period were considered at a face-to-face meeting of the Board of Directors.	Complied with ☑ Complied with in part Not complied with	The results of the 2017 self-assessment were discussed at the meeting of the Board of Directors held in absentia. Given the scale of Rosneft's operations, the number of matters reviewed by the Board of Directors, and the membership of the Board of Directors which includes seven foreign citizens, in-person discussions may not always be possible for the Company. Nevertheless, the quality of materials prepared for the agenda of the Board of Directors' meetings, the completeness of provided information, and the expertise of directors enable the Board of Directors to make well-informed and balanced decisions at meetings held in absentia.
2.9.2	Assessment of performance of the Board of Directors, its Committees and members is carried out on a regular basis at least once a year. An external organization (consultant) is engaged to perform an independent assessment of performance of the Board of Directors at least once every three years.	1. An external organization (consultant) was engaged to perform an independent evaluation of performance of the Board of Directors at least once during the last three reporting periods.	Complied with ☑ Complied with in part Not complied with	Rosneft's Corporate Governance Code and Regulation on Evaluation of Rosneft's Board of Directors Performance provide for independent (external) performance evaluation of Rosneft's Board of Directors at least once every three years. The independent performance evaluation of the Board of Directors is scheduled for 2019 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.

[4] If the duties of the Nomination Committee are performed by another Committee, please specify its name.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
3.1	**The Company's corporate secretary facilitates efficient ongoing communication with shareholders, coordinates the Company's efforts aimed at protecting the shareholders' rights and interests and supports efficient work of the Board of Directors.**			
3.1.1	The Corporate Secretary has knowledge, expertise and qualification sufficient for performing his or her duties; he or she must also have an excellent reputation and enjoy shareholders' confidence.	1. The Company has adopted and disclosed an internal document: the Regulations on the Corporate Secretary. 2. Biographical details of the Corporate Secretary are provided on the Company's website and in the Annual Report; they are as detailed as those of the members of the Board of Directors and the Company's executive officers.	☑ Complied with Complied with in part Not complied with	
3.1.2	The Corporate Secretary is sufficiently independent from the Company's executive bodies and has the necessary powers and resources to carry out his or her tasks.	1. The Board of Directors approves the appointment and dismissal of the Corporate Secretary and his or her additional remuneration.	☑ Complied with Complied with in part Not complied with	
4.1	**The amount of remuneration paid by the Company is sufficient for attracting, motivating and retaining employees who have the competence and qualification required by the Company. Remuneration is paid to members of the Board of Directors, executive bodies and other key executives of the Company in accordance with the remuneration policy adopted by the Company.**			
4.1.1	Remuneration paid by the Company to members of the Board of Directors, executive bodies and other key executives is sufficient to motivate them to work efficiently, enabling the Company to attract and retain competent and qualified specialists. At the same time, the Company avoids paying remuneration that is larger than necessary and seeks to prevent an unreasonably large gap between the amounts of remuneration paid to the said persons and the Company's employees.	1. The Company has adopted an internal document (documents): a policy (policies) on remuneration of the members of the Board of Directors, executive bodies and other key executives, which clearly defines approaches to remuneration of the said persons.	☑ Complied with Complied with in part Not complied with	
4.1.2	The Company's remuneration policy has been developed by the Remuneration Committee and approved by the Board of Directors. The Board of Directors supported by the Remuneration Committee monitors the adoption and implementation of the remuneration policy in the Company and, if necessary, revises it and makes adjustments to it.	1. In the reporting period, the Remuneration Committee considered the remuneration policy (policies) and its (their) implementation and, where necessary, provided the Board of Directors with the relevant recommendations.	☑ Complied with Complied with in part Not complied with	
4.1.3	The Company's remuneration policy includes transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, executive bodies and other key executives of the Company; in addition, it regulates all types of payments, benefits and privileges provided to the said persons.	1. The remuneration policy (policies) of the Company includes (include) transparent mechanisms for determining the amount of remuneration for the members of the Board of Directors, executive bodies and other key executives of the Company; in addition, it (they) regulates (regulate) all types of payments, benefits and privileges provided to the said persons.	☑ Complied with Complied with in part Not complied with	
4.1.4	The Company formulates the policy on reimbursement of expenses (compensation), which defines the expenses to be reimbursed and the service level which may be provided to members of the Board of Directors, executive bodies and other key executives of the Company. This policy may form part of the Company's remuneration policy.	1. The remuneration policy (policies) or other internal documents of the Company establish the procedures for reimbursement of expenses incurred by members of the Board of Directors, executive bodies and other key executives of the Company.	☑ Complied with Complied with in part Not complied with	
4.2	**The system of remuneration for the members of the Board of Directors ensures that the directors' financial interests are aligned with the long-term financial interests of shareholders.**			
4.2.1	The Company pays fixed annual remuneration to the members of the Board of Directors. The Company does not pay remuneration for participating in individual meetings of the Board of Directors or Committees under the Board of Directors. The Company does not offer shortterm or additional financial incentives to the members of the Board of Directors.	1. Fixed annual remuneration was the only form of financial remuneration paid to the members of the Board of Directors for their work in the reporting period.	☑ Complied with Complied with in part Not complied with	
4.2.2	Long-term ownership of the Company's shares is the most important factor ensuring that financial interests of members of the Board of Directors are aligned with long-term interests of shareholders. At the same time, the Company does not make the right to sell shares dependent on compliance with certain performance targets, and the members of the Board of Directors do not participate in stock options plans.	1. If an internal document (documents), namely the Company's policy (policies) on remuneration, stipulate(s) that members of the Board of Directors are to be provided with shares, clear rules regarding the ownership of shares by the members of Board of Directors, which are aimed at encouraging long-term ownership of such shares, should be introduced and disclosed.	☑ Complied with Complied with in part Not complied with	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
4.2.3	The Company's internal documents do not provide for any additional payments or compensations in case of early dismissal of the members of the Board of Directors due to a change of control over the Company or other circumstances.	1. The Company's internal documents do not provide for any additional payments or compensations in case of early dismissal of the members of the Board of Directors due to a change of control over the Company or other circumstances.	☑ Complied with Complied with in part Not complied with	
4.3	**The system of remuneration for members of executive bodies and other key executives of the Company ensures that the remuneration is linked to the Company's performance and reflects their personal contribution to this performance.**			
4.3.1	Remuneration paid to members of executive bodies and other key executives of the Company is determined in such a way as to ensure a reasonable and justifi ed ratio of fi xed components of remuneration to its variable components, which depend on the Company's performance and an employee's personal (individual) contribution to this performance.	1. In the reporting period, annual performance indicators approved by the Board of Directors were used to determine variable components of remuneration for members of executive bodies and other key executives of the Company. 2. During the last assessment of the system of remuneration for the members of executive bodies and other key executives of the Company, the Board of Directors (the Remuneration Committee) made sure that the Company used an effective combination of fi xed and variable components of remuneration. 3. The Company has a procedure ensuring that bonuses wrongfully received by the members of executive bodies and other key executives of the Company are returned to the Company.	☑ Complied with Complied with in part Not complied with	
4.3.2	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).	1. 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 (fi nancial instruments based on the Company's shares). 2. The long-term incentive plan for members of executive bodies and other key executives of the Company stipulates that the right to sell shares and other fi nancial instruments used in this plan may be exercised no earlier than three years after their provision. At the same time, the right to sell them is related to achievement of certain performance targets of the Company.	Complied with Complied with in part ☑ Not complied with	The road map for incorporating the recommendations of the Bank of Russia's Code in the Company's operations stipulates that the HR and Remuneration Committee of the Board of Directors should consider and evaluate the viability of the long-term incentive plan taking into account the business model, planning horizons, objectivity of long-term indicators, expected motivation effi ciency and the costs of implementation of this program.
4.3.3	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 on the Company's initiative and in the absence of wrongdoings on their part does not exceed twice the size of the fi xed component of annual remuneration.	1. 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 on the Company's initiative and in the absence of wrongdoings on their part did not exceed twice the size of the fi xed component of annual remuneration in the reporting period.	☑ Complied with Complied with in part Not complied with	
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 a risk management and internal control system in the Company.	1. Functions of the Company's various governing bodies and divisions within the risk management and internal control system are clearly defi ned in internal documents/the relevant policy of the Company approved by the Board of Directors.	☑ Complied with Complied with in part Not complied with	
5.1.2	The Company's executive bodies ensure the creation and support of an effi cient risk management and internal control system in the Company.	1. The Company's executive bodies have ensured the distribution of functions and powers in the sphere of risk management and internal control among heads of units and divisions accountable to them.	☑ Complied with Complied with in part Not complied with	
5.1.3	The risk management and internal control system of the Company gives a fair, objective and clear picture of the current situation in the Company and its prospects and ensures integrity and transparency of the Company's statements. It also ensures that risks taken by the Company are reasonable and acceptable.	1. The Company has approved an anti-corruption policy. 2. The Company has developed a convenient method for informing the Board of Directors or its Audit Committee about violations of the law, internal procedures or the Corporate Code of Ethics.	☑ Complied with Complied with in part Not complied with	
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 it functions effi ciently.	1. In the reporting period, the Board of Directors or the Audit Committee of the Board of Directors assessed the performance of the Company's risk management and internal control system. The key results of this assessment are included in the Company's Annual Report.	☑ Complied with Complied with in part Not complied with	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
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 system and the corporate governance practice.**			
5.2.1	To conduct internal audit, the Company has created a separate unit or has engaged an independent third-party organization. Functional and administrative accountability of the internal audit unit is delineated. The internal audit unit is functionally accountable to the Board of Directors.	1. To conduct internal audit, the Company has created a separate unit responsible for internal audit which is functionally accountable to the Board of Directors or the Audit Committee, or an independent third-party organization has been engaged following the same accountability principles.	☑ Complied with Complied with in part Not complied with	
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.	1. In the reporting period, as part of internal audit, the performance of the internal control and risk management system was assessed. 2. The Company uses generally accepted approaches to internal control and risk management.	☑ Complied with Complied with in part Not complied with	
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.	1. The Board of Directors has approved the Company's information policy developed taking into account the recommendations of the Code. 2. The Board of Directors (or one of its Committees) considered issues related to the Company's compliance with its information policy at least once in the reporting period.	Complied with ☑ Complied with in part Not complied with	In 2017, in line with the Roadmap for Incorporating Key Provisions of the Bank of Russia's Code in Rosneft's Operations, the Board of Directors approved the new version of Rosneft's Information Policy. Since the Bank of Russia's Code does not stipulate the cadence of discussing matters related to compliance with information policy requirements, and since the new version of the Information Policy was approved by Rosneft's Board of Directors in 2017, the Board of Directors did not discuss such matters.
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.	1. The Company discloses information on its corporate governance system and general corporate governance principles used by it, including disclosure on the Company's website. 2. The Company discloses information on the membership of executive bodies and the Board of Directors, independence of its members and their membership in the Committees of the Board of Directors (as defined in the Code). 3. If there is an entity controlling the Company, the Company publishes a memorandum of this entity detailing its plans concerning corporate governance in the Company.	☑ Complied with Complied with in part Not complied with	
6.2	**The Company discloses comprehensive, up-to-date and accurate information on the Company in a timely manner to ensure 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.	1. The Company's information policy stipulates approaches to and criteria for identifying information which may have a significant impact on the value of the Company and its securities, as well as procedures ensuring timely disclosure of such information. 2. If the Company's securities are traded on foreign organized markets, the disclosure of material information in the Russian Federation and on such markets is simultaneous and equivalent during the reporting year. 3. If foreign shareholders own a considerable number of shares in the Company, information was disclosed not only in Russian, but also in one of the prevailing foreign languages during the reporting year.	☑ Complied with Complied with in part Not complied with	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
6.2.2	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.	1. In the reporting period, the Company disclosed IFRS fi nancial statements for the six months and for the full year. The Company's Annual Report for the reporting period includes IFRS annual fi nancial statements and an auditor's report. 2. The Company discloses comprehensive information on its capital structure in accordance with Recommendation No. 290 of the Code in the Annual Report and on its website.	☑ Complied with Complied with in part Not complied with	
6.2.3	Being one of the most important means of communication with shareholders and other stakeholders, the Annual Report contains information enabling an assessment of the Company's performance during the year.	1. The Company's Annual Report contains information on the key aspects of its operations and its fi nancial results. 2. The Company's Annual Report contains information on environmental and social aspects of its operations.	☑ Complied with Complied with in part Not complied with	
6.3	**The Company provides equal and easy access to information and documents at the shareholders' request.**			
6.3.1	The Company pro vides equal and easy access to information and documents at the shareholders' request.	1. The Company's information policy stipulates that shareholders must be granted easy access to information, including information on legal entities controlled by the Company, at the shareholders' request.	☑ Complied with Complied with in part Not complied with	
6.3.2	When the Company provides information to shareholders, a reasonable balance is maintained between the interests of individual shareholders and those of the Company, as the Company is interested in maintaining confidentiality of important commercial information which may have a material effect on its competitiveness.	1. In the reporting period, the Company did not reject shareholders' requests for information, or, if it did, it gave reasons for the refusal to provide information. 2. In the cases stipulated by the Company's information policy, shareholders are informed that the information is confi dential and undertake to keep it confi dential.	☑ Complied with Complied with in part Not complied with	
7.1	**Actions that have or may have a substantial impact on the Company's share capital structure and financial position and, accordingly, on the shareholders' position (significant corporate actions) are taken on equitable terms safeguarding the rights and interests of the shareholders and other stakeholders.**			
7.1.1	Significant corporate actions include reorganization of the Company, purchase of 30 or more percent of the Company's voting shares (acquisition), making major transactions, an increase or reduction of the authorized capital of the Company, listing and delisting of the Company's shares, as well as other actions that may result in a significant change of shareholders' rights or infringement of their interests. The Company's Charter provides a list (criteria) of transactions or other actions constituting significant corporate actions, and such actions fall within the competence of the Company's Board of Directors.	1. The Company's Charter provides a list of transactions or other actions constituting significant corporate actions and establishes criteria for their defi nition. Making decisions about signifi - cant corporate actions is within the competence of the Board of Directors. In cases when the legislation specifi cally states that the exercise of corporate actions falls within the competence of the General Shareholders Meeting, the Board of Directors provides the shareholders with the relevant recommendations. 2. The Company's Charter classifi es reorganization of the Company, purchase of 30 or more percent of the Company's voting shares (acquisition), making major transactions, an increase or reduction of the authorized capital of the Company, listing and delisting of the Company's shares as significant corporate actions.	☑ Complied with Complied with in part Not complied with	
7.1.2	The Board of Directors plays a key role in making decisions or recommendations with regard to significant corporate actions; the Board of Directors relies on the opinion of Independent Directors of the Company.	1. The Company has established a procedure whereby Independent Directors express their opinions on significant corporate actions before their approval.	☑ Complied with Complied with in part Not complied with	
7.1.3	When making significant corporate actions affecting the rights and legitimate interests of shareholders, equal conditions are provided for all shareholders of the Company, and in case of insuffi ciency of statutory mechanisms aimed at the protection of shareholders, additional measures are taken to protect the rights and legitimate interests of shareholders of the Company. At the same time, the Company is guided not only by compliance with the formal requirements of the law but also by the corporate governance principles set out in the Code.	1. 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. 2. During the reporting period, all significant corporate actions were approved prior to their implementation.	☑ Complied with Complied with in part Not complied with	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status[1] of compliance with a corporate governance principle	Explanations[2] concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
7.2	**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 that their rights are observed and properly protected when such actions are taken.**			
7.2.1	Information on significant corporate actions is disclosed, and an explanation of the reasons, conditions and consequences of such actions is provided.	1. During the reporting period, the Company promptly and thoroughly disclosed information on its significant corporate actions, including the rationale and timing of such actions.	☑ Complied with Complied with in part Not complied with	
7.2.2	The rules and procedures for the implementation of significant corporate actions are set forth in the Company's internal documents.	1. The Company's internal documents establish the 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. 2. The Company's internal documents establish the procedure for engaging an independent appraiser to carry out a valuation of the Company's shares for the purposes of purchase or buyback. 3. 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.	Complied with ☑ Complied with in part Not complied with	The Bank of Russia's Code was approved at the time when Article 81 of the Federal Law On Joint-Stock Companies allowed joint-stock companies to state in their charters additional grounds for members of the Board of Directors or other persons to be deemed related parties to a Company's transactions. Article 81 of the Federal Law On Joint-Stock Companies effective as of 1 January 2017 has 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.

APPENDIX 4

INFORMATION ON COMPLIANCE WITH INSTRUCTIONS ISSUED BY THE PRESIDENT OF THE RUSSIAN FEDERATION AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

1. Non-core asset divestment

1.1 Non-core asset divestment program

Subparagraph j, paragraph 1 of Instruction of the President of the Russian Federation No. Pr-3668 dated 6 December 2011
Subparagraph b, paragraph 1 of Instruction of the President of the Russian Federation No. Pr-1092 dated 27 April 2012
Item 4, subparagraph c, paragraph 2 of Decree of the President of the Russian Federation No 596 of 7 May 2012 On the Long-Term National Economic Policy
Instruction of the First Deputy Prime Minister of the Russian Federation Igor Shuvalov No ISh-P13-6768 dated 13 November 2012
Directives of the Government of the Russian Federation No 4863p-P13 dated 7 July 2016
Resolution of the Government of the Russian Federation No 894 dated 10 May 2017
Directives of the Government of the Russian Federation No 6604p-P13 dated 18 September 2017

Rosneft is continuously optimizing the portfolio of assets owned by the Company and its subsidiaries.
The Company has developed and is consistently implementing the non-core and non-performing asset divestment program in accordance with the Policy on Corporate Property Management (Minutes No. 39 dated 30 June 2014) and the Standard for Management of Non-Core and Non-Performing Assets (Minutes No. 11 dated 10 January 2012; Minutes No. 11 dated 25 January 2018) specially developed by the Company and approved by the Board of Directors.
The Program stipulates the key principles for managing non-core and non-performing assets, the relevant procedures, their stages, and deadlines for their implementation.
The Company annually defines assets conforming to the criteria of non-core and non-performing assets and performs their appraisal, technical audit, and economic and legal expert analysis.
On 23 October 2017, Rosneft's Board of Directors approved the updated Registers of the Company's non-core and inefficient assets scheduled to be divested in 2017 –2022 (Minutes No. 2 dated 26 October 2017) and the employment contract with Rosneft's Chief Executive Officer amended to meet the requirements of Resolution of the Government of the Russian Federation No. 894-r dated 10 May 2017.
The Registers of non-core and non-performing assets of Rosneft and the Group Subsidiaries are maintained and updated on a regular basis in compliance with the non-core and non-performing asset divestment program, and conform with the Guidelines on the Identification and Disposal of Non-core and Non-Performing Assets approved by the Resolution of the Government of the Russian Federation No. 894-r dated 10 May 2017.
In 2017, the Company:

- approved the updated Registers of non-core and inefficient assets (1,383 assets/properties including apartments, garages, power lines, non-residential buildings, facilities, and warehouses not needed for operations; shares/interest in business entities); measures were taken to prepare the assets for divestment
- disposed of the Company's shares/interest in seven Group Subsidiaries and other business entities; closed transactions for the sale of 43 non-core real estate facilities.

The funds earned within 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.
Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

No.	Asset name	Asset inventory No. (if applicable)	Balance sheet item containing the asset as at the reporting date prior to the asset divestment	Items (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Carrying amount, RUB '000	Actual realizable value, RUB '000 (net of VAT)	Deviation of actual realizable value from carrying amount (RUB '000)	Reason for deviation of actual realizable value from carrying amount
1	333 1/3 ordinary shares of CJSC Morneftegazproject		1170	91.01/91.02	371,00	500,00	129,00	Negotiated selling price based on the market value assessment results
2	4,455 ordinary shares of JSC Altair-neft-trans		1170	91	445,00	10 000,01	9 555,01	Negotiated selling price based on the market value assessment results
3	29 ordinary shares of JSC Orentrans		1173	910103020/ 910203030	2,90	1 801,80	1 798,90	Selling price based on tender results
4	100% of LLC Alnas Electron Management Company		1240	91.01/91.02	105 000,00	129 320,00	24 320,00	Selling price based on tender results
5	4,692,192 ordinary shares of JSC Kuban Trunk Grids		1170	91.01/91.02	163 829,00	315 628,00	151 799,00	Negotiated selling price based on the market value assessment results
6	979,267,684 ordinary shares and 158,213,911 preference shares of JSC Tomsk Trunk Grids		1170	91.01/91.02	272 546,00	501 203,00	228 657,00	Negotiated selling price based on the market value assessment results
7	26% of LLC Udacha Management Company		1170	91.01/91.02	0,00	13,30	13,30	Negotiated selling price based on the market value assessment results
8	Building, cluster 22 – cluster 20 water pipelines, total length 2,280 m	Ch8347	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	169,80	893,07	723,27	Selling price based on tender results

No.	Asset name	Asset inventory No. (if applicable)	Balance sheet item containing the asset as at the reporting date prior to the asset divestment	Items (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Carrying amount, RUB '000	Actual realizable value, RUB '000 (net of VAT)	Deviation of actual realizable value from carrying amount (RUB '000)	Reason for deviation of actual realizable value from carrying amount
9	Building, cluster 20 – tie-in point water pipelines, total length 1,980 m	Ch8341	1150	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	202,06	1 066,43	864,37	Selling price based on tender results
10	2-room apartment No. 4, the town of Goryachy Klyuch	Recorded in the accounting records on account 41.01 Current inventory	1210	90.01.1/90.02.1	1 731,86	1 949,30	217,44	Selling price based on tender results
11	Building (arch warehouse at a tank farm)	16572	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	257,09	520,00	262,91	Selling price based on tender results
12	Building (a paved site for a grain warehouse at OGPB Sergievskneft's farm)	11808	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	125,40	460,00	334,60	Selling price based on tender results
13	Non-residential building, letter A (transformer substation building)	12542-5	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	69,93	95,00	25,07	Selling price based on tender results
14	Production garage building No. 1	5376	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	105,94	209,00	103,06	Selling price based on tender results
15	Production garage building No. 2	5377-4	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	105,94	209,00	103,06	Selling price based on tender results
16	Production garage building No. 3	5378	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	105,94	209,00	103,06	Selling price based on tender results

No.	Asset name	Asset inventory No. (if applicable)	Balance sheet item containing the asset as at the reporting date prior to the asset divestment	Items (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Carrying amount, RUB '000	Actual realizable value, RUB '000 (net of VAT)	Deviation of actual realizable value from carrying amount (RUB '000)	Reason for deviation of actual realizable value from carrying amount
17	Production garage building No. 4	5379	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	104,66	206,00	101,34	Selling price based on tender results
18	Production garage building No. 5	5380	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	105,94	209,00	103,06	Selling price based on tender results
19	Production garage building No. 6	5335-4	1150 Property, plant and equipment	62.01 Settlements with buyers and customers 91.01 Other income (realizable assets) / 91.02 Other expenses (realizable assets) 01.09 Disposal of property, plant and equipment	104,66	206,00	101,34	Selling price based on tender results
20	1-room apartment, 28 Nakhodkinsky Avenue, Apt. 41, with movable property	130000000001	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	2 253,07	3 664,78	1 411,71	Selling price based on tender results
21	2-room apartment, 28 Nakhodkinsky Avenue, Apt. 42, with movable property	130000000002	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	3 132,30	3 900,79	768,49	Selling price based on tender results
22	2-room apartment, 28 Nakhodkinsky Avenue, Apt. 45, with movable property	130000000003	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	3 115,82	3 958,05	842,23	Selling price based on tender results

No.	Asset name	Asset inventory No. (if applicable)	Balance sheet item containing the asset as at the reporting date prior to the asset divestment	Items (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Carrying amount, RUB '000	Actual realizable value, RUB '000 (net of VAT)	Deviation of actual realizable value from carrying amount (RUB '000)	Reason for deviation of actual realizable value from carrying amount
23	3-room apartment, 28 Nakhodkinsky Avenue, Apt. 18, with movable property	130000000006	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	3 992,03	4 726,65	734,62	Selling price based on tender results
24	3-room apartment, 28 Nakhodkinsky Avenue, Apt. 21, with movable property	130000000007	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	3 935,69	4 784,39	848,70	Selling price based on tender results
25	3-room apartment, 28 Nakhodkinsky Avenue, Apt. 37, with movable property	130000000010	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	3 986,35	4 798,14	811,79	Selling price based on tender results
26	3-room apartment, 28 Nakhodkinsky Avenue, Apt. 46, with movable property	130000000012	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	4 078,34	4 702,67	624,33	Selling price based on tender results
27	3-room apartment, 28 Nakhodkinsky Avenue, Apt. 49, with movable property	130000000013	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	4 112,79	5 222,15	1 109,36	Selling price based on tender results

No.	Asset name	Asset inventory No. (if applicable)	Balance sheet item containing the asset as at the reporting date prior to the asset divestment	Items (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Carrying amount, RUB '000	Actual realizable value, RUB '000 (net of VAT)	Deviation of actual realizable value from carrying amount (RUB '000)	Reason for deviation of actual realizable value from carrying amount
28	3-room apartment, 28 Nakhodkinsky Avenue, Apt. 6, with movable property	130000000014	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	3 879,19	4 748,81	869,62	Selling price based on tender results
29	4-room apartment, 28 Nakhodkinsky Avenue, Apt. 10, with movable property	130000000017	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	4 081,40	6 100,00	2 018,60	Selling price based on tender results
30	4-room apartment, 28 Nakhodkinsky Avenue, Apt. 16, with movable property	130000000018	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	4 775,16	6 419,77	1 644,61	Selling price based on tender results
31	4-room apartment, 28 Nakhodkinsky Avenue, Apt. 19, with movable property	130000000019	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	4 753,84	6 174,89	1 421,05	Selling price based on tender results
32	4-room apartment, 28 Nakhodkinsky Avenue, Apt. 7, with movable property	130000000020	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	4 659,07	5 597,07	938,00	Selling price based on tender results

No.	Asset name	Asset inventory No. (if applicable)	Balance sheet item containing the asset as at the reporting date prior to the asset divestment	Items (analytics included), containing asset disposal income and expense (91.1xxx/91.2xxx)	Carrying amount, RUB '000	Actual realizable value, RUB '000 (net of VAT)	Deviation of actual realizable value from carrying amount (RUB '000)	Reason for deviation of actual realizable value from carrying amount
33	3-room apartment, 15A Rybatskaya Street, Apt. 25, with movable property	130000000016	Account 01, balance sheet item 1150	9101030100 Revenue from property, plant, and equipment sales (net of VAT); 9101030600 VAT on property, plant, and equipment sales / 9110030200 Remaining realizable value of property, plant, and equipment sold; 9110030300 Expenses on property, plant, and equipment sales	2 264,03	2 945,28	681,25	Selling price based on tender results
34	Land plot	2122	1130	91.01/91.02	257,19	2 612,50	2 355,31	Selling price based on tender results
35	Warehouse	9246	1130	91.01/91.02	0,00	115,08	115,08	Selling price based on tender results
36	Administrative building, function: administrative, total area 449.20 sq. m, inventory No. 9488, letter A.	100000606	Page 10	6203030200 Advances received from other partners	12 059,67	12 591,38	531,71	Selling price based on tender results
37	Warehouse building No. 6 with a basement, function: non-residential, total area 673.2 sq. m, inventory No. 10199, letters A, P.	100000607						
38	Garage building, function: garage, total area 1,142.5 sq. m, inventory No. 10000, letter G.	100000608						
39	Fire station building, function: garage, total area 158.30 sq. m, inventory No. 10002, letter D.	100000609						
40	Garage warehouse building, function: production, total area 1,137 sq. m, inventory No. 10030, letter SG.	100000610						
41	Packaging shop building, function: production, total area 2,022.5 sq. m, inventory No. 10031, letter T.	100000611						
42	Canteen building, function: catering, total area 334.3 sq. m, inventory No. 9489, letter A.	100000612						
43	Land plot, land category: settled, authorized use: production, total area 90,104 sq. m	100000613						
44	Apartment, function: residential, total area 151.2 sq m, 3rd floor.	100006080	Page 10	Revenues from disposal of other property are recorded as item 9137910000; Cost of disposed other property is recorded as item 9137920000	76 824,00	77 559,93	735,93	Selling price based on tender results
45	Parking place, function: non-residential, total area 12.9 sq. m, floor plan numbers: basement, area I – room 9.	100006081						
46	Non-residential premises 1 in a multifunctional residential estate. Non-residential premises, function: non-residential, total area 437.8 sq m, 1st floor.	100006075	Page 10	Financial result from disposal of other property is recorded as item 9137910000	34 489,20	41 453,65	6 964,45	Selling price based on tender results
47	Non-residential premises 2 in a multifunctional residential estate. Non-residential premises, function: non-residential, total area 216.2 sq m, 1st floor.	100006075	Page 10	Financial result from disposal of other property is recorded as item 9137910000	17 031,90	17 256,36	224,46	Selling price based on tender results
48	Non-residential area 3 in a multifunctional residential estate. Non-residential area, non-residential, total area 210.9 sq m, 1st floor.	100006075	Page 10	Financial result from disposal of other property is recorded as item 9137910000	16 614,37	20 842,81	4 228,44	Selling price based on tender results
49	Industrial spur, total length 108.0 m (Track Section No. 14) Inventory No. 685. Letter Zh1.	PMC-00001490/3	Section 1 Non-current assets, item 1150 Property, plant and equipment	91.01 Other income under cost item Property, plant and equipment sales / 91.02.1.1 Other expenses exempt from unified tax on imputed income	40,38	431,39	391,01	Selling price based on tender results
50	Apartment. Function: residential. Total area 131.2 sq. m.	No. 3	1150	91.01 / 91.02 Income (expenses) related to the sale of property, plant and equipment	9 887,00	14 350,00	4 463,00	Selling price based on tender results
	TOTAL				**765,605.91**	**1,219,654,45**	**454,048,54**	

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
Instruction of the Government of the Russian Federation No. ISh-P13-8685 dated 17 December 2012
Directives of the Government of the Russian Federation No. 2793p-P13 dated 19 April 2016
Directives of the Government of the Russian Federation No 7704p-P13 dated 11 October 2016

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:

- set the Company's procurement principles: information openness and transparency, equality, fairness and non-discrimination, no unwarranted restrictions of competition among procurement participants, targeted and cost-efficient expenditure of funds, prevention of corruption or any abuse in the course of procurement
- 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
- include the option of online procurement.

The Company has developed standards for procurement of goods, works, and services setting maximum prices for the relevant goods, works, and services, and the requirements for their quantity, consumer properties, and other characteristics. The list of products regulated by the corporate standards is posted on the Company's official website. In addition, the Company exercises control over compliance with applicable standards, and annually monitors procurement results for compliance with the standards.

Pursuant to Directives of the Government of the Russian Federation No. 7704p-P13 dated 11 October 2016, the Company's Regulations on Procurement of Goods, Works, and Services include the option to stipulate the procedure for payment for goods, works, or services (paragraph 10.5.1) in procurement documents, which allows for the application of the factoring mechanism. The Standard Procurement Documents template collection (Block 2 Information Card) provides for establishing the procedure for payment for goods, works, or services within a particular procurement transaction, including factoring.

Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

2.2. Ensuring Efficient Procurement from Small and Medium-Sized Enterprises, Including Procurement of Innovative and Hi-Tech Products

Resolution of the Government of the Russian Federation No. 867-r dated 29 May 2013 Directives of the Government of the Russian Federation No. 6362p-P13 dated 24 October 2013 and No. 7377p-P13 dated 7 October 2013 Directives of the Government of the Russian Federation No. 4252p-P13 dated 16 June 2016	The Company has implemented comprehensive measures to improve procurement efficiency, including: ▪ establishment and continuous operation of the Advisory Council; the information about its work is posted on Rosneft's website (http://zakupki.rosneft.ru/consult) ▪ development and approval of internal documents: 1. the Company's Regulations on Procurement of Goods, Works, and Services 2. Rosneft's Regulations on the Activities of the Advisory Board Carrying Out Public Audit of Efficiency of Purchases from Small and Medium-Sized Business Entities 3. the Company's Regulations on the Procedure and Rules for Operating the One-Stop-Shop System for Introducing Innovation Products. 4. the Company's Innovation Classification Principles setting uniform rules and criteria for classifying the Company's goods, works, and services as innovations subject to Order of the Ministry of Economic Development of the Russian Federation No. 1618 dated 1 November 2012 5. the Company's Guidelines for Assessing Product Life Cycle establishing the procedure for applying the "product life cycle cost" assessment criterion ▪ amendment of the Company's local procurement regulations as regards setting out the specific aspects of SMEs' participation in the Company's procurement procedures ▪ acceptance of proposals containing innovative solutions coming from potential counterparties, including SMEs, through the One-Stop-Shop System on Rosneft's website (http://www.rosneft.ru/science_and_innovation/) ▪ development and approval of the Innovative Product Procurement Plan for 2017–2021 (posted in the Integrated Information System (http://zakupki.gov.ru). In 2017, Rosneft signed innovative products procurement contracts with a total value of RUB 1.9 bn (up 62% year-on-year by value) including contracts signed with SMEs with a total value of RUB 0.5 bn (up 149% year-on-year by value) ▪ approval and introduction of KPIs for the Company's top managers, including the share of procurement from SMEs (in 2017, the total value of contracts signed by Rosneft with SMEs including those signed by Group Subsidiaries on behalf of Rosneft amounted to RUB 97.9 bln. The value of contracts signed with SMEs as a result of procurement procedures involving only SMEs totaled RUB 25.2 bln, or 15.72% of the calculation base) ▪ initiation in 2017 of procurement transactions with a total value of RUB 1.2 trln on the TEK-Torg Electronic Trading Platform (in Rosneft's section) to increase the number of online procurement procedures (procurements comply with the requirements of Federal Law No. 223-FZ dated 18 July 2011). All centralized competitive procurement (except for small purchases) is performed via the ETP.

2.3. Increasing Procurements of Russian-Made Products

Instructions of the President of the Russian Federation following the meeting of the State Council Presidium dated 20 February 2009 Paragraph 4 of List of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014 Instructions of the Government of the Russian Federation No. AD-P9-9176 dated 8 December 2014 Directives of the Government of the Russian Federation No. 1346p-P13 dated 5 March 2015 Directives of the Government of the Russian Federation No. 3425p-P13 dated 1 June 2015 Directives of the Government of the Russian Federation No. 4972p-P13 dated 11 July 2016 Directives of the Government of the Russian Federation No. 6558p-P13 dated 5 September 2016 Directives of the Government of the Russian Federation No. 830p-P13 dated 6 February 2017	The Company's Board of Directors developed and approved the action plan (list of initiatives) aimed at planned and scheduled substitution of imported products (works, services) with those of Russian origin, having similar specifications and consumer properties, to be used in investment projects and day-to-day operations, based on economic and technological feasibility principles (Minutes No. 35 dated 5 June 2015). The Company's Regulations on the Procurement of Goods, Works, and Services contain Section 15.1 Priority of Domestically Produced Goods, Works Performed, and Services Rendered by Russian Entities: Specific Aspects of SMEs' Participation in Procurement, which stipulates: ▪ the priority of domestically produced goods, works performed, and services rendered by Russian entities in the cases and the manner stipulated by applicable legislation ▪ the customer's right to apply the relevant priorities and specific aspects, if expressly stated in procurement documents, or if the relevant standards were directly stipulated by applicable legislation. In addition, the Company has developed and implemented the Import Substitution and Equipment Localization Program for Rosneft's needs. The Company's Regulations on Procurement of Goods, Works, and Services fully comply with Directives of the Government of the Russian Federation No. 3425p-P13 dated 1 June 2015, No. 4972p-P13 dated 11 July 2016, and No. 830p-P13 dated 6 February 2017, enable the Company to enter into long-term contracts for the supply of any products, and ensure the procurement of competitive Russian software required for Rosneft's operations. The action plan (list of initiatives) for import substitution and localization were updated in line with Directive of the Government of the Russian Federation No. 830p-P13 dated 6 February 2017 and the resolution of Rosneft's Board of Directors (Minutes No. 28 dated 13 June 2017) to reflect the Guidelines approved by Order of the Russian Ministry of Economic Development No. 219R-AU dated 11 August 2016; the key actions (initiatives) were included in Rosneft's Long-Term Development Program (approved by resolution of the Board of Directors dated 15 November 2017 (Minutes No. 6 dated 17 November 2017)). As required by Resolution of the Government of the Russian Federation On Priority of Domestically Produced Goods, Works Performed and Services Rendered by Russian Entities over Goods Produced, Works Performed, and Services Rendered by Foreign Entities No. 925 dated 16 September 2016, the Company has developed and introduced amendments to its procurement documents, and adopted forms to certify the Russian origin of goods, works, and services. Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

3. Dividend amount determination

Resolution of the Government of the Russian Federation No. 774-r dated 29 June 2006 (as amended by Resolution of the Government of the Russian Federation No. 2083-r dated 12 November 2012)	According to the Dividend Policy approved by the Company's Board of Directors on 5 June 2015 (Minutes No. 35 dated 5 June 2015) as amended by Rosneft's Board of Directors (Meeting Minutes No. 15 dated 9 December 2016, No. 29 dated 22 June 2017, and No. 5 dated 31 August 2017), to determine the amount of dividends recommended to the General Shareholders Meeting, the Board of Directors takes into account the amount of net income on the basis of Rosneft's RAS financial statements and Rosneft's IFRS consolidated financial statements. Rosneft's Board of Directors gives recommendations on the dividend amount based on Rosneft's annual financial performance. The target level for dividend payments is at least 50% of Rosneft's IFRS net profit, with the target dividend payout frequency of at least twice a year.

4. Annual report structure

Resolution of the Government of the Russian Federation No. 1214 dated 31 December 2010 On Governance Procedure Improvements at Open Joint-Stock Companies in Federal Ownership, and Federal State Unitary Enterprises Paragraph 3 of List of Instructions of the President of the Russian Federation No. Pr-3013 dated 27 December 2014 Directives of the Government of the Russian Federation No. 2007p-P13 dated 6 April 2015 Paragraph 2 of Minutes of the meeting convened by First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-47pr dated 2 June 2015 Directives of the Government of the Russian Federation No. 5024p-P13 dated 31 July 2015	Rosneft's Annual Report 2017 was prepared in accordance with the annual reporting requirements of Regulations of the Bank of Russia No. 454-P dated 30 December 2014 with account for the template annual report of a joint-stock company in federal ownership approved by Resolution of the Government of the Russian Federation No. 1214 dated 31 December 2010 (as amended by Resolution of the Government of the Russian Federation No. 851 dated 19 July 2017) and requirements of Directives of the Government of the Russian Federation No. 2007p-P13 dated 6 April 2015 and No. 5024-P13 dated 31 July 2015. With respect to particular sections of the template annual report of a joint-stock company in federal ownership, it should be noted as follows: ▪ In compliance with paragraph 70.3 of Regulations of the Bank of Russia No. 454-P dated 30 December 2014, the list of major and related party transactions entered into by Rosneft in 2017 is posted on Rosneft's official website https://www.rosneft.ru/Investors/information/transactions/ (paragraphs 10 and 11). ▪ In 2017, Rosneft received no subsidies from the federal budget (paragraph 13).

5. Strategy Development and Update, Efficiency, Long-Term Planning

5.1. Innovative Development Program Development and Approval

Subparagraph b, paragraph 1 of List of Instructions of the President of the Russian Federation No. Pr-307 dated 7 February 2011 Directives of the Government of the Russian Federation No. 1221p-P13 dated 24 March 2011 Presidential Address to the Federal Assembly dated 12 November 2010 Meeting Minutes of the Government Commission for Advanced Technology and Innovation No. 1 dated 30 January 2012 Subparagraphs 32, 33 and 34, paragraph 1 of List of Instructions of the President of the Russian Federation No. Pr-3086 dated 27 December 2013 Reference based on the materials of the meeting of the Government of the Russian Federation dated 30 January 2014, Minutes No. 3 Subparagraph b, paragraph 2, section2 of Minutes of the meeting of the Presidential Council for Economic Modernization and Innovative Development No. 2 dated 17 April 2015 Directives of the Government of the Russian Federation No. 1471p and No. 1472p-P13 dated 3 March 2016	Under subparagraph b, paragraph 1 of List of Instructions of the President of the Russian Federation No. Pr-307 dated 7 February 2011, and Directives of the Government of the Russian Federation, by its resolution dated 31 October 2016 (Minutes No. 13 dated 3 November 2016) Rosneft's Board of Directors approved the Company's Innovative Development Program for 2016–2020 with an outlook until 2030. The Program structure meets the requirements for innovative development programs of state-owned joint-stock companies, state corporations, and federal state unitary enterprises in line with recommendations approved by resolution of the Government Commission for Advanced Technology and Innovation. The major focus areas, key performance indicators, and activities within the Innovative Development Program are integrated in the updated Long-Term Development Program of Rosneft approved by Rosneft's Board of Directors on 15 November 2017 (Minutes No. 6 dated 17 November 2017). An integrated KPI for innovation is included in the list of the Long-Term Development Program KPIs and KPIs for Rosneft's top managers, including the Chief Executive Officer. The details of the Innovative Development Program were posted on the Interdepartmental Portal on 4 April 2017.

5.2. Managing Rights to Intellectual Property

Instruction of the Government of the Russian Federation No. ISh-P8-5594 dated 25 August 2017 Directives of the Government of the Russian Federation No. 9177p-P13 dated 12 December 2017	Recommendations on managing rights to intellectual property were fully included in the Company's Regulations on Managing Rights to Intellectual Property (Inventions, Useful Models, Software, Databases, and Know-How) (approved and implemented by Order No. 429 dated 25 July 2017) and Rosneft's Innovative Development Program for 2016–2020 approved by the Company's Board of Directors on 31 October 2016 (Minutes No. 13 dated 3 November 2016). These Regulations establish a general procedure of, and requirements to, the following processes: ▪ facilitating creation and development of potentially protectable intellectual property ▪ ensuring allocation of rights to intellectual property with due regard for Rosneft's interests ▪ conducting patent research, including patent landscaping to forecast and plan world-class research and development, as well as create new and upgrade existing technologies ▪ registering rights to intellectual property, as well as setting up a list of rights to intellectual property (patents for inventions and useful models, certificates for software, and know-how). The intellectual property rights management program is implemented by the Company within the framework of Rosneft's Innovative Development Program. Add information on consideration of the matter by the Board of Directors in 2018. The matter of Implementing Recommendations on Managing Rights to Intellectual Property by Organizations Pursuant to Directives of the Government of the Russian Federation No. 9177p-P13 dated 12 December 2017 was considered by the Company's Board of Directors on 19 February 2018 (Minutes No. 12 dated 22 February 2018). Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

5.3. Development and Approval of the Company's Strategy and Long-Term Development Program

Recommendations for the Development of Innovative Development Programs approved by resolution of the Government Commission for Advanced Technology and Innovation dated 3 August 2010, Minutes No. 4 Item 2, paragraph 2, Minutes of the meeting convened by First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-98pr dated 3 October 2013 Subparagraphs 32 and 34, paragraph 1 of Instruction of the President of the Russian Federation No. Pr-3086 dated 27 December 2013. Instruction of the Government of the Russian Federation No. DM-P13-9589 dated 30 December 2013 Directives of the Government of the Russian Federation No. 4955p-P13 dated 17 July 2014 Directives of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015 Paragraph 6, section 2 of the Action Plan for Ensuring an Increase in Labor Productivity approved by Decree of the Government of the Russian Federation No. 1250-r dated 9 July 2014 Directives of the Government of the Russian Federation No 7389p-P13 dated 31 October 2014 Paragraph 2.3, section I, Minutes of the meeting of the Military and Industrial Commission under the Government of the Russian Federation No. 4 dated 25 April 2014 Directives of the Government of the Russian Federation No. 3666p-P13 dated 11 June 2015 Subparagraph b, paragraph 2 of List of Instructions of the President of the Russian Federation No. Pr-1627 dated 1 July 2014 Instructions of the Government of the Russian Federation No. ISh-P8-6196 dated 15 August 2014 and No. OG-P8-5496 dated 22 July 2014 Directives of the Government of the Russian Federation No. 7439p-P13 dated 5 November 2014 Directives of the Government of the Russian Federation No. 4531p-P13 dated 28 June 2016	In 2017, Rosneft's Board of Directors approved the Rosneft-2022 Strategy (Minutes No. 8 dated 21 December 2017) aimed at major changes in the Company's business through introducing advanced management approaches and new technologies while increasing returns on the Company's existing assets. The Rosneft–2022 Strategy fully covers modern challenges facing the energy industry. The Strategy aims 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 replication of new technologies and take the Company to a new level in the face of challenges posed by the digital era. While developing the Rosneft-2022 Strategy the Company conducted an in-depth analysis of the external environment and challenges facing each business segment. The Company worked 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 Igor Sechin at the Annual General Shareholders Meeting on 22 June 2017 and posted on Rosneft's official website. For key information and provisions of the Rosneft-2022 Strategy see the relevant section of the Annual Report. Rosneft's Long-Term Development Program was originally established in 2014 pursuant to Instruction of the President of the Russian Federation Vladimir Putin No. Pr-3086 dated 27 December 2013 and Directives of the Government of the Russian Federation No. 4955-P13 dated 17 July 2014. On 9 December 2014 (Minutes No. 12) the Board of Directors approved the Long-Term Development Program, Rosneft's Standard on Auditing the Implementation of the Long-Term Development Program, and Regulations on the Company's KPI System. The employment contract of Rosneft's Chief Executive Officer includes the obligation to ensure implementation of the approved Strategy and Long-Term Development Program of the Company. Starting from 2015, the Company annually prepares a report on the Long-Term Development Program implementation for the previous period and employs an independent auditor to audit its implementation. The information on the audit results is annually reviewed by the Company's Board of Directors and presented at the Annual General Shareholders Meeting. The Long-Term Development Program is updated annually. In 2017, the Long-Term Development Program was updated based on revised strategic guidelines following changes in Rosneft's asset portfolio and elaboration of specific measures to achieve long-term goals. The updated Long-Term Development Program was approved by Rosneft's Board of Directors on 15 November 2017 (Minutes No. 6 dated 17 November 2017). The Long-Term Development Program covers measures developed pursuant to the Directives of the Government of the Russian Federation (No. 4955p-P13 dated 17 July 2014, No. 7558p-P13 dated 12 November 2014, No. 1346p-P13 dated 5 March 2015 and No. 2303p-P13 dated 16 April 2015, No. 7389p-P13 dated 31 October 2014, No. 1472p-P13 dated 3 April 2016, No. 4531p-P13 dated 28 June 2016, No. 4750p-P13 dated 4 July 2016, No. 830p-P13 dated 6 February 2017) and includes a set of measures to increase labor productivity, information on key parameters of demand for human resources, and a separate section on initiatives for the development of the Russian Far East. Efficiency improvement indicators aimed to implement lean production are an integral part of the existing KPI system for the Company's top managers and heads of business units. The Long-Term Development Program is linked to the key provisions of the state programs of the Russian Federation covering the Company's lines of business. For information on the Long-Term Development Program and the 2017 implementation audit results see Section 2 of the Annual Report. Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

5.4. Reduction of Operating Expenses

Subparagraph 5, paragraph 1 of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014 Directives of the Government of the Russian Federation No. 2303p-P13 dated 16 April 2015 Paragraph 4, section 2 of Minutes of the meeting convened by the Prime Minister of the Russian Federation No. DM-P13-2pr dated 18 January 2016 Instructions of the Government of the Russian Federation No. ISh-P13-2047 dated 11 April 2016 Directives of the Government of the Russian Federation No. 4750p-P13 dated 4 July 2016	Rosneft fully complies with Instructions of the President of the Russian Federation and the Government of the Russian Federation on annual reduction of operating expenses. The Company developed an action plan (list of initiatives) aimed at reaching the target expense (cost) reduction level and included it in Rosneft's Long-Term Development Program. The relevant indicator is integrated in the KPI system for Rosneft's top managers. The results of initiatives to reduce operating expenses have undergone an independent audit as part of auditing the implementation of the Long-Term Development Program and were reviewed at the meeting of the Company's Board of Directors on 19 June 2017 (Minutes No. 29 dated 22 June 2017). In 2016, operating expenses were reduced by 12.4% (calculated in accordance with principles approved by the Russian Ministry of Energy, Minutes No. 05-71pr dated 12 August 2016). In 2017, operating expenses were further reduced by 3.5% year-on-year through implementation of energy efficiency programs, production programs schedule optimizations, improvement of repair programs efficiency, and headcount optimization. Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

5.5. Development of Internal Regulations

Paragraph 2 of Instructions of the President of the Russian Federation No. Pr-3013 dated 27 December 2014 Instructions of the Government of the Russian Federation No. ISh-P13-1818 dated 23 March 2015 and No. ISh-P13-4148 dated 24 June 2015 Directives of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015 Paragraph 2 of Instruction of the President of the Russian Federation No. Pr-769 dated 26 April 2016 Paragraph 6 of Instruction of the Government of the Russian Federation No. AD-P36-4292 dated 20 July 2016 Letter of the Federal Agency for State Property Management No. RB-11/9968 dated 20 March 2017	In accordance with the guidelines approved by the Government of the Russian Federation (No. ISh-P13-4148 dated 24 June 2015), the Company has developed, approved, and implemented the following: ▪ the Company's Policy on Internal Audit (compliant with the guidelines approved by Instruction of the Government of the Russian Federation No. ISh-P13-4148 dated 24 June 2015 and put into effect by resolution of the Company's Board of Directors Minutes No. 20 dated 2 February 2015. This document is updated on a regular basis. The scheduled update was conducted in 2017 and approved by Resolution of Rosneft's Board of Directors No. 29 dated 22 June 2017); ▪ the Company's Policy on Improving Operational and Investment Performance ▪ the Company's Policy on the Risk Management and Internal Control System ▪ the Company's Policy on Onshore Oil Production ▪ the Company's Policy on Offshore Hydrocarbon Exploration and Production ▪ the Company's Policy on Gas Business ▪ the Company's Standard on the Corporate-Wide Risk Management System ▪ the Company's Regulations on the Procedure for Developing (Updating) and Implementing Rosneft's Innovative Development Program ▪ the Company's Regulations on the Procedure and Rules for Operating the One-Stop-Shop System for Innovative Product Introduction ▪ the Company's Standard on Innovative Activities Efficiency Management ▪ the Company's Standard on the Quality Management System of the Corporate Scientific and Project Complex. Quality Guidelines ▪ the Company's Regulations on Petroleum Product Quality Management System. Rosneft has fully complied with the Directives. Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.
Paragraph 2 of Minutes of the meeting convened by First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-47pr dated 2 June 2015 Directives of the Government of the Russian Federation No. 5024p-P13 dated 31 July 2015	In accordance with the resolution of the Company's Board of Directors adopted pursuant to Directives of the Government of the Russian Federation No. 5024p-P13 dated 31 July 2015, in accordance with methodological guidelines approved by Order of the Ministry of Economic Development No. 400R-AU dated 22 December 2015 pursuant to Instruction of the Government of the Russian Federation No. ISh-P13-5231 dated 31 July 2015, the following documents were approved by the Company's Management Board and came into force on 8 February 2016: ▪ the Company's Regulations on the Procedure for Charitable Activities of Rosneft and Group Subsidiaries (amended by resolution of Rosneft's Management Board on 25 October 2017 and aligned with Rosneft's Charter as regards Rosneft's legal form) ▪ the Company's Regulations on Sponsorship by Rosneft and Group Subsidiaries. Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

5.6. Optimization of Integrated Entities Performance

Paragraph 4 of Minutes of the meeting convened by Deputy Prime Minister of the Russian Federation Dmitry Rogozin No. RD-P13-45pr dated 15 June 2012 Paragraph 1 of Instructions of the President of the Russian Federation No. Pr-1032 dated 7 May 2014; Instruction of the Government of the Russian Federation No. ISh-P13-3464 dated 13 May 2014; paragraph 4 of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014 Directives of the Government of the Russian Federation No. 5110p-P13 dated 8 August 2014 and No. 1796p-P13 dated 26 March 2015	Centralization of the treasury function of Rosneft's Group Subsidiaries has been implemented since 2005 through the creation of the Integrated Treasury based on the Company's financial department and JSC Russian Regional Development Bank (RRDB). The current business processes and corporate treasury systems have been approved by the Russian Ministry of Finance. Business processes pertaining to solvency management, budgeting, and financial operation acceptance in place in Group Subsidiaries are set out in respective policies and local regulations of the Company.

5.7. Incorporation of the Recommendations of the Bank of Russia's Corporate Governance Code in the Company's Operations

Instruction of the Government of the Russian Federation No. DM-P36-46pr dated 28 August 2014 Instruction of the Government of the Russian Federation No. ISh-P13-5859 dated 31 July 2014 Directives of the Government of the Russian Federation No. 5667p-P13 dated 2 September 2014 Directives of the Government of the Russian Federation No. 989p-P13 dated 20 February 2015	Based on the analysis of Rosneft's corporate governance standards and provisions of the Bank of Russia's Corporate Governance Code, the Company has developed and approved the Action Plan for Incorporating the Code's Key Provisions (Roadmap). During 2017, the Company took consistent steps to implement the Roadmap. The basic principles of Rosneft's corporate management system are set out in Rosneft's Corporate Governance Code and meet the highest global standards. On 16 December 2016, Rosneft's Board of Directors reviewed the status of the Road Map implementation and revised the deadline for the implementation of individual initiatives (Minutes No. 9 dated 25 December 2017). Information on compliance with the principles and recommendations of the Bank of Russia's Corporate Governance Code, including the list of recommendations not reflected in the Company's internal documents and explanation of reasons preventing the Company from implementing these recommendations, as well as the description of alternative mechanisms and instruments of corporate governance, is disclosed in the Company's annual report.

5.8. Inclusion of a Clause on the Possibility of Ruble Settlements in New Export Contracts

Subparagraph 1, paragraph 1, section I of Minutes of the meeting of the National Financial Stability Board No. 7 dated 10 April 2015 Directives of the Government of the Russian Federation No. 4807p-P13 dated 23 July 2015	The matter of including a clause on the possibility of ruble settlements in new export contracts and determining a reasonable minimum share of export transactions denominated in rubles in accordance with Directives of the Government of the Russian Federation was considered by the Company's Board of Directors on 30 September 2016 (Minutes No. 7 dated 3 October 2016). The possibility of ruble settlements is included in most of the Group Subsidiaries' petroleum product sale contracts signed with counterparties registered in the CIS countries. Efforts to include the condition about the possibility of ruble settlements in contracts with other non-resident counterparties take into account the assessment of the risks of losing clients and decreasing the sales volumes (clients' refusal due to extra costs caused by currency conversion), and the risks connected with Russian ruble devaluation, which may lead to a reduction in total revenue from petroleum product exports.

5.9. Remuneration of the Company's Management and Employees, KPI System Development

Instruction of the President of the Russian Federation No. Pr-825 dated 6 April 2009 Instructions of the Government of the Russian Federation No. VP-P13-1823 dated 6 April 2009, No. VP-P13-2099 dated 20 April 2009, No. VZ-P13-4252 dated 28 July 2009, No. ISh-P13-2232 dated 8 April 2010, and No. KA-P13-8297 dated 4 December 2010 Item 3, paragraph 2 of Minutes of the meeting convened by First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-98pr dated 3 October 2013 Paragraph 5 of List of Instructions of the President of the Russian Federation No. Pr-1474 dated 5 July 2013 Instruction of the Government of the Russian Federation No. ISh-P13-2043 dated 27 March 2014 Directives of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015 Subparagraph 5, paragraph 1 of List of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014 Instruction of the Government of the Russian Federation No. DM-P13-9024 dated 4 December 2014 Directives of the Government of the Russian Federation No. 2303p-P13 dated 16 April 2015	The top management incentive system based on the achievement of KPI targets has been in place in the Company since 2009. Regulations on Annual Bonus Payment to Rosneft's Top Managers and Heads of Independent Business Units were enacted. In 2017, Rosneft took the following steps to comply with the Instruction of the Government of the Russian Federation: ▪ Regulations on Annual Bonus Payment to Rosneft's Top Managers and Heads of Independent Business Units were amended ▪ Regulations on Annual Bonus Payment to Middle Managers, Specialists, and Employees of Rosneft's Administration were enacted ▪ Rosneft's Regulations on Annual Bonus Payment to General Directors and Top Managers of Group Subsidiaries were enacted. In addition, the Regulations on the Company's KPI System were approved by Rosneft's Board of Directors on9 December 2014 (Minutes No. 12) in strict compliance with the Guidelines of the Federal Agency for State Property Management on the Application of Key Performance Indicators by State Corporations, State Companies, State Unitary Enterprises, and Business Entities where the Aggregate Share of the Russian Federation or a Constituent Entity of the Russian Federation Exceeds 50%. Rosneft's KPI system includes: ▪ financial and economic indicators (EBITDA, ROACE, TSR, financial leverage (Net Debt / EBITDA), cost reduction indicators) ▪ industry-wide indicators (hydrocarbon production volume, reserve replacement, light product yield, an integrated KPI for innovation, etc.). KPIs for the Company's top management are developed in line with the targets set out in the Company's Development Strategy and Long-Term Development Program. KPIs for each category of managers are approved by the Company's governing bodies (Rosneft's Board of Directors, Management Board, Chief Executive Officer) on an annual basis. The rest of the employees of Rosneft's Administration get their bonus based on collective KPIs of Rosneft and its businesses, and personal productivity evaluation (individual performance factor). Target KPI values for top management and their achievement are approved annually by the Board of Directors based on the recommendations of the HR and Remuneration Committee of the Board of Directors. The employment contract of Rosneft's Chief Executive Officer includes the obligation to ensure implementation of the approved Strategy and Long-Term Development Program of the Company. Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

6. Sustainable development

6.1. Implementation of Professional Standards

Directives of the Government of the Russian Federation No. 5119p-P13 dated 14 July 2016 On the Implementation of Professional Standards at Joint-Stock Companies	In 2017, steps to introduce professional standards in Rosneft and Group Subsidiaries were taken in accordance with the Action Plan approved by Rosneft's Board of Directors on 24 December 2016, Minutes No. 18. The results of these efforts were submitted to Rosneft's Board of Directors in the Report on the Implementation of the Action Plan for Incorporating Professional Standards in the Operations of Rosneft and Group Subsidiaries as at 1 November 2017. The Company's Board of Directors approved the Action Plan for Incorporating Professional Standards in the Operations of Rosneft and Group Subsidiaries for 2018 (resolution of the Company's Board of Directors dated 20 December 2017, Minutes No. 9 dated 25 December 2017). Furthermore, in accordance with Directives of the Government of the Russian Federation No. 5119p-P13 dated 14 July 2016, Rosneft's governing bodies included incorporation of professional standards in the operations of Rosneft and Group Subsidiaries in the lists of KPIs for the top management of the Company and Group Subsidiaries for the purpose of annual bonus payment (resolution of the Board of Directors dated 15 March 2017, Minutes No. 23; resolution of the Management Board dated 21 March 2017, Minutes No. Pr-IS-08p). Information on Compliance with Instructions Issued by the President of the Russian Federation and the Government of the Russian Federation is regularly posted on the Interdepartmental Portal of the Federal Agency for State Property Management.

6.2. Creation of Professional and Amateur Sports Organizations

Subparagraph b, paragraph 2 of List of Instructions of the President of the Russian Federation No. Pr-2179 dated 9 November 2016 Paragraph 1 of Instruction of the Government of the Russian Federation No. ISh-P13-8690 dated 26 December 2017 Letter of the Federal Agency for State Property Management No. RB-11/1520dsp dated 22 January 2018	In accordance with paragraph 17.1, Article 65 of Federal Law On Joint-Stock Companies, matters related to the creation of, and participation or termination of participation of a joint-stock company in, commercial and non-commercial organizations can be referred by the company's Charter to the jurisdiction of the Board of Directors or an executive body. In accordance with Rosneft's Charter decisions related to creating sports clubs shall be made by the Management Committee, a collegial executive body of the Company. Decisions on supporting mass sports shall be made by Rosneft's Board of Directors in accordance with the competence provided by the Company's Charter Rosneft places a special emphasis on the support and development of sports, and considers it one of the main priorities of its social policy. In particular, the Company supports sports through charity activities pursuant to agreements with Russian regions on social and economic cooperation, and by implementing individual charity projects. For this purpose, the Company has traditionally provided funding to support and develop sports organizations, develop and promote mass and children's sports, build ice arenas, ice rinks, and sports and recreation centers, as well as to upgrade their facilities, and buy sports equipment for children's sports schools and educational institutions. Moreover, pursuant to its sponsorship agenda, Rosneft provides financial support to help organize and hold important international sports competitions, and implement sports projects to support and develop hockey, football, biathlon, sambo, boxing, motor racing, and other sports.

APPENDIX 5

INFORMATION ON BASIC INTERNAL REGULATIONS THAT SERVE AS A BASIS FOR THE PREPARATION OF THE CURRENT ANNUAL REPORT, INCLUDING KEY INTERNAL DOCUMENTS REGULATING THE INTERNAL AUDIT FUNCTION AND THE FUNCTIONING OF THE IC&RMS

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 HR and Remuneration 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 Compensations 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 Offi cer) of Rosneft;
- Regulations on Remuneration and Compensations to Top Managers of Rosneft;
- Regulations on the Audit Commission of Rosneft;
- Regulations on Remuneration and Compensations to the Audit Commission Members of Rosneft;
- Regulations on the Corporate Secretary of Rosneft;
- Regulations on Information Policy of Rosneft;
- Regulations on Information Disclosure to Shareholders of Rosneft;
- Regulations on Insider Information;
- Dividend Policy of Rosneft;
- 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.

APPENDIX 6

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF ROSNEFT OIL COMPANY FOR THE YEAR ENDED 31 DECEMBER 2017

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 2017, and appendices there to.
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 its cash flows for 2017 in accordance with rules on the preparation of financial statements established in 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA 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 these requirements and the IESBA 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. 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 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 our assessment of the risks of material misstatement of the 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 financial statements.

Key audit matter	How our audit addressed the key audit matter
Hedge accounting	
The Company applies hedge accounting in respect of transactions to hedge the cash flows of the Company's future exports using debt instruments denominated in the same currency as export proceeds. According to Accounting Statement 1/2008, Accounting Policies of an Organization, the Company recognizes such transactions based on guidance set in International Financial Reporting Standards. This matter is one of the most significant for our audit since respective transactions are significant for financial reporting and hedge accounting requires management to make significant assumptions, in particular in respect of the future events probability. Information on hedge accounting applied is given in section 13 of the Explanatory Notes to the balance sheet and the income statement.	We reviewed hedging documentation and analyzed whether it conforms to the risk management objective and strategy for undertaking the hedge. We compared the projected exports with the Company's business plans and data on signed agreements. We compared projected foreign currency revenue with the repayment schedule of borrowed funds and hedge documentation. We also analyzed hedge effectiveness assessment. We assessed the respective disclosures in the financial statements.
Provision for fixed asset liquidation and environmental provisions	
This matter is one of the most significant for our audit since calculation of the provision for fixed asset liquidation and environmental provisions involves significant management judgments due to difficulty in determining future costs.	Our procedures in respect of provision for fixed asset liquidation and environmental provisions included assessing of the valuation technique used by the management.
Major part of the liabilities are expected to be settled in the long term. In addition to varying interpretations of legislative requirements, provision for fixed asset liquidation and environmental provisions cover effects of amendments of the legislation, changes in the management's approach to liquidation and to the discount rate, as well as movements in inflation rates. Provision for fixed asset liquidation and environmental provisions are disclosed in Section 24 of the Explanatory Notes to the balance sheet and the income statement.	We considered the assumptions used by management and compared them with such available market and industry inputs as discount rates and projected inflation. We analyzed estimated costs and period in which they are to be incurred. We checked mathematical accuracy of calculation of provision for fixed asset liquidation and environmental provisions, verified that formulas and calculations used are consistent with those used in prior periods, and reviewed the respective disclosures in the financial statements.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

Other information consists of the information included in the annual report for 2017 that is expected to be presented to us after the date of this auditor's report. Management is responsible for the other information.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information specified above when it is provided to us and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

RESPONSIBILITIES OF MANAGEMENT AND THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the rules on the preparation of financial statements established in the Russian Federation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease its operations, or has no realistic alternative but to do so.
The Audit Committee of the Board of Directors is responsible for overseeing the Company's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always 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 expected to influence the economic decisions of users taken on the basis of these financial statements.
As part of our audit performed in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 the 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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 have communicated with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related 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 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
19 March 2018

Details of the audited entity
Name: PJSC Rosneft Oil Company
Record made in the State Register of Legal Entities on 12 August 2002; State Registration Number 1027700043502.
Address: 115035, Russia, Moscow, Sofiyskaya Nab., 26/1.

Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.
Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.
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 11603050648.

BALANCE SHEET AS OF 31 DECEMBER 2017

Rosneft Oil Company
(RUB thsd)

Explanatory Note	Item	Line code	At 31 December 2017.	At 31 December 2016.	At 31 December 2015
	ASSETS				
	I. NON-CURRENT ASSETS				
6	Intangible assets	1110	23,468,759	23,214,357	20,933,757
8	Research and development results	1120	4,890,365	3,344,717	2,514,742
7	Intangible exploration assets	1130	111,303,011	78,528,809	74,650,436
7	Tangible exploration assets	1140	26,179,268	11,326,829	11,338,131
5	Property, plant and equipment	1150	1,186,529,970	1,058,799,579	1,003,328,496
	Income-bearing investments in tangible assets	1160	–	–	–
11	Financial investments	1170	6,003,776,788	5,492,046,642	3,945,699,651
21	Deferred tax assets	1180	95,062,970	68,252,970	120,214,709
9	Other non-current assets	1190	32,318,324	33,202,633	34,679,041
	Total for Section I	**1100**	**7,483,529,455**	**6,768,716,536**	**5,213,358,963**
	II. CURRENT ASSETS				
10	Inventories	1210	142,388,555	113,017,735	107,207,260
10	Value-added tax on purchased assets	1220	72,598,729	57,272,596	51,445,066
15,18	Accounts receivable	1230	2,531,306,562	1,523,299,152	2,025,601,916
	including:				
	Accounts receivable expected to be settled within 12 months after the reporting date	1231	1,119,929,274	806,591,911	891,163,442
	Accounts receivable expected to be settled in over 12 months after the reporting date	1232	1,411,377,288	716,707,241	1,134,438,474
11	Financial investments (other than cash equivalents)	1240	728,055,665	899,267,309	1,637,719,899
12	Short-term derivative financial instruments at fair	1241	–	–	–
12	Long-term derivative financial instruments at fair value through profit or loss	1242	–	–	–
14	Cash and cash equivalents	1250	116,638,660	584,223,460	402,389,690
	Other current assets	1260	8,400,746	7,604,682	12,151,470
	including:				
	Unbilled accrued revenue under construction contracts	1261	–	–	–
	Total for Section II	**1200**	**3,599,388,917**	**3,184,684,934**	**4,236,515,301**
	BALANCE	**1600**	**11,082,918,372**	**9,953,401,470**	**9,449,874,264**
	LIABILITIES				
	III. EQUITY AND RESERVES				
1,19	Share capital (pooled capital, charter capital, partners' contributions)	1310	105,982	105,982	105,982
19	Treasury shares	1320	–	–	–
19	Revaluation of non-current assets	1340	5	15	15
19	Additional capital (without revaluation)	1350	113,278,538	113,279,280	113,244,694
19	Reserve capital	1360	5,299	5,299	5,299
13	Other funds and reserves	1365	(231,748,689)	(348,012,103)	(471,888,054)
20	Retained earnings (uncovered loss)	1370	1,802,733,923	1,767,708,786	1,792,963,117
	Total for Section III	**1300**	**1,684,375,058**	**1,533,087,259**	**1,434,431,053**
	IV. NON-CURRENT LIABILITIES				
16	Borrowings	1410	5,083,998,328	4,338,773,620	4,081,526,948
21	Deferred tax liabilities	1420	91,105,397	78,948,226	69,693,400
24	Provisions	1430	61,023,750	50,403,366	40,469,001
12	Long-term derivative financial instruments at fair value through profit or loss	1440	–	–	–
16	Other liabilities	1450	1,419,426,029	1,550,012,639	1,784,929,682
	Total for Section IV	**1400**	**6,655,553,504**	**6,018,137,851**	**5,976,619,031**
	V. CURRENT LIABILITIES				
16	Borrowings	1510	860,270,860	525,561,253	494,337,961
15,18	Accounts payable	1520	1,785,522,679	1,753,787,381	1,416,028,642
	Deferred income	1530	2,651,115	1,874,814	1,571,330
24	Provisions	1540	20,059,244	22,943,218	22,443,697
12	Short-term derivative financial instruments at fair value through profit or loss	1545	74,073,303	97,633,864	104,081,673
	Other liabilities	1550	412,609	375,830	360,877
	Total for Section V	**1500**	**2,742,989,810**	**2,402,176,360**	**2,038,824,180**
	BALANCE	**1700**	**11,082,918,372**	**9,953,401,470**	**9,449,874,264**

V.A. Surkov
General Director of LLC RN-Uchet
(Contract No. 100017/02711D
dated 1 August 2017)

I.I. Sechin
Chief Executive Officer of
Rosneft Oil Company

"___" ______________ 2018

INCOME STATEMENT FOR JANUARY–DECEMBER 2017

Rosneft Oil Company
(RUB thsd)

Explanatory Note	Item	Line code	For January-December 2017	For January-December 2016.
3,20,26	Revenue	2110	4,892,934,388	4,318,055,268
20	Cost of sales	2120	(3,459,587,329)	(2,846,770,153)
20	Oil and gas reserves exploration and estimation expenses	2130	(14,149,489)	(27,496,713)
	Gross income (loss)	**2100**	**1,419,197,570**	**1,443,788,402**
20	Selling expenses	2210	(990,299,266)	(955,153,203)
20	General and administrative expenses	2220	(68,941,225)	(66,238,766)
	Operating income (loss)	**2200**	**359,957,079**	**422,396,433**
	Income from equity participation in other entities	2310	–	–
20	Interest receivable	2320	179,953,353	165,880,088
16,20	Interest payable	2330	(396,184,404)	(358,112,121)
20	Gains from changes in the fair value of derivative financial instruments	2333	23,560,680	6,447,809
20	Losses from changes in the fair value of derivative financial instruments	2334	–	(448)
17,20	Other income	2340	329,387,442	271,739,796
3,13,17,20	Other expenses	2350	(413,567,272)	(423,972,094)
	Income (loss) before tax	**2300**	**83,106,878**	**84,379,463**
	Current income tax	2410	12,272,616	45,706,344
21	including permanent tax assets (liabilities)	2421	44,356,090	97,160
21	Change in deferred tax liabilities	2430	(12,157,171)	(9,254,826)
21	Change in deferred tax assets	2450	26,810,000	(51,961,739)
	Other	2460	28,936,657	30,366,972
	Tax on prior year income	2461	(1,338,586)	(667,626)
	Imputed income tax	2464	–	–
	Income tax re-distribution within consolidated taxpayer group	2465	1,209,389	65,610
13	Tax effect of the results of other operations not included in net income (loss) for the period	2466	29,065,854	30,968,988
22	**Net income (loss)**	**2400**	**138,968,980**	**99,236,214**
	FOR REFERENCE			
	Result of the revaluation of non-current assets not included in net income (loss) for the period	2510	–	–
13,17,19	Result from other operations not included in net income (loss) for the period	2520	116,262,672	123,910,537
	Comprehensive financial result for the period	**2500**	**255,231,652**	**223,146,751**
22	Basic earnings (loss) per share	2900	13,11	9,36

V.A. Surkov
General Director of LLC
RN-Uchet (Contract
No. 100017/02711D dated
1 August 2017)
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I.I. Sechin
Chief Executive Officer of
Rosneft Oil Company

"___" _______________ 2018

STATEMENT OF CHANGES IN CAPITAL FOR 2017

Rosneft Oil Company
(RUB thsd)

1. Changes in equity

Item	Line code	Share capital	Treasury shares	Additional capital	Reserve capital	Other funds and reserves	Retained earnings (uncovered loss)	Total
Equity at 31 December 2015	**3100**	**105,982**	**—**	**113,244,709**	**5,299**	**(471,888,054)**	**1,792,963,117**	**1,434,431,053**
For 2016								
Total increase in equity:	3210	—	—	34,586	—	123,875,951	99,274,258	223,184,795
including:								
Net income	3211	x	x	x	x	x	99,236,214	99,236,214
Revaluation of property	3212	x	x	—	x	—	x	—
Earnings directly increasing equity	3213	x	x	34,586	x	123,875,951	38,044	123,948,581
Additional share issue	3214	—	—	—	x	—	x	—
Increase in the par value of shares	3215	—	x	—	x	—	—	x
Legal entity reorganization	3216	—	—	—	—	—	—	—
Total decrease in equity:	3220	—	—	—	—	—	(124,528,589)	(124,528,589)
including:								
Loss	3221	x	x	x	x	x	—	—
Revaluation of property	3222	x	x	—	x	—	x	—
Expenses directly decreasing equity	3223	x	x	—	x	—	x	—
Decrease in the par value of shares	3224	—	—	—	x	—	—	—
Decrease in the number of shares	3225	—	—	x	x	—	x	—
Legal entity reorganization	3226	—	—	—	—	—	—	—
Dividends	3227	x	x	x	x	x	(124,528,589)	(124,528,589)
Change in additional capital	3230	x	x	—	x	—	—	x
Change in reserve capital	3240	x	x	x	—	x	—	x
Equity at 31 December 2016	**3200**	**105,982**	**—**	**113,279,295**	**5,299**	**(348,012,103)**	**1,767,708,786**	**1,533,087,259**
For 2017 year								
Total increase in equity:	3310	—	—	2,642	—	116,263,414	138,993,251	255,259,307
including:								
Net income	3311	x	x	x	x	x	138,968,980	138,968,980
Revaluation of property	3312	x	x	—	x	—	x	—
Earnings directly increasing equity	3313	x	x	2,642	x	116,263,414	24,271	116,290,327
Additional share issue	3314	—	—	—	x	—	x	—
Increase in the par value of shares	3315	—	x	—	x	—	—	x
Legal entity reorganization	3316	—	—	—	—	—	—	—
Total decrease in equity:	3320	—	—	(3,384)	—	—	(103,968,124)	(103,971,508)
including:								
Loss	3321	x	x	x	x	x	—	—
Revaluation of property	3322	x	x	—	x	—	x	—
Expenses directly decreasing equity	3323	x	x	(3,384)	x	—	x	(3,384)
Decrease in the par value of shares	3324	—	—	—	x	—	—	—
Decrease in the number of shares	3325	—	—	x	x	—	x	—
Legal entity reorganization	3326	—	—	—	—	—	—	—
Dividends	3327	x	x	x	x	x	(103,968,124)	(103,968,124)
Change in additional capital	3330	x	x	(10)	x	—	10	x
Change in reserve capital	3340	x	x	x	—	x	—	x
Equity at 31 December 2017	**3300**	**105,982**	**—**	**113,278,543**	**5,299**	**(231,748,689)**	**1,802,733,923**	**1,684,375,058**

2. Adjustments due to a change in accounting policy and correction of errors

Item	Line code	At 31 December 2015.	Change in equity for 2016		At 31 December 2016.
			Through net income (loss)	**Through other factors**	
Total equity					
Before adjustments	3400	1,434,431,053	99,236,214	(580,008)	1,533,087,259
Adjustment due to:					
Changes in the accounting policy	3410	–	–	–	–
Correction of errors	3420	–	–	–	–
After adjustments	3500	1,434,431,053	99,236,214	(580,008)	1,533,087,259
including:					
Retained earnings (uncovered loss):					
Before adjustments	3401	1,792,963,117	99,236,214	(124,490,545)	1,767,708,786
Adjustment due to:					
Changes in the accounting policy	3411	–	–	–	–
Correction of errors	3421	–	–	–	–
After adjustments	3501	1,792,963,117	99,236,214	(124,490,545)	1,767,708,786
Other equity items that have been adjusted:					
Before adjustments	3402	(358,532,064)	–	123,910,537	(234,621,527)
Adjustment due to:					
Changes in the accounting policy	3412	–	–	–	–
Correction of errors	3422	–	–	–	–
After adjustments	3502	(358,532,064)	–	123,910,537	(234,621,527)

3. Net assets

Item	Line code	At 31 December 2017	At 31 December 2016	At 31 December 2015
Net assets	**3600**	**1,684,375,058**	**1,533,087,259**	**1,434,431,053**

V.A. Surkov
General Director of LLC
RN-Uchet (Contract
No. 100017/02711D dated
1 August 2017) ______________________

______________________ I.I. Sechin
Chief Executive Officer of
Rosneft Oil Company

"___" ____________ 2018

STATEMENT OF CASH FLOWS

Rosneft Oil Company
(RUB thsd)

Item	Line code	For January-December 2017	For January-December 2016.
CASH FLOWS FROM OPERATING ACTIVITIES			
Total proceeds	**4110**	**4,693,828,278**	**3,933,465,761**
including:			
From the sale of products, goods, work and services	4111	3,764,022,033	3,345,934,925
Lease payments, license payments, royalties, commissions and other similar payments	4112	144,786,533	139,891,031
From resale of financial investments	4113	127,009,538	–
Other proceeds	4119	658,010,174	447,639,805
Total cash disbursements	**4120**	**(5,172,970,012)**	**(4,062,032,493)**
including:			
Payments to suppliers (contractors) for raw materials, work and services	4121	(3,725,280,584)	(3,048,104,337)
Payroll-related payments	4122	(44,934,850)	(34,320,027)
Interest on debt obligations	4123	(280,927,199)	(217,184,734)
Income tax	4124	(8,099,852)	–
Exploration costs	4128	(13,448,788)	(14,874,936)
Other payments	4129	(1,100,278,739)	(747,548,459)
Net cash flows from operating activities	**4100**	**(479,141,734)**	**(128,566,732)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Total proceeds	**4210**	**2,475,022,201**	**2,708,964,418**
including:			
From sale of non-current assets (except for financial investments)	4211	5,287,535	103,976
From sale of shares (interests) in other entities	4212	78,063,092	226,851,288
From repayment of loans issued and sale of debt securities (receivables from other parties)	4213	1,894,447,405	1,940,068,747
Dividends, interest on debt financial instruments and similar proceeds from equity participation in other entities	4214	466,837,703	531,553,941
Other proceeds	4219	30,386,466	10,386,466
Total payments	**4220**	**(3,479,925,010)**	**(2,812,136,435)**
including:			
Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	4221	(212,862,768)	(166,146,373)
Purchase of shares (percentage holding) in other entities	4222	(571,923,338)	(682,888,624)
Purchase of debt securities (receivables from other parties), provision of loans to other parties	4223	(2,573,608,741)	(1,879,642,564)
Interest on debt obligations included in the value of the investment asset	4224	–	–
Exploration assets	4228	(46,050,890)	(21,187,788)
Other payments	4229	(75,479,273)	(62,271,086)
Net cash flows used in investing activities	**4200**	**(1,004,902,809)**	**(103,172,017)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Total proceeds	**4310**	**4,064,309,309**	**2,098,509,356**
including:			
Loans and borrowings received	4311	3,013,338,418	1,448,520,533
Cash contributions of shareholders (participants)	4312	–	–
Issue of shares, increase in percentage holding	4313	–	–
Issue of bonds, promissory notes and other debt securities, etc.	4314	1,050,970,891	649,988,823
Other proceeds	4319	–	–
Total payments	**4320**	**(3,017,533,992)**	**(1,533,246,277)**
including:			
Payments to shareholders (participants) due to the buyback of shares (percentage holding) in the entity or due to their withdrawal	4321	–	–
Dividends and other distributions of income among shareholders (participants)	4322	(100,875,076)	(122,030,855)
Repayment (redemption) of promissory notes and other debt securities, repayment of loans and borrowings	4323	(2,916,658,916)	(1,411,215,422)
Other payments	4329	–	–
Net cash flows from financing activities	**4300**	**1,046,775,317**	**565,263,079**
Net cash flows for the reporting period	**4400**	**(437,269,226)**	**333,524,330**
Balance of cash and cash equivalents at the beginning of the reporting period	**4450**	**584,223,460**	**402,389,690**
Balance of cash and cash equivalents at the end of the reporting period	**4500**	**116,638,660**	**584,223,460**
Effect of changes in the exchange rate of foreign currency to the ruble	4490	(30,315,574)	(151,690,560)

V.A. Surkov
General Director of LLC
RN-Uchet (Contract
No. 100017/02711D dated
1 August 2017) ______________________

______________________ I.I. Sechin
Chief Executive Officer of
Rosneft Oil Company

"___" ____________ 2018

These Explanatory Notes to the balance sheet and the income statement constitute an integral part of the financial statements of Rosneft Oil Company for the 2017 reporting year prepared in accordance with the applicable legislation of the Russian Federation.
The reporting date of these financial statements, as of which they are prepared, is 31 December 2017.

1. ENTITY AND TYPES OF ACTIVITY

Company description

Public joint-stock company Rosneft Oil Company (the "Company", "Rosneft Oil Company") was established in accordance with Decree No. 327 of the President of the Russian Federation, On Priority Measures for Improving the Activities of Oil Companies, dated 1 April 1995 and pursuant to Resolution No. 971 of the Government of the Russian Federation, On the Transformation of State Enterprise Rosneft into Open Joint-Stock Company Rosneft Oil Company, dated 29 September 1995. On 8 July 2016, the Company was transformed into public joint-stock company.
The Company is a legal entity that operates on the basis of its Charter and the laws of the Russian Federation.
Location of the Company: Russian Federation, Moscow
Address of the Company specified in the Unified State Register of Legal Entities:
26/1 Sofiyskaya Naberezhnaya, Moscow, Russian Federation, 115035.

Governing bodies of the Company

General Shareholders Meeting of the Company

The General Shareholders Meeting is the supreme governing body of the Company. The scope of authority of the General Shareholders Meeting of the Company, the procedure for convening and holding it and its proceedings are determined in accordance with federal laws, the Charter of the Company and the Regulation on the General Shareholders Meeting of the Company.
The address of the place for holding the General Shareholders Meeting is determined by the Company's Board of Directors.
The annual General Shareholders Meeting is held not earlier than two months and not later than six months after the end of the financial year.
The General Shareholders Meeting is chaired by the Chairman of the Company's Board of Directors or, in his absence, a member of the Board of Directors selected by the decision of the Board of Directors

Board of Directors of the Company

The Company's Board of Directors is responsible for the general management of the Company's activities, except for the matters that fall within the authority of the General Shareholders Meeting according to federal laws and the Charter of the Company.
The members of the Company's Board of Directors are elected by the General Shareholders Meeting to serve until the next annual General Shareholders Meeting.
The Board of Directors of Rosneft Oil Company that served as of 31 December 2017 was formed by the decision of the extraordinary General Shareholders Meeting of the Company held on 29 September 2017.
As of 31 December 2017, the Board of Directors of Rosneft Oil Company comprised:

Faisal M.Alsuwaidi	Member of the Board of Directors of Rosneft Oil Company, President of Research and Development at Qatar Foundation
Andrey Removich Belousov	Member of the Board of Directors of Rosneft Oil Company, Aide to the President of the Russian Federation
Matthias Warnig	Deputy Chairman of the Board of Directors of Rosneft Oil Company, Non-Executive Director, Director of Interatis AG (Switzerland), Executive Director of Nord Stream 2 AG (Switzerland)
Oleg Vyacheslavovich Viyugin	Member of the Board of Directors of Rosneft Oil Company, Non-Executive Director, Professor of the Finance Department of the Economic Faculty of the Federal State Autonomous Educational Institution of Higher Professional Education National Research University Higher School of Economics
Ivan Glasenberg	Member of the Board of Directors of Rosneft Oil Company, Chief Executive Officer of Glencore International AG and Glencore plc
Robert Dudley	Member of the Board of Directors of Rosneft Oil Company, Director and member of the Board of Directors, Chairman of the Executive Committee of the Board of Directors, President of BP Group
Guillermo Quintero	Member of the Board of Directors of Rosneft Oil Company
Alexander Valentinovich Novak	Member of the Board of Directors of Rosneft Oil Company, Ministry of Energy of the Russian Federation
Igor Ivanovich Sechin	Chief Executive Officer, Chairman of the Management Board, Deputy Chairman of the Board of Directors of Rosneft Oil Company
Donald Humphreys	Member of the Board of Directors of Rosneft Oil Company, Non-Executive Director
Gerhard Schroeder	Chairman of the Board of Directors of Rosneft Oil Company, Non-Executive Director

In accordance with clause 2 of Article 64 of the Federal Law, On Joint-stock Companies, and the Regulation on the Calculation and Payment of Remuneration and Compensations for Expenses to the Members of the Board of Directors of the Company, remuneration to the members of the Board of Directors during the period when they perform their duties is paid on the basis of a decision of the General Shareholders Meeting.
On 22 June 2017, the annual General Shareholders Meeting (unnumbered minutes dated 27 June 2017) approved remuneration to the following members of the Board of Directors of the Company for the period during which they performed their duties:

- Andrey Igorevich Akimov: USD 545,000 (paid in rubles at the CBR exchange rate as of the transaction date)
- Matthias Warnig: USD 580,000 (paid in rubles at the CBR exchange rate as of the transaction date)
- Oleg Vyacheslavovich Viyugin: USD 580,000 (paid in rubles at the CBR exchange rate as of the transaction date)
- Donald Humphreys: USD 565,000

These amounts are net of reimbursement for expenses and costs incurred by members of the Board of Directors of Rosneft Oil Company and related to their duties.
As of 31 December 2017, the Company fulfilled its obligation and paid remuneration to the above members of the Board of Directors of Rosneft Oil Company for the period during which they performed their duties.
In 2017, no remuneration was paid to the members of the Board of Directors of Rosneft Oil Company, namely Andrey Removich Belousov, a government official, Aleksandr Valentinovich Novak, who held a public office, and Igor Ivanovich Sechin, the Chairman of the Board of Rosneft Oil Company for performing their duties as the members of the Board of Directors of Rosneft Oil Company. In 2017, no remuneration was paid either to the members of the Board of Directors of Rosneft Oil Company, who are representatives of the shareholder of Rosneft Oil Company (BP company), namely Robert Dudley and Guillermo Quintero, for performing their duties as the members of the Board of Directors of Rosneft Oil Company in accordance with their applications filed.

Sole executive body of the Company

Chief Executive Director of Rosneft Oil Company is its sole executive body.
Igor Ivanovich Sechin was appointed as the sole executive body of the Company (Minutes No. 22 of the Board of Directors' meeting dated 23 May 2012) and took office on 24 May 2012. Igor Ivanovich Sechin was appointed as the sole executive body of the Company for a new 5-year period by decision of the Board of Directors of Rosneft Oil Company dated 30 April 2015 (Minutes No. 32 dated 30 April 2015).

Collegial executive body of the Company

Pursuant to the Charter, the Management Board is the collegial executive body of the Company.
As of 31 December 2017, members of the Management Board of the Company included:

1. Igor Ivanovich Sechin	Chairman of the Management Board, Deputy Chairman of the Board of Directors, Chief Executive Director of Rosneft Oil Company
2. Yuri Ivanovich Kalinin	Deputy Chairman of the Management Board, Vice President for HR and Social Policy at Rosneft Oil Company
3. Gennady Ivanovich Bukaev	Vice-President, Head of the Internal Audit Function of Rosneft Oil Company
4. Didier Casimiro	Vice President for Refining, Petrochemical, Commerce and Logistics at Rosneft Oil Company
5. Yury Igorevich Kurilin	Vice-President, Chief of Staff at Rosneft Oil Company
6. Petr Ivanovich Lazarev	Financial Director of Rosneft Oil Company
7. Eric Maurice Liron	First Vice President of Rosneft Oil Company
8. Yury Anatolyevich Narushevich	Vice President for Internal Services at Rosneft Oil Company
9. Zeljko Runje	Vice President for Offshore Projects at Rosneft Oil Company
10. Vlada Vilorikovna Rusakova	Vice President of Rosneft Oil Company
11. Andrey Nikolaevich Shishkin	Vice President for Energy, Localization and Innovation at Rosneft Oil Company

The Board of Directors of Rosneft Oil Company made the following decisions with respect to the Management Board of the Company:

- On 5 April 2017, Oleg V. Feoktistov early terminated his powers as a member of the Management Board and Yury I. Kurilin, Vice President, Chief of Staff, was appointed a member of the Management Board of Rosneft Oil Company for three (3) years (Minutes No. 24 dated 7 April 2017)
- On 15 July 2017, Yuri I. Kalinin, Deputy Chairman of the Management Board, and Eric Maurice Liron, Didier Casimiro, Petr I. Lazarev, Zeljko Runje, members of the Management Board, were appointed for a new 3-year period, while Vlada V. Rusakova was appointed a member of the Management Board for three (3) years (Minutes No. 2 dated 14 July 2017)

Control of the Company's financial and business operations

Control of the Company's financial and business operations is exercised by the Audit Commission. The Audit Commission's operating procedure is specified in the Regulation on the Audit Commission of the Company, as approved by the General Shareholders Meeting of the Company.
The Audit Commission of the Company comprises five (5) members who are elected by the General Shareholders Meeting to serve until the next annual General Shareholders Meeting.
As of 31 December 2017, the Audit Commission of the Company comprised:

Chairman of the Audit Commission:

1. Olga Anatolyevna Andrianova	Chief Accountant – Head of the Finance and Economics Service of JSC ROSNEFTEGAZ

Audit Committee members:

2. Alexander Yevgenievich Bogashov	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
3. Sergey Ivanovich Poma	Vice President, Deputy Chairman of the National Association of Securities Market Participants, member of the Board of the Federal Foundation for the Protection of Investors and Shareholders rights
4. Zakhar Borisovich Sabantsev	Section Head, Bank Sector Monitoring, Consolidated and Analytical Work Section, Financial Policy Department, Ministry of Finance of the Russian Federation
5. Pavel Gennadyevich Shumov	Acting Deputy Department Director, Ministry of Economic Development of the Russian Federation

On 22 June 2017, the annual General Shareholders Meeting (unnumbered minutes dated 27 June 2017) approved remuneration to the members of the Audit Commission of the Company for the period during which they performed their duties:

- Alexey Anatolievich Afonyashin: RUB 220,000
- Oleg Sergeevich Zenkov: RUB 220,000
- Sergey Ivanovich Poma: RUB 220,000

As of 31 December 2017, the Company fulfilled its obligation and paid remuneration

Structure of the Company's share capital[1]

Information about the shareholders of Rosneft Oil Company as of 31 December 2017 is presented below:

- JSC ROSNEFTEGAZ held 5,299,088,910 common shares in Rosneft Oil Company, representing 50.00000001% of the total number of common shares and the share capital of the Company.
- BP Russian Investments Limited held 2,092,900,097 common shares in Rosneft Oil Company, representing 19.75% of the total number of common shares and share capital of the Company.
- QHG Oil Ventures Pte. Ltd. held 2,066,727,473 common shares in Rosneft Oil Company, representing 19.50% of the total number of common shared and share capital of the Company.
- Non-banking Credit Organization Closed Joint-Stock Company
- National Settlement Depository (NSD) was the nominee for 1,099,838,162 common shares in Rosneft Oil Company, representing 10.38% of the total number of common shares and the share capital of the Company (the nominee is the central depository).
- Other legal entities with a share of less than 1% were the holders of and the nominees for 1,438,588 common shares in Rosneft Oil Company, representing 0.01% of the total number of common shares and the share capital of the Company.
- Individuals held 38,072,053 common shares in Rosneft Oil Company, representing 0.36% of the total number of common shares and the share capital of the Company.
- The Russian Federation, acting through the Federal Property Management Agency, held 1 common share in Rosneft Oil Company, representing 0.000000009% of the total number of common shares and the share capital of the Company.
- 112,533 common shares in Rosneft Oil Company, representing 0.01% of the total number of common shares and the share capital of the Company were recorded in the account for unidentified persons.

Description of the Company's activities

In accordance with clause 3.4 of Article 3 of Rosneft Oil Company's Charter (revised version) approved by the annual General Shareholders Meeting of the Company on 27 June 2014 (unnumbered minutes) with the amendments approved by the General Shareholders Meeting of the Company on 15 June 2016 (unnumbered minutes), amendments approved by the General Shareholders Meeting of the Company on 22 June 2017 (unnumbered minutes), amendments approved by the General Shareholders Meeting of the Company on 29 September 2018 (unnumbered minutes), the Company prospects, explores, extracts and processes oil, gas and gas condensate, sells oil, gas, gas condensate, and oil and gas products to consumers in and outside the Russian Federation, conducts any related activities, and works with precious metals and precious stones. The Company is engaged, in particular, in the following principal activities:

- Geological prospecting and exploration to find the deposits of oil, gas, coal and other minerals; extraction, transportation and processing of oil, gas, coal and other minerals, and timber; production of oil products, petrochemicals and other products, including liquefied natural gas, gas products and gas chemicals, electric power, wood products, consumer goods, and provision of services to the public; storage and sale (including domestic and export sales) of oil, liquefied and gaseous gas, oil products, gas products and gas chemicals, coal, electric power, wood products, and other products from hydrocarbons and other raw materials.
- Investing, including transactions with securities.
- Managing the fulfillment of orders placed by the federal government and regional consumers of the products made by the Company and its subsidiaries, including deliveries of oil, gas and oil products.
- Investment management, construction, engineering, technological and other services for upstream and downstream projects, and research and development, procurement and distribution, economic, foreign economic and legal support for the Company, its subsidiaries and third-party customers. Survey commodity and service markets, and the securities market, conducting sociological and other research. Regulating and coordinating the activities of subsidiaries.
- Leasing out immovable and other property, using leased property.
- Assisting in securing the interests of the Russian Federation when it prepares and implements production-sharing agreements for subsurface areas and hydrocarbon deposits.
- Managing advertising and publishing activities, conducting exhibitions, fairs, auctions, etc.
- Intermediary, consulting, marketing and other activities, including foreign economic activities (including export/import operations), performing work and providing services on a contractual basis.
- Ensuring the protection of the Company's employees and property.
- Using precious metals and precious stones in technological processes as elements of equipment and materials.
- Arranging and holding mobilization training and civil defense events, working with state secrets and protecting them.

At the end of 2017, the average headcount of the Company was 4,163 persons, down 107 persons year on year. Such reduction is due to optimization measures taken.

2. BASIS OF PREPARATION

The accounting records are maintained in accordance with Federal Law No. 402-FZ, On Accounting, dated 6 December 2011 and the Statute, On Accounting and Reporting in the Russian Federation, approved by Order No. 34n of the Russian Ministry of Finance dated 29 July 1998 (including Information No. PZ-10/2012 of the Russian Ministry of Finance), as well as applicable Accounting Statements. The Company's financial statements for the 2017 reporting year were prepared in accordance with the Law, the Statute and the Accounting Statements.

[1] Information is based on the data of Rosneft shareholders' register.

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 approach to recording gains from shareholding in other entities was changed. In 2017, activities related to shareholding 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. The comparative information for 2016 was restated accordingly.

Table 1 Changes in the income statement (RUB thsd)

Item	Line	As previously reported for 2016	As currently reported for 2016	Changes	Reason
Revenue	2110	3,930,139,846	4,318,055,268	387,915,422	In 2017, activities related to shareholding 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.
Gross income (loss)	**2100**	**1,055,872,980**	**1,443,788,402**	**387,915,422**	
Operating income (loss)	**2200**	**34,481,011**	**422,396,433**	**387,915,422**	
Income from equity participation in other entities	2310	387,278,254		(387,278,254)	
Other expenses	2350	(423,334,926)	(423,972,094)	(637,168)	Tax withheld/to be withheld by the tax agent is not expense related to ordinary activities and should be recorded in line 2350, Other expenses..
Income (loss) before tax	**2300**	**84,379,463**	**84,379,463**		
Net income (loss)	**2400**	**99,236,214**	**99,236,214**		
Comprehensive financial result for the period	**2500**	**223,146,751**	**223,146,751**		
Basic earnings (loss) per share, RUB per share	**2900**	**9.36**	**9.36**		

Corrections were made to the Explanatory Notes to the balance sheet and the income statement for the 2017 reporting year in line with the above information to ensure data comparability.

4. INFORMATION ABOUT THE ACCOUNTING POLICY

The Company developed its accounting policy in accordance with the principles established by Accounting Statement 1/2008, Accounting Policies of an Organization, approved by Oder No. 106n of the Russian Ministry of Finance dated 6 October 2008:

- Economic entity assumption according to which the Company's assets and liabilities are accounted for separately from the assets and liabilities of other legal entities and individuals
- Going concern assumption according to which the Company will continue its business in the foreseeable future and it neither intends nor has to liquidate or significantly curtail its activities, and, therefore, its liabilities will be duly discharged
- Consistency assumption according to which the Company will consistently apply the adopted accounting policy in its activities
- Time period assumption

Material accounting methods provided for by the Company's accounting policy in 2017 are reflected below in the respective Explanatory Notes to the balance sheet and the income statement for the 2017 reporting year.

5. FIXED ASSETS AND CAPITAL CONSTRUCTION IN PROGRESS

Assets intended for use in the manufacturing of products, performance of work and provision of services, or for administrative needs over their useful lives of more than 12 months are accounted for as fixed assets.

Fixed assets include buildings, structures, machinery, equipment, measuring and control instruments and devices, computers, vehicles, tools, fixtures and fittings, etc. Fixed assets also include land plots and natural resources. The Russian Classifier of Fixed Assets approved by Order No. 2018-st of the Federal Agency on Technical Regulation and Metrology (Rosstandart) dated 12 December 2014 is used to determine the structure and grouping of fixed assets.

Items intended solely to be leased out are recorded in line 1150, Fixed assets. The net book value of such items was:

- RUB 555,073 million at the end of the period
- RUB 496,991 million at the beginning of the period

An asset is recognized as a fixed asset on the date it is ready for operation. Fixed assets the rights to which are subject to state registration are included in the fixed assets at the date of delivery to their final destination, if the asset it ready for operation. Using the substance-over-form principle, the completed capital construction projects and purchased real estate items that are actually in operation are also included in fixed assets, regardless of whether the documents for their state registration have actually been submitted. Such items are depreciated in accordance with the established procedure.

For accounting purposes, fixed assets are depreciated using the straight-line method:

- Assets put into operation before 1 January 2002: at the depreciation rates set by Resolution No. 1072 of the Council of Ministers of the USSR dated 22 October 1990
- Assets put into operation after 1 January 2002: at the depreciation rates calculated based on the useful lives set by Resolution No. 1 of the Government of the Russian Federation, dated 1 January 2002

The main groups of fixed assets have the following useful lives:

Buildings	30 to 100 years
Structures	10 to 15 years
Machinery and equipment	5 to 7 years

Assets with a value of not more than RUB 40,000 per unit have been recorded and reported as inventories since 1 January 2014. To ensure the safety of the assets during production or operation, the Company makes arrangements to control their movements.

Fixed assets include the following assets (irrespective of their value):

- Land plots
- Buildings
- Structures
- Transfer devices
- Downhole equipment
- Vehicles

Items to be leased out are recorded and reported within fixed assets, irrespective of their value.

Fixed assets are reported in the balance sheet at their net book value.

Fixed assets are not revalued following the completion of the mandatory revaluation of fixed assets in accordance with the Resolutions of the Russian Government.

Table 2 Information on fixed assets (RUB thsd)

Group of fixed assets	Period	At the beginning of the period		Changes for the period				At the end of the period	
		Historical cost	Accumulated depreciation	Additions	Disposed		Depreciation charge	Historical cost	Accumulated depreciation
					Historical cost	Accumulated depreciation			
Total fixed assets	**2017**	**1,269,656,542**	**(688,188,622)**	**172,147,446**	**(7,001,980)**	**3,138,891**	**(134,881,320)**	**1,434,802,008**	**(819,931,051)**
	2016	**1,128,692,889**	**(561,636,609)**	**142,741,499**	**(1,777,846)**	**1,377,947**	**(127,929,960)**	**1,269,656,542**	**(688,188,622)**
Buildings and structures	2017	1,100,020,623	(583,057,613)	158,154,699	(4,586,407)	2,579,087	(120,609,848)	1,253,588,915	(701,088,374)
	2016	964,171,509	(471,510,902)	136,782,723	(933,609)	641,508	(112,188,219)	1,100,020,623	(583,057,613)
Machinery, equipment, vehicles	2017	165,427,123	(103,518,993)	12,158,861	(643,289)	539,339	(14,164,784)	176,942,695	(117,144,438)
	2016	160,365,518	(88,679,047)	5,883,161	(821,556)	714,598	(15,554,544)	165,427,123	(103,518,993)
Other fixed assets	2017	4,208,796	(1,612,016)	1,833,886	(1,772,284)	20,465	(106,688)	4,270,398	(1,698,239)
	2016	4,155,862	(1,446,660)	75,615	(22,681)	21,841	(187,197)	4,208,796	(1,612,016)
Including fixed assets that are not depreciated	2017	2,328,199	x,	1,773,439	(1,751,814)	x,	x,	2,349,824	x,
		2,328,069	x,	130	–	x,	x,	2,328,199	x,

Table 3 Information on fixed assets requiring state registration (RUB thsd)

	At 31 December 2017	At 31 December 2016	At 31 December 2015
Fixed assets whose title has not yet been registered	242,504,069	273,619,549	252,799,313
Including fixed assets whose registration documents have not yet been accepted by the state authorities	232,630,158	259,762,811	251,518,608

Table 4 Information on the use of fixed assets (RUB thsd)

Group of fixed assets	At 31 December 2017	At 31 December 2016	At 31 December 2015
Total assets leased out (historical cost), including	1,313,143,006	1,130,104,258	1,033,294,250
Buildings	47,879,783	46,382,575	45,422,791
Structures	1,098,760,374	929,580,685	838,692,221
Mothballed fixed assets (historical cost)	37,787,491	38,985,450	29,629,845
Total fixed assets leased (contract or cadastral value), including	74,235,887	65,320,361	62,186,922
Land plots	66,337,376	56,962,241	55,319,378
Other fixed assets	7,898,511	8,358,120	6,867,544
Change in the value of fixed assets as a result of supplementary construction, retrofitting, refurbishment, or partial liquidation	23,019,002	18,380,733	18,466,682

Table 5 Information on capital investments in progress (RUB thsd)

Capital investments in progress by type of asset	At 31 December 2017	At 31 December 2016	At 31 December 2015
Equipment for installation	17,828,175	16,143,044	19,318,500
Construction in progress, including	551,066,851	457,823,625	416,746,806
Advances issued for construction, acquisition, manufacturing of fixed assets (net of VAT)	46,294,428	30,617,797	48,125,961
Other assets	2,763,987	3,364,990	206,910
TOTAL	**571,659,013**	**477,331,659**	**436,272,216**

In 2017, the value of work performed under capital construction projects amounted to RUB 245,191 million (net of VAT). Investments in the purchase of equipment, both requiring and not requiring installation, fixed assets and land plots, and in appraisal and exploration drilling amounted to RUB 11,746 million (net of VAT).

Advances issued for construction, acquisition and manufacturing of fixed assets include the share of advances paid to purchase fixed assets with a value of up to RUB 40,000 per unit included in inventories. It is impossible to determine the final value of assets before the completion of the work performed to render them fit for use. Therefore, as of the reporting date, advances for acquisition are recognized within capital expenditures.

6. INTANGIBLE ASSETS

- Intangible assets include:
- Exclusive right of a patent holder to an invention, industrial design or utility model
- Exclusive right to computer software and databases
- Exclusive right to integrated circuit topologies
- Exclusive right to a trademark, service mark, or appellation of origin
- Exclusive right to selection achievements
- Exclusive right to trade secrets (know-how)
- Oil and gas production licenses
- Exclusive subsoil use rights when entering into international agreements that give the right to implement oil and gas exploration and production projects in a foreign jurisdiction or in the Russian Federation (licenses, concession agreements, subsoil use contracts, agreements on the provision of a participating interest, etc.)
- Geological exploration and production licenses (mixed licenses), provided that the production of mineral resources in the license area is commercially viable; such licenses are accounted for in the same way as costs arising in connection with the exploration and appraisal of fields until it is confirmed that production is commercially viable
- Other mineral licenses (for the construction of underground gas storage facilities, the production of conventional mineral resources and the abstraction of underground water)
- Deliverables of 3D and 4D seismic surveys (including designing, field works, supervising, processing, interpretation, lease of forest plot) in support of the development at commercially recoverable oil and gas fields
- Information received as the result of drilling the offshore appraisal and exploration wells abandoned as successful due to technological reasons at commercially recoverable fields
- Digital and electronic maps, as well as other spatial data
- Complex items comprising several protected intellectual properties (including those combining exclusive and non-exclusive rights):
- Multimedia product
- Audiovisual works (cinematic works or works involving media similar to those used in cinema (TV movies, videos, etc.))
- Website, etc.
- Other intangible assets

Geological exploration and production licenses (mixed licenses) are accounted for in the same way as costs arising in connection with the exploration and appraisal of fields until it is confirmed that production is commercially viable.

Intangible assets are recognized at their actual (historical) cost determined in accordance with Accounting Statement 14/2007, Intangible Assets, approved by Order No. 153n of the Russian Ministry of Finance dated 27 December 2007.

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 technical feasibility of creating the intangible asset
- Its intention and ability to create the intangible asset and use it
- How the intangible asset will generate probable economic benefits
- The availability of sufficient technical, financial and other resources to complete development and use the intangible asset
- Ability to reliably estimate costs related to the intangible asset during its development

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 created in-house mean:
- Intangible assets created by the Company's employees when performing their job duties
- Intangible assets resulting from the work performed by contractors under contracts that carry the risks of negative results for the Company

The Company created the following intangible assets in the reporting period:
- Exclusive right to computer software and databases with a historical cost of kRUB 190,175
- Patents with a historical cost of kRUB 119,914
- Digital forest management maps with a historical cost of kRUB 6,919
- Websites with a historical cost of kRUB 11,758

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 assets transferred or transferable by the Company. The cost of assets transferred or transferable by the Company is determined on the basis of the price it would normally use to determine the cost of similar assets under comparable circumstances.
Where it is impossible to determine the cost of assets transferred or transferable by the Company under such contracts, the cost of an intangible asset received by the Company is determined on the basis of the price at which similar intangible assets are purchased under comparable circumstances.
Intangible assets are amortized using the straight-line method or the unit-of-production method:
- Exclusive right of a patent holder to an invention, industrial design or utility model: straight-line method
- Exclusive right to computer software and databases: straight-line method
- Exclusive right to integrated circuit topologies: straight-line method
- Exclusive right to a trademark, service mark, or appellation of origin: straight-line method
- Oil and gas production licenses, provided that the production of mineral resources in the license area is commercially viable: unit-of-production method
- Exclusive subsoil use rights when entering into international agreements that give the right to implement oil and gas exploration and production projects in a foreign jurisdiction or in the Russian Federation (licenses, concession agreements, subsoil use contracts, agreements on the provision of a participating interest, etc.): unit-of-production method
- Geological exploration and production licenses (mixed licenses), provided that the production of mineral resources in the license area is commercially viable: unit-of-production method
- Other mineral licenses (for the construction of underground gas storage facilities, the production of conventional mineral resources and the abstraction of underground water): straight-line method
- Deliverables of 3D and 4D seismic surveys in support of the development at commercially recoverable oil and gas fields: unit-of-production method
- Information received as the result of drilling the offshore appraisal and exploration wells abandoned as successful due to technological reasons at commercially recoverable oil and gas fields: unit-of-production method
- Digital and electronic maps, as well as other spatial data: straight-line method
- Other intangible assets: straight-line method

The Company determines the useful life of an intangible asset upon its recognition.
The useful life of an intangible asset is determined on the basis of:
- The term of the Company's rights to intellectual property or means of individualization, and the period of control over the asset
- The period during which the Company is expected to use the asset and receive economic benefits

The Company annually reviews the useful life of an intangible asset in order to determine whether or not it should be revised. In the event of a significant change in the period, during which the company expects to use the asset, the asset's useful life shall be revised. The resulting adjustments are recorded and reported as changes in estimates.

The main groups of intangible assets have the following useful lives:

Trade marks	5 to 10 years
Patents	5 to 25 years
Exclusive rights to computer software and databases	1.1 to 10 years
Oil and gas production licenses [2]	3 to 173 years
Geological exploration and production licenses (mixed license) [2]	6 to 166 years
Other mineral licenses (for the construction of underground gas storage facilities, the production of conventional mineral resources and the abstraction of underground water)	3 to 25 years

Intangible assets are not amortized if their useful lives cannot be determined.
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 flow of future economic benefits from an intangible asset has changed significantly, the amortization method for that asset is also changed. The resulting adjustments are recorded and reported as changes in estimates.
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.
The Company determined that there was no need to revise the amortization method and the useful lives 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)

Groups of intangible assets	Period	At the beginning of the period		Changes for the period				At the end of the period	
		Historical cost	Accumulated amortization	Additions	Disposed		Amortization charge	Historical cost	Accumulated amortization
					Historical cost	Accumulated amortization			
Total intangible assets:	**2017**	**24,751,731**	**(3,937,867)**	**947,109**	**(9,902)**	**9,900**	**(1,755,799)**	**25,688,938**	**(5,683,766)**
	2016	**21,669,549**	**(2,330,753)**	**3,085,957**	**(3,775)**	**3,757**	**(1,610,871)**	**24,751,731**	**(3,937,867)**
Trademarks	2017	18,250	(6,858)	985	–	–	(2,270)	19,235	(9,128)
	2016	10,824	(5,454)	7,426	–	–	(1,404)	18,250	(6,858)
Patents	2017	630,781	(96,436)	119,914	–	–	(114,922)	750,695	(211,358)
	2016	573,050	(19,363)	57,731	–	–	(77,073)	630,781	(96,436)
Exclusive rights to computer software and databases	2017	1,321,589	(1,078,222)	190,175	(4,280)	4,280	(89,773)	1,507,484	(1,163,715)
	2016	1,144,683	(956,993)	180,662	(3,756)	3,756	(124,985)	1,321,589	(1,078,222)
Oil and gas production licenses (including mixed exploration and production licenses issued after commercial viability is confirmed)	2017	22,282,152	(2,569,317)	29,152	(82)	82	(1,478,963)	22,311,222	(4,048,198)
	2016	19,708,086	(1,224,000)	2,574,085	(19)	1	(1,345,318)	22,282,152	(2,569,317)
Other licenses	2017	917	(553)	–	(6)	4	(48)	911	(597)
	2016	807	(505)	110	–	–	(48)	917	(553)
Information received as the result of drilling the offshore appraisal and exploration wells abandoned as successful due to technological reasons	2017	38,482	(1,364)	–	–	–	(1,368)	38,482	(2,732)
	2016	38,482	(122)	–	–	–	(1,242)	38,482	(1,364)
Results of 3D and 4D seismic surveys at sites after commercial viability is confirmed	2017	261,787	(23,940)	588,206	–	–	(41,086)	849,993	(65,026)
	2016	–	–	261,787	–	–	(23,940)	261,787	(23,940)
Other intangible assets	2017	197,773	(161,177)	18,677	(5,534)	5,534	(27,369)	210,916	(183,012)
	2016	193,617	(124,316)	4,156	–	–	(36,861)	197,773	(161,177)

[2] Provided that the production of mineral resources in the license area is commercially viable

Table 7 Information on intangible assets created by the Company (RUB thsd)

Historical cost by group of intangible assets	At 31 December 2017	At 31 December 2016	At 31 December 2015
TOTAL, INCLUDING	**2,462,703**	**2,143,751**	**1,904,958**
Exclusive rights to computer software and databases	1,507,484	1,321,589	1,144,683
Patents	744,303	624,389	566,658
Other	210,916	197,773	193,617

Table 8 Information on investments in progress made to create intangible assets (RUB thsd)

Investments in progress	At 31 December 2017	At 31 December 2016	At 31 December 2015
Total investments in the creation of individual intangible assets, including by types:	**3,463,587**	**2,400,493**	**1,594,961**
Exclusive rights to computer software and databases	1,940,991	1,037,638	734,256
3D and 4D seismic surveys	1,507,340	1,286,118	829,705
Patents	6,087	4,933	1,010
Trademarks	3,877	25,806	19,751
Other intangible assets	5,292	45,998	10,239

Intangible assets received for use are recorded off the balance sheet and are estimated on the basis of the amount of remuneration specified in the contract.

Table 9 Information on intangible assets received by the Company for use (RUB thsd)

Cost by group of intangible assets	At 31 December 2017	At 31 December 2016	At 31 December 2015
TOTAL, INCLUDING	**7,417,358**	**6,348,270**	**5,789,962**
Non-exclusive rights to software programs, rights of access to information resources	7,417,358	6,348,270	5,789,962

Table 10 Information on fully amortized intangible assets (RUB thsd)

Intangible assets	At 31 December 2017	At 31 December 2016	At 31 December 2015
TOTAL, INCLUDING	**1,115,886**	**1,025,668**	**971,283**
Exclusive rights to computer software and databases	1,023,677	973,669	918,537
Patents	10,012	243	243
Oil and gas production licenses	623	521	854
Trademarks	535	535	26
Other licenses	61	61	64
Other	80,978	50,639	51,559

7. OIL AND GAS RESERVES EXPLORATION 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 are capitalized that are directly incurred in the discovery of new fields that will result in future economic benefits, while exploration costs (both direct and indirect), including geological and geophysical costs, are charged to expenses as incurred.
The following oil and gas reserves exploration and evaluation costs should be capitalized:
- Costs related to acquiring of subsoil use rights for oil and gas reserves (geological exploration licenses, geological exploration and production licenses)
- Costs related to appraisal/exploration drilling
- Information on the results of drilling of successfully liquidated appraisal/exploration wells

Capitalized exploration and evaluation costs lead to the creation of exploration assets:
- Appraisal/exploration wells – tangible exploration assets
- Licenses, information on the results of drilling of successfully liquidated appraisal/exploration wells – intangible exploration assets

Expenses related to the construction of offshore appraisal/exploration wells abandoned as successful in the license areas that did not prove to be commercially viable to recover oil and gas are capitalized as follows:
- Expenses related to the construction of offshore appraisal/exploration wells abandoned as successful are initially recognized as tangible exploration assets and then 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 both with regard to the well (current reserves estimation) and the subsurface area (reserves estimation 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 the carrying value of the licenses, wells and 3D seismic surveys during the stage of exploration and prospecting at a field (licensed area) or, in the event of the recoverability of exploration assets, to the realizable value.
Once the commercial viability of the subsurface area has been established, exploration assets in this area are subject to reclassification:

- Exploration and production licenses, as well as information on the results of drilling of successfully liquidated appraisal/exploration wells become intangible assets
- Appraisal/exploration wells become fixed assets (development wells construction in progress)

If production proves to be impractical, exploration assets are subject to impairment and are subsequently written off to other expenses of the Company.
Exploration assets are not depreciated.
The following costs are not capitalized in the value of assets and are taken to current-period expenses as oil and gas exploration and evaluation expenses:

- Costs incurred at the regional stage
- Exploration costs not related to drilling of appraisal/exploration wells or 3D and 4D seismic surveys at commercially recoverable oil and gas fields, including costs for the follow-up exploration of fields which have been put on stream and considered commercially developed
- Costs related to the maintenance of subsurface areas where exploration is being carried out and of fields which are not commercially operated
- Costs related to the preparation of project technical documentation for developing fields which are not commercially operated

The Company derecognizes exploration assets at the respective subsurface area if it proves to be commercially viable or if production is considered impractical.

Table 11. Information on exploration assets (RUB thsd)

Groups of licenses	Period	At the beginning of the period		Changes for the period			At the end of the period	
		Historical cost	Accumulated impairment losses	Additions	Disposed		Historical cost	Accumulated impairment losses
					At historical cost	Accumulated impairment losses		
Tangible exploration assets	**2017**	**11,045,466**	**(4,632)**	**15,478,948**	**(397,723)**	**4,632**	**26,126,691**	**–**
	2016	**11,338,131**	**–**	**16,247,350**	**(16,540,015)**	**(4,632)**	**11,045,466**	**(4,632)**
Intangible exploration assets, including	**2017**	**78,529,035**	**(226)**	**32,790,087**	**(15,958)**	**73**	**111,303,164**	**(153)**
	2016	**77,478,781**	**(2,828,345)**	**8,029,975**	**(6,979,721)**	**2,828,119**	**78,529,035**	**(226)**
License to use subsurface resources with the right of extraction	2017	43,332,325	(65)	32,751,738	(66)	65	76,083,997	–
	2016	43,107,687	(2,828,153)	6,039,570	(5,814,932)	2,828,088	43,332,325	(65)
License to use subsurface resources without the right of extraction	2017	276	(161)	2,171	(38)	8	2,409	(153)
	2016	349	(192)	30	(103)	31	276	(161)
Information on the results of drilling of successfully liquidated appraisal/exploration wells	2017	35,174,757	–	18,826	–	–	35,193,583	–
	2016	33,184,382	–	1,990,375	–	–	35,174,757	–
Costs related to acquiring of subsoil use rights for oil and gas reserves	2017	21,677	–	17,352	(15,854)	–	23,175	–
	2016	1,186,363	–	–	(1,164,686)	–	21,677	–

Information on tangible exploration assets as of 31 December 2017 is disclosed in line 1140, Tangible exploration assets, including advances issued of RUB 2 million and materials of RUB 51 million intended for creating tangible exploration assets in the balance sheet.
The disposal of tangible exploration assets in 2017 was mainly due to the transfer of the value of information totaling RUB 19 million to intangible exploration assets, sale in the amount of RUB 374 million and write-off to other expenses in the amount of RUB 5 million.
Increase in intangible exploration assets in 2017 was mainly due to the acquiring of subsoil use rights permitting geological survey and exploration in the amount of RUB 32 billion.

8. RESEARCH AND DEVELOPMENT RESULTS

Research and development results include costs incurred during the stage of development of R&D work in progress (recorded as investments in non-current assets) and completed (recognized as intangible assets/R&D).
The Company's costs are recognized in the accounts as R&D in progress if all of the following conditions are met:

- R&D contracts indicate that in the course of work new scientific knowledge is expected to be produced and/or used (information which is unknown, given the current level of technology)
- It is assumed that the positive result of R&D activities will create an opportunity for future economic benefits
- It is assumed that the positive completion of R&D activities will make it possible to demonstrate the use of its results in production for management requirements
- The amount of expenses can be defined and confirmed

When R&D projects are developed in-house, the related costs are capitalized from the beginning of the project stage if the Company is able to demonstrate:

- The technical feasibility of developing such R&D projects
- Its intention and ability to develop and use an R&D project
- How the R&D project is likely to generate economic benefits
- The availability of sufficient technical, financial and other resources to complete the development of and use the R&D projects
- The ability to reliably measure costs related to the development of the R&D project

R&D projects developed in-house include:

- R&D projects developed by Company employees in the course of performing their job duties
- R&D projects resulting from contractor work under contracts in respect of which the Company bears the risk of negative results

R&D costs incurred at the research stage are not capitalized and are recognized as expenses relating to ordinary activities or other expenses depending on the purpose of the research.
R&D costs are written off to expenses relating to ordinary activities on the first day of the month following the month in which the actual use of the obtained results began.
Upon the completion of R&D activities, in the event of a positive result, the costs related to R&D in progress form the value of R&D project. In the event of a negative result, R&D costs are written off to other expenses.
The R&D project value is written off on a monthly basis using the straight-line method in the amount of 1/12 of the annual amount.
In the event that the use of an R&D project is suspended, the related costs in the form of a monthly write-off amount are to be recognized as other expenses during the period for which the use of the R&D project has been suspended.
Where the Company early terminates using the results of R&D activities in accordance with Order "On writing off R&D expenses", R&D expenses are taken to other expenses.
The write-off period for R&D costs is determined by the Company based on the expected period of use of the results from these activities. This period may not exceed 5 years.
This period for most significant R&D deliverables is as follows:

Technology for production at the PK1 layer of the North-Komsomolskoye field	5 years
Technology for development of tight Turonian gas deposits	5 years
Technology for development of extra-heavy crude oil fields	5 years

Table 12. R&D results profile (RUB thsd)

R&D description	Period	At the beginning of the period		Change over the reporting period			At the end of the period	
		Historical cost	Part of the value written off to expenses	Additions	Disposed	Part of the value written off to expenses	Historical cost	Part of the value written off to expenses
R&D	**2017**	**264,753**	**(48,712)**	**377,614**	**(119,032)**	**(137,695)**	**523,335**	**(184,634)**
	2016	**263,525**	**(19,206)**	**23,077**	**(21,849)**	**(29,737)**	**264,753**	**(48,712)**

Changes in R&D project value written-off in the amount of RUB 1.77 million in 2017 and RUB 0.2 million in 2016 were made in the course of reclassifying R&D projects to intangible assets at net book value upon receipt of protection documents.

Table 13 R&D in progress and pending registration (RUB thsd)

R&D description	Period	At the beginning of the period	Change over the reporting period			At the end of the period
			Costs for the period	Costs expensed as unsuccessful	Recognized as intangible assets, R&D or fixed assets	
Costs of R&D in progress	**2017**	**3,128,676**	**1,803,258**	**–**	**(380,270)**	**4,551,664**
	2016	**2,270,423**	**978,479**	**(43,805)**	**(76,421)**	**3,128,676**

9. OTHER NON-CURRENT ASSETS

Other non-current assets include assets which are assumed to produce economic benefits over a period exceeding 12 months. This line includes prepaid expenses, fixed assets and tangible exploration assets retirement obligations (discounted) (hereinafter – the ARO asset), and other assets.
Other non-current assets are valued based on actual costs, except for ARO assets that are subject to accounting estimates.
Prepaid expenses relating to several periods are written off using the straight-line method.
The amount of the ARO assets (with regard to sites or facilities which, when abandoned, require disposal of materials and/or remediation of a land plot) is determined based on the estimated costs at the reporting date, which the Company is expected to incur when dismantling fixed assets and remediating natural resources on occupied land plots.
The ARO asset is depreciated using the unit of production method. The rate is applied to the book value at the beginning of the reporting month and reserves in denominator are adjusted to the production volume from the beginning of the year to the beginning of the reporting month.
The ARO asset related to tangible exploration retirement at the fields where it is not confirmed that the production is commercially viable is not depreciated.

Table 14. Information on other non-current assets (RUB thsd)

Other non-current assets by type	At 31 December 2017	At 31 December 2016	At 31 December 2015
Prepaid expenses with the write-off period exceeding 12 months – total	**7,365,761**	**5,498,510**	**4,234,168**
including:	7 365 761	5 103 217	3 627 501
Software	7,365,761	5,103,217	3,627,501
Rights to use Olympic symbols	–	–	211,374
Catalyzes	**–**	**395,293**	**395,293**
ARO asset	**24,160,025**	**27,513,978**	**30,329,710**
ADDITIONAL BORROWING COSTS (LONG-TERM)	**792,538**	**190,145**	**115,163**
TOTAL	**32,318,324**	**33,202,633**	**34,679,041**

10. RESERVES, VALUE ADDED TAX, EXCISES ON SELF-PRODUCED PETROLEUM PRODUCTS

Inventories are accounted for at their actual 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).
Upon disposal, inventories are depreciated using the following methods:

- Oil, construction materials, equipment, spare parts, fuel, packaging, fixtures and fittings, instruments and tools, other inventories – by the cost of every inventory unit (inventory unit is a consignment)
- Oil products – by the average cost of production broken down by refinery
- Self-produced semi-finished products – by the average cost of production broken down by refinery
- Self-produced oil and gas – by the average cost of production broken down by operator

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 its use. The value of special protective clothes with the service life of less than 12 months is written off when the clothes are handed over for use.
Materials, fuel, spare parts and other material resources are recorded at their actual acquisition cost.
Work in progress and finished products are recorded at their actual cost; goods are recorded at their acquisition cost.
Shipped finished products and shipped goods, the title to which is not yet transferred to the buyer, are recorded within inventories.
Inventories also comprise transportation and procurement costs attributable to the balance of goods at the warehouse and shipped but unsold goods.
Costs to sell (transportation costs, storage costs, intermediary service costs, customs duties etc.) are recorded within inventories where it is possible to relate them to certain consignments of finished products and goods recognized in accounting records before the sale of consignments to which they relate.
The amounts of VAT related to the acquired goods, work, services and property rights to be deducted and not included in the cost of the assets acquired, or in expenses, are recorded in line 1220 of the balance sheet.
This line also includes the excise duty assessed by Rosneft Oil Company upon accounting for straight-run gasoline, benzene, orthoxylene, paraxylene subject to appropriate certificate and deductible during their refining/disposal.
If there is any indication of impairment, the Company recognizes the decrease in value of inventories in the financial statements.
In accordance with the requirement of prudence, the Company accounts for the impairment of inventories using the method of provisioning.

Table 15 Information on the VAT and excise duties (RUB thsd)

Tax	At 31 December 2017	At 31 December 2016
Input value added tax claimed	67,860,841	50,817,300
Excise duty assessed upon accounting for straight-run gasoline, benzene, orthoxylene, paraxylene	4,737,888	6,455,296

Table 16. Information on inventories (RUB thsd)

Inventories by type	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Cost	Allowance for impairment	Cost	Allowance for impairment	Cost	Allowance for impairment
Total inventories	**142,439,261**	**(50,706)**	**113,063,448**	**(45,713)**	**107,241,362**	**(34,102)**
Raw and other materials	18,575,428	(27,811)	14,568,793	(28,754)	12,005,826	(10,195)
Costs related to work in progress	9,706,137	x	9,056,282	x	9,536,322	x
Finished products and goods	114,157,696	(22,895)	89,438,373	(16,959)	85,699,214	(23,907)

An increase in the value of inventories was due to increased oil production and volume of oil refined. In 2015-2017, inventories were not pledged.

Table 17. Information on the movements in allowances for their impairment in the reporting period (RUB thsd)

Allowance balance at 31 December 2016	Movements in allowance over the reporting period		Allowance balance at 31 December 2017
	Accrued (accrued additionally), +	Reversed (adjusted), -	
45,713	24,480	(19,487)	50,706

11. FINANCIAL INVESTMENTS

Financial investments are initially recognized at their actual acquisition cost. Subsequently, financial investments whose market value can be determined are remeasured at market value; and financial investments whose market value cannot be determined are not remeasured, but tested for impairment. When a sustained material decline in the value of financial investments is supported by impairment tests, the Company creates (adjusts) an allowance for impairment of such financial investments as at the last day of the quarter (last day of the reporting year). As of 31 December 2017, the allowance for impairment of financial investments amounts to RUB 29,777 million.
The valuation of financial investments whose market value can 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 their market value determined as appropriate by an organizer of the trade in the securities market.
Financial investments in the form of shares of PJSOC Bashneft ("Bashneft") quoted in the securities market are accounted for following the procedure provided for financial investments, for which the current market value is not determined. It is due to the fact that quotes in the securities market do not represent a market price (control premium). The volume of shares available for free circulation in the market is insignificant and their sales are not representative for appraisal the value of the majority shareholding since they are easily manipulated by stock players.
The historical cost of debt securities whose current market value cannot be determined is not adjusted for the difference between the historical cost and nominal value.
Debt securities and loans issued are not measured at present value.
At disposal of assets recognized as financial investments, for which the current market value is determined, the value of such assets is based on their most recent valuation.
Financial investments whose current market value cannot be determined are measured at historical cost of each unit disposed.
Deposits with the maturity period not exceeding 91 days are not considered to be financial investments and are recorded within cash in the financial statements.
Short-term debts related to financial investments are reclassified to long-term debts in cases when the payment terms envisaged by the agreement are revised and increased to exceed 365 days after the reporting date.
Long-term debts related to 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 of the reporting date. The Company did not record financial investments carried at market value with undetermined market value at the reporting date.
The Company did not record financial investments pledged or transferred to third parties (except for sale).
From 1 January 2016, contributions to assets and other investments to improve the financial position of the Group's entities (financial aid, free of charge transfer of assets, etc.) were subject to capitalization in the cost of the financial investments to the entities, which attracted additional investments.

Table 18. Information on financial investments (RUB thsd)

Financial investments by type	At 31 December 2017	At 31 December 2016	At 31 December 2015
TOTAL	**6,731,832,453**	**6,391,313,951**	**5,583,419,550**
Long-term investments – total	**6,003,776,788**	**5,492,046,642**	**3,945,699,651**
Units and shares (interest), including:	3,662,042,158	3,033,910,399	2,491,390,235
Shares (interest) of subsidiaries and associates	3,657,753,129	3,029,208,915	2,334,540,809
Long-term loans issued	1,712,770,543	1,836,738,528	1,184,279,012
Other long-term financial investments	628,964,087	621,397,715	270,030,404
Short-term investments – total	**728,055,665**	**899,267,309**	**1,637,719,899**
Short-term loans issued	572,777,685	575,449,953	702,770,801
Deposits	37,440,130	47,459,830	686,478,240
Promissory notes and bonds received	64,444,958	79,413,940	81,084,602
Accounts receivable acquired under the assignment agreements	1,056	27,557	72,043
Other short-term financial investments	53,391,836	196,916,029	167,314,213

The change in the 2017 long-term financial investments from RUB 5,492,047 million to RUB 6,003,777 million was mainly due to the acquisition of shares and increase in interests and investments in share capitals of subsidiaries and associates in the amount of RUB 628,544 million; decrease in loans issued in the amount of RUB 123,968 million, including due to repayment, revaluation and reclassification of debt; increase in other financial investment in the amount of RUB 7,566 million mainly due to placement of long-term deposits.
In 2017, changes mainly occurred in the following interests and investments:

- In February 2017, Rosneft Oil Company purchased 13,481,080 shares in Bashneft in the amount of RUB 49,966 billion as a result of the mandatory offer to purchase ordinary shares held by minority shareholders of Bashneft. Rosneft Oil Company currently owns 102,432,459 ordinary shares of Bashneft, which represents nearly 69.3% of the voting shares.
- In June 2017, the Company closed the deal to sell a 20% stake in PJSC Verkhnechonskneftegaz to Beijing Gas Group Company Limited. The transaction amounted to RUB 64.81 billion.
- In November 2017, the Company acquired 304,520,407 ordinary shares (an additional issue) of JSC Okhinskaya TETS. The transaction amounted to RUB 2.984 billion.
- In 2017, the Company made additional contributions to share capitals of subsidiaries in the amount of RUB 515,874 billion.

Long-term shares include investments whose market value can be determined. The difference between the current market value at the reporting date and the assessment (as of 31 December 2017) of long-term financial investments whose market value can be determined is RUB 412 million (loss). The amount of loss was taken to the financial result and recorded as other expenses.
The change in the 2017 short-term financial investments from RUB 899,267 million to RUB 728,056 million was mainly due to sale of third party's bonds, closure of short-term deposits and decrease in investments in other short-term investments, including units and other securities.

12. DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives are financial instruments that simultaneously meet the following criteria:

- The value of a financial instrument is changed in line with the changes in the applied interest rate, security rate, price of goods, foreign currency exchange rate, price or interest rate index, credit rating or credit index or other "basic" variables
- The acquisition of a financial instrument does not require any investments or requires initial net investments but in amounts lower than for other instruments, the price of which has a similar response to market factor changes; and other types of contracts that are expected to have a similar response to market factor changes
- Financial instrument calculations are performed subsequently.

In managing foreign currency and interest rate risks, the Company entered into cross currency and interest rate swaps to sell US dollars that help match the currency of revenue and the currency of liabilities, and reduced absolute interest rates for the debt financing raised.
Derivative financial instruments are measured at fair value.
The method for determining the fair value of transactions is based on the assessment of the present discounted value of future cash flows using the consensus projections of foreign exchange rates. The consensus projections comprise forecasts of key international banks and agencies. The Bloomberg system is the key source of information for making projections.
Profit or losses arising during the period as adjustments upon change in the fair value are recognized in the income statement.
The change in the fair value of the derivative financial instrument means the difference between the fair value at the beginning of the reporting period (or at the date of acquisitions, whichever is more recent) and at the end of the reporting period.
Derivative financial instruments at fair value through profit or loss are recorded as assets (liabilities) in the balance sheet in similar lines depending on their maturity.
As at the reporting date, short-term liabilities on derivative financial instruments include liabilities related to cross currency and interest rate swaps.

The deals with derivative financial instruments are presented below:

Table 19 Information on the deals with derivative financial instruments

	Period		Nominal amount at 31 December 2017		Interest rate type	Fair value of a liability at 31 December (RUB thsd)	
	Issue	Repayment	USD, million	RUB, million[3]		2017	2016
Swaps	2012	2017	–	–	Floating	–	18,246,990
Swaps	2013	2018	2,138	123,149	Floating	51,966,086	55,828,532
Swaps	2014	2019	1,010	58,176	Floating	22,107,217	23,558,342
TOTAL			**3,148**	**181,325**		**74,073,303**	**97,633,864**

In 2017, the Company completed transactions with derivative financial instruments entered into in 2012 in the nominal amount of USD 641 million (RUB 36,922 million at the CBR official exchange rate as of 31 December 2017).

13. INFORMATION ON HEDGING TRANSACTIONS

Cash flow hedging of the Company's future exports

Hedging transactions are operations (set of operations) with term transaction financial instruments (including those of different types), performed to minimize (compensate) adverse effects, fully or partially, caused by the loss incurred, income deficiency, decrease in revenue, decrease in market value of the property, including property rights (rights of claim), increase in the Company's liabilities due to change in price, interest rate, currency exchange rate, including the rate of the foreign currency to the rate of the currency of the Russian Federation, or another indicator (set of indicators) of a hedged item (items).
In the reporting year, the Company performed transactions to hedge the cash flows of the Company's future exports due to foreign currency risks attributed to expert revenue denominated in foreign currency mainly in US dollars. The Company raises borrowings in the same currency as the forecasted revenue to economically hedge the foreign currency risk exposure.
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 portion of the future monthly export revenue expected to be received in US dollars was designated as 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.
According to the foreign currency risk management strategy of the Company, export revenue shall be hedged in the amount of net monetary position denominated in US dollars.
The Company regularly aligns the nominal amount of hedging and net monetary position in US dollars. As of 31 December 2017, the nominal amount totaled USD 873 million (RUB 50 billion at the CBR exchange rate as of 31 December 2017).

Table 20. Information on amounts recognized in other funds and reserves on hedging transactions (RUB thsd)

Indicator	2017	2016	2015
Recognized in other funds and reserves at the beginning of the year	(348,012,103)	(471,888,054)	(398,110,282)
Foreign exchange difference on cash flow hedges before tax	(317,589)	7,751,412	(215,285,867)
Reclassified to profit or loss	145,646,857	147,093,527	123,063,653
Other tax effect[4]	(29,065,854)	(30,968,988)	18,444,442
Recognized in other funds and reserves at the end of the year	(231,748,689)	(348,012,103)	(471,888,054)

The forecast of reclassification of the amounts from revaluation of hedges accumulated in other funds and reserves into profit or loss as of 31 December 2017 is presented below:

Table 21 (RUB, million)

Year	2018	2019	2020	2021	Total
Reclassifications	145,638	145,638	(1,827)	237	289,686
Income tax	(29,128)	(29,128)	365	(46)	(57,937)
Total net of income tax	116,510	116,510	(1,462)	191	231,749

The expected reclassification is calculated using the CBR exchange rate as of 31 December 2017 and may be different 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 91 days.
For the purposes of the statement of cash flows, cash flows are classified based on the criteria specified in clauses 9-11 of Accounting Statement 23/2011.
Cash flows that cannot be reliably classified are recognized as cash flows from operating activities.
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 payment or receipt. The average exchange rate is not applied to translate cash flows. There is no cash unavailable for use by the Company.

Table 22. Information on cash and cash equivalents (RUB thsd)

Cash	At 31 December 2017	At 31 December 2016	At 31 December 2015
Cash	115,167,670	106,388,455	331,889,690
including restricted cash	8,269,529	10,475	–
Deposits with the maturity period not exceeding 91 days and other cash equivalents	1,470,990	477,835,005	70,500,000

15. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable and payable are accounted for and recorded in financial statements in accordance with the respective existing agreements.
Accounts receivable from suppliers and contractors include advances issued that are recorded in the balance sheet less VAT deductible or deducted at the reporting date in accordance with the Tax Code of the Russian Federation. VAT on advances (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 less VAT on advances received.
Accounts receivable include non-income-bearing financial investments within Rosneft Oil Company Group.
The Company receives no government financing.
The provision for doubtful debts is made on the basis of settlements with other organizations and individuals for products, goods, work and services, advances issued and other accounts receivable, and is recorded in the income statement as other expenses.
Short-term accounts receivable and payable are converted into long-term in cases where payment periods under existing contracts are revised and increased to exceed 365 days.
Long-term accounts receivable and payable are converted into short-term where the term to maturity under existing contracts is 365 days or less.

[3] Equivalent of the nominal amount at the CBR official exchange rate as of 31 December 2017.

[4] The difference between the accounting profit (loss) and the taxable profit (loss) resulted from recognitions of hedging transactions. Other tax effect is recognized in line 2466 of the income statement.

Similarly, part of long-term accounts receivable and payable are converted into short-term if the debt under existing contracts is repaid by installments in different periods.

Table 23. Information on accounts receivable (RUB thsd)

Accounts receivable by type	At 31 December 2017	At 31 December 2016	At 31 December 2015
Accounts receivable – total	**2,531,306,562**	**1,523,299,152**	**2,025,601,916**
Long-term accounts receivable	**1,411,377,288**	**716,707,241**	**1,134,438,474**
Including:	89 808	109 262	–
Buyers and customers	89,808	109,262	–
Advances paid	443,736	398,706	347,614
Other debtors, including	1,410,843,744	716,199,273	1,134,090,860
Loans issued to the companies within Rosneft Oil Company Group	1,164,327,102	488,106,822	1,030,781,711
Interest on long-term loans, promissory notes	**226,058,312**	**209,946,805**	**85,938,787**
Short-term accounts receivable	1,119,929,274	806,591,911	891,163,442
Including:	38 208 836	36 203 998	41 263 661
Buyers and customers	548,535,766	329,312,013	201,528,043
Advances paid	38,208,836	36,203,998	41,263,661
Other debtors, including	533,184,672	441,075,900	648,371,738
Due from the budget and state non-budgetary funds	53,345,166	64,394,983	59,835,376
Loans and promissory notes issued to the companies within Rosneft Oil Company Group	139,691,819	60,493,379	117,536,411
Interest (discount) on deposits, loans, promissory notes	194,144,515	80,044,209	140,571,358
Settlements under commission agreements, other accounts receivable	79,157,929	85,276,864	88,272,216

As of 31 December 2016, the Company's accounts receivable amounted to RUB 1,523,299 million, including the provision for doubtful debts in the amount of RUB 14,843 million. In 2017, accounts receivable increased by RUB 1,008,008 million and amounted to RUB 2,531,307 million as of 31 December 2017, including the provision for doubtful debts in the amount of RUB 21,375 million. The accounts receivable increased primarily due to the non-interest bearing long-term loans issued to the companies within PJSC Rosneft Oil, participants of the consolidated taxpayer group.

Table 24. Information on accounts payable (RUB thsd)

Accounts payable by type	At 31 December 2017	At 31 December 2016	At 31 December 2015
Accounts payable	**1,785,522,679**	**1,753,787,381**	**1,416,028,642**
Suppliers and contractors	1,120,734,835	1,064,165,761	719,514,866
Payables to the Company's employees	34,690	12,612	5,631
Payables to the budget and non-budgetary funds	71,118,709	52,200,917	34,931,985
Advances received	306,953,478	316,474,647	217,812,613
Settlements under commission agreements, other accounts payable	286,680,967	320,933,444	443,763,547

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 1,785,523 million as of 31 December 2017. The increase in accounts payable was primary attributable to settlements with the companies within Rosneft Oil Company Group for purchased products and operator services relating to production and processing.

16. LONG-TERM AND SHORT-TERM LOANS AND BORROWINGS, OTHER LIABILITIES AND COLLATERAL PLEDGED

Loans and borrowings payable are accounted for and recorded in financial statements in accordance with the respective existing agreements.

The Company reclassifies short-term loans and borrowings payable into long-term payables if the repayment period under the existing agreement is revised and increased to exceed 365 days. The Company reclassifies long-term payables into short-term payables where the outstanding repayment period becomes 365 days or less.

The interest amounts payable under loans and borrowings received are accrued on a straight-line basis regardless of the conditions of loans (borrowings). Additional expenses for loans (borrowings), other than commissions on loans (borrowings) raised, such as bank commissions for using loan funds, originating a loan, obtaining and maintaining a line of credit, and other bank commissions (fees) related to raising loans (borrowings) are recorded as a lump sum in other expenses.

Where commissions on loans (borrowings) are material, they are included in other expenses on a straight-line basis over the loan (borrowing) maturity period.

The commissions on loans (borrowings) that are not written off as of the reporting date are shown on the balance sheet as other non-current assets or other current assets depending on their remaining period of recognition as expenses (more than 12 months or less than 12 months, respectively).

For the purposes of capitalizing interest on loans and borrowings into the cost of acquired assets, such investment assets shall comprise those assets that necessarily take a substantial period of time (over 12 months) to get ready for their intended use through acquisition, construction or production.

Investment assets consist of the items of non-current assets, work-in-progress and construction-in-progress which will subsequently be accounted for by the borrower and/or customer (investor, buyer) as fixed assets (including land), intangible assets, exploration and evaluation costs or other non-current assets.

In 2017, the Company raised loans from Russian banks at floating and fixed rates to replenish working capital. Loans were repaid under relevant agreements both early and in accordance with the schedule.

Loans payable recorded in the financial statements as of the reporting date include the accrued interest.

Borrowing costs included in other expenses amounted to RUB 116 million.

Total interest of RUB 78,810 million was accrued on the Company's loans for the reporting period. Interest payable increased by RUB 10,883 million year-on-year.

Interest capitalized in the cost of investment assets created (acquired) was RUB 17,296 million. The amount of interest included in the cost of investment asset and payable to lender (creditor) on loans received for purposes other than acquisition, construction and/or production of an investment asset totaled RUB 17,165 million.

Table 25. Information on long-term and short-term loans and borrowings (RUB thsd)

Loans and borrowings, by type	Balance at 31 December 2016	Received (accrued)	Repaid (paid)	Reclassified	Balance at 31 December 2017
Long-term loans and borrowings	**4,338,773,620**	**2,232,516,781**	**(1,045,799,734)**	**(441,492,339)**	**5,083,998,328**
including					
Long-term loans	957,188,064	248,881,560	(41,225,442)	(129,202,527)	1,035,641,655
Long-term borrowings	1,484,495,129	888,016,883	(990,194,027)	(208,908,858)	1,173,409,127
Long-term interest accrued under loan and borrowing agreements	127,098,650	41,463,087	(11,546,064)	(68,380,954)	88,634,719
Long-term promissory notes issued	3,567,226	–	–	–	3,567,226
Long-term interest accrued on promissory notes	1,424,551	321,050	–	–	1,745,601
Long-term bonds issued	1,765,000,000	1,053,834,201	(2,834,201)	(35,000,000)	2,781,000,000
Short-term loans and borrowings	**525,561,253**	**2,224,088,072**	**(2,330,870,804)**	**441,492,339**	**860,270,860**
including					
Short-term loans	99,000,000	1,203,177,675	(1,067,677,675)	–	234,500,000
Short-term borrowings	64,931,317	731,512,128	(714,740,476)	208,908,858	290,611,827
Current portion of long-term loans and borrowings	263,714,442	–	(274,307,629)	129,202,527	118,609,340
Current portion of long-term interest accrued under loan and borrowing agreements	1,164,777	62,368,759	(62,577,207)	–	956,329
Short-term interest accrued under loan and borrowing agreements	2,721,109	27,836,402	(25,892,317)	68,380,954	73,046,148
Short-term bonds issued	75,000,000	–	–	35,000,000	110,000,000
Interest accrued on bonds issued (coupon income)	19,029,608	199,193,108	(185,675,500)	–	32,547,216

Information on RUB-denominated interest-bearing non-convertible bearer bonds issued as of 31 December is provided below:

Table 26. Information on RUB-denominated interest-bearing non-convertible bearer bonds (RUB, million)

Type of bonds	Series number	Issue date	Total nominal value, RUB, million	Coupon rate	At 31 December 2017	At 31 December 2016
Bonds	04.05	October 2012	20,000	7.9%	20,000	20,000
Bonds	07.08	March 2013	30,000	8.0%	30,000	30,000
Bonds	06,09,10	June 2013	40,000	7.95%	40,000	40,000
Exchange-traded bonds	BO-05, BO-06	December 2013	40,000	7.95%	40,000	40,000
Exchange-traded bonds	BO-01, BO-07	February 2014	35,000	8.90%	35,000	35,000
Exchange-traded bonds	BO-02, BO-03, BO-04, BO-08, BO-09, BO-10, BO-11, BO-12, BO-13, BO-14	December 2014	225,000	9.4%[5]	225,000	225,000
Exchange-traded bonds	BO-15, BO-16, BO-17, BO-24	December 2014	400,000	7.85%[5]	400,000	400,000
Exchange-traded bonds	BO-18, BO-19, BO-20, BO-21, BO-22, BO-23, BO-25, BO-26	January 2015	400,000	8.6%[5]	400,000	400,000
Exchange-traded bonds	001R-01	December 2016	600,000	8.35%[5]	600,000	600,000
Exchange-traded bonds	001R-02	December 2016	30,000	9.39%	30,000	30,000
Exchange-traded bonds	001R-03	December 2016	20,000	9.50%	20,000	20,000
Exchange-traded bonds	001R-04	May 2017	40,000	8.65%	40,000	–
Exchange-traded bonds	001R-05	May 2017	15,000	8.6%	15,000	–
Exchange-traded bonds	001R-06	July 2017	90,000	8.5%	90,000	–
Exchange-traded bonds	001R-07	July 2017	176,000	8.5%	176,000	–
Exchange-traded bonds	001R-08	October 2017	100,000	8.6%	100,000	–
Exchange-traded bonds	002R-01	December 2017	300,000	8.35%	300,000	–
Exchange-traded bonds	002R-02	December 2017	300,000	8.35%	300,000	–
Exchange-traded bonds	002P-03	December 2017	30,000	7.75%	30,000	–
TOTAL LONG-TERM RUB-DENOMINATED BONDS					**2,891,000**	**1,840,000**

All these bond series have maturity of six, eight or ten years; coupon payments are made every six months for bonds maturing in ten years (except for 001R-01 series) and every three months for bonds maturing in six and eight years. The bonds, except for 001R-03 and 001R-05series, offer an early purchase/buyback option exercisable upon demand of their holders at the time determined in the bond documents. In addition, the issuer may, at any time and at its own discretion, early purchase/buy back the bonds before maturity upon a specific decision of the company, and may further put these bonds in circulation.

Early purchase/buyback of the bonds does not mean their repayment.

On 24 July 2012, the Company issued and sold 40 promissory notes with a nominal value RUB 274 million each and a total amount of RUB 10,976 million, which have consecutive (quarterly) maturity dates over a ten-year period, and bear an interest rate of 9% p.a. These promissory notes were partly paid in 2012 to 2015.

The repayment schedule of long-term promissory notes issued as of 31 December 2017 is as follows:

Table 27. The repayment schedule of long-term promissory notes issued as of 31 December 2017 (RUB, million)

2018	–
2019	549
2020	1,098
2021	1,920
2022 and after	–
TOTAL LONG-TERM AMOUNT PAYABLE	**3,567**

The repayment schedule of long-term loans and borrowings, and bonds issued as of 31 December 2017 is as follows:

Table 28. The repayment schedule of long-term loans and borrowings, and bonds issued as of 31 December 2017 (RUB, million)

2018	118,609
2019	251,012
2020	903,210
2021	950,856
2022 and after	2,994,973
TOTAL LONG-TERM AMOUNT PAYABLE	**5,218,660**

[5] For the coupon period valid as of 31 December 2017

Table 29. Information on other long-term liabilities (RUB, million)

Amounts of loan facilities provided to and not used		Restrictions on use of loan facilities (including required minimum balances)
at the beginning of the period	at the end of the period	
89,755	20,000	None

Loans are partially secured by crude oil export contracts.
As of 31 December 2017, guarantees and sureties issued by the Company totaled RUB 210,241 million and included collateral provided in foreign currency in the amount of USD 581 million and EUR 2,149 million at the CBR exchange rate ruling at the transaction date. Items pledged as collateral were as follows:

Table 30. Information on items pledged as collateral by type of pledge

Items pledged as collateral	Share in the total
Revenue from sales of oil and oil products	10.29
Sureties	89.71

In 2013, Rosneft Oil Company's 2012 agreements with Eni S.p.A, Statoil ASA and the ExxonMobil Oil Corporation took 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 unlimited, unconditional and indefinite, and that the partners shall pay commercial discovery bonuses to Rosneft Oil Company.
In the second quarter of 2013, Rosneft Oil Company provided an unconditional, unlimited and indefinite guarantee (surety) to the government of Norway and Norwegian government authorities which fully covers the contingent obligations of RN Nordic Oil AS that this company may incur as a result of its operations on the Norwegian continental shelf. Provision by the parent company of a guarantee to cover RN Nordic Oil's obligations arising from environmental risks is an imperative requirement of Norwegian legislation and is a prerequisite for RN Nordic Oil AS to be granted a license for operating on the Norwegian continental shelf jointly with Statoil.
In the second quarter of 2014, Rosneft Oil Company's 2013 agreements with the ExxonMobil Oil Corporation took effect as part of cooperation in the implementation of seven new projects on the Russian continental shelf. These agreements also stipulate that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite, and 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 tight oil and gas reserves in Western Siberia is governed by an agreement stipulating that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite and the partner shall pay to Rosneft Oil Company a bonus for each barrel of oil extracted after the start of commercial production.
In the fourth quarter of 2015, the Agreement of parent guarantees between Rosneft Oil Company and Statoil ASA entered into force in order to ensure execution of liabilities by its associates within the guarantees provided by each of the project partners to its counterparty under the project contractual documentation.

Table 31. Information on other long-term liabilities (RUB thsd)

Other long-term liabilities, by type	Balance at the beginning of the year	Received (accrued)	Repaid (reclassified to short-term debt)	Balance at the end of the year
Other long-term liabilities, including:	**1,550,012,639**	**117,646,800**	**(248,233,410)**	**1,419,426,029**
Long-term prepayment under crude oil and	1 545 272 980	117 646 800	(244 669 660)	1 418 250 120
oil product supply contracts				

In 2013 and 2014, the Company signed a number of long-term oil and oil products supply contracts that provide for receipt of a prepayment. The total minimum amount of future supplies under these contracts is around 400 million tons.
The contracts include the following main terms:

- Prepayment shall not exceed 30% of the cost of the total contracted amount of crude oil;
- The oil price shall be based on current market quotes;
- Prepayment is settled through physical deliveries of crude oil.

From 1 January 2015, scheduled oil supplies started under the long-term contracts that provide for prepayments. In 2017, offset of prepayments under these contracts amounted to RUB 240 billion (USD 7.432 billion at the exchange rate at the dates of prepayments, not subject to revaluation at the current exchange rate).
In the course of performing functions under the technical customer agreements, construction agreements are concluded, one of the terms of which is provisioning by a customer of a part of the cost of construction work to be paid to the contractor after acceptance of completed facility. As of 31 December 2017, liabilities totaling RUB 1.2 billion are reclassified to long-term accounts payable under the agreements, the terms of which provide for repayment of the reserved amounts in one year and later.

17. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

Changes in foreign exchange rates, particularly in US dollar rates, have a significant effect on the Company's financial and business performance.

Table 32. Information on changes in RUB/USD exchange rates

At 31 December	Exchange rate
2017	57.60
2016	60.66
2015	72.88
2014	56.26
2013	32.73

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 15,901 million and recorded as other income of the Company.
Foreign exchange differences from the Company's operations outside the Russian Federation taken to additional capital in the reporting period included: foreign exchange gains of RUB 2.6 million and foreign exchange losses of RUB 3.4 million.
Foreign exchange differences arising in the reporting period from operations involving assets and liabilities denominated in foreign currency, and from translation of such assets and liabilities as of the reporting date, were taken to the other income and expense account, except for liabilities designated as hedging instruments (refer to Note 13).
Currency conversion transactions are recorded in the income statement in other income and other expenses on a net basis; only foreign exchange gains or losses are recognized as income (expense).

Table 33. Income and expenses from dealing in foreign currency (RUB thsd)

Income and expenses	For the 2017 reporting year	For the 2016 reporting year
Income	6,839,523	9,673,893
Expenses	(22,268,125)	(5,027,173)

18. TAXES AND LEVIES, CUSTOMS DUTIES

The Company's tax liabilities are recorded in accounting using the periodicity convention.
In 2017, the rates of the main taxes were as follows:

- Income tax – 20%
- Value added tax – 18%

Since 2012, the Russian tax legislation allows calculating income tax on a consolidated basis within a consolidated taxpayer group. Therefore, the Company's main entities were combined into the consolidated taxpayer group.
In 2017, there were 64 participants of the consolidated taxpayer group with Rosneft Oil Company as the responsible participant.
The mineral extraction tax to be included in the cost of products, goods, work and services sold amounted to RUB 592,501 million in 2017; RUB 414,101 million in 2016.
In 2017, the accrued export duty amounted to RUB 589,471 million; 2016: RUB 572,226 million.
Settlements with the budget and non-budgetary funds are presented in the table below:

Table 34. Settlements with the budget and state non-budgetary funds (RUB thsd)

	At 31 December 2017	At 31 December 2016	At 31 December 2015
Receivables from the budget and state non-budgetary funds – total	**53,345,166**	**64,394,983**	**59,835,376**
Value added tax (VAT)	50,870,082	57,558,838	45,647,489
Income tax	–	4,674,516	13,307,620
Other taxes and levies receivable	2,440,020	2,125,224	839,002
Receivables from state non-budgetary funds	35,064	36,405	41,265
Payables to the budget and state non-budgetary funds – total	**71,118,709**	**52,200,917**	**34,931,985**
Mineral extraction tax	64,819,580	44,438,484	25,947,941
Income tax	206,319	121,336	–
Excise tax	2,860,598	5,325,782	6,233,998
Property tax	3,075,984	2,183,230	2,552,887
Other taxes and levies payable	155,013	131,122	195,645
Payable to state non-budgetary funds	1,215	963	1,514

Taxes and levies receivable decreased by RUB 11,050 million as compared to that of 31 December 2016 primarily due to decrease in the amount of VAT recoverable from the budget as of the end of the fourth quarter of 2017 year on year. In addition, income tax receivable decreased by RUB 4,674.5 million due to return of the existing overpaid income tax of the consolidated taxpayer group.
Taxes and levies payable increased by RUB 18,918 million from 31 December 2016 primarily due to increase in the mineral tax rate in December 2017 year on year.
As at 31 December 2017, 2016 and 2015, the Company did not have any overdue taxes and levies payable.
According to provisions of Chapter 14, Tax Control, of the Russian Tax Code, desk-top and field audits of tax and levy payers and tax agents may cover three calendar years preceding the year in which a decision to hold the tax audit is taken. The Company's management believes that the results of tax audits will not have a material impact on the Company's financial position because tax liabilities are estimated in accordance with requirements of the tax legislation.

19. EQUITY

Share capital

As of 31 December 2017, the Company's share capital amounts to RUB 105,981,778.17 and is divided into 10,598,177,817 ordinary shares with a par value of RUB 0.01 each.

Reserve and additional capital

The Company's equity also includes reserve and additional capital. The Company's reserve capital represents reserve capital formed in accordance with constitutional documents and is equal to 5% of the share capital. As of 31 December 2017, the reserve capital is fully formed and amounts to RUB 5.299 million.
As of 31 December 2017, the Company's additional capital amounted to RUB 113,278.5 million (as of 31 December 2016: RUB 113,279 million).

Treasury shares

In 2017, the Company did not repurchase its shares.

Net assets

As of 31 December 2017, the Company's net assets amount to RUB 1,684,375 million. The net assets increased by RUB 151,288 million or 9.9 % as compared to the prior balance sheet date (RUB 1,533,087 million). As of 31 December 2017, the Company's net assets exceed its share capital by RUB 1,684,269 million.

20. INCOME AND EXPENSES, RETAINED EARNINGS

Revenue from sales of goods, work and services is recognized as and when the goods are shipped, work is performed and services are rendered, and settlement documents are presented to customers (clients).
To ensure timely provision of primary documents to the accounting department, if necessary, the Company uses the accrual methodology in accordance with Accounting Statement 9/99, Revenues of an Organization, provided that the criteria for revenue recognition are met. In this case, revenue is recognized based on updates provided by Company's business units.
The Company applies a method that involves calculating the income cost of goods (direct costing), and therefore general and administrative expenses are fully debited to the "Sales" account, i.e. are fully recognized in the reporting period without allocating them to balances of work in progress and finished goods (except for general expenses directly related to acquisition, construction and production of assets, which are included in the cost of assets).
Selling expenses are allocated between sold goods and goods that were shipped but not sold, including finished goods at the warehouse.
The Company's total advertising expenses (not broken down by type of good) are recognized in selling expenses.
The use of profit is recognized in accounting records and financial statements in the year following the reporting years pursuant to the decision of the shareholders' meeting. A portion of the profit, which was not 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, retained earning of prior years amounted to RUB 1,704,356 million. As of 31 December 2016, this amount was RUB 1,767,709 million. Changes in the profit of prior years resulted mainly from accrued dividends in the amount of RUB 63,377 million.
The following income and expenses affected the retained earnings for the reporting year:

Table 35. Company's income and expenses (RUB thsd)

Indicator	For the 2017 reporting year	For the 2016 reporting year
Revenue (net) from the sale of goods, work, services (net of value added tax)	**4,892,934,388**	**4,318,055,268**
Including: Sales of principal goods/products	3,387,455,369	2,983,156,877
Trading and procurement	1,158,898,792	943,485,679
Gains from shareholding in other entities*	341,657,551	387,915,422
Intermediation	4,922,676	3,497,290
Cost of the goods, products, work and services sold	**(3,459,587,329)**	**(2,846,770,153)**
Including: principal activities	(2,552,733,441)	(2,169,860,896)
Trading and procurement	(906,853,888)	(676,909,257)
Oil and gas reserves exploration and estimation expenses	**(14,149,489)**	**(27,496,713)**

Indicator	For the 2017 reporting year	For the 2016 reporting year
Gross profit	**1,419,197,570**	**1,443,788,402**
Selling expenses	**(990,299,266)**	**(955,153,203)**
General and administrative expenses	**(68,941,225)**	**(66,238,766)**
Profit (loss) from the sale of goods, work, and services	**359,957,079**	**422,396,433**
Profit (loss) from other income and expenses	**(276,850,201)**	**(338,016,970)**
Including:	179 953 353	165 880 088
Interest receivable	179,953,353	165,880,088
Interest payable,	(3 709 919)	(3 480 275)
including:	(396,184,404)	(358,112,121)
Expenses on unwinding of the ARO asset discount	(3,709,919)	(3,480,275)
Gains from changes in the fair value of derivative financial instruments	23,560,680	6,447,809
Losses from changes in the fair value of derivative financial instruments	–	(448)
Gains from the sale and other disposal of other property,	64 813 112	226 851 288
including:	226,196,430	228,867,748
Gains from the sale of short-term securities	154,096,834	418,180
Gains from the sale of long-term securities	64,813,112	226,851,288
Losses from the sale and other disposal of other property,	103 191 012	42 872 048
including:	(175,050,494)	(172,870,442)
Cost of disposed short-term securities	(160,265,787)	(418,167)
Losses from the sale of long-term securities	(5,787,808)	(168,846,301)
Other income,	(15 900 578)	(52 798 402)
including:	103,191,012	42,872,048
Difference between the carrying value, financial investments of shares (interests) as a contribution to the share capital and their market value	70,256,042	13,323,324
Other expenses		
including:	(238,516,778)	(251,101,652)
Recognition of the deferred effect of hedging as other expenses	(145,646,857)	(147,093,527)
Translation differences	(15,900,578)	(52,798,402)
Dividend income tax	(704,282)	(637,168)

Table 36. Allocation of the Company's expenses recognized in the income statement by type (RUB thsd)

Indicator	For the 2017 reporting year	For the 2016 reporting year
Material costs	3,720,656,091	3,257,366,248
Payroll	32,609,834	29,471,066
Social charges	6,308,733	5,488,684
Depreciation and amortization	141,504,417	134,929,167
Other expenses, including: MET and oil and gas reserves exploration and estimation expenses	631,898,234	468,403,670
TOTAL BY TYPE OF EXPENSES	**4,532,977,309**	**3,895,658,835**
Balances of work in progress, finished goods, etc.	103,548,206	86,907,924
TOTAL EXPENSES RELATED TO ORDINARY ACTIVITIES	**4,532,977,309**	**3,895,658,835**

21. DEFERRED TAX ASSETS AND LIABILITIES, PERMANENT TAX ASSETS AND LIABILITIES

Permanent and temporary differences between the accounting profit and the taxable profit for the reporting period are recognized in the accounting records. Temporary and permanent differences, which are calculated by comparing financial and tax accounting data on income and expenses, result in permanent tax liabilities and assets and deferred tax liabilities and assets.
Current income tax is determined in the accounting record through recognizing the following indicators:

- Contingent income (expense)
- Permanent tax asset
- Permanent tax liability
- Deferred tax asset
- Deferred tax liability

The Company prepares indicators representing the accounting for income tax settlements on a monthly basis.
The Company recognizes deferred income tax assets and deferred income tax liabilities on a gross basis as non-current assets and non-current liabilities, respectively.
Provision for doubtful debts recognized in the accounting records is a source of temporary difference.
The net amount of permanent tax assets (liabilities) is provided in the income statement for reference only.
A 20% income tax rate is used to calculate deferred and permanent tax assets and liabilities.

Table 37. Deferred and permanent tax assets and liabilities (RUB thsd)

Description	Balance at the beginning of the year	Accrued for the reporting year	Paid for the reporting year	Balance at the end of the year
Deferred tax asset	68,252,970	55,562,017	(28,752,017)	95,062,970
Deferred tax liability	(78,948,226)	(18,953,643)	6,796,472	(91,105,397)
Permanent tax asset	x	95,253,831	x	x
Permanent tax liability	x	(50,897,741)	x	x

In 2017, contingent income tax expense amounted to RUB 16,621 million, and in 2016 - to RUB 16,876 million.
Movement in deferred taxes for the reporting period recorded in line 2430, Change in deferred tax liabilities, and line 2450, Change in deferred tax assets, includes deferred taxes written off and/or accrued due to filing updated tax returns, deferred tax liabilities and assets written-off, which will never be reversed.
The deferred tax asset includes the Company's losses carried forward, which are not used to reduce income tax in the reporting (tax) period but which will be recognized for taxation purposes in subsequent reporting (tax) periods.

The permanent and temporary differences that led to the adjustment of the contingent income tax expense are presented in the table below.

Table 38. Permanent and temporary differences that led to the adjustment of the contingent income tax expense (RUB thsd)

Description	Balance at the beginning of the year	Accrued for the reporting year	Paid for the reporting year	Balance at the end of the year
Deductible temporary differences	341,264,850	277,810,085	(143,760,085)	475,314,850
Taxable temporary differences	(394,741,130)	(94,768,215)	33,982,360	(455,526,985)
Negative permanent differences	x	476,269,155	x	x
Positive permanent differences	x	(254,488,705)	x	x

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 10,598,177,817 ordinary shares with a par value of RUB 0.01 each for the total amount of RUB 105,981,778.17.

Amount of dividends

In 2017, the Company's net income amounted to RUB 138,969 million, and net earnings per share amounted to RUB 13.11.
In the first half of 2018, the Board of Directors will provide recommendations on the amount of dividends on the Company's shares for 2017.
Based on the Company's result for 2016, the annual shareholders' meeting that took place on 22 June 2017 (meeting minutes w/o number of 27 June 2017) decided that dividends should be paid on Rosneft Oil Company's ordinary shares in the amount of RUB 63,377 million or RUB 5.98 per share. As of 31 December 2016, the Company paid dividends in the amount of RUB 63,362 million. Dividends were paid to all of the issuer's registered shareholders except for shareholders for whom no data were provided by nominal holders in full and who did not promptly notify the issuer's registrar of changes in relevant data.
Based on the Company's result for the first half of 2017, the extraordinary general shareholders' meeting that took place on 29 September 2017 (meeting minutes w/o number of 4 October 2017) decided that dividends should be paid on Rosneft Oil Company's ordinary shares in the amount of RUB 40,591 million or RUB 3.83 per share.
As of 31 December 2016, the Company paid dividends in the amount of RUB 40,581 million. Dividends were paid to all of the issuer's registered shareholders except for shareholders for whom no data were provided by nominal holders in full and who did not promptly notify the issuer's registrar of changes in relevant data.

23. SUBSEQUENT EVENTS

There were no economic events after 31 December 2017 that have had or may have an effect upon the financial position, cash flows or operating results of the Company.

24. CONTINGENCIES. PROVISIONS

Contingent assets and liabilities

Rosneft Oil Company and Bashneft are parties to litigations with PJSFC Sistema and JSC Sistema-Invest related to unlawful possession of Bashneft's shares by PJSFC Sistema and JSC Sistema-Invest. In addition, Rosneft Oil Company and Bashneft are co-claimants under the case on recovery of losses of RUB 170.6 billion resulted from reorganization from PJSFC Sistema and JSC Sistema-Invest in favor of Bashneft (case No. A07-14085/2017) and under the case on recovery of losses of RUB 131.6 billion related to dividend payments to defendants during the period of unlawful possession of Bashneft's shares (case No. A07-38665/2017, litigation will take place in the Arbitration Court of the Republic of Bashkortostan on 3 April 2018). Rosneft Oil Company and Bashneft are also co-defendants under the claim filed by PJSFC Sistema to recover losses of RUB 330.4 billion related to measures undertaken by Rosneft Oil Company and Bashneft to protect legitimate interests of Bashneft (case No. A40-237651/2017, preliminary court hearings will take place in Moscow Arbitration Court on 5 April 2018).
The parties settled the above disputes by signing the amicable agreement, as determined by the Arbitration Court of the Republic of Bashkortostan on 26 December 2017 under case No. A07-14085/2017. In accordance with the amicable agreement, PJSFC Sistema and JSC Sistema-Invest undertake to recover losses to Bashneft in the amount of RUB 100 billion by 30 March 2018, after which all parties will file waiver requests under cases No. A07-38665/2017 and No. A40-237651/2017.

Provisions

A provision is an obligation of the Company with an indefinite amount and/or time of settlement. A provision may arise:

- From laws and other regulations, court rulings or agreements.
- As a result of the Company's activities which indicate, based on the existing practices or statements of the Company, that the Company undertakes certain obligations and, consequently, is reasonably expected to settle these obligations.

A provision is recognized in accounting records when all of the following criteria are met:

- The Company has an obligation resulting from its past business operations that cannot be avoided. In case of doubt concerning such liability, the Company shall recognize an estimated liability if, based on the results of analysis of all circumstances and conditions, including expert opinions, it is more likely than not that a liability exists.
- It is likely that settling the provision will result in an outflow of the Company's economic benefits (the likelihood is > 50%).
- The amount of the provision can be reliably estimated.

Pursuant to Accounting Statement 8/2010, Provisions, Contingent Liabilities and Contingent Assets (effective from the date of issue of the financial statements in 2011), the Company has environmental provisions.
An environmental provision arises from the environmental impact resulting from the Company's operations.
The amount of the environmental provision is determined based on the estimated expenditures (planned expenditures) of the Company that are expected to be incurred for settling the provision during restoration of the impacted lands and water bodies as of the reporting date. The estimation is performed based on the Company's internal (management) reports that form the system of environmental information.

Table 39. Provisions (RUB thsd)

Description	Provision	Period	Balance at the beginning of the period	Recognized (accrued) for the reporting period	Written off		Increase (+)/decrease (-) of a provision, when expenses/income (reversal of expenses) is recognized upon the recognition of provisions	Balance at the end of the period
					(repaid) against costs or accounts payable recognized	as excessive or as recognition criteria are no longer met		
Provisions generated from expenses on regular activities – total, including types of provisions:								
TOTAL		**2017**	**25,970,538**	**17,060,149**	**(18,574,650)**	**(1,014,352)**	**(792,721)**	**22,648,964**
		2016	**24,276,136**	**14,806,373**	**(14,008,251)**	**(376,585)**	**1,272,865**	**25,970,538**
Provision for annual year-end bonuses	Planned amount of annual year-end bonuses to employees, with insurance contributions at the effective interest rate	2017	12,994,683	12,192,238	(15,351,246)	–	–	9,835,675
		2016	13,224,971	10,415,296	(10,645,584)	–	–	12,994,683
Provision for future vacation payments	The Company's obligation for vacation payments based on the number of unused vacation days, with insurance contributions at the effective interest rate	2017	2,911,004	2,865,383	(2,363,825)	–	–	3,412,562
		2016	2,233,108	3,181,152	(2,503,256)	–	–	2,911,004

Description	Provision	Period	Balance at the beginning of the period	Recognized (accrued) for the reporting period	Written off		Increase (+) / decrease (-) of a provision, when expenses/income (reversal of expenses) is recognized upon the recognition of provisions	Balance at the end of the period
					(repaid) against costs or accounts payable recognized	as excessive or as recognition criteria are no longer met		
Environmental provisions	Formed on all environmental obligations. The estimation is made by place of occurrence. Recognized at present value	2017	9,328,745	956,408	(794,917)	–	(792,721)	8,697,515
		2016	8,146,124	760,100	(850,344)	–	1,272,865	9,328,745
Provisions for legal claims	Provisions are recognized separately for each legal claim	2017	736,106	1,046,120	(64,662)	(1,014,352)	–	703,212
		2016	671,933	449,825	(9,067)	(376,585)	–	736,106
Provisions formed from the increased cost of assets:								
TOTAL		**2017**	**47,376,046**	**5,744,026**	**(1,447,847)**	**–**	**6,761,805**	**58,434,030**
		2016	**38,636,562**	**5,674,768**	**(2,183,936)**	**(2,954)**	**5,251,606**	**47,376,046**
Provision for fixed asset liquidation	Formed on all immovable oil and gas assets. The estimation is made by field. Recognized at present value..	2017	45,916,121	4,730,658	(640,317)	–	6,744,146	56,750,608
		2016	36,305,262	5,106,265	(784,948)	(2,954)	5,292,496	45,916,121
Environmental provisions	Obligations to be included in the value of assets (08*)	2017	1,459,925	1,013,368	(807,530)	–	17,659	1,683,422
			2,331,300	568,503	(1,398,988)	–	(40,890)	1,459,925

The provision for fixed asset liquidation presented in the column Recognized (accrued) for the reporting period in Table 39 includes the provision and expenses on discount amortization (interest) recognized as a result of nearing the settlement date of the provision. The increase in the provision for the reporting period (interest) as a result of nearing the provision's settlement date should be recognized as expenses for the reporting period in the accounting records and financial statements. The effects from changes in the provision for liquidation in the rate and the discount period are presented in the column Increase (+)/decrease (-) of a provision, when expenses/income (reversal of expenses) is recognized upon recognition of provisions in Table 39.

The environmental provision presented in the column Increase (+) /decrease (-) of a provision, when expenses/income (reversal of expenses) is recognized upon recognition of provisions in Table 39 includes effects from the revised estimations of value and the extent to which an obligation is settled, effects of discount rate change, reclassification between obligations formed from expenses on regular activities and increased asset value.

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 was developed based on the relationships between the entities, taking into account substance over form.

Rosneft Oil Company's related parties also include entities that are not affiliates according to Russian law, but meet the definition of an affiliate in accordance with IFRS 24, Related Parties Disclosures.

The total amounts of transactions and balances with related parties are disclosed separately for the following groups of related parties that have different relationships with Rosneft Oil Company:

- Subsidiaries (entities consolidated by Rosneft Oil Company as subsidiaries)
- Associates (legal entities consolidated by Rosneft Oil Company using the equity method and proportionate consolidation method)
- Main owners (shareholders holding more than 10% of the voting shares, or having significant impact based on other reasons) and state-controlled entities
- Joint venture participants (that are not a legal entity and proportionately consolidated)
- Other related parties

The Cash flows section of the Table is broken down in the event of significant cash flows (more than 10% of any item of the cash flow statement).

Subsidiaries

This section discloses information concerning transactions with those subsidiaries in which Rosneft Oil Company holds, directly or through other entities, more than 50% of the ordinary voting shares, or which are controlled by other means.

Table 40. Transactions with subsidiaries (RUB thsd)

Transactions	For the 2017 reporting year	For the 2016 reporting year
SALES REVENUE AND OTHER INCOME		
Oil and gas sales	760,172,013	312,696,352
Petroleum products and petrochemicals sales	1,092,930,743	979,326,763
Income from leasing out property	143,720,209	136,569,110
Gains from shareholding in other entities	341,029,692	386,723,123
Other income	85,329,878	7,382,678
	2,423,182,535	**1,822,698,026**
COSTS AND EXPENSES		
Oil and gas purchases	1,509,261,388	1,224,069,087
Petroleum products and petrochemicals purchases	15,291,335	7,979,939
Logistics and transportation	147,507,998	153,914,585
Oil and gas production services	331,384,565	300,600,147
Cost of processing	146,262,604	148,311,793
Leases of assets	357,750	155,595
Other expenses	61,666,346	51,702,604
	2,211,731,986	**1,886,733,750**
OTHER TRANSACTIONS		
Purchase of fixed assets	–	24,866
Loans and borrowings issued	2,148,009,714	1,433,146,713
Repayment of loans and borrowings issued	1,469,797,056	1,267,959,825
Proceeds from short-term loans and borrowings	991,723,907	3,220,021
Repayment of short-term loans and borrowings	926,096,097	2,218,959
Proceeds from long-term loans and borrowings	881,711,168	1,192,354,136
Repayment of long-term loans and borrowings	929,811,806	934,008,371
Deposits placed	266,000,000	304,100,000
Deposits repaid	266,000,000	304,100,000
Interest receivable	151,626,578	113,147,583
Interest payable	44,921,811	43,969,930
CASH FLOWS		
Cash flows from operating activities		
Proceeds from		
Sale of products, goods, work and services	1,767,440,519	1,136,879,609
Lease payments, license payments, royalties, commissions and other similar payments	144,223,477	139,436,307
Other proceeds	37,001,176	84,457,197
Payments for/to		
Suppliers (contractors) for raw materials, work and services	(2,297,638,093)	(1,702,463,718)
Exploration costs	(10,047,131)	(7,653,639)
Cash flows from investing activities		
Proceeds from		
Sale of non-current assets (except for financial investments)	4,920,023	5,254
Repayment of loans, receivables from other parties, etc.	1,470,040,394	1,267,966,689
Dividends, interest on debt financial instruments and similar proceeds from equity participation in other entities	451,887,635	498,027,185
Payments for/to		
Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	(178,629,295)	(146,948,911)
Purchase of shares (interest) in other entities	(567,948,332)	(352,137,880)
Provision of loans to other parties	**(2,148,009,714)**	**(1,433,146,713)**
Exploration assets	(12,348,170)	(6,140,749)
Cash flows from financing activities		
Proceeds from		
Loans and borrowings received	1,873,435,075	1,195,574,157
Payments		
Repayment of loans and borrowings, repayment (redemption) of promissory notes, etc.	(1,855,907,903)	(936,227,330)

Table 41. Assets and liabilities under transactions with subsidiaries (RUB thsd)

Assets and liabilities	Balance at 31 December 2017	Balance at 31 December 2016
ASSETS		
Cash and cash equivalents	32,971,089	25,660,255
Accounts receivable, including	1,947,862,230	1,138,171,527
▪ Long-term accounts receivable	1,386,531,255	691,018,978
▪ Advances issued for capital construction and equipment for installation	16,082,146	17,463,664
▪ Short-term advances issued	4,300,545	3,264,074
▪ Provision for doubtful debts as of the end of the reporting period	3,417,386	3,496,417
Short-term and long-term financial investments,	5,874,063,137	5,147,239,050
Including long-term	5,326,357,829	4,577,265,874
	7,854,896,456	**6,311,070,832**
LIABILITIES		
Accounts payable	1,209,818,719	1,344,224,629
Short-term and long-term loans and borrowings (including interest),	1,365,776,209	1,349,156,770
Including long-term	1,009,578,842	1,344,843,620
	2,575,594,928	**2,693,381,399**

Associates

This section discloses information concerning transactions with those associates in which Rosneft Oil Company holds, directly or through other entities, more than 20% but less than 50% of the ordinary voting shares (or no control is provided for other reasons), and which Rosneft Oil Company holds significant influence over.

Table 42. Transactions with associates (RUB thsd)

Transactions	For the 2017 reporting year	For the 2016 reporting year
SALES REVENUE AND OTHER INCOME		
Oil and gas sales	10,547,768	3,027,256
Petroleum products and petrochemicals sales	187,063,415	70,420,007
Income from leasing out property	141,380	56,397
Gains from shareholding in other entities	483,784	1,171,709
Other income	1,587,431	1,619,743
	199,823,778	**76,295,112**
COSTS AND EXPENSES		
Oil and gas purchases	259,006,657	198,774,059
Logistics and transportation	21,982,242	18,992,828
Leases of assets	221,105	222,380
Cost of processing	12,297,570	12,214,885
Other expenses	7,638,059	5,936,549
	301,145,633	**236,140,701**

Transactions	For the 2017 reporting year	For the 2016 reporting year
OTHER TRANSACTIONS		
Loans and borrowings issued	5,475,724	1,452,794
Repayment of loans and borrowings issued	265,185	18,199,091
Proceeds from short-term loans and borrowings	3,800	–
Repayment of short-term loans and borrowings	34,580	–
Proceeds from long-term loans and borrowings	10,266,044	20,454,003
Repayment of long-term loans and borrowings	12,645,314	12,527,421
Interest receivable	2,193,041	11,982,689
Interest payable	5,287,894	4,887,336
CASH FLOWS		
Cash flows from operating activities		
Proceeds from		
Sale of products, goods, work and services	95,904,675	55,135,120
Other proceeds	204,963,702	33,590,886
Payments for/to		
Suppliers (contractors) for raw materials, work and services	(287,920,928)	(238,865,122)
Exploration costs	(741,181)	(2,923,772)
Cash flows from investing activities		
Payments for/to		
Exploration assets	(2,773,159)	(10,000,046)

Table 43. Assets and liabilities under transactions with associates (RUB thsd)

Assets and liabilities	Balance at 31 December 2017	Balance at 31 December 2016
ASSETS		
Accounts receivable, including	37,783,751	27,974,182
▪ Long-term accounts receivable	1,957,642	5,548,491
▪ Short-term advances issued	8,644,636	8,012,360
▪ Provision for doubtful debts as of the end of the reporting period	4,495,047	4,160,603
Short-term and long-term financial investments,	56,150,901	277,227,200
Including long-term	41,080,830	276,955,243
	93,934,652	**305,201,382**
LIABILITIES		
Accounts payable	157,999,510	26,724,572
Short-term and long-term loans and borrowings (including interest),	110,948,027	110,605,985
Including long-term	105,770,671	110,605,985
	268,947,537	**137,330,557**

Information on compensation paid to key management personnel

For information disclosure purposes, key management personnel includes members of the Management Board and members of the Board of Directors of Rosneft Oil Company.
In 2017 and 2016, short-term compensation to the members of the Management Board taking in account the rotation of the management staff, including salary and bonuses and 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 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 does not include one-off bonuses paid in 2017 for realization of major projects (acquisition and integration of new assets) and compensation of health insurance and transportation 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 Russian legal requirements for disclosure of information by issuers of securities. No share-based payments were made.

Principal owners and state-controlled entities

This section discloses the information about transactions with legal entities that hold more than 10% of the total number of votes, which relate to voting shares, and state-controlled entities.

Table 44. Information on transactions with principal owners and state-controlled entities (RUB thsd)

Transactions	For the 2017 reporting year	For the 2016 reporting year
SALES REVENUE AND OTHER INCOME		
Oil and gas sales	200,761,921	169,447,363
Petroleum products and petrochemicals sales	80,460,092	61,283,747
Gains on transactions involving term transaction financial instruments	484,776	7,761,178
Gains from shareholding in other entities	143,845	16,575
Other income	1,113,755	1,380,288
	282,964,389	**239,889,151**

Transactions	For the 2017 reporting year	For the 2016 reporting year
COSTS AND EXPENSES		
Oil and gas purchases	87,781,422	60,866,696
Oil products purchases	3,418,660	3,718,778
Logistics and transportation	337,710,503	322,633,308
Customs duties	577,765,600	559,653,085
Leases of assets	601,252	711,977
Losses from transactions involving term transaction financial instruments	11,173,372	5,157,356
Electricity costs	–	29,485
Other expenses	1,846,804	1,728,212
	1,020,297,613	**954,498,897**
OTHER TRANSACTIONS		
Loans and borrowings issued	–	6,000,000
Proceeds from short-term loans and borrowings	430,950,000	90,000,000
Repayment of short-term loans and borrowings	393,450,000	100,000,000
Proceeds from long-term loans and borrowings	195,881,560	100,000,000
Deposits placed	2,211,925,386	9,557,324,915
Deposits repaid	2,220,704,740	9,613,898,560
Interest payable	27,931,120	13,909,098
Interest receivable	14,124,828	16,909,286
CASH FLOWS		
Cash flows from operating activities		
Proceeds from		
Sale of products, goods, work and services	212,079,622	184,850,423
Other proceeds	11,618,701	23,412,233
Payments for/to		
Suppliers (contractors) for raw materials, work and services	(1,039,369,730)	(995,944,402)
Interest on debt obligations	(27,872,268)	(13,546,209)
Cash flows from investing activities		
Proceeds from		
Sale of debt securities (receivables from other parties)	384,815,190	397,602,000
Other proceeds	20,261,178	7,761,178
Payments for/to		
Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	(22,327,549)	(2,930,588)
Purchase of shares (interest) in other entities	–	(330,167,622)
Purchase of debt securities (receivables from other parties), provision of loans to other parties	(381,423,405)	(389,881,626)
Exploration assets	(24,436,665)	(1,554,867)
Cash flows from financing activities		
Proceeds from		
Loans and borrowings received	626,831,560	190,000,000
Payments for/to		
Dividends and other distributions of income among shareholders (participants)	(89,723,808)	(108,680,761)
Repayment of loans and borrowings	(393,450,000)	(100,000,000)

Table 45. Assets and liabilities under transactions with principal owners and state-controlled entities (RUB thsd)

Assets and liabilities	Balance at 31 December 2017	Balance at 31 December 2016
ASSETS		
Cash and cash equivalents	18,511,957	531,291,825
Accounts receivable, including	80,572,803	55,181,477
• Long-term accounts receivable	876,315	1,404,744
• Advances issued for capital construction and equipment for installation	26,918,572	4,863,843
• Short-term advances issued	25,613,089	21,722,578
• Provision for doubtful debts as of the end of the reporting period	–	306,311
Short-term and long-term financial investments,	484,574,214	497,726,980
Including long-term	474,574,214	469,615,208
	583,658,974	**1,084,200,282**
LIABILITIES		
Accounts payable	81,062,115	31,336,841
Short-term and long-term loans and borrowings (including interest),	436,507,994	203,087,889
Including long-term	295,860,220	100,000,000
	517,570,109	**234,424,730**

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.

Table 46. Information on transactions with other related parties (RUB thsd)

Transactions	For the 2017 reporting year	For the 2016 reporting year
SALES REVENUE AND OTHER INCOME		
Other income	331	324
	331	**324**
COSTS AND EXPENSES		
Expenses under non-state pension agreements	406,536	393,194
	406,536	**393,194**

Table 47. Assets and liabilities under transactions with other related parties (RUB thsd)

Assets and liabilities	Balance at 31 December 2017	Balance at 31 December 2016
LIABILITIES		
Accounts payable	17	87,939
	17	**87,939**

In the reporting period, Rosneft Oil Company mainly used the monetary form of settlements with related parties.

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 the production, transportation and sales of petroleum products in the Russian Federation and abroad. Management information, which is regularly analyzed 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 as a legal entity 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; certain management reports reflecting financial performance, the amount of assets and liabilities by segment, which refer only to the Company's operations and are not related to the Group in general, are not prepared for business lines. Therefore, segment information is fully disclosed in the consolidated financial statements of the Rosneft Oil Company Group.
Information on revenue broken down by segment is presented in the explanatory notes below, as this data is provided to the Company's authorized representatives on a regular basis.
Segment information was prepared taking into account the economic, foreign currency, credit and price risks the Company may be exposed to.

Table 48. Information on sales revenue by segment (RUB thsd)

Name of the segment	Net revenue for the reporting year		
	Total	External market	Domestic market
Oil	2,261,642,176	1,812,821,414	448,820,762
Gas	184,511,036	–	184,511,036
Oil products and petrochemicals	1,951,467,317	986,475,595	964,991,722
Other sales	495,313,859	-	495,313,859
TOTAL	**4,892,934,388**	**2,799,297,009**	**2,093,637,379**

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 risks. 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.

Insurance

The Company continues to insure its property, motor vehicles, cargoes, shipments, construction works and the liability of its officials.

Energy resources

Information on the total costs related to energy resources used in 2017 is given below[7].

Table 49. Information on resources used (RUB thsd)

Energy resource	Amount
Electric energy	31,738
Heat energy	4,338

Operating environment in the Russian Federation

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.
The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries The ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect 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 circumstances.

[7] The requirement of Article 22 of Federal Law No. 261-FZ On Saving Energy and Increasing Energy Efficiency, and on Amendments to Certain Legislative Acts of the Russian Federation dated 23 November 2009. In accordance with Article 2 of Federal Law No. 261-FZ, an energy resource is an energy carrier that is used or can be used for both economic and other activities, as well as a type of energy (atomic, heat, electrical, electromagnetic or other type).

ADDITIONAL INFORMATION

TERMS AND ABBREVIATIONS

EBITDA – earnings before interest, taxes, depreciation and amortization.

PRMS – Petroleum Resources Management System, formerly Society of Petroleum Engineers (SPE). PRMS methodology provides a more accurate reflection of the total resources available to be managed over the whole life of a field. PRMS guidelines rely to a large extent on continuity of reservoir geology rather than expected production.

ROACE – return on average capital employed. This metric is calculated as the ratio of net profit to average capital employed. Average capital employed is calculated as the average sum of total shareholder equity, minority interest, and long-term and short-term debt at the beginning and end of a period.

RRR – a ratio of total proved reserves added in a given year to that year's production. SEC (Securities and Exchange Commission) – the U.S. Securities and Exchange Commission. The SEC methodology for proved reserves requires that continuity of cost-effective production be demonstrated.

boe – barrel of oil equivalent; boe is a measurement of gas by its thermal equivalent in barrels of crude oil.

Business – an entirety of business units responsible for specific lines of business.

Probable reserves – reserves that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts. They are defined with a lesser degree of certainty than proven reserves because of limited well control and/or the lack of definitive production tests.

Possible reserves – reserves that may exist but are less well-defined by well control than probable reserves. Possible reserves include: a) reserves based on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells; b) possible extensions to proved and probable reserve areas where indicated by geophysical and geological studies; c) reserves that can be recovered by enhanced recovery methods where available data suggests they might be classified as proved or probable.

Refining depth – a ratio of total products, less fuel oil, less losses, and less refinery fuel, to total crude oil processed.

2D seismic survey – a seismic survey which produces a two-dimensional image of a reservoir.

Proved reserves – estimated quantities of crude oil, and natural gas which, based on geological and engineering data, with reasonable certainty, can be recovered in the future from known reservoirs under existing economic and operating conditions.

Inhibition – the action of treating pipelines with chemicals (inhibitors) to slow down metal corrosion.

Gas condensate – light hydrocarbons produced with natural gas. Condensate condenses into a liquid at normal temperatures and pressures.

Debt to equity ratio – a ratio of a company's net debt to net debt plus total equity.

Reserve replacement ratio – a ratio of total proved reserves added in a given year to that year's production.

Light gasoline fraction – a product of primary oil refining process used as a raw material for isomerization plant or a component of straight-run gasoline.

Netback – market natural gas price at market destinations less the cost of pipeline transportation from a field or other gas receiving station.

Organic capital expenditure – capital expenditure excluding acquisitions.

Pro forma – data including Bashneft starting from 1 January 2016, only for the purpose of presentation.

Associated petroleum gas (APG) – a natural gas found with oil, either dissolved in it or as a cap of free gas above it. APG contains significant quantities of ethane, propane, butane and other saturated hydrocarbons. APG can be utilized in two ways: a) as energy – to generate electricity for oilfield purposes; b) as petrochemistry feedstock – refined to produce dry gas (supplied to a trunk pipeline), natural gasoline, natural gas liquids, and liquefied gas for own operating needs.

Reclamation – removing pollution or contaminants from soil, groundwater, sediment or surface water to protect public health and the environment.

Marketable products – products produced for delivery to a consumer (customer), tested and suitable for use in accordance with requirements set forth in the standards (technical specifications) or sales contracts, and having a quality certificate.

3D seismic survey – a seismic survey which produces a three-dimensional image of a reservoir.

Net debt – long-term and short-term debt less cash and cash equivalents.

NWFD – Northwestern Federal District

UFD – Ural Federal District

VFD – Volga Federal District

FEFD – Far Eastern Federal District

NCFD – North Caucasian Federal District

SibFD – Siberian Federal District

SFD – Southern Federal District

ABBREVIATIONS

2P reserves – proved and probable (reserves)

3P reserves – proved, probable and possible (reserves)

APG – associated petroleum gas

CLG – compressed liquefied gas

ESPO pipeline – Eastern Siberia–Pacific Ocean pipeline system between the town of Taishet (the Irkutsk Region) and the oil-loading port of Kozmino at Nakhodka Bay

GTS – gas transportation system

HSE – health, safety, and environment

JV – joint venture

LNG – liquefied natural gas. It is a natural gas that has been converted to liquid form by cooling it to the temperature of phase-transition from gaseous form to liquid form. LNG can be transported by gas carrier vessels or motor-vehicle transport where pipeline infrastructure is not available.

MET – mineral extraction tax

MSHF – multi-stage hydraulic fracturing

MSHF HW – horizontal wells drilled using multi-stage hydraulic fracturing techniques

MTBE – methyl tert-butyl ether

NGL – natural gas liquids

PDCPD – polydicyclopentadiene

PRMS – Petroleum Resources Management System

R&D – research and development

SEC – the U.S. Securities and Exchange Commission

w/n – without number

WWT – biological wastewater treatment plant

UNITS OF MEASUREMENT

bbl – barrel (1 bbl = 0.134 metric tons)

boe – barrel of oil equivalent

b/d – barrels per day

th. – thousand

mln – million

bln – billion

km – kilometer

lin. km – linear kilometer

sq. km – square kilometer

cub. m – cubic meters

ha – hectare

USD – dollar

RUB – ruble

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 Entry in the Uniform State Register of Legal Entities about a legal entity established prior to July 1, 2002: Series 77 No. 004856711;
- Primary State Registration Number under which entry about establishment of the Company is made in the Uniform State Register of Legal Entities: 1027700043502.

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 branches of economy where such entities 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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Open Joint-Stock Company
Rosneft Oil Company

Abbreviated Name:
OJSC Rosneft Oil Company

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