



ROSNEFT



Annual Report 2018



Technologies  
Shaping

**THE FUTURE**



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## ANNUAL REPORT CONTAINING INTEGRATED REPORTING ELEMENTS

Rosneft's Annual Report for 2018 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 and non-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 2017, Rosneft has been participating in the work of The IIRC Business Network, the goal of which is to develop the integrated reporting practice basics and to undertake other activities aimed at the effective implementation and development of the International Integrated Reporting System.

The Annual Report was approved by the General Shareholders Meeting on June 04, 2019 (unnumbered Minutes).



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[www.rosneft.com](http://www.rosneft.com)

## Message from the Chairman of Rosneft's Board of Directors



**Gerhard  
SCHROEDER**

Chairman of Rosneft's Board  
of Directors



## Dear shareholders and investors!

As Chairman of the Board of Directors, I pay special attention to the Company's strategic priorities and their implementation. In 2018, the Company continued to pursue the Rosneft-2022 Strategy. The strategy is aimed at qualitative changes, first of all, through mainstreaming new technologies in all areas of operations: from upstream to downstream.

Last year, the Company's Technology Council, a consultative and advisory body designed to facilitate the implementation of the Strategy, held its first meeting. **Rosneft continues to give considerable attention to the security matters, introduction of the best risk management practices and training methods for the Company's employees and counterparties.**

Sustainable development is one of the Company's strategic priorities. In this light, **the approval of the strategy by the Board of Directors as it pertains to the commitment to the 17 UN sustainable development goals was an important milestone for Rosneft in 2018.** The Strategy identified five priority goals, the achievement of which is contributed by the Company in the course of its activities. Rosneft's focus is turned towards rational development of natural resources. The Company implements large-scale oil and gas production projects, upgrades producing and refining capacities so

as to reduce the environmental impact and manufacture modern, environmentally friendly fuels.

Since the Company's primary focus is placed on the corporate environmental responsibility, Rosneft-2022 Strategy provides for the delivery of superior performance in minimizing environmental impact and bolstering the eco-friendliness of production. By the end of 2022, Rosneft intends to enter the first quartile of international oil and gas companies in HSE terms. **Developing ecological programs adds to the investment appeal of the Company and serves as an important indicator for investors.**

In 2018, the Company's strategic shareholder structure was finalized, with the State having an over 50% stake and still being the controlling shareholder **and the primary beneficiary of the dividends paid**, while partners from the Qatar Investment Authority (QIA) increased their direct shareholding to 18.93%, becoming the second largest strategic shareholder after BP (19.75%). The switch to the direct holding system indicates that QIA trusts in the development direction chosen by the Company and considers its investment attractive.

**Rosneft's investment appeal also relies on the Dividend Policy, which stipulates that the payments shall be made twice a year and make up at least**

**50% of the net profit under IFRS.** In H1 2018 alone, RUB 155 bln were paid out as dividends, almost 14 times higher than for the whole of 2017. Successful annual results will also promote higher final dividends, significantly increasing the returns of shareholders.

As a citizen and former chancellor of Germany, I have a keen interest in tracking Rosneft's advances in the German market. Over the past year, the Company has gained an increasingly strong foothold there: it managed to assemble a professional international team of specialists, streamline key business processes, and create an own client base in Germany and neighboring countries. Also in 2018, Rosneft Deutschland began selling bitumen, which was delivered to more than 130 German companies. In addition, since 1 January 2019, the Company has stepped up to the direct sales of petroleum products in the domestic market. **I am sure that the adopted strategy will be instrumental in further promoting Rosneft's business in the European market.**

## Message from Rosneft's Chief Executive Officer, Chairman of the Management Board



**Igor**  
**SECHIN**

Chairman of the Management Board,  
Chief Executive Officer of Rosneft

Dear shareholders and investors,

In 2018, not only did **Rosneft** keep its world leadership among publicly held oil companies in terms of crude oil and liquid hydrocarbons production, but it also **set new benchmarks for the industry. The Company cracked a record for hydrocarbons production** - 285.5 mmtoe, up 1.3% year-on-year, which was achieved through implementation of improved operating methods and application of new technologies at mature fields, as well as the launch of four new large projects - the Tagulskoye, Russkoye, and Kuyumbinskoye fields and the second development phase of the Srednebotuobinskoye field.

**Rosneft maintained its leadership position among global oil and gas majors by total volume of proved reserves.** Under the SEC classification, their volume in 2018 grew by 4% - totaling 414 bboe - and the proven reserve replacement ratio reached 173%. Development drilling in 2018 exceeded 12 mln meters, while the scope of drilling the high-productive complex multilateral wells doubled. Exploration activities resulted in a discovery of 230 new deposits and 23 new fields with reserves of 250 mmtoe.

In 2018, the Company's refining throughput grew by 2% and reached 115 mmt. **Rosneft continued to heavily invest in modernization of its own refineries** - total capex amounts to RUB 14 trln, of which over 60% has already been financed.

**Rosneft ensures price stability and reliable supply of petroleum products to the domestic market, with a share of more than 40% of total supplies.** In 2018, the Company increased the sales of motor fuels on the domestic market by 3.7% to 28.1 mmt. The Company exceeded the sales requirement for gasoline supplies to the exchange by over 2 times and for diesel fuel by over 1.5 times.

**Rosneft demonstrated strong financial results for the year.** The Company's revenues increased by 37% to a record of RUB 8.2 trln, EBITDA - by 49% to RUB 2.1 trln. Net profit attributable to Rosneft's shareholders reached RUB 549 bln, up 2.5 times year-on-year. Moreover, the free cash flow for the year grew by 4.6 times and amounted to RUB 1.13 trln, remaining positive for 27 consecutive quarters.

Rosneft's successful results in 2018 supported the growth of the Company's market capitalization, which increased by more than 48% for the year. As a result, **Rosneft for the first time joined Top-10 global oil companies by market capitalization.**

Despite external pressures, Rosneft remains an effective channel for integrating Russia into the world economy by means of active work on foreign markets and cooperation with the largest oil companies in the world. **The Company operates in 25 countries, partners with seven out of 10 world majors.**

**Rosneft continues to strengthen its presence on the international market.**

In 2018, the Company boosted crude oil supplies in the eastern direction - they grew by 24.1% reaching 59.2 mmt - and continues to successfully operate on the traditional markets. Last year crude oil supply contracts were signed with Poland for up to 12.6 mmt and with Germany for up to 10.9 mmt.

In 2018, Rosneft confirmed its status as the largest Russian taxpayer and a backbone company for the government budget. **Tax payments for the year hit a new record in the entire history of the Company and amounted to RUB 4 trln** - up 1.5 times year-on-year. At the end of the year, shareholders were also paid a record amount of dividends, RUB 225 bln with over RUB 112 bln attributable to the government.

**The strong results of the year stem from successful implementation of the Rosneft-2022 Strategy approved in December 2017 which is aimed at improving business efficiency and maximizing returns on existing assets.** In 2019, the Company will undertake further efforts along this avenue.

# Assets and Regions of Operation

25

countries of operation

78

Russian regions of operation

6%

share of global oil production

13

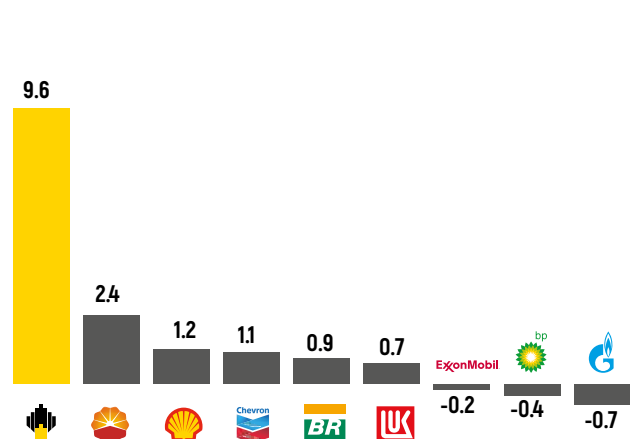
refineries in Russia

70%

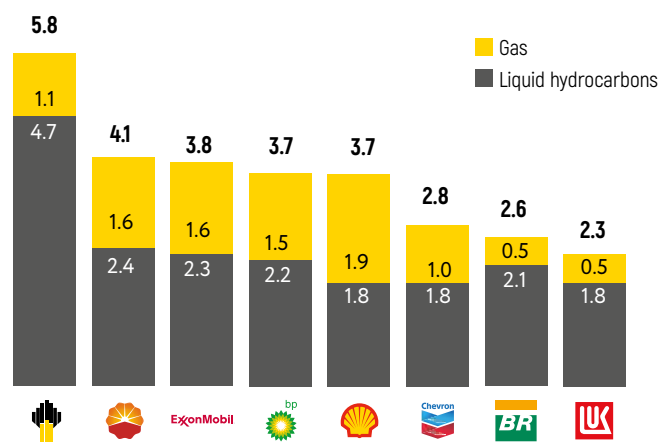
expected localization of foreign equipment manufacturing in Russia by 2025



Compound Average Growth Rate of Hydrocarbons Production, 2008-2018, %

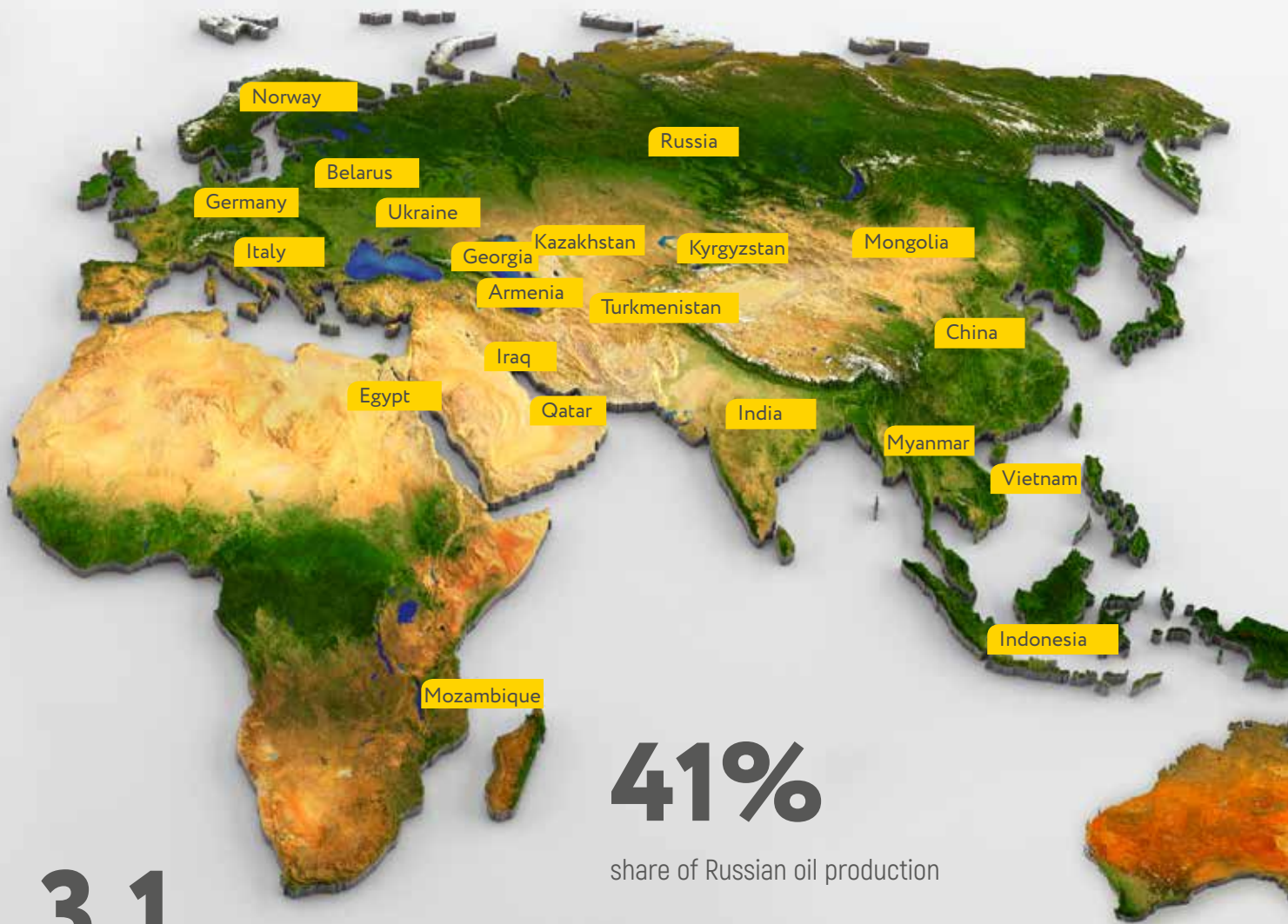


Hydrocarbons Production in 2018, mmbce per day



Source: companies' reports, Gazprom - Wood Mackenzie





**3.1**  
**USD per boe**

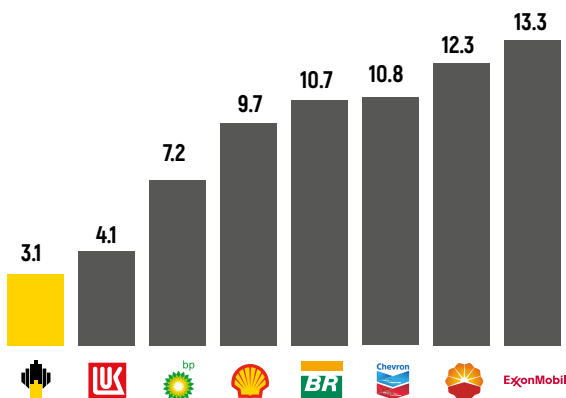
Rosneft is the leader in terms of unit operating costs for hydrocarbons production among public companies

**41%**

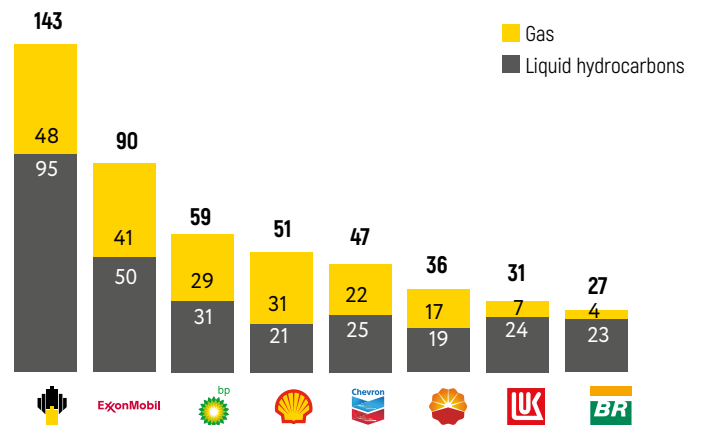
share of Russian oil production

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

Hydrocarbons Production Costs in 2018 in USD per boe



AB1C1 + B2C2 Hydrocarbons Reserves, bboe as of 01.01.2019



Information on Rosneft's reserves is provided according to the Russian resource classification system (AB1C1+B2C2) as at 1 January 2019, reserves data for other companies are provided on the base of Wood Mackenzie's appraisal and include commercial and sub-commercial reserves.



# Mission and Values

## Sustainable Development

- The commitment to 17 UN sustainable development goals and the identification of five priorities
- Becoming a global leader in terms of safe operation, protection of health and safety of employees and local residents in regions of its operation, and minimizing its environmental footprint

## Finance and Investments

- Strengthening the investment and project management process
- Retaining the leadership in operating efficiency
- Ensuring high returns of shareholders

## Corporate Governance

- Developing organizational capability and human resources
- Commitment to strong business ethics

## Technological Development

- Digitalization across the entire platform
- Creating sustainable technological advantage
- Localization of production
- Technological partnerships
- Developing the proprietary 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.



## INVESTORS AND SHAREHOLDERS

### Shareholder Value

**50%**

of net income under IFRS allocated for dividend payments

**+48%**

growth in market capitalization

**- USD 14 bln**

leverage decrease

## COMMUNITY

### Environment

**> RUB 240 bln**

green investments over the last five years

Starting a new environmentally-friendly business:

**10 filling stations** selling compressed natural gas launched in 2018

**Eco-friendly fuels:** Bringing to the domestic market of a new high-octane fuel Pulsar 100, Euro-6 based on AI-95 fuel, and a new line of ACTIVE technology fuel

### Jobs

**325.6 thsd employees**

one of the largest employers in Russia

### SME Support

**RUB 35 bln**

SME contracts

### Social Programs

**RUB 33 bln**

social spending

## GOVERNMENT

### Taxes

**RUB 4 trln**

taxes and customs duties

**RUB 936 bln**

capex brings a significant multiplicative effect on the Russian economy

### Privatization Proceeds

**RUB 1 trln** for three years

### Foreign Investments Attracted

**USD 25 bln**

in 2014–2018

### Supporting Russia's Development Priorities

Incorporating the additions to the Strategy in focus areas

## CONSUMERS

### Supplies of Oil and Petroleum Products

**129.1 mmt** of crude oil

**113.1 mmt** of petroleum products

**62 bcm** of gas



# Business Model



## Exploration and Production

**1,121 licenses**  
in Russia

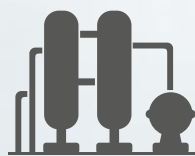
**84%**  
onshore exploration drilling success rate in Russia

**23 years**  
hydrocarbon reserve life under PRMS classification

**+2.1 %**  
liquid hydrocarbons production growth in 2018

**5 greenfields**  
launched in 2018

**3.1 U.S. dollar /boe**  
hydrocarbons production costs, the lowest in the industry



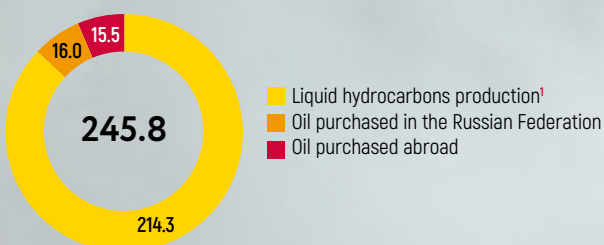
## Oil Refining and Petrochemicals

**13 refineries**  
in Russia

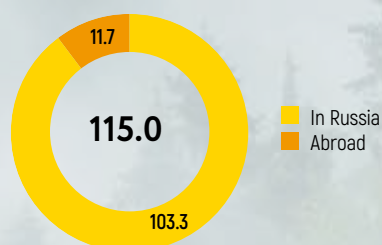
Shares in **6** foreign refineries

**75.1%**  
refining depth at Russian refineries

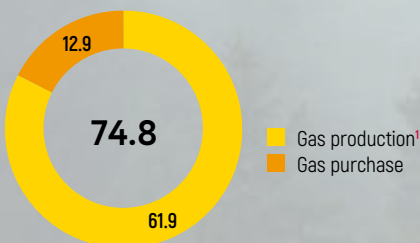
Crude oil source, mmt



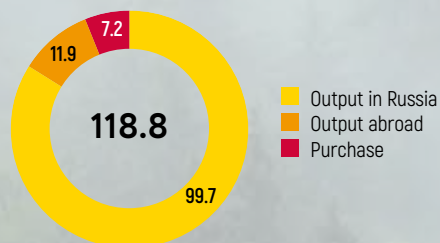
Crude oil refining, mmt



Gas source, bcm



Petroleum products and petrochemicals, mmt



<sup>1</sup> Production by subsidiaries and proportionally consolidated companies





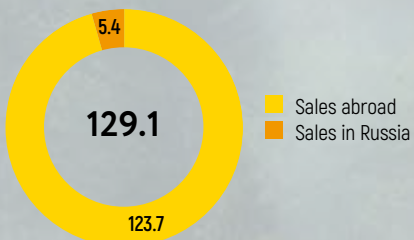
## Commerce and Logistics

**138** oil depots

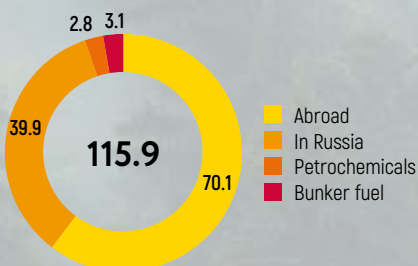
**2,963** filling stations

**1,933** stores

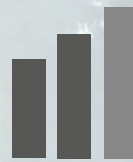
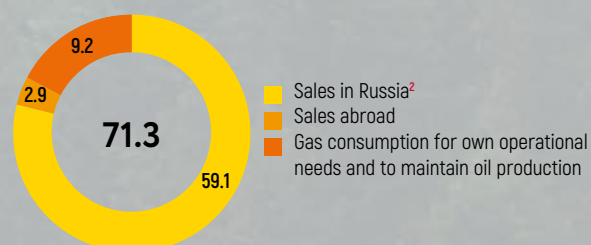
Oil sales, mmt



Petroleum product and petrochemical sales, mmt



Sales of gas, bcm



## Economic Benefit

**274.6**  
RUB bln

Total accrued dividends for 2018<sup>3</sup>

**549**  
RUB bln

Net income attributable to shareholders of the Company

**2,081**  
RUB bln

EBITDA

**24.8 %**  
EBITDA margin

**8,238**  
RUB bln

Revenues

<sup>2</sup> Excluding intra-group turnovers.

<sup>3</sup> Including the dividends for H1 2018 and the dividends recommended by the Board of Directors to be approved at the General Shareholders Meeting in June 2019

# Company Structure

## Exploration and Production

### Exploration



#### Russian Federation

LLC RN-Exploration  
LLC RN-Shelf Arktika  
LLC Yermak Neftegaz  
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.

#### Iraqi Kurdistan

RN-Qasrok Pte. Ltd.

#### Myanmar

Bashneft International B.V.

#### Vietnam

Rosneft Vietnam B.V.

#### Mozambique

RN Angoche Pte. Ltd.  
RN Zambezi North Pte. Ltd.  
RN Zambezi South Pte. Ltd.

### Services



#### Russian Federation

LLC RN-Service  
LLC RN-Burenie  
LLC RN-GRP  
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  
JSC Tomskneft VNK  
LLC RN-Uvatneftegaz  
JSC Samotlorneftegaz  
JSC Rospan International  
JSC RN-Nyaganneftegaz  
JSC Nizhnevartovsk Oil and Gas  
Producing Company  
JSC Sibneftegaz  
LLC Kynsko-Chaselskoye  
Neftegaz  
LLC Kharampurneftegaz  
JSC Tyumenneftegaz  
Messoyahaneftgaz JSC  
PJSC Varyoganneftegaz  
PJSC NGK Slavneft  
LLC Sorovskneft

JSC Yugraneft Corporation  
LLC RN-Severo-Varyoganskoye  
JSC Kondaneft  
SevKomNeftegaz LLC

#### Eastern Siberia and Far East (Onshore)

JSC Verkhnechonskneftegaz  
JSC Vankorneft  
JSC Vostsibneftegaz  
LLC RN-Vankor  
LLC RN-Sakhalinmorneftegaz  
LLC Taas-Yuriakh  
Neftegazodobycha  
JSC Suzun  
LLC Tagulskoye  
JSC Bratskekogaz

#### Volga-Urals

JSC Samaraneftgaz  
OJSC Udmurtheft  
JSC Orenburgneft  
LLC Bashneft-Dobycha  
JSC Inzerneft"

#### Southern Russia

LLC RN-Krasnodarneftegaz

OJSC Grozneftegaz  
LLC RN-Stavropolneftegaz  
PJSC Rosneft-Dagneft  
JSC Dagneftegaz  
OJSC RN Ingushneft  
LLC Priazovneft

#### Egypt

Upstream Project Pte. Ltd.

#### Venezuela

Grupo Rosneft C.A.  
Petroperija S.A.  
Boqueron S.A.  
Petromonagas S.A.

#### Vietnam

Rosneft Vietnam B.V.

#### Canada

RN Cardium Oil Inc.

#### Iraqi Kurdistan

RN-Batil Pte. Ltd.  
RN-Zawita Pte. Ltd.  
RN-Harir-Bejil Pte. Ltd.  
RN-Darato Pte. Ltd.

## Refining and Marketing

### Refining



#### Russian Federation

JSC Angarsk Petrochemical Company  
 JSC Achinsk Refinery VNK  
 LLC RN-Komsomolsky Refinery  
 JSC Novokuibyshevsk Refinery  
 JSC Kuibyshev 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)  
 LLC Krasnoleninsky Refinery

LLC Purneftepererabotka

#### Oils Plants

LLC Novokuibyshevsk Oils and Additives Plant  
 PJSC Rosneft – MP Nefteprodukt

#### Petrochemicals and Catalysts

JSC Angarsk Polymer Plant  
 JSC Angarsk Catalysts and Organic Synthesis Plant  
 JSC Novokuibyshevsk Petrochemical Company  
 LLC Novokuibyshevsk Catalysts 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  
 LLC RN-Buzulukskoye Gas Processing Plant

#### Germany

Rosneft Deutschland GmbH  
 PCK Raffinerie GmbH

#### Belarus

JSC Mozyr Refinery

#### Ukraine

PRJSC LINIK

### Marketing



LLC RN-Morskoy Terminal Nakhodka  
 LLC RN-Vostoknefteprodukt  
 LLC RN-Archangelsknefteprodukt  
 LLC RN-Morskoy Terminal Tuapse  
 LLC RN-Krasnoyarsknefteprodukt  
 LLC RN-Novosibirsknefteprodukt  
 LLC RN-Chechennefteprodukt  
 PJSC Rosneft-Altainefteprodukt  
 PJSC Rosneft-Cubannefteprodukt  
 PJSC Rosneft-Kurgannefteprodukt  
 PJSC Rosneft-Smolensknefteprodukt  
 PJSC NK Rosneft-KBTK  
 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-KarachaevoCherkessknefteprodukt  
 LLC RN-Ingushnefteprodukt  
 PJSC Rosneft-Yamalnefteprodukt  
 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 RN-Chernozemye  
 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 Ltd





# 01

## Strategy

### New Perspective

- Accelerating the technological breakthrough
- Adopting new forms of management and business organization
- Margin enhancement across the value chain
- Consistently focusing on efficiency improvement and cost reduction

# Rosneft – 2022 Strategy

# 1

## INCREASING PROFITABILITY

AND IMPROVING  
THE PERFORMANCE  
OF EXISTING ASSETS

2018

EBITDA

# +49%

# 2

## COMMISSIONING KEY PROJECTS

ON TIME AND ON BUDGET  
ACHIEVEMENT OF TARGET  
SYNERGIES

2018

# 5

new fields<sup>1</sup>

# 3

## TRANSFORMING CULTURE AND TECHNOLOGICAL CAPABILITIES

TO FURTHER STRENGTHEN  
ROSNEFT'S COMPETITIVE  
POSITION

2018

Technological  
base for digital-  
ization has been  
created

<sup>1</sup> including the Sorovsky field in the East-Salym license area



On 20 December 2018, the Company's Board of Directors reviewed the progress of Rosneft-2022 Strategy and noted the success in achieving its goals based on the results of 2018, separately confirming the relevance of the approved strategic objectives for the future. In particular, the progress was achieved in 2018 relative to all key strategic priorities: profitability increase, provision of high-quality project management, development of the corporate culture and business technological capabilities.

Moreover, in 2018, Rosneft's Board of Directors approved measures for strengthening the Company's position in the area of environmental and social responsibility (ESG) and established the Company's public position as related to commitment to 17 UN Sustainable Development Goals.



**Igor Sechin**

Chief Executive Officer  
of PJSC NK Rosneft



The Company is aimed at rational utilization of natural resources, production of modern and eco-friendly fuels, and environmental impact mitigation. As part of Rosneft-2022 Strategy, the Company implements initiatives that will allow entering the first quartile of international oil and gas companies with regard to health, safety and environment, as well to develop human resources and contribute to integrated social and economic development of the regions, fully meeting the UN Sustainable Development Goals.

## **Additions to the Strategy in 2018**

The range of Strategy areas was additionally expanded in 2018 with regard to Russia's priorities:

- Social development
- Human resources
- Environment
- RN – City of the Future
- Regional development
- Digital Rosneft

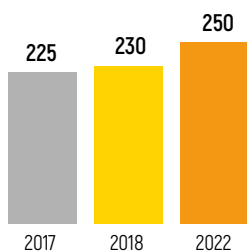


# Strategic Objectives and Priorities

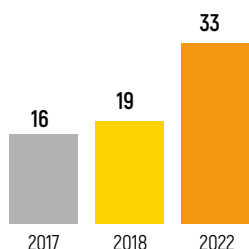


## UPSTREAM

Production from Hard-to-Recover Reserves, mmt



Total Liquid Hydrocarbons Production, mmt



## 100% LIQUID HYDROCARBONS RESERVE REPLACEMENT RATIO AND ORGANIC GROWTH

### The increased success rate of onshore exploration drilling in Russia

**142** exploration wells

completed and tested onshore Russia with an 84% success rate

### Acceleration of new reserves development subject to economic efficiency

**>15** mmt

total production at new projects launched in 2016–2018

### Optimization of Russian onshore field development (increased share of new horizontal wells)

**51%**

share of new horizontal wells with multi-stage hydraulic fracturing

**>20** mmt

incremental production from newly commissioned wells

**48%**

share of horizontal wells

### Commissioning large-scale projects on time and on budget

**5** new fields

have been commissioned: Russloye, Taas-Yuryakh (Phase 2), Tagulskoye, Kuyumbinskoye, and Sorovskoye fields in the East-Salym license area.

### Reduced rate of decline in base production

**1.1%**

decline in crude oil production at the Samotlor field after several years of annual reduction by 3–5%

**12.3** mmt

base production recovered

**+9.5%**  
per well

higher effect of the base production recovery activities





## MORE EFFICIENT SERVICE

### Reduced non-productive time

**5%**

reduction of non-productive time through higher reliability of equipment operation, timely execution of maintenance, repair and replacements

### Reduced well drilling time by 10%

**9%**

reduction of horizontal well drilling time to 32 days on average for the Company

### Increased rig utilization rate (by 20%-30%)

**+3 days (+1%)**

increase in the rig utilization rate

## IMPROVED PERFORMANCE

### Optimized Capex (by 10% for comparable wells, by 10% for linear objects in 2020-2022)

**6%**

reduction in development well construction costs since the start of the Strategy implementation

### Optimized Opex (down by 2-3% per year on a comparable basis)

**>3%**

decrease in Opex on a comparable basis

### Bringing technological partners into capital-intensive high-risk projects

BP: joint implementation of the project for development of the Kharampursky and Festivalny license areas

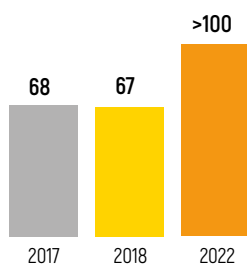
Intensification of production at the Samotlor field: higher flooding efficiency due to nanoparticles utilization

Expansion of Yermak Neftegaz Project in the Sredvelensky and Olekmensky license areas

Equinor: exploration of the Domanic deposit reserves in the Samara Region, development of the North Komsomolskoye field



Gas Production, bcm



## COMMISSIONING PROJECTS ON TIME AND ON BUDGET

### Producing over 100 bcm

The strategic Zohr field offshore Egypt is being developed ahead of schedule. Less than a year after the launch, the field daily gas production capacity reached

~ **57** mmcm<sup>1</sup>

### Developing major gas production projects, including Rospan and Kharampur

Construction of key production facilities of Rospan infrastructure is being completed, the commissioning is scheduled for 2019

In Q2 2018, the Company, in partnership with BP, began an active phase of development of the Kharampursky and Festivalny license areas in the Yamal-Nenets Autonomous Area with total recoverable reserves of about

**1** tcm

## INCREASING TECHNOLOGICAL EDGE

### Developing Turonian deposits

Drilling and testing of new wells to determine the optimal design and completion for the Kharampur field wells

### Increasing APG utilization rate, including through the development of captive power generation and petrochemicals

#### **19** new facilities

for APG utilization (construction completed). The APG utilization rate achieved 89.7%.<sup>2</sup>

### Developing LPG and NGL production

The project for construction of the Maysky gas processing complex in Western Siberia is underway, the project design documentation developed

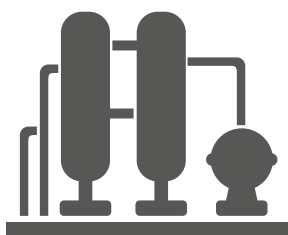
## IN THE LONG TERM

### Monetization of gas reserves in Eastern Siberia and the Far East

Rosneft and Beijing Enterprises Group are currently developing the Verkhnechkoskoye oil, gas, and condensate field in the Irkutsk Region; the Company signed an indicative agreement on the basic conditions of gas supply to China

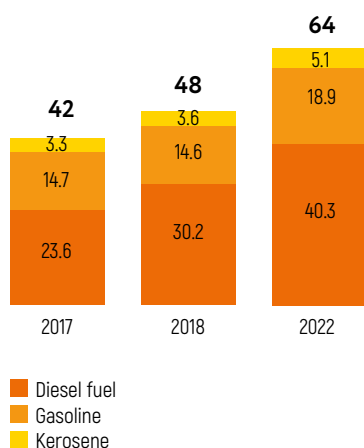
<sup>1</sup> From 100%.

<sup>2</sup> Excluding fields at early stages of development



## OIL REFINING AND PETROCHEMICALS

Production of Motor Fuels Complying with the Technical Regulations, mmt<sup>3</sup>



### SUBSTANTIAL PROFITABILITY GROWTH

#### Completing the refinery development projects in Russia to substantially increase profitability

The refinery development projects in Russia continued

The major part of equipment was purchased, construction and installation operations are underway

Debottlenecking projects at the Company's refineries continued

#### Improved performance and optimized opex

**>3%**

cost reduction on a comparable basis

**RUB 17.2 bln**

cumulative effect of the Operational Efficiency Improvement Program in 2018

### LONG-TERM DEVELOPMENT OPTIONS

#### Constructing modern complexes for converting fuel oil into light products in Russia

A preliminary feasibility study was completed for projects of oil residuals processing at two Company's oil refineries in Russia

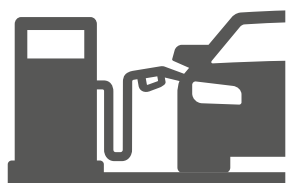
#### Expanding on the fast-growing Asian markets

A project for maximizing the added value on the catalytic cracking unit and petrochemicals production has been initiated at the Vadinar refinery (India)

#### Constructing major petrochemical projects in three clusters in Russia (subject to project financing availability)

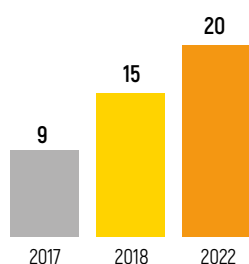
Activities continued to monetize the Company's feedstock supplies and to involve partners in the joint implementation of petrochemical projects

<sup>3</sup> Motor fuels complying with the Technical Regulations are Euro-5 motor gasoline and diesel fuel, as well as jet fuel



## COMMERCE, LOGISTICS, AND RETAIL

The Share of non-fuel sales in Gross Margin of Retail Business, %



### COMMERCE AND LOGISTICS

#### Improved cost efficiency of sales and access to end consumers (domestic/export sales)

**25%**

increase in lubricants shipments to end consumers on direct contracts

**11%**

growth in fuel sales in the Moscow airport hub

#### Expanding and diversifying sales channels (jet fuel, marine fuel, and lubricants)

Manufacturing of bitumen products was organized at third-party facilities with the use of additional volumes of vacuum residues produced at the Company's plants

**84%**

increase in high-tech polymer-modified bitumen sales

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

The Company increased bitumen production and sales according to new GOST.

The Komsomolsk Refinery launched the production of DMF III marine distillate fuel with new quality characteristics

### RETAIL

#### Promoting strong brands and high service standards at filling stations

**142 filling stations**

were rebranded to Rosneft's brand (50% of filling stations included into the Rebranding Program were rebranded by the end of 2018)

#### Expanding non-fuel business (introducing new categories of goods and opening new cafés)

Revenues from non-fuel sales increased

by **6%**, those from cafés - by **14%**

The product mix policy was optimized, some products under own brand were launched

#### Improved performance and optimized costs

**3%**

reduction of opex

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

- The loyalty program membership continued to grow, above 10 million people were enlisted during the implementation period
- The Company brought into the market new fuel types with improved characteristics: Pulsar 100, AI-95 Euro-6, and ACTIVE fuels
- 451 filling stations in 13 regions of Russia were transitioned to Pulsar fuel brand.

#### Expanding small-scale wholesale through differentiated sales channels

**23%**

increase in sales under long-term contracts



# Digitalization and Technology Priority

## UPSTREAM

### Digital field, remote drilling and production control centers, IIoT, Big Data

- Launch of a corporate data processing center with the GE Predix industrial internet platform, an IRMA integrated digital field-twin and GeoPAK digital space for geological and physical data processing (together with General Electric)
- Testing artificial intelligence in the development of fields and planning of well interventions, the use of machine learning technology to optimize the operation of the producing asset in real time, as well as the unique technology of autonomous monitoring of production facilities using drones and machine vision
- Testing of the computer vision technology to monitor HSE compliance during drilling
- The first in the Russian oil and gas industry Drilling Geological Support Center used for drilling ~8 thousand horizontal wells and horizontal sidetracks
- Production start-up of RN-GRID, the corporate hydraulic fracturing simulation module
- Field testing of the ice monitoring system for offshore drilling

### Enhanced in-house technology capabilities, cable-free seismic systems, advanced multi-stage hydraulic fracturing (MSHF) techniques, the establishment of a tech park to test technologies

- Rosneft together with BP and WesternGeco is developing a unique system of seismic data recording unrivalled in the world
- Pilot works for extended horizontal well drilling with more hydraulic fracturing stages (>8) were continued
- A technology of horizontal well drilling with the use of a combined string was rolled out

## RETAIL SALES

### Digital Filling Station and Digital Supply Chain programs

- A virtual fuel card for B2B segment was launched into commercial service in the Moscow Region.
- A pilot project was implemented to launch a virtual card under the loyalty program

### Improved accounting systems to reduce losses

**3%**

decrease in fuel consumption for own operational needs

## OIL REFINING AND PETROCHEMICALS

### Digital Plant, IIoT, Global asset performance management system to extend functional operation times between refinery facility repairs, automation 2.0, including the use of robots

- The vibration-based diagnostics and predictive analytics systems and combined health indicators of highly critical equipment
- Implementation of a patterned solution of the integrated management system for equipment maintenance and repair based on Meridium automated workstation
- Deployment of advanced refinery process control systems.
- Start-up of the following pilot projects:
  - using infrared cameras to monitor refinery equipment
  - using robot-based means to clean oil tanks
  - integrating the personnel monitoring systems using wearable devices and tags
- Implementation of the projects aimed at creation of common operator rooms, GE Predix-based cloud system for collecting, storing and processing information

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

- Implementation of the Energy Efficiency Monitoring System
- A project to monitor the perimeter of the refinery and the leakages of petroleum products with the use of drones

### Automation, including the use of robots

**24 oil depots**

were equipped with automatic filling systems

**46 oil depots**

were equipped with automatic in-tank measurement systems

**1,000 filling stations**

were equipped with modern oil products accounting systems, covering 70% of material flows



## HEALTH, SAFETY, AND ENVIRONMENT

**63%**

reduction  
in fugitive methane  
emissions

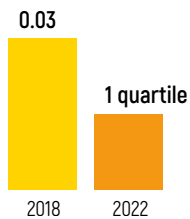
**93%**

share of reclaimed  
and reusable water

**9% decrease**

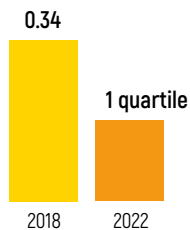
of direct greenhouse gas emissions in Downstream

### Tier 1 Process Safety Event Rate (PSER-1)



Rosneft's strategic goal is to become a global leader in terms of safe operation, protection of health and safety of employees and local residents in regions of its operation, and minimization of its environmental footprint.

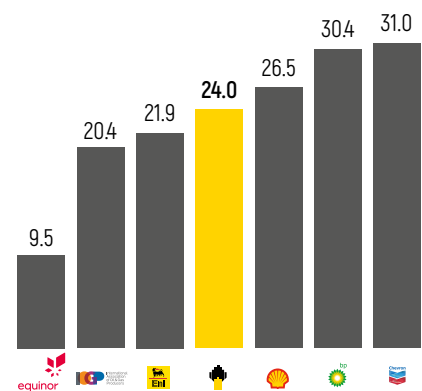
### Lost Time Injury Frequency (LTIF)



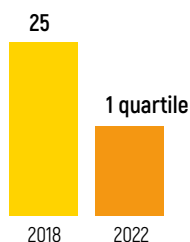
### HSE Strategy Focus Areas:

- Leadership and Safety Culture
- Skills
- Safety Management System
- Risk and Integrity Management
- Control System
- Reporting and Performance Assessment

### Greenhouse Gas Emissions Indicator, Upstream, tonnes of CO<sub>2</sub>-eq./thousand boe<sup>1</sup>



### Relative Greenhouse Gas Emissions (GHG), Upstream, tonnes of CO<sub>2</sub>-eq./ thousand boe



By greenhouse gas emission rates (GHG), the Company demonstrates results comparable to the leading global oil and gas companies.

<sup>1</sup> The indicator reflects the greenhouse gas emissions (direct and indirect) volume / production volume ratio for all companies in 2017, tonnes of CO<sub>2</sub>-eq./thousand boe






# Sustainable Development Priority

Rosneft has approved the strategic principles and public position related to a contribution to the implementation of 17 UN Sustainable Development Goals.

Among them, the Company has selected five strategic priorities for its own operations.



Preserving the environment for future generations is an integral part of Rosneft's corporate culture and business principles. The Company is aimed at the delivery of superior performance in minimizing the environmental impact and bolstering the eco-friendliness of production.

 <p>Applying advanced drilling waste disposal methods</p>	 <p>Having a special-purpose ecological institute in place</p>
 <p>Reducing gas dissipation during gas lift production</p>	 <p>Implementing programs that facilitate:</p> <ul style="list-style-type: none"> <li>— reduction of pollutant emissions</li> <li>— biological diversity conservation</li> <li>— energy saving</li> <li>— increase of reclaimed and reusable water volume</li> </ul>
 <p>Developing technologies for the processing of oil-contaminated wastes with a high content of natural radionuclides</p>	

## ACHIEVEMENTS

**>240 RUB bln**  
investments over 5 years

**~1 mln young plants**  
were planted by Group Subsidiaries under the forest conservation activities

**10 filling stations**  
selling compressed natural gas was constructed in 2018

## GOALS

**4.4 mmtoe**  
energy consumption reduction by 2022

**8 mmt of CO<sub>2</sub>-equivalent**  
prevention of greenhouse gas emissions until 2022

**170 filling stations**  
selling compressed natural gas will be constructed by the end of the project

## 1.2

# Long-term Development Program and Progress Report

The Long-Term Development Program 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 Government of the Russian Federation dated 17 July 2014, Rosneft's Long-Term Development Program should be updated on an annual basis.

In 2018, the Program was updated to include the provisions on the approved Rosneft-2022 Strategy regarding some detailed action plans to achieve strategic goals and updated initiatives, which had been developed pursuant to the Directives of the Government of the Russian Federation<sup>1</sup>. The updated Long-Term Development Program was approved by Rosneft's Board of Directors (Minutes No. 12 dated 20 December 2018).

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.

Key priorities, KPIs, and actions taken under the current Innovative Development Program (Section 4.8 Research, Design, and Innovation), the Import Substitution and Equipment Localization Program (Section 4.6 Localization and Industrial

Cluster Development), and the Energy Saving Program (Section 4.5 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 KPIs of the Long-Term Development Program also include an integrated index 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 1.8 The Investment Program in 2018).

The Company has completed the 2018 action plan under the Long-Term Development Program for its key businesses and functions. The 2018 progress under the Long-Term Development Program is described in Section 2 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 2018, and on the fairness of reasons given therein for deviations of actual results from the Company's performance targets for 2018. The opinion was issued on 16 April 2019.

The Long-Term Development Program provides a reserve replacement ratio of at least 100%, efficient brownfield operations, production growth through launching new projects, gas production growth on the back of a long-term sales portfolio, oil processing assets profitability growth, 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.

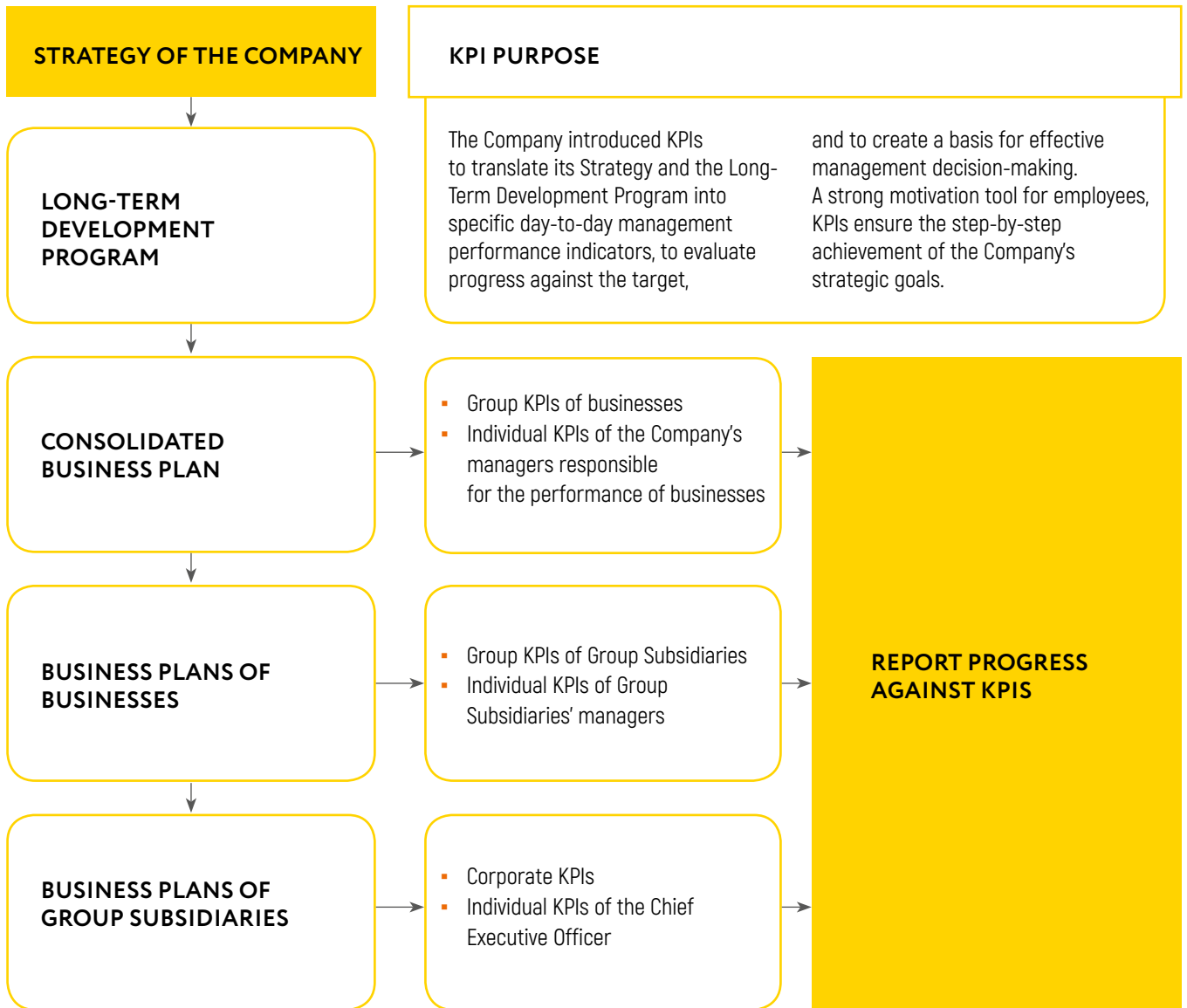
To increase the efficiency and transparency of the Long-Term Development Program updating process, the Company approved the Regulations on the Procedure for Updating Rosneft's Long-Term Development Program.

<sup>1</sup> 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.



# 1.3

## KPI Structure



The Company's KPI system is aimed 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 the 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 of the Board of Directors on an annual basis.

2018 KPIs for Rosneft's senior managers were based on the business plan approved in December 2017 and were established by the Board of Directors on 20 March 2018, Minutes No. 14.

The 2018 list of corporate KPIs and individual KPIs of Rosneft's Chief Executive Officer includes:

- return on average capital employed (ROACE);
- hydrocarbon production rate;
- injury rate;
- 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 based on management accounts and audited public financial statements.

The Company's Internal Audit Service conducts an annual audit of corporate and individual KPIs 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 the HR and Remuneration Committee of the Board of Directors.

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 the 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 Rosneft's Board of Directors on 6 April 2015, 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 2018 were met.

### Actual Progress Against KPI Targets

Metric	2018 year actual	KPI Progress in 2018	2017 year actual
ROACE (%)	174	Above target	11.5 <sup>4</sup>
Financial leverage (Net Debt / EBITDA) <sup>1</sup>	14	Above target	21
Injury rate within the Company (LTIF and FAR), %	95.8	Above target	N/A
Ratio of Rosneft's total shareholder return (TSR) equal to or exceeding the Russian industry average, % <sup>2</sup>	271	Not below the Russian industry average	9.3
Integrated KPI for innovations, % <sup>3</sup>	100	On target	100

<sup>1</sup> In RUB terms. In USD terms the financial leverage in 2018 amounted to 1.2.

<sup>2</sup> The calculation of a 2018 indicator includes data for four previous years.

<sup>3</sup> Based on the Company's management reports.

<sup>4</sup> Updated considering refined final fair value of the assets acquired in 2017.

## 1.4

# Key Operating and Financial Results

## Key Operating Results

	2018	2017	%	2016
Proved reserves of hydrocarbons <sup>1</sup> under SEC standards (mmbœ)	41,431	39,907	4%	37,772
Proved reserves of hydrocarbons <sup>1</sup> under PRMS standards (mmbœ)	47,045	46,520	1%	46,075
Proved marketable gas reserves under SEC standards (bcm)	2,065	1,949	6%	1,714
Proved marketable gas reserves under PRMS standards (bcm)	2,420	2,309	5%	2,273
Hydrocarbons reserve life under PRMS standards (years)	23	23		24
Production of liquid hydrocarbons (mmt)	230.2	225.5	2%	210.0
Gas production (bcm)	67.3	68.4	-2%	67.1
Oil sales abroad (mmt)	123.7	121.8	2%	114.9
Oil refining (mmt)	115.0	112.8	2%	100.3
Petroleum product and petrochemical output (mmt)	111.7	109.1	2%	98.2
Petroleum product and petrochemicals sales abroad (mmt)	73.7	71.9	3%	67.4
Retail sales of petroleum products in Russia (mmt)	13.6	11.7	16%	10.9

## Key Financial Results

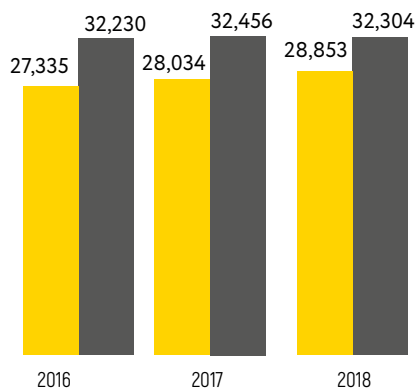
	2018	2017	%	2016
Revenues and income from affiliated companies (RUB bln)	8,238	6,011	37%	4,988
EBITDA (RUB bln)	2,081	1,400	49%	1,278
EBITDA margin	24.8%	22.6%	2.2 p.p.	25.0%
Taxes and customs duties (RUB trln)	4.0	2.6	54%	2.0
Net profit (RUB bln)	649	297	119%	192
Net profit margin	7.9%	4.9%	3 p.p.	3.8%
ROACE	174%	11.5%	5.9 p.p.	13.9%
ROAE	12.3%	5.6%	6.7 p.p.	5.2%
CAPEX (RUB bln)	936	922	2%	709
Unit upstream CAPEX (USD/boe)	6.8	7.1	-4%	5.0
Unit upstream OPEX (USD/boe)	3.1	3.2	-3%	2.5
Free cash flow (RUB bln)	1,133	245	362%	439
Dividend per share (RUB)	25.91 <sup>2</sup>	10.48	147%	5.98
Total accrued dividends (RUB bln)	274.6	111.1	147%	63.4

<sup>1</sup> Including fuel gas.

<sup>2</sup> Including the dividends for H1 2018 and the dividends recommended by the Board of Directors to be approved at the General Shareholders Meeting in June 2019.

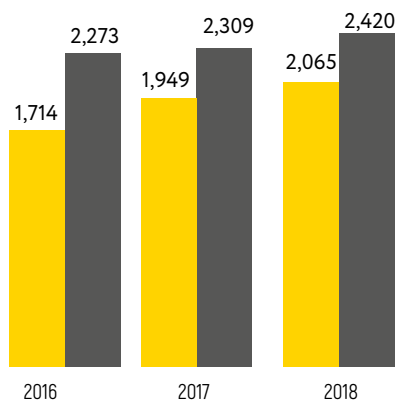


**Proved Reserves of Liquid Hydrocarbons, mmb**



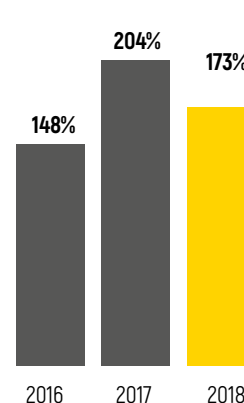
■ Proved reserves of liquid hydrocarbons under SEC standards (mmb)  
 ■ Proved reserves of liquid hydrocarbons under PRMS standards (mmb)

**Proved Gas Reserves, bcm**



■ Proved gas reserves under SEC standards (bcm)  
 ■ Proved gas reserves under PRMS standards (bcm)

**Crude Oil and Gas Condensate Reserve Replacement Ratio, SEC<sup>3</sup>**



**Crude Oil and Gas Condensate Production, mmt**



In 12 months of 2018, liquid hydrocarbons production by the Company amounted to 4.67 mmb per day (230.2 mmt), up 2.1% year-on-year. The key growth factors were the record-breaking production volumes at the Company's largest asset, RN-Yuganskneftegas; the launch of large greenfields (the second phase

of the Srednebotuobinskoye, Tagulskoye, Russkoye, and Kuyumbinskoye fields); continued active development of existing projects against the backdrop of a need to comply with the OPEC+ Arrangement to cut oil production throughout the year.

**Gas Production, bcm**



Gas production decrease during 12 months of 2018 by 1.7% year-on-year was mainly caused by the reduction of associated petroleum gas production at the fields with developing infrastructure,

and at some other assets, based on the conditions of development cost efficiency and with respect to external constraints.

<sup>3</sup> Reserve replacement ratio is calculated in tonnes of oil equivalent (toe). Reserve replacement ratio in barrels of oil equivalent (boe) was 175%.

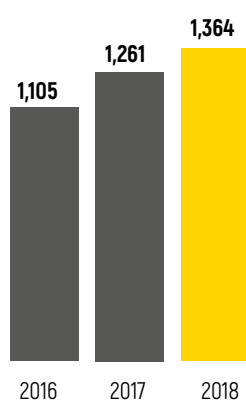
## Upstream OPEX per Barrel of Produced Oil Equivalent, RUB per boe



In 2018, the growth of unit operating expenses was 4.9% year-on-year (from 185 to 194 RUB/boe), which is significantly lower than the industrial inflation rate in the Russian Federation (11.9%).

The growth is mainly due to rising costs for the repair and maintenance of a growing well portfolio, oilfield services, as well as an increase in the tariffs of natural monopolies.

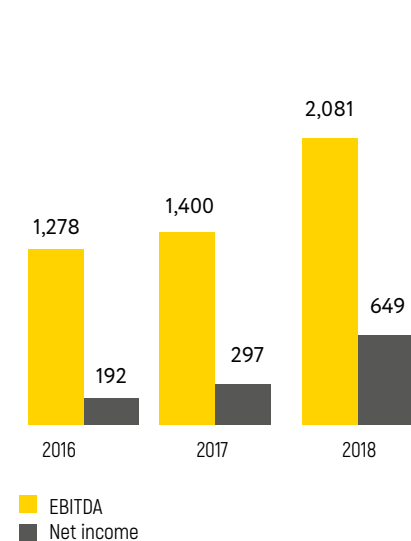
## OPEX of Russian Refineries per Tonne of Refined Oil, RUB per tonne



In 2018, OPEX of the oil refineries in the Russian Federation, and unit OPEX per tonne of refined oil increased by 11.3% and 8.2% year-on-year, respectively, due to growing natural monopolies' tariffs,

salary indexation and planned increase in the volume of repairs.

## EBITDA and Net Profit, RUB bln



In 2018, EBITDA amounted to RUB 2,081 bln (USD 33.1 bln), 1.5 times above the level recorded in 2017. Operational efficiency increase, favorable external market conditions, and mitigation of constraints under OPEC+ Agreement contributed to EBITDA growth.

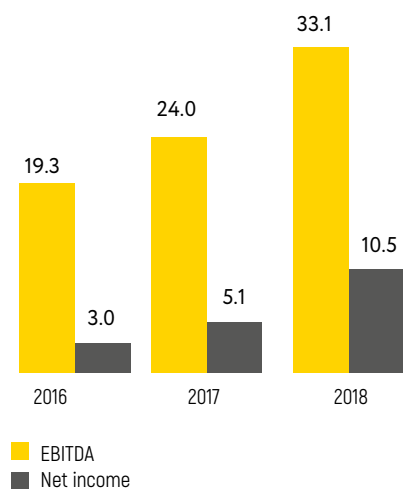
In 2018, net income attributable to Rosneft's shareholders amounted to RUB 549 bln (USD 8.9 bln), 2.5 times as much as in 2017, irrespective

of impairment recognized<sup>2</sup>. Besides operating profit growth, the net profit growth resulted from the positive effect of foreign exchange differences, and recognition of one-off income from the acquisition of a stake in a joint venture for the field development with a foreign partner and a fair assessment of the previously held stake in a joint venture.

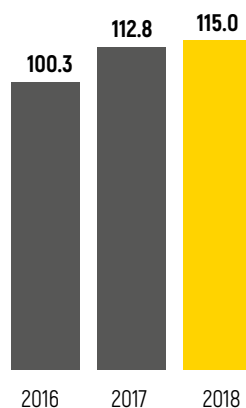
<sup>1</sup> Unit OPEX per boe, excluding expenses on the acquired Bashneft assets, amounted to RUB 163 per boe in 2016 and RUB 177 per boe 2017.

<sup>2</sup> Notes 13, 24, 25 to Appendix 1.

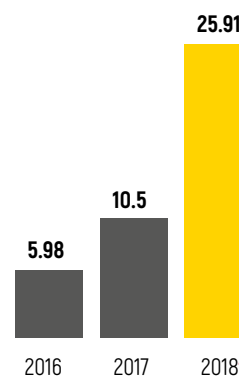
## EBITDA and Net Profit, USD bln



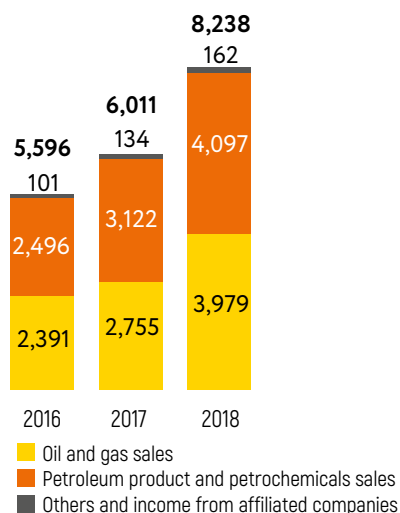
## Refining Throughput, mmt



## Dividend per Share, RUB per share



## Revenue, RUB bln



Revenue growth factors in 2018 included positive changes in the price trend (a 10% increase of the price for Urals oil in ruble terms), an increase in sales of oil and petroleum products due

to the integration of new assets and organic growth of production and growth of oil supplies to the domestic market.

<sup>3</sup> The base for the distribution of dividends is under negotiation

<sup>4</sup> Including the dividends for H1 2018 and the dividends recommended by the Board of Directors to be approved at the General Shareholders Meeting in June 2019

# 1.5

## The Investment Program in 2018

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). Rosneft's 2019+ Investment Program was approved as part of the Business Plan for 2019–2020 at the Board of Directors meeting held on 20 December 2018 (Minutes No. 12 dated 20 December 2018).

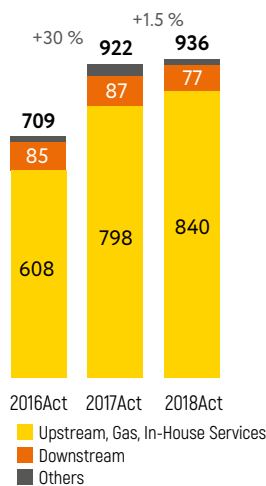
With the unchanged strategic priorities and continuity of business plans, Rosneft's Investment Program pursues the same key targets, including hydrocarbons production growth and launch of new large-scale projects focused on investment and operating efficiency. The flexibility of Investment Program achieved through managing investment portfolio and ranking projects by economic efficiency with respect to production materiality and impact on cash flow, as well as their readiness for implementation allows for immediate response to all changes in macroeconomic environment or medium-term tasks of the Company.

In 2018, the actual capex totaled RUB 936 bln and remained almost unchanged year-on-year. In 2018, the year-on-year growth of the 2018 Investment Program in ruble terms amounted to 1.5%, while in U.S. dollar terms it slipped down by 5% due to currency rate effect.

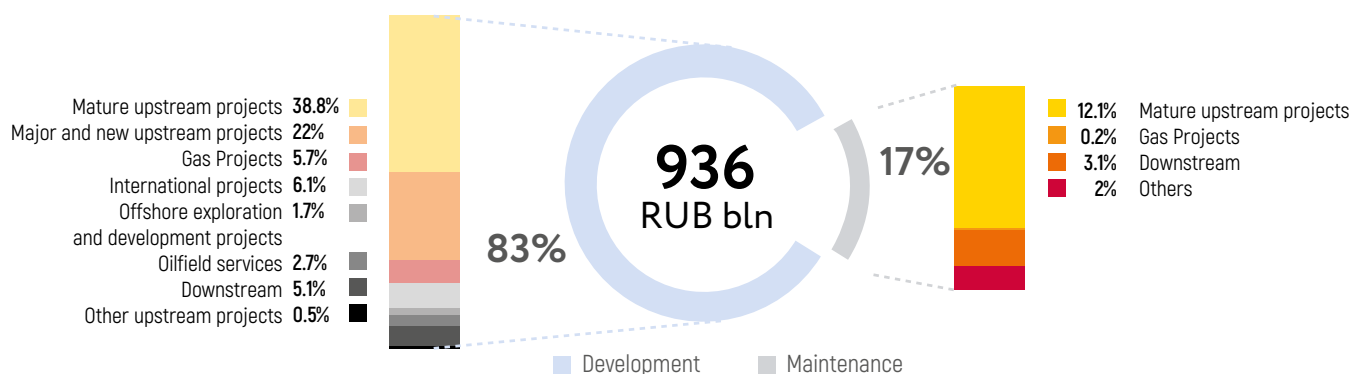
The Company's Investment Program is aimed at implementing highly efficient oil and gas upstream projects to ensure their sequential launch and volume growth to production plateau, projects for construction and renovation of processing facilities and complexes at the refineries to increase refining depth and light product yield, to develop in-house oilfield services and to maintain the existing assets under the approved Business Plan and Strategy of the Company.

The Company's investments are mainly concentrated in Russia, with a share of over 92% of the total volume; about 20% of this share comes from the Eastern Siberian and the Russian Far Eastern projects. In 2018, about 90% of investments were allocated for upstream segment (including gas projects) and 8% – for downstream (refining, marketing, and logistics) segment. In total, over 80% of the Investment Program are spent on development projects.

Capex Financing, 2016–2018, RUB bln



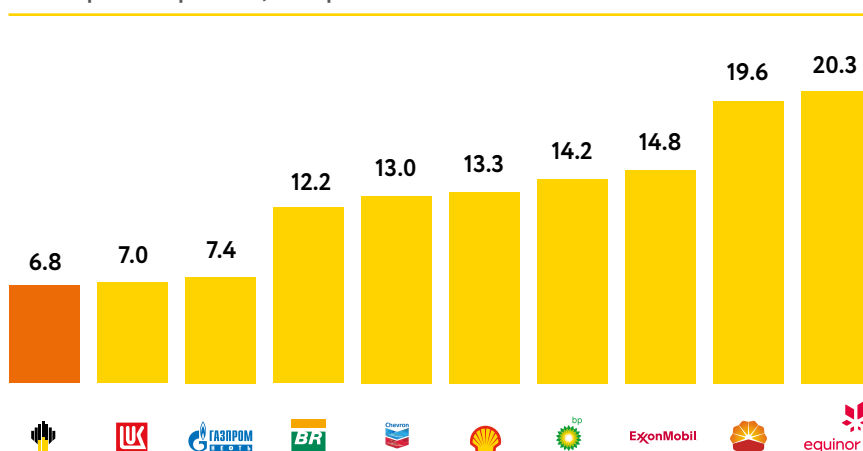
### 2018 Investment Program Structure





While implementing the intensive Investment Program, the Company retains its leading position in the unit efficiency of the capital invested in upstream segment (USD 6.8 per boe in 2018) taking into account the achievement of the hydrocarbon production growth target and continuous optimization of the investment portfolio.

Unit Capex<sup>1</sup> in Upstream, USD per boe



## Mature Oil Fields

Mature fields are the main source of liquid hydrocarbons production (over 90%), generating stable positive cash flow for the Company and creating a base for further investment in development and shareholder income. To maintain a stable level of production, the volume

of drilling and commissioning of new wells is increasing a complex of well interventions at mature fields is performed while keeping the investment efficiency at a high level.

In 2018, the investments (Capex) into mature fields reached c. RUB 480 bln. These investments amounted to over 50% of the Company's total investments, with over 75% of them accounting for development projects aimed at maximizing return on capital invested.

## New Oil Fields

The Company is developing a significant portfolio of large oil upstream projects that are in the active development phase. In 2018, the Capex of such projects amounted to over RUB 200 bln, or about 22% of the Company's total investments.

With the development of new fields, the following large hydrocarbon production centers are formed with the total production of over 20 mmtoe in 2018:

- in the Eastern Siberia and the Far East: in the Krasnoyarsk Territory (the Suzunskoye, Tagulskoye, Lodochnoye, Yurubcheno-Tokhomskoye, and Kuyumbinskoye fields), in Yakutia (the Srednebotuobinskoye field);
- at the north of the Western Siberia: East Messoyakha field, Russkoye field;

- in traditional production regions in synergy with mature fields: the Erginsky cluster (the Erginsky license area, the Kondinskoye, Chaprovskoye, West Erginskoye field, the South Erginsky license area, and the Endyrskoye field) and the East Salymsky license area near the license areas operated by RN Yuganskneftegas, the North Komsomolskoye field in close proximity to the fields operated by RN Purneftegas, and the Danilovsky cluster (the North Danilovskoye field) in synergy with the Verkhnechonskoye field.

In 2019–2022, the Company plans to commission several Erginsky cluster fields, and the North Komsomolskoye, Lodochnoye, and North Danilovskoye fields.

Upon sequential launching of all new fields and setting them to the production plateau, including satellite fields, which are currently at the exploration stage, in 2022, the production under these projects will reach about 20% of the total liquid hydrocarbons production by the Company with further potential growth on the basis of to the exploration results.

The Company provides effective and adaptive management of new projects, including timing, flexible response to environmental challenges and fiscal changes. The key priority is to achieve the target KPIs and to deliver the projects within the planned schedule and budget.

## According to the results of 2018, the following projects were introduced:

- The Taas-Yuryakh field: commissioning the second phase of field facilities (an oil pipeline, a central production facility, and a metering station) ensuring the oil treatment and delivery capacity of up to 5 mtpa. In 2018, production volume at the Srednebotuobinskoye field amounted to 2.9 mmt.
- The Tagulskoye field: the pilot production phase is completed. The field was commissioned; 2018 production volume using mobile oil treatment units totaled 1.3 mmt that corresponds to the level of the approved initial field development plan.
- The Russkoye field: was commissioned using advanced technologies for multilateral and multihole wells drilling. In 2018, production volume totaled 0.3 mmt that corresponds to the current project documentation.
- The Kuyumbinskoye field: was commissioned, the main field facility – a central production facility was started-up. In 2018, oil production totaled 0.5 mmt<sup>1</sup> according to the approved project document.
- The East Salymsky license area: commercial development of the East Salymskoye license area operated by RN-Yuganskneftegas began with the commissioning of the Sorovskiy field with oil production of 0.5 mmt in 2018.

## Offshore Projects

In 2018, the Company invested RUB 15 bln in the Russian offshore projects both in the existing production projects and exploration projects aimed at replacing and developing the resource base.

In 2018, the Company focused on analysis, processing and interpretation

of considerable volume of seismic data on the offshore projects obtained in 2016–2017.

The largest production projects of the Company on the Russian shelf are Sakhalin-1 and northern tip of the Chaivo field.

The Company also participates in implementing offshore projects abroad. Among the highest priority foreign offshore upstream projects are the Company's projects in Egypt, Venezuela and Vietnam.

## Gas Projects

In 2018, Capex for gas projects was RUB 55 bln.

In 2018, the Company continued the active construction phase of key industrial infrastructure facilities of the Novo-Urengoysky and East-Urengoysky license areas of the Rospan project. Its full-scale development will in the near future result in the overall material growth of gas, gas condensate and hydrocarbons.

In Q2 2018, the Company, in partnership with BP, began an active phase

of development of the Kharampurskoye and Festivalnoye license areas.

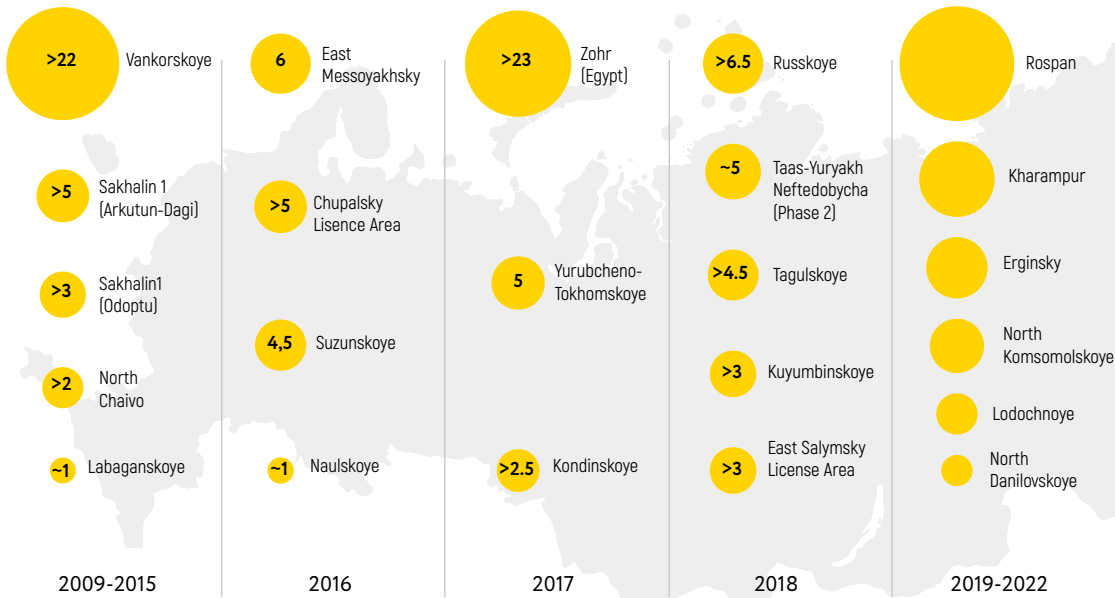
Implementing major gas projects with a focus on achieving the target KPIs, execution of projects on schedule and within budget enables Rosneft to achieve its strategic goal of increasing gas production to over 100 bcm of gas per annum. The launch of Rospan and Kharampur projects is scheduled for 2019–2020.

Natural gas production growth of 2.4% against the backdrop of some

decrease in associated petroleum gas output in 2018 was supported by the accelerated development of the Zohr field offshore Egypt as part of an international consortium with Eni, BP, Mubadala, and EGAS, Egyptian State Oil and Gas Company. Less than a year after the launch of the field, daily gas production reached ~ 57 mmcm per day<sup>1</sup>. The plan for 2019 is to continue the construction of infrastructure facilities and achieve design capacity by the end of the year.

<sup>1</sup> From 100%

## Leadership in Launching New Projects



● Area of circle corresponds to plateau production, the figures inside circle are shown for oil projects in million tonnes per annum; for gas projects (Zohr, Rospan and Kharampur) in million tonnes of oil equivalent per annum. 100% of production

**27%** share in the Company's investments in 2018 in new oil and gas production projects on the territory of the Russian Federation

**>20 mmt** production at new fields in 2018

## Rospan Project



## In-House OFS Development

The Company continues to implement its in-house oilfield services development strategy, maintaining the in-house drilling service share at a level of 50%. In 2018, investments allocated for in-house service development amounted

to about RUB 25 bln. Key Capex areas are the purchase of new drilling rigs and the application of new technological solutions. The Company carried out testing and application of up-to-date advanced technologies (drilling of horizontal wells

with multi-stage hydraulic fracturing, original well design) and improved the efficiency of the production segment.

## Downstream (Refining and Commerce)

In 2018 downstream segment capex amounted RUB 77 bln.

Main investments in the crude oil refining and petrochemical segments are directed at construction and renovation of processing facilities and complexes at oil refineries in order to increase the refining depth and output of high-quality petroleum products to meet market demand, as well as implementation of the refinery maintenance program.

In 2018, Rosneft's main investments in commerce and logistics assets were focused on maintaining and upgrading retail assets, oil depot facilities, marine terminals, and aircraft refueling facilities.

### 2018 Refining Highlights

- the Ryazan Refinery launched output of high-octane AI-100 grade gasoline and completed major retrofitting of the diesel fuel hydrotreater LCh-24/7, thereby improving the performance indicators of this unit.
- The Angarsk Refinery completed the replacement of the gas fractionation unit column.
- The Novokuibyshevsk Refinery introduced an innovative environmentally friendly water treatment technology ensuring the highest degree of waste water purification.
- The central laboratory of the Syzran Refinery and the operator room in the production control center at the Komsomolsk Refinery were equipped with advanced technical equipment.
- The Ufa group of refineries and the Saratov Refinery started the production of improved high-octane motor gasolines of Euro-6 class





## Investment Process Organization

Delegation of Authorities: Investment Bodies and Limits of Authority

### Limits of Authority

>1,500 USD MLN

500–1,500 USD MLN

200–500 USD MLN

0–200 USD MLN

### Hierarchy of Investment Bodies

**BOARD OF DIRECTORS<sup>1</sup>**

10% of capex  
1% of projects

**MANAGEMENT BOARD**

7% of capex  
2% of projects

**INVESTMENT COMMITTEE**

36% of capex  
4% of projects

**OPERATING SEGMENT SUBCOMMITTEES**

47% of capex  
93% of projects

Upstream

Downstream

Gas

Corporate Center

Rosneft's investment management process is based on the best global standards and practices, including initiation, expertise, approval, monitoring of the investment projects, and management of the Company's investment portfolio. The investment process is integrated with all related processes, including strategic and business planning, budgeting, reporting and financial control, and project and corporate management.

Rational capital distribution with a focus on cash flow, debt reduction, and return on equity increase creates the potential for a unique growth in the Company's value based on the first-class resource base of existing mature assets with low unit costs and risk level as well as new highly profitable projects which are competitive on a global scale.

<sup>1</sup> Data on the percentage of capex and number of projects exclude asset acquisitions and disposals which are all being resolved at the level of the Board of Directors



As part of the investment process, the Company continues to pursue its main goals:

- improvement of Rosneft's performance across all business segments by thoroughly identifying its investment requirements, building upon the knowledge and expertise of Company's personnel involved in investment management, and providing efficient management, monitoring, and follow-up of projects;
- robust business growth through attracting investments to the most 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 project identification and classification processes;
- compliance with the Company's principles of high social responsibility regarding 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.

The objectives related to organization of investment process for 2018 and the subsequent years are focused on maintaining and improving the current processes in order to enhance the Company's investment management expertise.

- **Discipline and responsibility:** 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.
- **Investment decisions:** high-quality investment decisions, reduced terms for endorsement and review of investment memorandums, accountability of investment project managers and supervisors for the delivery of projects on schedule, within budget and with proper quality and KPIs.
- **Monitoring and control:** regular and high-quality monitoring of projects at all Company's levels, change management process; automated control over the availability of investment decisions when entering into financial obligations ("two-key principle")<sup>1</sup> at all stages of project planning and implementation.
- **Portfolio analysis:** forming a balanced and flexible portfolio of the Company's investment projects; applying the principles of projects comprehensive ranking by economic efficiency also taking into account their materiality, readiness to implementation, impact on the cash flow, and other factors, with due regard to the Company's Strategy and its current priorities; the Company's Development Strategy and the current priorities; using the portfolio scenario analysis tools.
- **Development and automation of Information technologies:** automating the management process for the Company's investment project portfolio and the processes for tracking the planned, actual and forecast data on the progress of projects in the context of business segments and Capex items.

<sup>1</sup> The "two-key" principle comprises control over the availability of investment decisions and necessary funds within the approved business-plan.

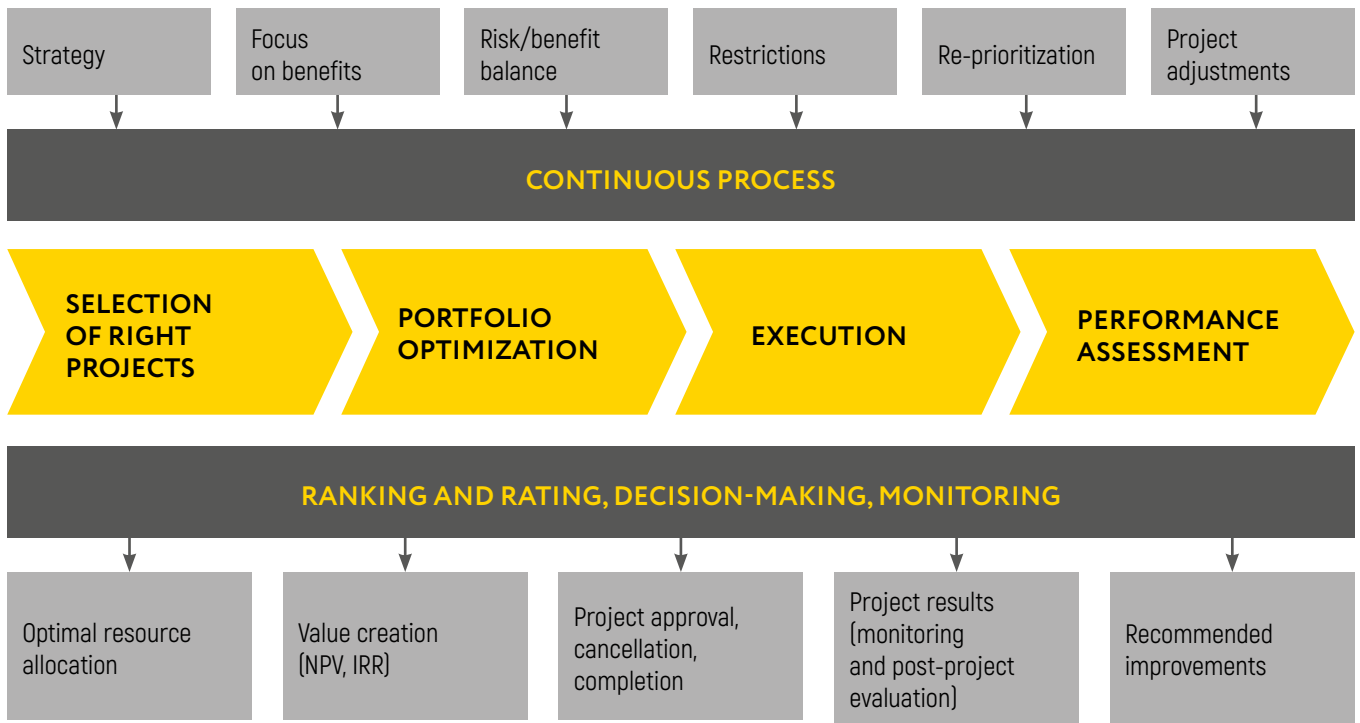




Project Portfolio Management

**PROJECT PORTFOLIO MANAGEMENT**

A tool for strategic management and maximization of business benefits through the selection, optimization, and implementation of investment projects in line with Rosneft's goals.









# 02

## Operating Results

### Planned Implementation of the Strategy

Progress on all key priorities of the Rosneft-2022 Strategy: increasing business profitability, ensuring high quality project management, developing corporate culture and technological capabilities of business





## Rosneft's Reserve Base

**12.9 bln tonnes**  
total oil and gas condensate reserves in Russia

**7.9 tcm**  
total gas reserves in Russia

**3.2 bln tonnes**  
onshore oil and gas condensate resources

**1.1 tcm**  
onshore gas resources

**22.2 bln tonnes**  
offshore oil and gas condensate resources

**23.2 tcm**  
offshore gas resources

**143 bboe**  
(19.4 btoe) AB1C1+B2C2 hydrocarbon reserves in 2018

**393 mmtoe**  
replacement of AB1C1 hydrocarbon reserves, including M&A

**138%**  
hydrocarbon reserve replacement ratio under the Russian reserves classification system

**23 fields**  
and 230 new deposits discovered with total reserves of 250 mmtoe

**1,121 licenses**  
in the Russian Federation, including 55 offshore licenses

**26 subsoil areas**  
acquired from the Russian state undistributed reserve and 24 licenses registered

**142 onshore exploration wells**  
completed and tested in Russia

**84%**  
onshore exploration drilling success rate in Russia



## Russian Onshore Exploration Activities

### STRATEGIC GOALS OF THE COMPANY'S EXPLORATION PROGRAM

Provision of 100% liquid hydrocarbon reserve replacement ratio

Increase of exploration drilling success rate to 95% by 2022 through technological advancements and innovations

### NEW EXPLORATION TECHNOLOGIES

Rosneft together with BP and WG is developing a unique system of seismic data recording unrivalled in the world. Russia was the first in the world to conduct winter 3D tests in Western Siberia, the Ai-Yaunsky licence area. The survey was in parallel with standard production operations. Now the obtained data has been fully processed. The results exceeded the expectations: geological informativeness and productive capacity were significantly improved; the possibility of working in extreme areas was proved.

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.

The Company's top priorities are the development of the resource potential, sustainable use of mineral resources, and an extensive application of advanced technologies while exercising strict compliance with environmental safety standards.

In 2018, 142 onshore exploration wells in Russia were completed and tested

with a high level of success rate – 84%. 2D seismic surveys totaled about 5 thousand linear km, while 3D seismic surveys totaled 10 thousand sq. km.

Successful exploration led to the discovery of 23 fields and 230 deposits with a total reserves of 250 mtoe.

A complex of research and development activities has been developed in the Company, which is still being implemented. Also, measures have been launched to set up an in-house geophysical service. The field seismic surveys simulation methods were employed to obtain optimum observations systems for a number of Group Subsidiaries.



## Independent International Audit of Reserves

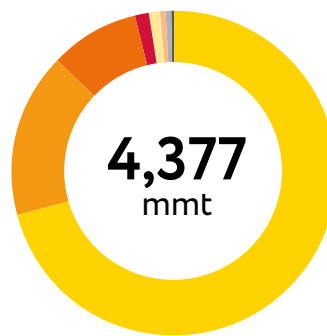
Proved hydrocarbon reserves of Rosneft under SEC standards amounted to 41,431 mmbœ (5,597 mmtoe) as of 31 December 2018. Hydrocarbon reserves grew by 1,524 mmbœ (202 mmtoe), or 4%, year-on-year. DeGolyer & MacNaughton conducted an audit with the assessment of reserves till the end of the field producing life.

In 2018, Rosneft's SEC-proven hydrocarbon reserve life amounted to more than 20 years, and organic SEC-proven hydrocarbon reserve replacement ratio stood at 173%<sup>1</sup>.

For several years, Rosneft has been a prominent leader among the major public international oil companies in terms of SEC proved reserve life and SEC proved reserve replacement ratio. At the same time, the Company has the lowest exploration and development costs for hydrocarbon reserves compared to other international energy companies.

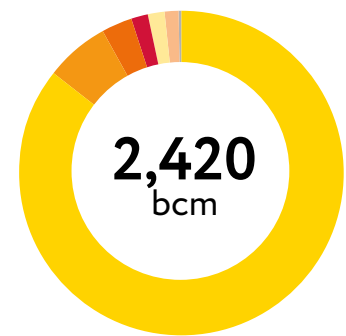
According to Petroleum Resources Management System classification (PRMS), DeGolyer & MacNaughton estimated the hydrocarbon reserves of 1P category

Breakdown of Proved Hydrocarbon Reserves (Oil, Gas Condensate, and Liquid Hydrocarbons) under PRMS Standards, mmt



Western Siberia	3,103
Volga-Urals	716
Eastern Siberia	399
Timan-Pechora	55
Foreign countries	48
Southern Russia	27
Offshore (except for the Arctic Region)	21
Far East	8

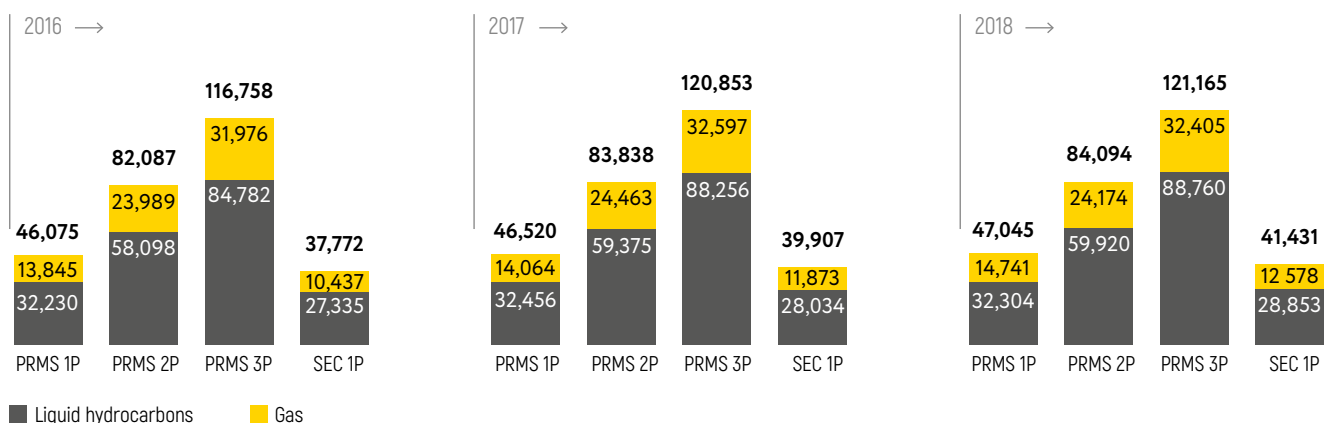
Breakdown of Proved Marketable Gas Reserves under PRMS Standards, bcm



Western Siberia	2,075
Eastern Siberia	154
Volga-Urals	70
Southern Russia	42
Offshore	41
Foreign countries	35
Timan-Pechora	2
Far East	1

as 47,045 mmbœ (6,368 mmtoe), 2P category – 84,094 mmbœ (11,388 mmtoe), and 3P category – 121,165 mmbœ (16,426 mmtoe) as at 31 December 2018.

### Hydrocarbon Reserves under International Standards, bboe



<sup>1</sup> Reserve replacement ratio is calculated in tonnes of oil equivalent. Rosneft's reserve replacement ratio in barrels of oil equivalent was estimated at 175%.

## Reserve Replacement by Regions



### Western Siberia

In 2018, at the new Erginsky oil and gas cluster launched in 2017 in the Western Siberia on the results of re-testing of Novo-Endyrskaya appraisal well No.16, which after hydraulic fracturing showed oil inflow of 26.9 cub. m / day, the Irtishskoye field was discovered with crude oil and associated gas reserves of 22.5 mmtoe (C1+C2 initial recoverable reserves).

RN-Uvatneftegaz successively implements the strategy of the Uvat project development, including the target annual increase in the recoverable reserve replacement ratio. As can be seen from the outcomes of 2018, the geologists still discover more crude oil reserves than can be recovered. Thus, in 2018, RN-Uvatneftegaz had 238% excess of AB1C1 reserves expansion (25.2 mmt) over the production volumes (10.6 mmt oil output).

The key achievement of the RN-Uvatneftegaz exploration program is the discovery of two fields at the territory of the Khanty-Mansi Autonomous Area, the license areas

Yuganskiy-11 and Yuganskiy-12, following the drilling results of the first appraisal wells.

The Company actively develops its gas business. Rosneft carried out 3D seismic surveys of 280 sq. km and completed and tested two wells. In 2018, Rosneft's gas reserves in the Western Siberia grew by 107.7 bcm. The Company continued to explore the Berezovskaya suite non-conventional gas-saturated reservoir in the Western Siberia. In the reporting year, after wells testing in an interval of the Berezovskaya suite at the Kharampur field, new gas reservoirs were discovered in VB1 and NB1 formations.

Increases in recoverable B1+B2 gas reserves within the Kharampur license area amounted to 79.9 bcm of gas.

Since 1996, the Company has been operating at the Russko-Rechenskiy license area located in the Tazovsky District of the Yamal-Nenets Autonomous Area bordering the Krasnoyarsk Territory. One of the 2018 exploration achievements was a record-breaking open flow rate of oil with associated gas amounting to 903 cub. m / day while testing the Russko-Rechenskaya well No.749.

Under the scope of the Gydan Peninsula study, in 2018, JSC Rospan International finalized interpretation of 3D seismic surveys of the Minkhovskiy license area, confirmed the field potential, and updated the location of exploration wells.



### Eastern Siberia and Far East

The Company's technological development in terms of exploration efficiency improvement covers both the seismic surveys and the methods of their interpretation. On the basis of a comprehensive analysis of geological and geophysical data, a procedure was developed to forecast the areas of improved reservoirs development in the formations associated with basement highs and reef structures in the Osinskiy horizon. Modern hi-tech approaches to the interpretation of geological and geophysical data (seismic inversion, seismic attributes calculation, and complex analysis of the results), as well as the perfection of geologic conception, contributed to highly successful exploration.

In 2018, the geological and geophysical structure models of the Danilovsky and Sanarsky license areas and the Verkhneicherskoye field were updated according to the results of seismic surveys, and the priorities were set in relation to 2019 appraisal and exploration drilling within the areas of conducted 3D-surveys. According to the 2018 seismic data express-interpretation and processing, the potential of the West Chonsky and Sredne-Kochemsky licence areas has

**222.8 mmt** oil and gas condensate  
**107.7 bcm** gas reserves growth

**52** exploration wells completed and tested  
with a 87% success rate

**39.4 mmt** oil and condensate and  
**34.4 bcm** gas increase in reserves in  
the Eastern Siberia and the Far East

Two new fields and  
**76 new deposits** discovered with  
a total 193.2 mmtoe in AB1C1+B2C2 reserves

3D seismic surveys totaled  
**3.6 thousand sq. km**

Two new deposits discovered with a total  
**1.1 mmtoe** in AB1C1+B2C2 reserves

been confirmed and the focus sites have been outlined. The appraisal and exploration drilling led to a revision of the structure model of the Verkhnechonskoye, North Danilovskoye, South Danilovskoye, Verkhneicherskoye, and Savostyanov fields at the Mogdinsky license area. The Danilovskaya-82 well of the South Danilovskoye field showed a record-breaking flow rate of oil for B5 – 320 cub. m / day. Increase in B1C1 reserves based on the results of 2018 exploration amounted to 19 mmtoe.

At the Khatangsky cluster of the Company (the Taimyr Peninsula) the major 2D seismic surveys of 4,476 linear km were completed in 2018, including 1,827 linear km in 2018 (Vladimirsky, Kungasalakhsky, and Kupchiktassky license areas).

Drilling of multilateral wells continued on the projects of the Krasnoyarsk Territory aimed at confirming productivity of the complex fractured carbonate reservoirs and increase the reserves area in 2018. Having complicated the exploration wells design, even in difficult geological conditions the Company managed to reach the targeted reserves growth, update the geological model, and eliminate geological risks of production drilling. It was decided to roll out the technology to the complex carbonate reservoirs in the Eastern Siberia and Timan-Pechora.



## Volga-Urals, Timan-Pechora, and Southern Russia

The Company consistently performs its exploration activities in Southern Russia assets to replace reserves in the region. In the reporting year, on the territory of the Republic of Daghestan – the oldest oil and gas region of the Russian Federation – 2D seismic surveys totaled 68 linear km; one well was completed and tested. Modern technologies of 2D surveys and field data processing were applied for searching the advanced sites in conditions of complex geology, large depths, high density of industrial and agricultural infrastructures. The structure on the West Izberbashsky license area was considered as the most promising, therefore it was recommended for well drilling.

The results of West Izberbashskaya well No.1 drilling proved the possibilities of new discoveries in old oil and gas production regions. Today the Company continues exploration on the territory of the Republic of Daghestan within the Karlaniurtovsky, Karatiubinsky, Karabudakhkentsy, and Dimitrovsky license areas, as well as analyses the open acreage for further licensing.

**11** exploration wells completed and tested with a 73% success rate

2D seismic surveys totaled **4.8 thousand linear km**, while 3D seismic surveys totaled 1.7 thousand sq. km

**67.9 mmt** oil and gas condensate and **7.9 bcm** gas reserves growth in the Volga-Urals region, Timan-Pechora, and Southern Russia

**21 fields** and **152 deposits** discovered with a total 55.4 mmtoe in AB1C1+B2C2 reserves

**79** wells completed and tested with a 84% success rate

A great scope of seismic surveys with a common depth point method (CDP): 3D surveys totaled **4.6 thousand sq. km** and 2D surveys totaled **68 thousand linear km**

## 2.2

# Production of Liquid Hydrocarbons

In 2018, Rosneft production of hydrocarbons amounted to 285.5 mmtoe (5.80 mmboe per day), up 1.3% year-on-year.

Production of liquid hydrocarbons totaled 230.2 mmt (4.67 mmb per day), an average daily production increase of 2.1% year-on-year. The key growth factors are the record-high production volume at the Company's largest asset, RN-Yuganskneftegaz; the launch of large greenfields and agile maneuvering in development of brownfields in the context of the Company's obligations on production cuts under OPEC+ Agreement.

Once the production limitations were cancelled, the Company managed to quickly increase volumes due to correct strategical selection of assets and pre-arranged potential of additional output. Optimal – in relation to technologies – management of high watercut and marginal wells in mature fields accompanied by the improved market conditions allowed the Company to entirely restore the production rates to pre-OPEC+ agreement level (October of 2016), as well as to ramp up production on new projects.

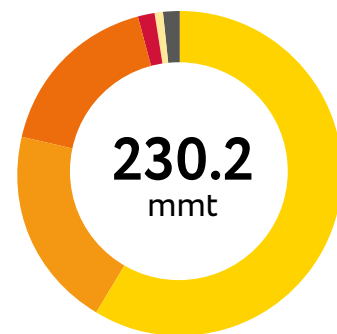
Under OPEC+ agreement, Rosneft made the greatest contribution to production cuts on the part of the Russian Federation. In December 2018, the Company showed a 4.7% year-on-year growth of oil and gas condensate daily average production in Russia.

Production drilling in 2018 stayed at the level of 2017 and exceeded 12 mln m, while the scope of drilling the complex multilateral and high-productive multihole wells doubled.

The number of new wells brought into operation increased by 3.5% to over 34 thousand wells. The share of horizontal wells grew to 48%, and the number of new horizontal wells drilled using multi-stage hydraulic fracturing (MSHF) grew by 51%. In-house drilling continued to account for more than 50% of total drilling volumes.

A pool of new assets has still been developed according to the stated plans. Total production of liquid hydrocarbons in 2018 at the Suzunskoye, East Messoyakhsky, Yurubcheno-Tokhomskoye, and Kondinskoye fields, which were launched in 2016, exceeded 75 mmb. In the reporting year, the Company provided for phased commissioning of the Tagulskoye, Russkoye, Kuyumbinskoye fields and the second phase of the Srednebotuobinskoye field with plateau production above 140 mmb.

Oil, Gas Condensate, and Liquid Hydrocarbons Production, mmt



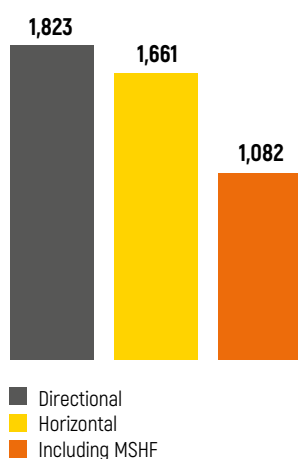
Western Siberia	135.0
Volga-Urals	46.4
Eastern Siberia and Far East	39.4
Timan-Pechora	4.1
Southern Russia (including the Krasnodar Territory and Priazovneft)	1.9
Foreign projects	3.4



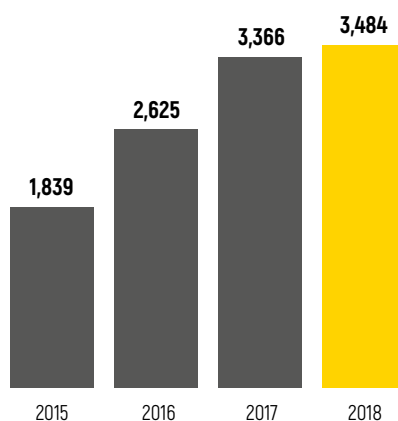
At the beginning of August, an industry-wide record high was achieved in terms of daily drilling – 56,708 m, 7% above the previous record high. Drilling performance increased due to enhanced drilling planning and management system and efficient implementation of new technologies.



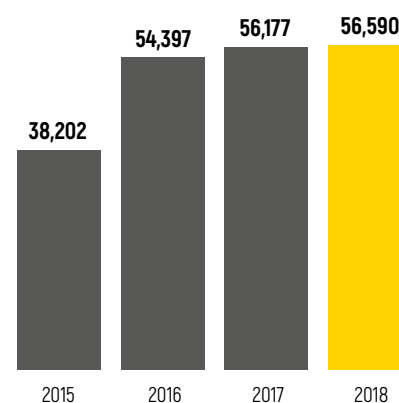
Commissioning of New Wells by Type, units



Commissioning of New Wells, units



Existing Well Stock, units



## Application of New Technologies

The most advanced technologies of downhole operations are applied by Rosneft. The technologies are offered by high-tech companies, being the leaders in oilfield services in the Russian Federation and providing in-house and out-house services.

One of the most efficient well interventions is hydraulic fracturing. Considering a great variety of mining and geological conditions in the regions of the Company operations, different technological solutions are required to obtain maximum technical success and economic efficiency.

Multi-stage hydraulic fracturing technologies are being actively integrated. Testing and development of hydraulic fracturing technology have been performed for selective and repeated hydraulic fracturing on new wells and wells in service to reduce well commissioning time.

Every year, the Company conducts about 10 thousand of hydraulic fracturing operations, requiring design modelling and analysis of actual performances by special software. In order to have technological independence in relation to HF design software, Rosneft has developed RN-GRID, an import-substituting

hydraulic fracture simulator, which passed pilot testing at LLC RN-Yuganskneftegaz, JSC Samotlorneftegaz, PJSC Varyoganneftegaz, and JSC RN-Nyaganneftegaz. In those subsidiaries, LLC RN-GRP internal service has shifted to 100% application of RN-GRID for all hydraulic fracturing operations. From the moment of RN-GRID introduction, more than five thousand hydraulic fracture designs have been developed and used for over 2.5 thousand well operations with the entire design cycle provided by the corporate simulator.

## Application of Modern Technologies for Maintaining the Production Output

Well interventions are a key tool in maintaining the oil and condensate production levels, primarily drilling and commissioning of new wells. Successful application of horizontal wells with MSHF at mature fields, as well as active horizontal drilling at greenfields (including multilateral wells) allowed to increase commissioning of new wells post production drilling by 3.5% year-on-year (from 3,366 to 3,484 wells)\* and raise additional production from new commissioned wells from 19.5 mmt to 20.4 mmt, including:

- JSC Samotlorneftegaz: new wells commissioning increased by 44%, while additional production increased by 34% year-on-year due to efficient application of MSHF HW and investment incentives;
- JSC RN-Nyaganneftegaz: new wells commissioning increased by 24%, while additional production increased by 56% year-on-year due to optimization of MSHF HW completion technology.

MSHF HW technology significantly boosts well productivity and scope of reserves under development, while reducing the wells stock and raising the economic efficiency of the projects. In 2018, the development system of the Kondinskoye field was optimized to increase the efficiency of the reserves recovery. As a result, a share of horizontal wells in JSC Kondaneft increased from 23% to 42% year-on-year that led to a 55% increase in annual average flow rate.

Moreover, further implementation of the decisions taken in relation to development allowed to increase the number of MSHF HW across the Company by 51% year-on-year (more than one thousand wells were commissioned in 2018), while a share of all horizontal wells in a total volume increased from 36% to 48%.

Apart from growing the number of MSHF horizontal wells, the Company conducts pilot works on optimization of structures by means of an extended horizontal section and increased number of hydraulic fracturing stages, which boosts wells productivity and enlarges the development coverage.

Over 30 extended horizontal wells with eight and more HF stages were commissioned at RN-Yuganskneftegaz (more than 1.2 km). The average initial flow rate of these wells is 50% above the wells with a standard length and a regular number of stages.

Over 20 extended horizontal wells with eight and more HF stages were commissioned at JSC Samotlorneftegaz (more than 1.2 km). The average initial flow rate of these wells is 16% above the wells with a standard length and regular number of stages.

Testing and implementation of multilateral technology are still undergoing on the fields with complex geologic structure, in particular - on formations with underlying water and/or gas cap. More than 70 new multilateral wells were commissioned in 2018, including 39 multilateral wells in the fields of the Vankor cluster.

LLC Taas-Yuryakh Neftegazodobycha completed construction of six multilateral wells at the Srednebotuobinskoye field, including the wells with a total length of above 5.2 km in the target formation. The initial flow rate of this well is five times higher than at conventional horizontal wells.

JSC Tomskneft VNK implements multilateral wells program at formations with complex geological structures. 19 multilateral wells were commissioned in 2018 with an average initial flow rate of 39 tonnes per day, that

is over 40% more than the standard wells with horizontal completion.

In 2018, RN-Yuganskneftegaz drilled close to 400 sidetracks, including 250 horizontal completions. The program is actively introduced at mature fields, for example, BS10 facility of the Mamontovskoye and South Balykskoye fields have wells with initial flow rates exceeding 200-300 tonnes per day. Furthermore, horizontal sidetracks drilled using MSHF are being introduced at low-permeability deposits. For example, at the Priobskoye field flow rates up to 100 tonnes per day were obtained in certain cases.

# 51%

increase in new MSHF HW commissioning in 2018

# > 20 mmt

produced from new wells commissioned in 2018

## 2.3

# Overview of Production in Regions of Operation

## Western Siberia



Western Siberia is the Rosneft's key oil-producing region. In 2018, Western Siberian assets accounted for 59% of the Company's liquid hydrocarbons production. The Company's key producing assets in Western Siberia include RN-Yuganskneftegaz, which makes up 30%

of the Company's liquid hydrocarbons production, Samotlorneftegaz (8% of total Rosneft liquid hydrocarbons production) in the Khanty-Mansi Autonomous Area, and RN-Uvatneftegaz (5% of total Rosneft liquid hydrocarbons production) in the Tyumen Region's south.

To increase the efficiency of reserves recovery at the Western Siberia fields, the Company has conducted comprehensive optimization of the existing development systems by shifting from traditional directional wells to multi-stage hydraulic fracturing horizontal wells

(MSHF HW). This technology significantly boosts the wells flow rate and scope of reserves under development, while reducing the wells stock and enhancing the economic efficiency of the projects. MSHF HW is actively used at such enterprises of the Western Siberia as LLC RN-Yuganskneftegaz, LLC RN-Purneftegaz, JSC Samotlorneftegaz, JSC RN-Nyaganneftegaz, and PJSC Varyoganneftegaz.

Western Siberia is also a major gas producing region. Gas output in 2018 totaled 4745 bcm.

## RN-Uvatneftegaz

From 2004 to 2016, annual crude oil production in the fields of the Uvat project increased by almost 10 times (from 1.2 mmt to 11.6 mmt). The decrease in 2017–2018 was attributable to the production cuts under OPEC+ Agreement.

In September 2018, RN-Uvatneftegaz reached a milestone 90 mmt since the commencement of the Uvat project.

The highest growth of liquid hydrocarbons production in 2018 - above 80% - was recorded in the fields of the Central Uvat. The promising Taltsiyskoye field was commissioned in 2018. Today it produces over 2.8 thousand tonnes of oil per day.

In the reporting year, 78 new wells were launched at the Uvat project fields. Initial flow rates of new wells increased

by 31% year-on-year and exceeded the level of 100 tonnes per day per well.

In 2018, RN-Uvatneftegaz reached the first million tonnes of oil at the South Gavrikovskoye field. Currently, 20 oil wells provide an average daily production of 1 thousand tonnes.

## 20

license areas

in the Tyumen and Omsk regions, as well as the Khanty-Mansi Autonomous Area – Yugra

## 70%

proved reserves are concentrated in the Ust-Tegusskoye, West Epasskoye, Urnenskoye, North Tyamkinskoye, and Protozanovskoye fields

## 10.8 mmtoe

hydrocarbon production

## 10.6 mmt

liquid hydrocarbons production



# RN-Yuganskneftegaz

**2.3**  
**bln tonnes**

crude oil cumulative production  
since the commencement of  
development

**35**  
**license areas**

Despite the long history of the subsidiary, RN-Yuganskneftegaz has a stable positive trend of production: on 17 October 2018, RN-Yuganskneftegaz set a new absolute historical record of daily oil output of 197.5 thousand tonnes, which is the highest reading over the entire company's history since 1964. Annual production increased by 5.5% year-on-year, and for the first time in the history of New Russia exceeded 70 mmt.

RN-Yuganskneftegaz attained these high production levels due to the improved development methods for hard-to-recover reserves of the Middle Priobye, application of advanced well drilling and completion technologies, systematic work on the expansion of resource base, the introduction of new

production facilities, and contribution of the company's personnel.

In 2018, with the commissioning of the Sorovsky field, production was started at the East-Salymsky license area. A synergy in relation to joint use of oil treatment infrastructure at the Sorovsky Central Production Facility (CPF) with further delivery of marketable products into the Transneft's oil pipeline system was implemented within the scope of the project. 15 new wells were commissioned at the field with a total initial flow rate of above 10 thousand tonnes per day.

RN-Yuganskneftegaz continued to set record highs for the industry in terms of to drilling footage and new commissioned wells. Over 5 mln meters





**80%**

proved reserves concentrated in the Priobskoye, Mamontovskoye, Malobalyksoye, and Prirazlomnoye fields.

**74.1**  
**mmtoe**

production of hydrocarbons in 2018, among them

**70.2** **mmt**

liquid hydrocarbons production

of rocks were drilled and over 1.6 thousand new wells were commissioned in 2018, 25% of which were horizontal. The pilot works on drilling the extended horizontal wells with an increased number of MSHF stages continued; over 50 horizontal two-string wells were built. In 134 days, a 4.7 km deep horizontal well was built with a unique combined production string with more than 1.5 km horizontal section.

As to the implementation of the decisions taken in relation to development systems optimization at the RN-Yuganskneftegaz fields, in 2018, a share of horizontal wells in production drilling increased from 14% to 25% year-on-year, while a share of MSHF HW increased from 12% to 22%. 368 new MSHF HW were commissioned, and their total amount,

including horizontal sidetracks with MSHF, exceeded 500 wells per year.

To increase the output of wells and enlarge the scope of development coverage, over 30 wells with an extended horizontal section with eight and more HF stages were commissioned at RN-Yuganskneftegaz (more than 1.2 km). The average initial flow rate of these wells is 50% higher than at the wells with a standard length and a regular number of stages.

Total number of hydraulic fracturing operations was 5.5 thousand, including hydraulic fracturing of the well with 20-staged completion.

Intensified development of hard-to-recover reserves, which were previously

considered unprofitable for drilling, has become the key area for RN-Yuganskneftegaz operations. The company conducts testing and introduces new technologies of MSHF HW completion, executes pilot works on horizontal well extension and increase of hydraulic fracturing stages. Additionally, different technical solutions are implemented to enhance the operational efficiency of the horizontal wells. New field development systems are introduced while old ones are optimized.

## Samotlorneftegaz

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 (96%), today the field produces oil with a considerable amount of formation water. The main objective in maintaining the field's production is implementing advanced technologies and starting the development of new untapped reserves.

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 from 1 January 2018.

As a result of those investment incentives for the Samotlorskoye field and early revision of the development program, the Company managed to implement the production stabilization program, significantly reducing the decline in production to 1.1% in 2018 after several years of falling by 3–5%. In 2018, the number of new wells put into production increased by 122 wells year-on-year, while the number of well interventions increased by 197 wells. Additional oil and gas condensate production rose to 2.3 mmt due to well

interventions, with 1.2 mmt of this growth due to drilling new wells.

The company continues pilot works on optimization of structures by means of an extended horizontal section and more stages of hydraulic fracturing, which increases the output of wells and enlarges the development coverage. Over 20 extended horizontal wells with eight and more HF stages were commissioned at JSC Samotlorneftegaz (more than 1.2 km). The average initial flow rate of these wells is 16% above the wells with a standard length and regular number of stages.

**11** license areas

**>98%**

proved reserves concentrated in the Samotlorskoye field

**24.3** mmtoe

production of hydrocarbons in 2018, among them<sup>1</sup>

**>19.4** mmt

liquid hydrocarbons production

<sup>1</sup> With data from JSC Yugraneft Corporation



## Eastern Siberia and Far East (Onshore)



The Eastern Siberia and the Far East are home to the Company's major upstream assets. High levels of hydrocarbons production were attained in 2018 at the Vankor cluster and the Verkhnechonskoye field, of above 36.3 mmtoe.<sup>1</sup>

In 2018, a growth of liquid hydrocarbons production in the Eastern Siberia and the Far East reached 8.1% compared to 2017 and amounted to 35.7 mmt. The bulk of the production is provided by the Vankor cluster fields (60% of total production in these regions) and by JSC Verkhnechonskneftegaz (23% of total production).

Thanks to the development of new projects, production at JSC Vostsibneftegaz and LLC Taas-Yuryakh Neftegazodobycha more than doubled year-on-year. According to the approved plans, the company provided for a phased commissioning of the Tagulskoye and Kuyumbinskoye fields and the second phase of the Srednebotuobinskoye field.

### The Vankor Cluster

LLC 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 startup of commercial production at the Vankor field in August 2009, cumulative oil and gas condensate production exceeded 169 mmt due to the implementation of well interventions program across the existing wells and drilling new wells.

The Vankor field was the first on the territory of the Russian Federation to successfully conduct pilot tests of directional drilling of sections for a surface hole of the casing string with 245 mm diameter. The technology reduces risks of complications in the drilling process and decreases the number of technological operations and well drilling cycle. Rolling-out of the technology to other assets was started.

The company continues to drill production wells, as well as build top-priority facilities and infrastructure facilities across the Vankor cluster new fields.

The second phase of construction is undergoing at the Suzunskoye field, which allows for the construction of gas program facilities (gas treatment unit with a compression station, Suzun-Vankor inter-field oil pipeline, and gas wells in cluster pads). The field production consistently exceeds 4 mmt.

As a result of successful completion of the pilot development phase, the Tagulskoye Field was put into operation. 2018 production volume using mobile oil treatment units totaled 1.3 mmt which corresponds to the level of the approved initial field development plan.

# 35.7 mmt

growth in liquid hydrocarbons production in the Eastern Siberia and the Far East, +8.1% year-on-year

# 60%

of total production of the regions provided by the Vankor cluster fields

# > 2 times

production growth of JSC Vostsibneftegaz and LLC Taas-Yuryakh Neftegazodobycha year-on-year

<sup>1</sup> Excluding production at the Lodochnoye Field



## 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 13 Rosneft licenses throughout the Irkutsk Region and the Krasnoyarsk Territory.

Hydrocarbon production at Verkhnechonskneftegaz totaled 9.0 mmtoe in 2018, with liquid hydrocarbons production of 8.2 mmt. The Verkhnechonskoye field is being developed using advanced technologies such as hydraulic fracturing and multistage hydraulic fracturing (MSHF). There are also ongoing initiatives to optimize well construction and completion practices, monitor pay-zone performance, and optimize the operation of infrastructure facilities. Incremental oil and gas condensate production increased by 7% year-on-year due to the commissioning of new wells and well interventions.

In order to expand the resource base, JSC Verkhnechonskneftegaz conducts pilot production at the North Danilovskoye field as an operator.

## East Siberian Oil and Gas Company (Vostsibneftegaz)

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

Owing to the optimal selection of approaches to commissioning new facilities, rapid construction of production infrastructure and adoption of advanced drilling technologies, hydrocarbons production at the field more than tripled in 2018 and amounted to 2.3 mmtoe. Since launch of the Yurubcheno-Tokhomskeye field, one of the largest in the Krasnoyarsk Territory, the cumulative production has amounted to more than 4 mmt.

Innovative technologies are actively deployed at the project, in order to expand the productive deposit coverage and to achieve higher oil recovery rates. The methods and approaches successfully tried and tested at the Yurubcheno-Tokhomskeye field are now considered as core practices, and Rosneft plans to roll them out to similar projects.

## Taas-Yuriakh Neftegazodobycha

LLC 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. The Srednebotuobinskoye oil and gas condensate field is one of Rosneft's three largest assets in the Eastern Siberia oil cluster.

In 2018, hydrocarbons output by Taas-Yuryakh Neftegazodobycha more than doubled year-on-year and increased to 3 mmtoe. The growth was due to commissioning the second phase of field facilities (oil pipeline, central production facility, and metering station) that support the oil treatment and delivery up to 5 mtpa. The Company continues the construction of infrastructure and site facilities, implementing the program of horizontal and multilateral wells, including under application of the Fishbones Stimulation Technology.

**9**  
**mmtoe**

hydrocarbons production at Verkhnechonskneftegaz in 2018

**2,3**  
**mmtoe**

production - more than tripled year-on-year

**to 3**  
**mmtoe**

hydrocarbon production growth at LLC Taas-Yuryakh Neftegazodobycha in 2018



## Volga-Urals



In 2018, the Company's total production of hydrocarbons amounted to 48.4 mmtoe (including 46.4 mmt of liquid hydrocarbons, or 20% of Rosneft's total production). The key producing assets in the region are Bashneft-Dobycha, Orenburgneft, Samaraneftegaz and Udmurtneft.

A unique proppant fracture acidizing is used by Russian regional subsidiaries, which mainly operate carbonate reservoirs. This concept ensures acid delivery along the considerable distance from the wellbore, creation and stabilization of the propped fracture.

### Samaraneftegaz

Samaraneftegaz operates 171 license areas (including 170 license areas as a 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 2018, hydrocarbons output totaled 12.5 mmtoe, with liquid hydrocarbons production of 12.1 mmt taking into account the Company's obligations under the OPEC+ agreement.

Samaraneftegaz focuses on commissioning of new wells, using advanced technologies, and conducting effective well interventions to maintain a high level of crude oil production potential.

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

### Orenburgneft

Orenburgneft operates 130 license areas (including 128 license areas as a 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, Pokrovskoye, and other fields.

In 2018, hydrocarbons output totaled 16.0 mmtoe, with liquid hydrocarbons production of 14.9 mmt taking into account the Company's obligations under the OPEC+ agreement.

In maintaining hydrocarbon production, the main objectives are the application of state-of-the-art well intervention techniques and the optimization of both well operations and reservoir pressure maintenance systems. The average annual flow rate of new wells increased by 30% year-on-year.

Orenburgneft is commissioning successful exploration wells and dependent production wells by using system analysis of resource the base at open structures. Six production wells were commissioned in 2018 at the Bakhtiyarovskoye field with the average annual flow rate of more than 100 tonnes per day.

### Bashneft-Dobycha

Bashneft-Dobycha operates 254 license areas (with Bashneft as a subsoil user) located in the Republics of Bashkortostan and Tatarstan, the Orenburg Region, and the Khanty-Mansi Autonomous Area – Yugra. More than half of all proved reserves are concentrated within six major fields, including the Arlanskoye, Yugomashevskoye, and Tuimazinskoye fields.

Hydrocarbons output totaled 16.8 mmtoe in 2018, with liquid hydrocarbons production of 16.4 mmt.

The company supports effective well interventions and drilling of new wells to maintain a high crude oil production level at mature fields.

# 48.4

## mmtoe

production in Central Russia in 2018

# 20%

liquid hydrocarbons of the Company are produced in Central Russia

## Southern Russia



### RN-Krasnodarneftegaz

RN-Krasnodarneftegaz operates 30 license areas (with Rosneft as a subsoil user) 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 2018, hydrocarbons output totaled 2.4 mmtoe, while liquid hydrocarbons production amounted to 0.7 mmt.

## Timan-Pechora Province



### RN-Severnaya Neft

Rosneft's key upstream enterprise in Timan-Pechora, RN-Severnaya Neft, operates 17 licenses (with Rosneft as a subsoil user) in Komi Republic and the Nenets Autonomous Area. Over 70% of RN-Severnaya Neft's proved reserves are concentrated in five fields: Labaganskoye, Naulskoye,

Khasyreyskoye, Srednemakarihinskoye, and Cherpayuskoye.

In 2018, hydrocarbons output totaled 3.2 mmtoe, with liquid hydrocarbons production of 3 mmt taking into account the Company's obligations under the OPEC+ agreement.

The company is continuing to increase production at the Naulskoye field. In 2018, 40 production wells were drilled, and since the development launch – 60 production wells. Oil production in 2018 amounted to 0.5 mmt, and since the field launch – more than 0.9 mmt.

### Bashneft-Polyus

Bashneft-Polyus conducts a development project for the Trebs and Titov fields located in the Nenets Autonomous Area.

In 2018, liquid hydrocarbons production totaled 1.1 mmtoe taking into account the Company's obligations under the OPEC+ agreement.



## Development of Hard-to-Recover Reserves

The Company makes consistent efforts in bringing hard-to-recover reserves into active development. Production of hard-to-recover reserves subsidized by the Government in accordance with applicable laws<sup>1</sup> increased to 18.7 mmt in 2018, up 15% year-on-year, more than doubling the 2014 level. In 2018, the share of hard-to-recover reserves of the Company's total production<sup>2</sup> grew from 7.5% to 8.4% year-on-year. In 2018, over 820 wells were drilled for hard-to-recover reserves.

The Company's largest hard-to-recover reserves asset is RN-Yuganskneftegaz, with over 1.0 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, RN-Uvatneftegaz, and JSC Kondaneft. These enterprises and RN-Yuganskneftegaz currently account for over 90% of the Company's resource base of hard-to-recover reserves.

Company's recoverable reserves of high-viscosity<sup>3</sup> oil at the territory of the Russian Federation are over 550 mmt, over 400 mmt of which are concentrated at the Russkoye

field, unique for its size. In 2018, the drilling program continued at this field (78 horizontal wells, including 15 horizontal multilateral wells), 53 horizontal wells, including multilateral wells, were brought onstream.

The expansion of the Company's resource base of hard-to-recover reserves in 2018 was also made possible through the implementation of 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 40 mmt. The performed exploration allow to intensify the efforts at these projects.

According to the current production forecast, the bulk of subsidized production from hard-to-recover and high-viscosity reserves is planned in Western Siberian fields, which contain low-permeability formations of the Tyumen suite, the Achimov deposits, and formations of the start-up complex group containing high-viscosity oil. The post-2020 forecast level of the oil extraction from hard-to-recover reserves strongly depends

on alleviating geological and technological uncertainties, for which the Company actively seeks optimal technical and economic solutions. Significant expansion of the Company's resource base is possible through unlocking the potential of unconventional oil reserves (from the Bazhenov, Abalak, Khadum, and Domanik suites) and high-viscosity oil reserves. Achieving additional potential is possible through successful pilot development in joint ventures with global partners.

# 18.7 mmt (8.4%)

hydrocarbons production from hard-to-recover reserves in 2018.

<sup>1</sup> According to Federal Law No. 213-FZ dated 23 July 2013.

<sup>2</sup> Percentage of Russian onshore production of liquid hydrocarbons (excluding gas assets).

<sup>3</sup> A viscosity of more than 200 mPa · s according to Federal Law No. 151-FZ dated 27 July 2006.

# >2.5 bln tonnes

at 138 fields – the Company's total hard-to-recover reserves

# >550 mmt

the Company's recoverable reserves of high-viscosity oil in the Russian Federation

As part of the Company's target to double the production from hard-to-recover reserves during the period of 2017–2022, the efforts on improving the development technologies continued. Technological development is primarily focused on well stimulation at the low-permeability formations, primarily pertaining to the complicated design and an increased length of horizontal wells, expansion in the number of hydraulic fracturing stages in the horizontal wells. In 2018, the Company successfully commissioned about 100 wells with an increased number of multi-stage hydraulic fracturing stages (from eight to ten) at the formations with hard-to-recover reserves, including the wells with horizontal section length over 1 km (a 45% year-on-year growth in wells). The increase in the number of multi-stage hydraulic fracturing stages and the length of horizontal wells allows for involvement of unprofitable areas into development.

Considerable attention is given to promoting the technologies of low-permeability formations development management. Various technological solutions are adopted and implemented for repeated hydraulic fracturing (re-fracking). Based on the results of pilot works performed, the technology of blind re-fracking along the whole borehole, not requiring additional investments in production tooling, was tried and tested. There were 10 such operations carried out with projections to roll this concept out in the near future. Over 30 refracking operations were also undertaken to re-orient hydraulic fractures based on the geomechanical modelling, which showed high efficiency in terms of coverage of new formations and restoration and improvement of well productivity. The Company aims at scaling up the range of activities. The plans for 2019–2020 include testing of controlled refracking operations with a selection of repeated hydraulic fracturing intervals due to additional targeted injection

of viscous cushions at intervals that do not require intervention, or through the use of completion technologies that provide repeated temporary isolation of such intervals.

The Company continues pilot development of producing deposits of the Bazhenov suite. In 2018, two directional and two horizontal wells were drilled, with oil inflows obtained. In 2019, multi-stage hydraulic fracturing at the Bazhenov suite will continue.

In 2018, drilling at ultrahigh-viscosity oil deposits at the Karabikulovskoye field of Samaraneftegaz was started. Three pairs of horizontal wells were drilled to enable steam-assisted gravity development (SAGD). The plans for 2019–2021 include the construction of the required infrastructure facilities and pilot development of the field. In addition to the technology being implemented, it is planned to test the three-well SAGD technology.

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.

Developing silty sand deposits (ultra-low permeability, high heterogeneity) with a geologically adaptive development system and enhanced completion technologies allows involving up to one bln tonnes of oil reserves into production.

Developing the technologies of localization and development of complex low-permeability, undersaturated reservoirs reserves allows involving up to 420 mmt of oil into production.

Developing the technology of bringing the Bazhenov suite deposits into production based on specific core research, localization of prospects for drilling, and completion technologies allows involving about 100 mmt of oil reserves into production.

Developing the technologies of thermal recovery methods for ultrahigh-viscosity oil fields in the Samara Region allows involving about 40 mmt of oil reserves into production.

Developing the technologies of high-viscosity oil reserves recovery at the start-up complex in the Western Siberia allows involving additionally up to 70 mmt of recoverable oil reserves of the Russkoye field into production. These technologies may also be applicable in developing the reserves of Messoyakhsky project fields and Pokurskoye suite of the North Komsomolskoye field.



## Progress on the Program to Increase APG Utilization Rates

In 2018, Rosneft continued with its efforts to increase the utilization rate of associated petroleum gas (APG). At the year-end, this parameter amounted to 89.7% excluding the fields at early stages of development. Including the new fields and fields at early stages of development, APG utilization rate amounted to 84.4%.

In 2018, 19 APG utilization facilities were built, including:

- complex of facilities for gas injection into the formation of the Verkhnechonskoye field;
- power generation facility: 36 MW gas turbine electric power plant of the Kondinskoye field of JSC Kondaneft;
- gas treatment and utilization facilities: APG treatment unit of Meteli booster

pumping station operated by Bashneft-Dobycha, Ukrainskaya small-size gas treatment unit operated by RN-Krasnodarneftegaz, gas air cooling unit of Tananykskaya oil treatment unit, preheating units at Rodnikovskaya, Tarkhanskaya, and Savrushinskaya initial water separation units operated by Orenburgneft;

- gas transportation infrastructure facilities: compressor stations at booster pumping stations 2 and 3 of North Varyoganskoye field operated by Varyoganneftegaz, compressor station of oil processing and pumping shop 5, gas collection, treatment, and transportation shop 3 of the Pravdinskoye field operated by RN-Yuganskneftegaz, gas pipeline connecting booster pumping

station 5 and booster pumping station of Talinskaya area of the Krasnoleninskoye field operated by RN-Nyaganneftegaz, gas pipeline connecting the oil gathering facility Keremetovo and the oil gathering facility Shushnur operated by Bashneft-Dobycha.

# 34.93

## bcm

APG Production in 2018

### The Vankor Cluster

## 5.4 bcm

APG Production in 2018

Increase in level of APG utilization rate at the Vankor field up to 97.8%

### LLC RN-Purneftegaz

## 4.0 bcm

APG Production in 2018

Production of NGL<sup>1</sup> from APG increased by 15% year-on-year, amounting to 111 thousand tonnes through implementing the additional NLG recovery scheme at the Tarasovskaya gas condensate treatment plant and at the gas treatment plant at the Komsomolskaya booster compressor station

### PJSC Varyoganneftegaz

## 3.8 bcm

APG Production in 2018

Gas production increased by 2.3% year-on-year through increased gas deliveries via the renovated Tyumenskaya compressor station

### Samotlorneftegaz

## 5.9 bcm

APG Production in 2018

Maintaining APG utilization rate at the Samotlor field at 97%.

### LLC RN-Yuganskneftegaz

## 4.8 bcm

APG Production in 2018

Production increased by 2.8% year-on-year through increasing the utilization of APG for fuel demands of the Prirazlomnaya gas turbine electric power plant

### JSC RN-Nyaganneftegaz

## 1.8 bcm

APG Production in 2018

Construction and commissioning of new wells at the Yem-Yegovskoye field allowed maintaining the gas deliveries for refining at the level of 2017

<sup>1</sup> NGL – natural gas liquids.

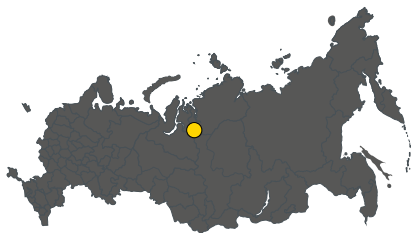
## 2.4

# Greenfields Development

## The Vankor Cluster

The Vankor cluster is formed by Vankorskoye, Suzunskoye, Tagulskoye, and Lodochnoye fields.

### Suzunskoye Field



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).

# 2016

commencement of the first development phase

# 44

## wells

operating well stock by the end of 2018

# 4.1

## mmt

oil produced in 2018

### 2018 ACHIEVEMENTS:

- 22 wells were drilled, including seven multilateral wells.
- Construction of Suzunskoye Field GTU – the Vankor Field gas pipeline was started.
- Construction of 110 kV overhead line Vankor – Suzun and 110/35 kV Suzun substation was continued.
- 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, offsite power supply facilities; as well as the current development of 11 well pads and their related infrastructure.

The project development comprises two phases:

- The first phase: in September 2016, comprehensive technological testing of hydrocarbons output, 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.
- The second phase: implementation of the gas program to ensure gas treatment and transportation to the Vankor field starting from 2020, as well as commissioning of external power supply facilities and auxiliary facilities.

## Tagulskoye Field Development



### 1.3 mmt

oil production volume in 2018 with the use of mobile oil treatment units.

### 64 wells

operating well stock by the end of 2018

Field launch  
**in 2018**

#### 2018 ACHIEVEMENTS:

- Commissioning the Tagulskoye Field as a result of a successful completion of the pilot development phase.
- Completed drilling of 52 wells (including 16 multilateral wells), a 44% year-on-year growth.
- Updating the field development strategy and the program of interventions to revise geological structure of features with the subsequent involving them into development.
- Forecasts of development were updated considering the geological structure peculiarities.

#### Near Future Plans:

Continuing with the construction and installation activities at the first OTU start-up complex with a design capacity of 2.3 mtpa, as well as at the other field facilities (well pads, oil pipelines, and others).

## Lodochnoye Field Development



The Lodochnoye field is a multipay field, large in recoverable reserves, and complex in terms of geology.

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

#### 2018 ACHIEVEMENTS:

- Completed drilling of ten production wells (including two multilateral wells), among them four wells were brought into production.
- In 2018, the oil production under the pilot development phase amounted to 0.3 mmt.
- Construction of automobile roads to CP No. 1, CP No. 2, OTU and metering station, engineering preparation of CP No. 1, CP No. 2, and OTU sites, construction of CP No. 1, 6 kV and 35 kV overhead lines, and 35/6 kV substation.

#### Near Future Plans:

- As part of preparations for commercial production start-up, production drilling will continue at the field, along with the construction of infrastructure facilities (oil treatment unit, gas compressor station, high-voltage power lines, etc.).
- Carrying out the research program.

## The Erginsky Cluster

The new strategic cluster was formed through integrating the Erginsky license area and Kondinskoye field infrastructure with the infrastructure 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. Infrastructure facilities of fields and license areas will be constructed to a standardized design, which is aligned with the Company's overall plan for the cluster development. New technologies

and approaches to the use of APG will allow its future rational, efficient utilization to reach a rate of 95%, pursuant to Resolution No. 1148 of the Russian Government dated 8 November 2012 On the Aspects of Calculating Charges for Pollutants Produced by Flaring and/or Venting Associated Petroleum Gas.

### 2018 ACHIEVEMENTS:

- Start-up of 36 MW gas turbine electric power plant at the Kondinskoye field.
- Efficient management of production drilling program and consistent implementation of research works to detail the geology of deposits.
- Application of geological steering technologies in the course of drilling – real-time well path control, increasing the drivage efficiency along the effective pay.
- Geophysical research of the wells by nuclear magnetic, acoustic, and other methods; state-of-the-art methods of hydrodynamic and geomechanical modelling ensure optimizing the process of horizontal wells completion and multi-stage hydraulic fracturing planning.
- Completed drilling of 37 wells at the West Erginskoye field by the end of 2018; wells construction and development continued.
- Completed construction of 50 km-long oil pipeline from the booster pumping station at the West Erginskoye field to the central production facility of the Kondinskoye field. The booster pumping station with an initial water separation unit, a gas power plant, and a field support base to ensure comfortable conditions for rotation workers are prepared for commissioning.

### Near Future Plans:

- In the period 2019–2021, the sequential commissioning of the Erginskoye, West Erginskoye, Chaprovskoye, and Endyrskoye fields will take place, exploration and additional field appraisal is currently underway.
- The exploration program is planned at the South Erginskoye license area to assess the resource potential.

**299 mmt**

oil recoverable reserves (AB1C1+B2C2) of the Erginsky cluster fields

**> 5 thsd sq. km**

total size of license areas

**1.6 mmt**

oil production at the Kondinskoye field in 2018

Launch of the Kondinskoye field  
**in 2017**

**210 wells**

operating well stock at the Kondinskoye field by the end of 2018



## New Cluster Based on the North Danilovskoye Field

The North Danilovskoye oil and gas condensate field is located in the northern part of the Danilovsky license area in Katangsky district of the Irkutsk Region, 300 km from Ust Kut, 190 km to the north of Kirensk. JSC Verkhnechonskneftegaz is a field development operator.



Development of the North Danilovskoye field is the first stage in the development of a new oil-producing cluster which resulted from the discovery of four fields within the Danilovsky, Preobrazhensky, and Verkhneichersky license areas. The dense arrangement of the license areas and the proximity of the Verkhnechonskoye field will bring

a significant synergy effect due to shared use of the ground infrastructure.

In preparation for full-scale development of the field, the project documentation and the favorable conclusion of FAI Main Directorate of State Expert Review for the first start-up complex facilities were obtained in the past year. Two hydrogeological wells were drilled to continue researching the field geological structure. Construction and installation activities on filling the automobile roads and CP-1 and CP-2 pads continued. The first-phase PWDU site was filled.

### Near Future Plans:

- Proving the reserves by exploration and production drilling, drilling the additional well 7 clusters, expanding the infrastructure to support the target production level (2.0 mmt per year).



## Development of an Expanded High-Priority Area of the Yurubcheno-Tokhomskeye Field



The Yurubchenskaya deposit is the largest and best prepared for development 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-Tokhomskeye field (the most productive part of the Yurubchenskaya deposit). 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-Tokhomskeye field within the Yurubchensky and Tersko-Kamovsky (southern section) license areas.

### Near Future Plans:

Further development drilling, field and infrastructure facilities construction and commissioning, consistent

development of the Yurubchenskaya deposit.

### 2018 Achievements:

- Drilling of 31 wells with horizontal completion
- >350 t/day - record-breaking flow rates at a number of wells under flowing conditions
- OTU-1 with a design capacity of 2.5 mtpa, an acceptance transfer unit, and an oil pipeline connecting a metering station and OPS-2 were commissioned.
- Comprehensive pilot operations at oil treatment unit No.2 were started to ensure 5 mtpa production volume at the field
- Implementation of the gas program and development of the production and associated infrastructure facilities continued.
- Two multilateral wells were successfully drilled with a total length of horizontal sections of more than 2.5 km with the underbalanced drilling technique adopted.

**2.3** mmt

oil production in 2018, tripling year-on-year

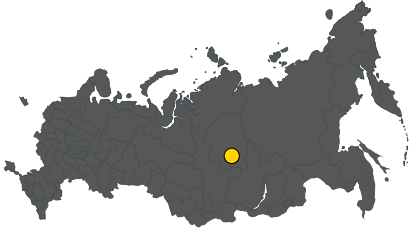
**87** wells

operating well stock

Field launch

**in 2017**

## Kuyumbinskoye Field Development



# 2018

launch of the first start-up complex

# 0.5 mmt

oil production in 2018 (100% of the project)

The Kuyumbinskoye field development project comprises several phases.

Phase 1 included the construction at the field and the launch of the first start-up complex in the Kuyumbinsky

license area with the most explored reserves in 2018. Subsequent phases envisage bringing into development the remaining deposits within the Kuyumbinskoye field.

NGK Slavneft's major shareholders are Rosneft and Gazprom Neft. Currently, Gazprom Neft is the project's operator.

### Near Future Plans:

- further development drilling,
- expansion of oil treatment and power generation facilities,
- development and construction of APG utilization facilities according to the design document.

# 72 wells

operating well stock by the end of 2018

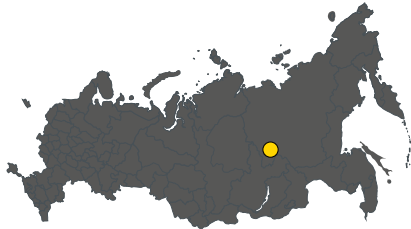
### 2018 Achievements:

- Completing the pilot works with further optimization of the first start-up complex configuration in favor of priority areas; identifying the priority areas for drilling-out and confirming the efficiency of a new well drilling technology.
- The first start-up complex began its operation with the technological start-up of the main field facility – CPF.
- Completing the construction of 34 km long infield pipelines; continuing the construction and installation operations on the expansion of capacities of the CPF and the Right Bank of the Podkamennaya Tunguska – CPF oil-gathering pipeline.
- Completing the drilling of 33 wells (including two exploration wells), over 95% of them are horizontal sidetracked wells.

### IN JULY 2018

the millionth tonne of oil was produced since the development of the Kuyumbinskoye field began.

## 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.



<span style="color: yellow;">■</span> Rosneft .....	50.1%
<span style="color: orange;">■</span> BP Russian Investments Limited .....	20%
<span style="color: red;">■</span> Taas India Pte. Ltd. ....	29.9%

# 2.9 mmt

crude oil and gas condensate production in 2018, doubling year-on-year

### Near Future Plans:

- Further development drilling, including fishbone drilling.
- Implementation of a program on associated petroleum gas re-injection in the reservoir for the purpose of reservoir pressure maintenance, construction of own power supply sources for the field production facilities.

### 2018 Achievements:

- The second phase of field development was commissioned, as well as the key infrastructure facilities (oil pipeline, CPF, metering station) ensuring the oil treatment and delivery of up to 5 mtpa. The Company continues the construction of the infrastructure and site facilities, implementing the program of horizontal and multilateral wells drilling.
- 58 wells were commissioned.
- Fishbone construction of six multilateral wells was completed, including wells with record-breaking total drilling footage of 5,211 m in the effective pay. The initial flow rate of this well is five times higher than that of conventional horizontal wells.
- A program to optimize the flooding pattern was developed and implemented; for the first time since the start of development, 100% compensation of fluid withdrawals in the oil-water zone was achieved, which in turn allowed stabilization and growth of the current reservoir pressure.

# 2018

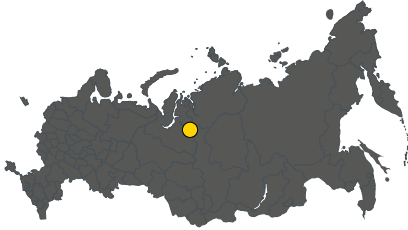
commissioning of the second phase of the field facilities

# 185 wells

operating well stock at the end of 2018



## Russkoye Field Development



# 0.3 mmt

production in 2018

# 148 wells

operating well stock at  
the end of 2018

### Near Future Plans:

- The Zapolyarnoye metering station facilities are being prepared for the start of integrated testing and the delivery of oil to the Zapolyarye-Purpe oil trunk pipeline system.
- Construction and installation operations for key industrial and auxiliary facilities of the field and other site facilities continued.
- Production drilling continued at well pads, including multilateral and fishbone wells.

# 2018

field launch

### 2018 Achievements:

- Over 190 wells with oil production potential of over 11 thsd t/day were drilled.
- 15 multilateral wells were drilled.
- 53 wells with annual average flow rate of 92 t/day were brought into production.
- The oil pipeline connecting CPF Russkoye and metering station Zapolyarnoye were successfully tested.
- Additionally, an APG-fired power plant was commissioned.

### THE FIELD WAS COMMISSIONED IN 2018

with use of state-of-the-art technologies of high-viscosity oil production, such as drilling of multilateral wells, including fishbone design, use of heat-insulated tubing, and others



## North Komsomolskoye Field Development



The proximity of the North Komsomolskoye field to RN-Purneftegaz infrastructure facilities and other Company's facilities contributes to the synergy effect from the joint use of the ground infrastructure.

### Near Future Plans:

- Oil transfer and delivery to AK Transneft system along with the oil of the Vankor cluster to the Purpe terminal oil pumping station of RN-Vankor. This solution allows for minimizing the number of facilities at the oil delivery point.
- At the pilot phase, the oil of the North Komsomolskoye field will be treated at CPF of Barsukovskoye field of RN-Purneftegaz.
- Drafting the full-scale development concept for PK1 formation

### 2018 Achievements:

- Completed drilling of five horizontal producing wells with an extended reach and a length of horizontal sections from 1.5 to 2 km.
- Completed construction and installation works on automobile roads, oil and gas treatment units, and well pads.
- Production and transfer of oil from the pilot site by tank trucks underway since October 2018. The initial oil flow rates (up to 200 t/day) confirm the possibility of involving viscous oil reserves of the field into the development.
- Extended pilot works launched at the PK1 formation.
- Pre-drilling and well flowback operations are carried out to revise the geological model

### OVER 70%

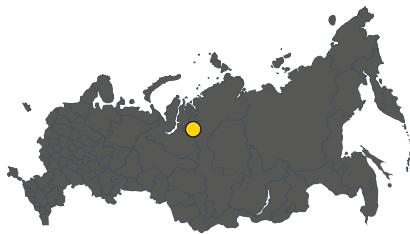
of all recoverable oil reserves are concentrated in the PK1 formation (main productive formation). The oil in PK1 formation is of higher viscosity and density, and development is complicated by the massive gas cap and underlying water-bearing formation.

**1,369**  
**sq. km**

license area

Field development is operated by LCC SevKomNeftegaz in cooperation with Equinor.

## East Messoyakhsky Field Development



Messoyakhaneftegaz is currently implementing a development project for the East Messoyakhsky and West Messoyakhsky license areas. The project participants include Rosneft (50%) and PJSC Gazprom Neft (50%), which is the project's operator.

The full-scale development of the East Messoyakhsky field began with the commissioning of key infrastructure facilities on 21 September 2016. Oil production at the East Messoyakhsky field in 2018 was 4.5 mmt (100% of the project), while the Company's share totaled 2.2 mmt.

To meet the growing production volumes, oil treatment facilities were expanded in 2018. In Q4 2018, the second phase of the first-stage gas separator was started.

Construction of gas infrastructure facilities (a compression station for gas injection into the formation and gas pipeline) is still underway. Planned construction of new well pads is underway, and infield infrastructure has been constructed and commissioned (oil pipelines, water pipelines, and overhead lines). In 2018, drilling of 131 wells was completed.

In order to increase the productivity of wells and the development coverage of the field layer, a multilateral drilling technology (including fishbone design) is actively employed; in 2018, 65 multilateral wells were put into production.

As part of pilot activities at three wells, multi-stage hydraulic fracturing was carried out in order to intensify production, and a decision was made to roll out this technology across the project. In the course of field geophysical surveys the development works related to polymer flooding of formations were started to improve the oil recovery.

# 2016

field launch

# 320 wells

Operating well stock by the end of 2018 (100% of the target)

# 4.5 mmt

produced in 2018 (100% of the target)

## 2.5

# In-house Service

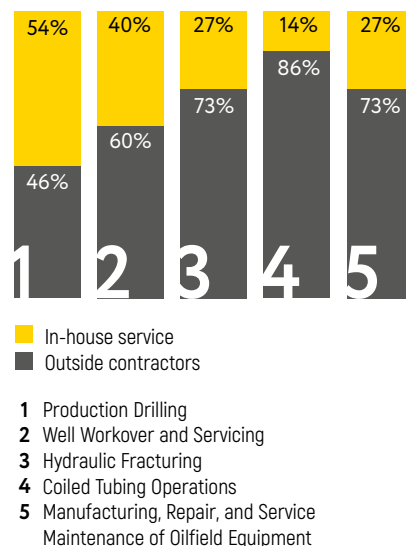
The Company continues developing and improving the in-house oilfield services to ensure high-quality services and market pricing conditions.

### Drilling

In 2018, 6,431 thousand meters of rocks were drilled by in-house drilling services at the Company's facilities (1,919 wells, including 33 exploration wells). Horizontal drilling share reached 48% (+13% year-on-year).

The current fleet of in-house service drilling rigs in 2018 amounted to 274 units with an average age of 11 years. The number of drilling crews was 253.

In-house Service Share



#### KEY ACHIEVEMENTS

The program for rolling out the technology of drilling horizontal two-string wells using hydrocarbon-based solutions was successfully continued.

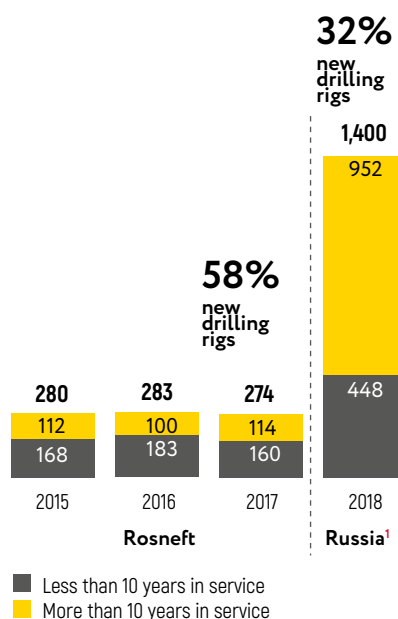
Under the refitting program, 11 new drilling rigs were installed

and commissioned in the Volga-Urals region, three drilling rigs at Vankor cluster facilities, two drilling rigs at LLC RN-Yuganskneftegaz facilities, and one drilling rig at JSC Kondaneft facilities were commissioned to extend the production capacities.

#### RN-BURENIE BECAME THE WINNER

of the competition organized by the Russian Ministry of Energy for the best socially oriented company in the oil and gas industry in 2018 in Employees Motivation and Engagement Promotion category

Company's Drilling Rigs, pcs



<sup>1</sup> As reported by RPI Analytics Company



## Well Workover and Servicing

RN-Service is currently the largest well workover and servicing enterprise, with branches in 13 Russian regions. In 2018, the company provided well servicing to 20 Rosneft upstream companies, taking a 40% market share in the workover and servicing of Rosneft wells and a 23% share in the workover and servicing of wells in Russia.

In 2018, Rosneft performed 39,206 well workover and servicing operations, i.e. 1,047 workover operations above the business plan (103%). It amounted to 354 well workover crew operations and 113.0 well servicing crew operations

per annum, +115.0 and +101.3% of the business plan, respectively. The average operation duration reduced relative to the plan by 15% for well workover operations and by 3.7% for well servicing operations.

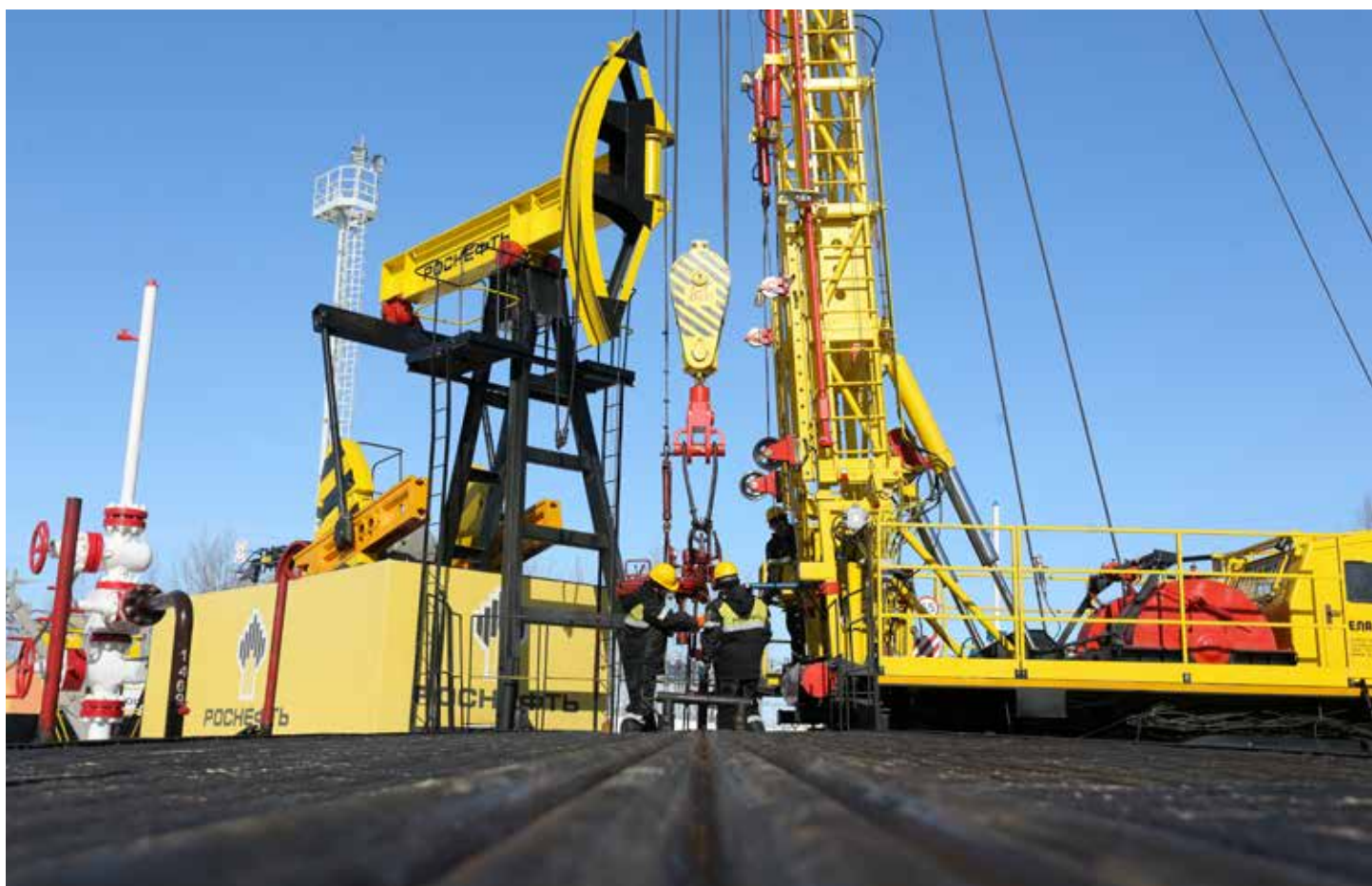
Under the Strategic Partnership Agreement signed between Rosneft and KAMAZ, 249 APR-60/80 workover rig vehicles were delivered to RN-Service for well workover crews in 2018. Through the agreement validity period from 2017 to 2018, over 30% of the fleet of workover rig vehicles was renovated.

**689**  
crews

for wells workover and servicing

**23%**

RN-Service market share in Russia



## Hydraulic Fracturing

The Company acquired three new hydraulic fracturing fleets and put them into operation in 2018.

Over the same year, RN-GRP performed a total of 4,430 hydraulic fracturing operations at Rosneft's fields.

The production program of the Group Subsidiaries fully involved 18 fleets of LLC RN-GRP.

During the implementation of the corporate hydraulic fracturing simulator that can replace western

alternatives, LLC RN-GRP used RN-GRID for conducting 100% of hydraulic fracturing operations in all regions of operation. As of 31 December 2018, more than 4 thsd operations were performed with the use of RN-GRID. The agreement for the foreign analogous software was terminated.

## Oilfield Equipment Repair

In 2018, the Holding provided oilfield equipment maintenance services in the amount of 2,518,293 days and 4,701,360 items of equipment, repairing 874,869 items of oilfield equipment and coiled tubing, and manufacturing 536,440 spare parts and other products. The share of in-house electrically driven centrifugal pump services remained at the 10% level, that of tubing repair went up by 5% and reached 55%, and the repair of the oilfield equipment achieved 45%.

In 2018, additional types of services were implemented:

- services for repair quality control and efficiency assessment of electrically driven centrifugal pumps operation;
- services for automated measuring group units overhaul;
- services for heat exchangers overhaul;
- services for cleaning a vertical cylindrical steel tank with MagaMAX complex;
- services for packaged equipment supply for the Rosneft's upstream companies.

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





## Transportation Services

In March 2018, LLC RN-Transport, a specialized transportation holding company, was established through a merger of LLC Targin Logistics with eight transport units of LLC RN-Service. In April 2018, Rosneft took control

over LLC Tekhnologicheskyy transport (Izhevsk), which was previously managed by LLC RN-Service.

To improve the fleet operating efficiency, over 500 units of unclaimed equipment

were put out of service. Besides, Leksema Integrated Enterprise Management System (ERP system) was integrated and rolled out across all branches.

### KEY ACHIEVEMENTS IN 2018:

**7,640 items**

average number of equipment

**21,366 thsd machine hours**

scope of the services provided

**89%**

fleet technical availability rate

**6%**

renovation of current fleet

**451**

motor vehicles and special-purpose machines supplied

**69%**

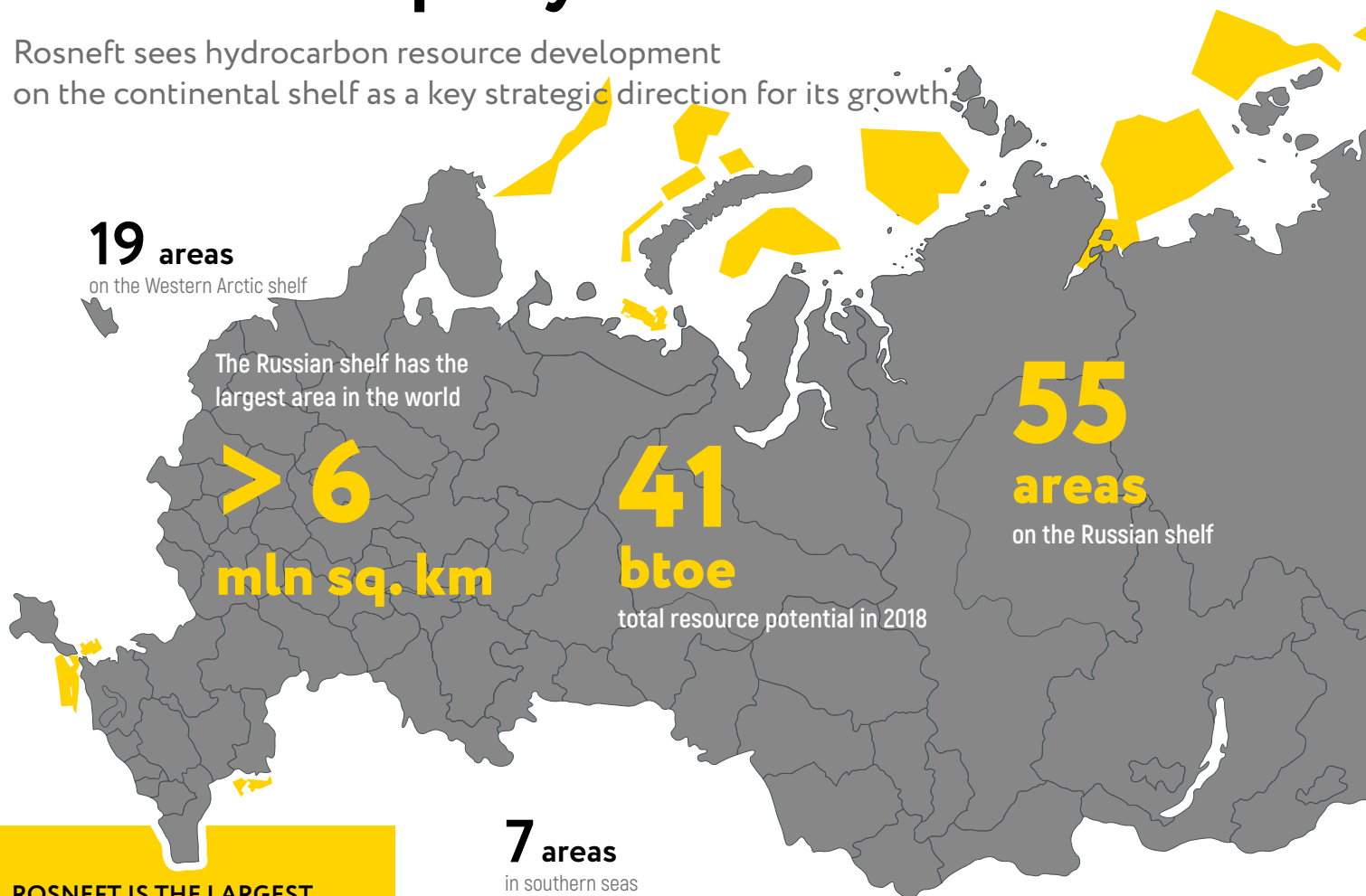
fleet utilization rate



## 2.6

# Offshore Projects of the Company

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



### ROSNEFT IS THE LARGEST LICENSE HOLDER ON THE CONTINENTAL SHELF

The Company extensively implements exploration activities in the in the Russian Arctic, the Far East, and southern seas. The Company's offshore operations are a top priority for the future of modern-day Russia, as they provide sustainable social and economic development of the country, support modernization of the industry and organization of the high-tech robot-based equipment manufacturing, renovation of the coastal and transport infrastructure, and development of human resources.

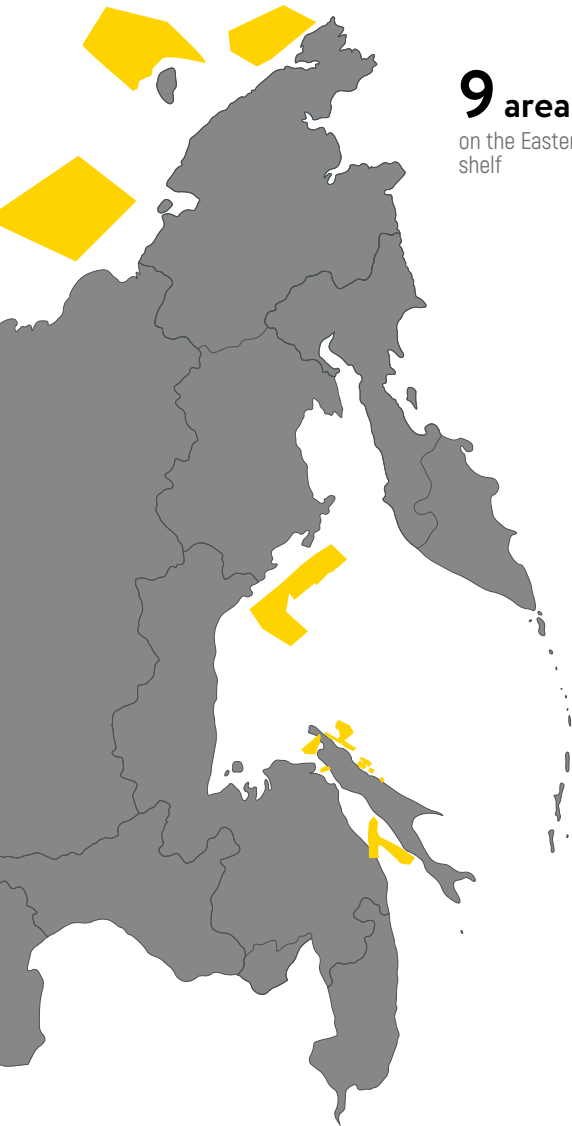
### Results of Offshore Exploration in Russia

In 2018, in line with its license commitments, Rosneft continued exploration and prospecting for oil and gas in offshore areas in the Russian Arctic, the Far East, and southern seas.

### 2D/3D Seismic Surveys

In 2018, Rosneft completed 700 linear km of 2D seismic surveys and 50 sq. km of 3D seismic survey at the Deryuginsky license area on the Sakhalin shelf, exceeding the scope that is stipulated by its license obligations. The gathered seismic data will enable optimal decision making on further exploration of the license area.





**9 areas**

on the Eastern Arctic shelf

**20 areas**

on the Far East shelf

## Field Geology Expeditions

Three on-shore field geology expeditions were organized in the Caucasus region, on Sakhalin and in the Timan-Pechora region aimed at minimizing the geological risks related to all elements of petroleum systems, such as source rocks for oil and gas, reservoir rocks, and cap rocks, in the Company's offshore license areas in the Black Sea, the Far East, and the Arctic. 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.

## Exploration Drilling

On 1 May 2018, Rosneft finished construction of 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-breaking 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 on the Western Arctic shelf, Russia's State Reserves Committee confirmed in October 2017 the discovery of the Central Olginskoye field containing recoverable reserves (ABC1+C2) of over 80 mmt of crude.

In March 2018, Rosneft used a semi-submersible unit to complete drilling of the first ultradeep prospecting well Maria-1 within the West Chernomorskaya ploshchad license area on the Black Sea shelf. The sea depth in the drilling location is 2,109 m. The actual well depth is 5,265 m. Currently, the drilling results are being analyzed, that will allow updating the geological model of the Black Sea shelf and planning further explorations in the Company's license areas.

## Soil Surveys

Soil surveys were completed in the area selected for drilling an exploration well within the West Prinovozemelsky license area in the Barents Sea.

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 accordance with license commitments relating to the environment protection measures, Rosneft carried out the following works:

- inspections of wellheads of previously drilled wells in the Pechora, Barents Seas, the Sea of Okhotsk, the Black, Caspian Seas, and the Sea of Azov. All works were performed in line with the requirements of Russian health, safety, and environmental legislation (HSE). The inspected wellheads were in a satisfactory technical condition, hydrocarbon leakages were not detected;
- the annual environmental monitoring of the marine ecosystem in the Medynsko-Varandeisky license area. The pollutants content in the sea water and seabed sediments was within the assigned limits, the water area was characterized by average biodiversity indices.

# Offshore Oil and Gas Production in Russia

## 1 Sakhalin-1 Project

The Sakhalin-1 project involves the development of three offshore fields: Chaivo, Odoptu-Sea, and Arkutun-Dagi, which are developed using the most progressive technologies. At the Odoptu field, oil is produced from an onshore site (the Krechet drilling rig) using super-extended reach horizontal wells; at the Chaivo field, oil is extracted from the Yastreb onshore site (drilling rig) and the Orlan platform through the wells with record-length boreholes, while the Arkutun-Dagi field is developed using a unique drilling platform, Berkut. The oil from the project fields is delivered to the Chaivo onshore oil treatment facility (Sakhalin Island) and then transported by pipeline to the De-Kastri

oil export terminal in the Khabarovsk Territory.

In August 2018, the crude oil volume exported since the production start-up of the Sakhalin-1 project in 2005 achieved 100 mmt.

### Project Stakes



**11.6 mmt**

actual oil and gas condensate production in 2018 (Rosneft's share is 2.3 mmt)

**2.5 bcm**

total gas volume supplied to customers in 2018 (Rosneft's share is 0.5 bcm)

## 2 Northern Tip of the Chaivo Field

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 oil production. Since the development launch in 2014, the field oil production was amounted to 6.6 mmt. Similarly to the Sakhalin-1 project, Sokol light oil is produced at the field. Its high quality allows selling this oil grade at a premium to Dubai and Oman grades.

**0.7 mmt**

actual oil and gas condensate production in 2018

**0.1 bcm**

total gas volume supplied to customers in 2018





## Sakhalin

**3** Odoptu-Sea Field (Northern Dome)

The Odoptu-Sea field (the Northern Dome) is Russia's first offshore field brought into production and producing oil since 1998. LLC RN-Sakhalinmorneftegaz is the field operator producing oil and gas at the Odoptu-Sea.

One production well was drilled and commissioned in 2018 to maintain oil production.

**0.4 mmt**

actual oil production in 2018

**0.1 bcm**

actual gas production in 2018

**4** Lebedinskoye Field

The crude oil extracted at the Lebedinskoye field has a quality grade similar to Sokol crude.

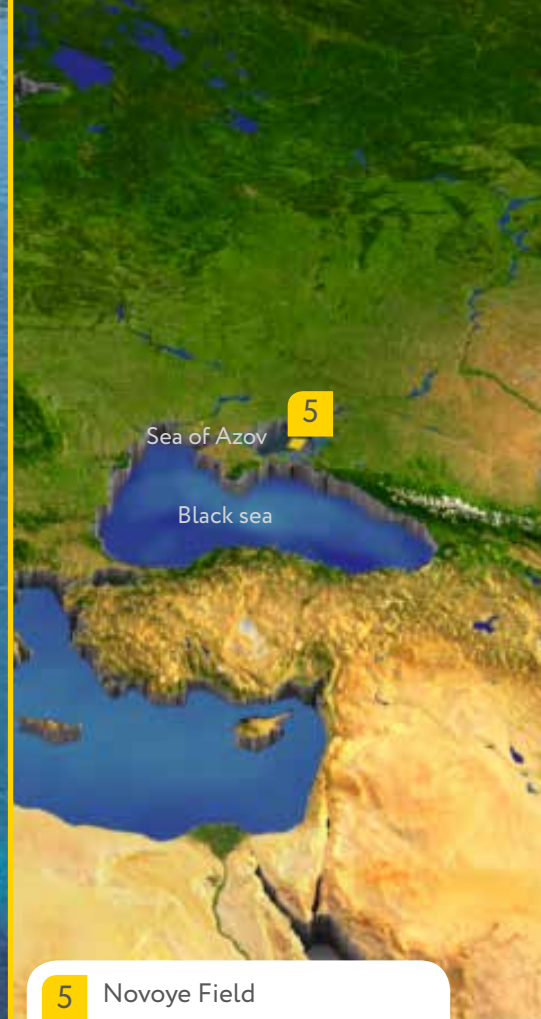
The Lebedinskoye field (in the Sea of Okhotsk) began oil production in 2014 and is operated by LLC RN-Sakhalinmorneftegaz.

**0.3 mmt**

actual oil production in 2018

**0.1 bcm**

actual gas production in 2018



**5** Novoye Field

Rosneft develops the Novoye field in the Sea of Azov. The field trial production started in 2016.

LLC Priazovneft is the field operator producing oil and gas at the Novoye field. Rosneft's stake is 51% and LUKOIL's stake is 49%.

During 2018, preparations were made for drilling exploration well No. 2, and the start of drilling is scheduled for 2019.

**24.8 thsd t**

actual oil production in 2018  
(Rosneft's share is 12.6 thsd t)

**35.6 mmcm**

actual gas production in 2018 (Rosneft's share is 18.1 mmcm)

## 2.7

# Gas Business

In 2018, the Company launched active implementation phase of the second largest gas business development project – the Kharampursky and Festivalny license areas in cooperation with BP.

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 35 subsidiaries and joint companies in Western and Eastern Siberia, Central Russia, the south of European

Russia, the Far East, as well as in Egypt, Vietnam, Venezuela, and Canada.

# 19%

share of gas in the Company's total hydrocarbon production in 2018

# 67.26

## bcm

total gas production in 2018<sup>1</sup>

# 7.9

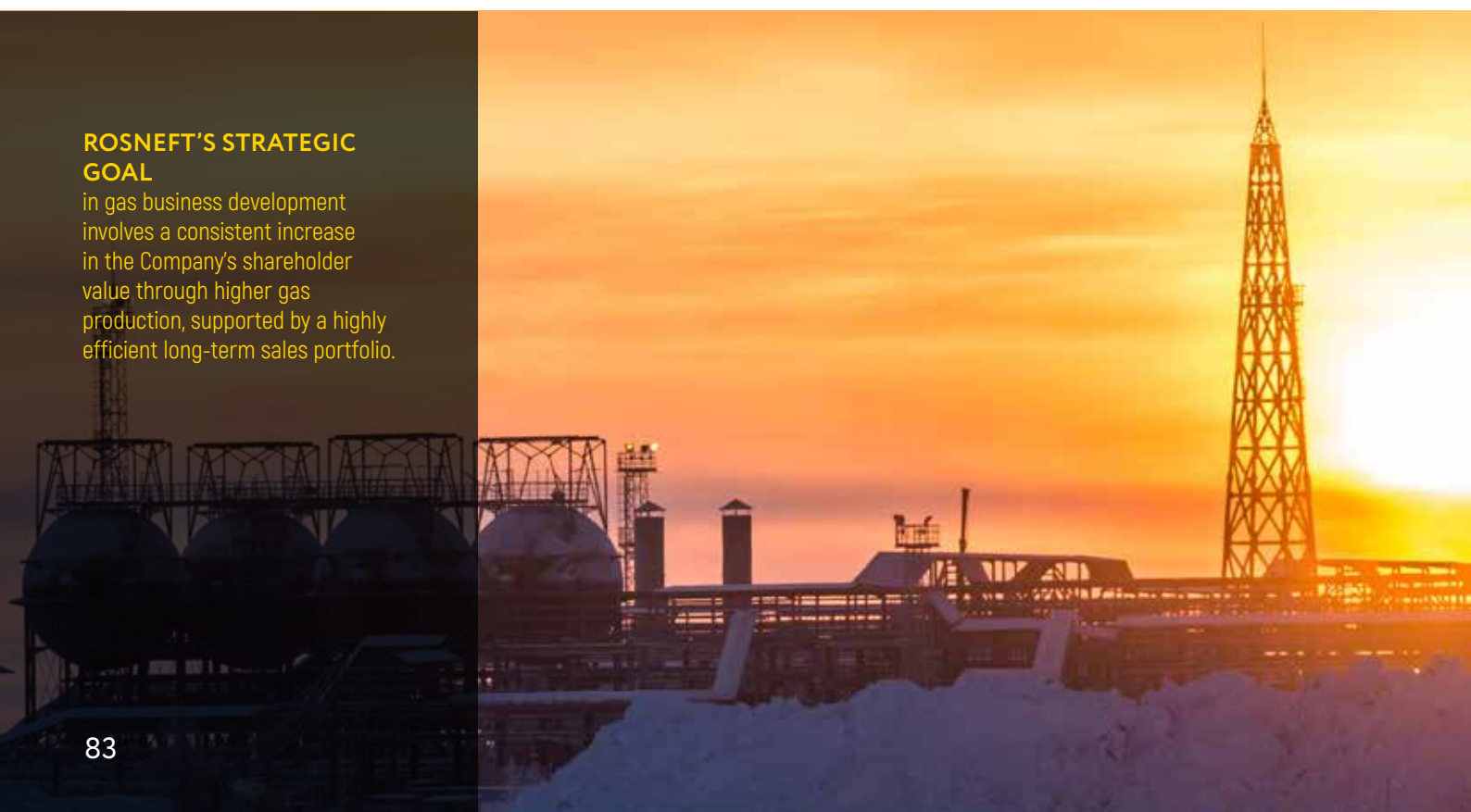
## tcm

recoverable AB1C1 + B2C2 gas reserves as of 1 January 2019

<sup>1</sup> Recovered gas volume excluding flared gas and gas used for liquid hydrocarbons production.

### 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.





## Strategic Objectives of Gas Business

### THE FOLLOWING STRATEGIC OBJECTIVES WERE SET FOR THE ROSNEFT-2022 STRATEGY IN TERMS OF GAS BUSINESS:

- Development of major gas production projects, including Rospan and Kharampur, on time and within budget, thereby raising gas 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 of technological competence, which should provide for:
  - development of reserves of the Turonian deposit;
  - development of liquefied petroleum gas (LPG) and natural gas liquids (NGL) 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.

In December 2018, the Company's Board of Directors reviewed the year-end progress status of the Rosneft-2022 Strategy. The relevance of the approved

strategic objectives and target values was confirmed for the gas business.

Meeting the strategic gas business objectives will enable an increase

of Rosneft's free cash flow between 2019 and 2022, secure a 20% share in the Russian gas market, and support growth of the Company's long-term shareholder value.



## The Zohr Project



## ACHIEVEMENTS IN GAS BUSINESS DEVELOPMENT:

- In December 2017, Rosneft and BP announced the execution of the project for mineral resources development by the Company's subsidiary – LLC Kharamputneftegaz (BP Plc share is 49%). In accordance with the arrangement, the parties began an active phase of the project in Q2 2018. The start-up is scheduled for 2020.
- As part of the Zohr field development offshore Egypt, Rosneft began gas production as an international consortium member in December 2017. In 2018, the field development was ahead of the schedule, which enabled the Company to increase the natural gas production by a total of 24% year-on-year. 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 October 2018, Rosneft and ExxonMobil signed concession agreements for hydrocarbons exploration and production in three areas – A5-B, Z5-C and Z5-D – offshore the Republic of Mozambique. Exploration has been launched with the prospect of significant gas discoveries.
- The Company and Beijing Gas Group Company Limited signed a joint venture agreement for construction and operation of the NGV filling stations network in Russia based on LLC Vankorskoye UTT. Under the terms of the agreement, Beijing Gas Group Company Limited will get a 45% stake. The parties are planning to build about 170 NGV filling stations in Russia. They will also consider a possibility to use LNG as a motor fuel.
- In May 2018, Rosneft and the Iraqi Kurdistan Regional Government signed an agreement that formalized the parties' intentions to prepare a comprehensive plan of the gas industry development in Kurdistan. Taking into account the efficiency assessment of potential cooperation in exploration and production, transportation and trading, Rosneft will estimate the feasibility of participation in the regional integrated gas project.



## Gas Production

### Production Figures for the Current Year

In 2018, Rosneft's gas production both in Russia and abroad totaled 67.26 bcm<sup>1</sup>, including 32.33 bcm of natural gas and 34.93 bcm of associated petroleum gas. 2.96 bcm of total gas production and 2.93 bcm of natural gas were produced by the Company's foreign projects in Vietnam, Venezuela, Egypt, and Canada, while 64.3 bcm - by the Russian projects. A portion of the Company's domestic gas output is used for liquid hydrocarbons production. In 2018, the Company's gas production in Russia, including gas used for liquid hydrocarbons production, totaled 64.68 bcm.

While APG production at several fields somewhat reduced due to changes in the economic efficiency and the external restrictions, the natural gas production in 2018 went up by 2.4% year-on-year and was mainly driven by higher gas production at the Zohr field offshore Egypt. The field is developed ahead of schedule. The gas production level of about 57 mmcm<sup>2</sup> per day was achieved in under a year after the field was launched, through commissioning of five gas treatment plant trains and putting two transportation pipeline strings into operation. Achievement of the design capacity - 76 mmcm of gas per day - is scheduled before the end of 2019.

According to the approved strategy, the Company has focused on implementation of the projects with a high return of capital employed. The main objective is to initiate such projects on time and on budget, which will allow achievement of the gas gross production of 100 bcm and expand the gas share in the total hydrocarbons production.

# 9%

the Company's share in Russia's total gas production

<sup>1</sup> Recovered gas volume excluding flared gas and gas used for liquid hydrocarbons production.

<sup>2</sup> From 100%.



## Key Assets and Promising Gas Production Projects

### Rospan

Start-up of the Rospan project is a key phase in execution of the specified objectives, as it is the largest gas asset in the Company's portfolio. The full-scale development of the fields operated by Rospan International makes the largest contribution to the Company's production of both gas and hydrocarbons in the near future.

**Total recoverable reserves of AB1C1 + B2C2 as of 1 January 2019:**

- 1 tcm of natural gas
- 157 mmt of gas condensate
- 45 mmt of crude

**Annual production in the medium term:**

- >21 bcm of gas
- >5 mmt of gas condensate and oil
- up to 1.3 mmt of commercial butane and propane mixture

#### 2018 Achievements

Active construction operations continued on key infrastructure facilities throughout 2018:

- gas and condensate treatment unit at the East Urengoy sky license area
- oil treatment unit, condensate stabilization unit
- methane removal system for propane-butane
- the East Urengoy sky Gas Turbine Power Plant, the Korotchaevo station's loading railroad terminal
- trunk pipelines, infield pipelines, and power supply facilities.

#### Plans

- Completion of the facilities construction and commissioning.

### Kharampur

The second largest project for the gas business development is Kharampur which is implemented by Rosneft in partnership with BP. The project is due 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 reserves. The Company has the expertise and experience necessary for efficient development of such complex projects.

Total recoverable reserves of AB1C1+B2C2 natural gas were **about 1 tcm** as of 1 January 2019.

**The production rate upon reaching the design capacity** will be **11 bcm of gas** per annum with potential growth to **24 bcm** per annum.

#### 2018 Achievements

The Company put the Berezovskaya suite gas reserves on books for the first time: geological reserves of AB1C1+B2C2 gas at the Kharampur field grew by 80 bcm in 2018.

FEED is being completed, production wells are being drilled, construction and installation works are being executed on the outbound gas pipeline, preparatory operations for construction of the comprehensive gas treatment unit are nearly finished.

#### Plans

- Setup of the Cenomanian deposit's gas field.
- Construction of the gas treatment unit.
- Execution of a preliminary feasibility study relative to the full-scale development of the Turonian deposits' sites.

**The project start-up is scheduled for 2020.**

### Sibneftegaz

Currently, JSC Sibneftegaz is the Company's largest gas producing asset.

2018 production rate was **11.96 bcm of natural gas**.

The cumulative gas production by the end of 2018 was **114 bcm**.

As of 1 January 2019, total recoverable reserves of AB1C1 + B2C2 natural gas approximated **613 bcm**, of oil and gas condensate - **32.7 mmt**.

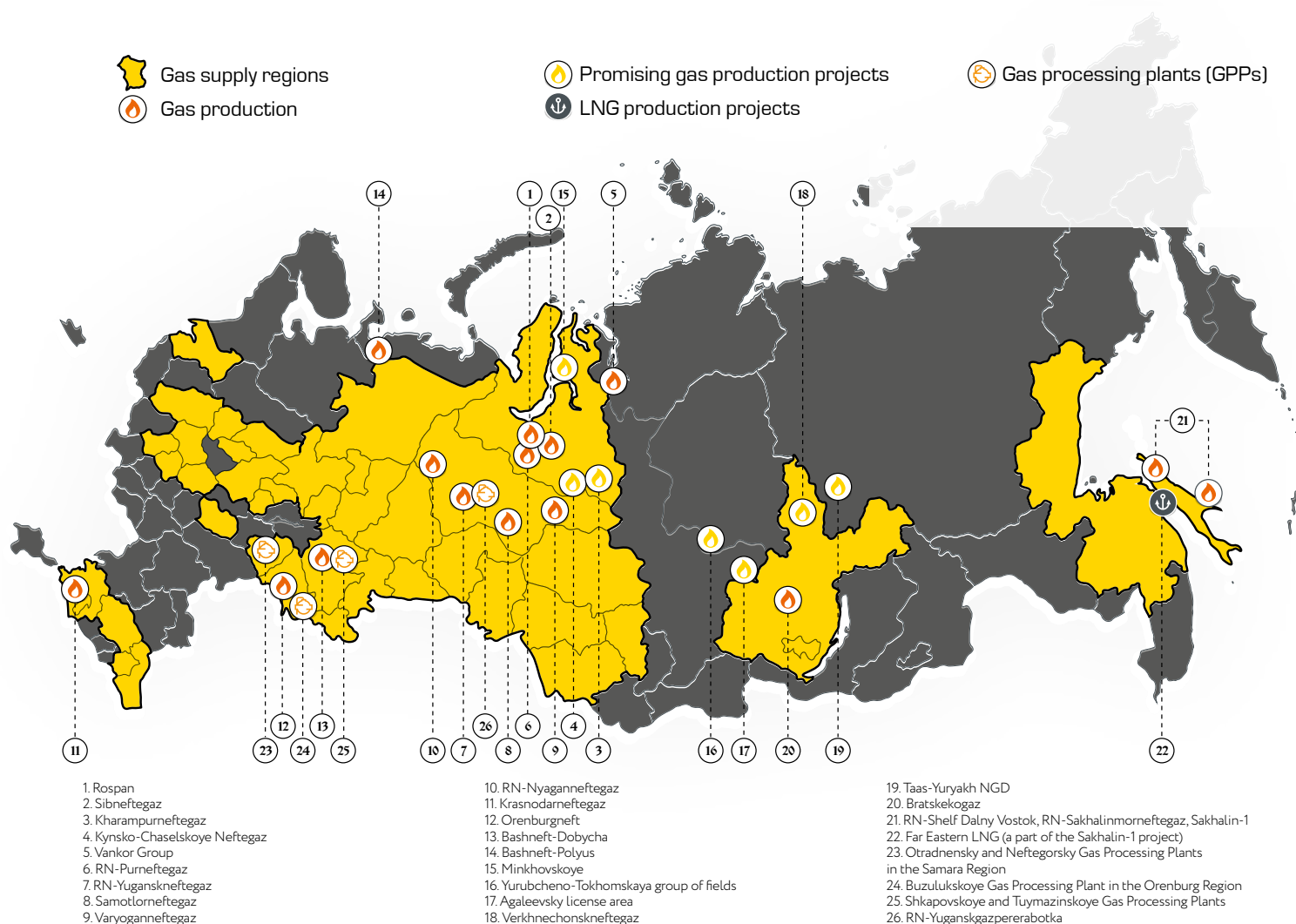
#### 2018 Achievements

- Production drilling and construction of well clusters were completed.
- Construction of new significant infrastructure facilities was underway:
  - gas and condensate treatment units and associated infrastructure facilities for lower horizon development at the Beregovoye OGCF,
  - a booster compressor station at the Beregovoye OGCF for compressing the total gas volume produced.

#### Plans

On a horizon to 2022, through implementation of projects to maintain production at existing fields and the development of lower horizons of the Beregovoe field, which do not require large capital investments, gas production will exceed **16 bcm**.





## Other Projects

Throughout 2018, the Company continued its efforts to develop new gas production centers at Rosneft's fields in Eastern Siberia and the Republic of Sakha (Yakutia).

### Verkhnechonskneftegaz

Rosneft and Beijing Enterprises Group Company Limited<sup>1</sup> are currently developing the Verkhnechonskoye oil, gas and condensate field in the Irkutsk Region. A new gas production center and the transport infrastructure are due to be created under the project. The strategic partnership opens up new prospects for monetizing Eastern Russian gas reserves. In 2018, the Company signed an indicative agreement on the basic conditions of gas supply to China. The agreement allowed the parties to confirm their intentions on gas supply to China and record the key supply parameters, such as supply volumes and preliminary terms.

<sup>1</sup> Beijing Enterprises Group Company Limited has a 20% stake at PJSC Verkhnechonskneftegaz.

### Taas-Yuryakh Neftedobycha

Rosneft continues the Srednebotuobinskoye oil, gas and condensate field development in the Republic of Sakha (Yakutia) in cooperation with BP and the consortium of India's Oil India Limited, Indian Oil Corporation Limited, and Bharat PetroResources Limited. The Company plans to implement a large-scale gas extraction project for the longer term based on that field.

### Kynsko-Chaselsky license area

In the long run, a creation of a new gas production center is planned on the basis of the Kynsko-Chaselsky license area in the southeast of the Yamal-Nenets Autonomous Area. It is supposed to expand the production through involving seven previously acquired license areas and in perspective – the neighboring areas in the open acreage eastern zone.

The project provides for 15 bcm production with a growth potential of up to 19 bcm per annum.

## Gas Processing and Improved APG Utilization Rates

In 2018, the Company continued the comprehensive works to achieve higher APG utilization rates. 19 ground infrastructure facilities were built and renovated. Several subsidiaries reached 94–97% APG utilization rate.

The project for Maysky gas processing complex construction

is being implemented in Western Siberia for further gas processing and gas-to-chemicals development. In 2018, Rosneft conducted engineering surveys and developed the design documentation, including for the execution of the environmental and state expert reviews.

### PROGRESS ON THE PROGRAM

to Increase APG Utilization Rates facilitates reduction of the man-induced load on the environment, improvement of the production regions ecological situation, and sustainable APG utilization



For more details see Section 2.3

## LNG Projects

As part of the Sakhalin-1 consortium, the Company is participating in the Far Eastern LNG project for monetizing the Far

Eastern gas. In 2018, seasonal lithodynamic and hydrological studies were performed on the De-Kastri site, and the surveys

at the Chaivo onshore facility were commenced. The project is ready for transition to the FEED phase.

## Gas Production by Regions

Rosneft's largest gas producing region is in Western Siberia, where the gas production in 2018 was equal to 47.45 bcm or over 70% of the Company's total gas production. The natural gas production of 25.35 bcm was delivered at the fields operated by JSC Sibneftegaz, JSC Rospan International, and LLC RN-Purneftegaz. The associated petroleum gas production amounted to 22.1 bcm, primarily produced by the JSC Samotlorneftegaz, LLC RN-Yuganskneftegaz, LLC 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 6.23 bcm in 2018, while natural gas production totaled 1.97 bcm.

In the Far East, Rosneft primarily produces associated petroleum gas and natural gas

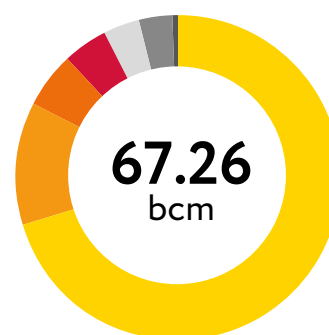
at onshore fields and offshore Sakhalin Island, where JSC RN-Shelf Dalny Vostok provided the bulk of the 3.7 bcm of total gas production in 2018.

Gas production in Central Russia totaled 240 bcm in 2018 and was primarily provided by the JSC Orenburgneft, JSC Samaraneftgaz, LLC Bashneft-Dobycha fields.

In Southern Russia, LLC RN-Krasnodarneftegaz is the main gas-producing asset that produces both natural and associated petroleum gas, the region's production amounting to 2.31 bcm in 2018.

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

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



Western Siberia	47.45
Eastern Siberia	8.2
Far East	3.7
Foreign Projects	2.96
Central Russia	2.4
Southern Russia	2.31
Timan-Pechora	0.24

## International Gas Business Development

Rosneft's primary objectives are to enter foreign gas markets and to become a global player on the international LNG market. The Company's involvement in international gas projects ensures

a significant and cost-effective increase in its natural gas reserves and a balanced risk profile of its asset portfolio.



For more details see Section 2.8.

### GAS ASSETS ABROAD

**Egypt:** A 30% stake in a unique Zohr field development project implemented together with Eni, BP, Mubadala, and the Egyptian State Oil and Gas Company EGAS. The field production capacity went up to about 57<sup>1</sup> mmcm per day from the moment of its start-up in December 2017. The projected plateau rate of 76<sup>1</sup> mmcm per day is expected to be achieved before the end of 2019.

**Mozambique:** A 20% stake in three offshore gas exploration blocks (A5-B, Z5-C, and Z5-D) with a potential for significant gas discoveries.

**Venezuela:** A 100% stake in the Patao and Mejillones field development projects. Operator with a right to export the produced gas.

**Brazil:** A 100% stake in the Solimões Basin blocks exploration. Operator. In 2018, two exploration wells were drilled that confirmed the basin's gas bearing capacity.

**Vietnam:** A 35% stake in the gas and condensate production project at Block 06.1 (Operator); a 100% stake in the exploration of Block 05.3/11; a 32.67% stake in Nam Con Son gas pipeline.

**Latvia:** A 10% stake in AS Latvijas Gaze, one of the largest gas sales company in the Baltic states' markets.

<sup>1</sup> From 100%.



## 2.8

# 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. 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 the 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 for more efficient field development both in Russia and abroad.

partnerships that are aimed at mutually beneficial implementation of development projects.

Operating in regions such as South America, North and East Africa, the Middle East, and the Asia-Pacific Region, the Company actively develops local

## Venezuela



# 8.63 mmt

oil production from the Company's projects in Venezuela in 2018 (100% of the project)

Rosneft is one of the largest international investors in the Bolivarian Republic of Venezuela (BRV). The Company continues its cooperation in oil and gas projects with Petróleos de Venezuela S.A. (PDVSA), Venezuela's state oil company. Rosneft and PDVSA are successfully implementing five joint projects:

Oil production from the Company's projects in Venezuela was 8.63 mmt in 2018, with 3.36 mmt attributable to Rosneft, a 7% increase year-on-year. Start-up of pilot production at the Carabobo 2/4 project (Petrovictoria JVCo) contributed to production growth.



## ACHIEVEMENTS

### PetroMonagas JVCo

The Company is a member of three production joint ventures (Petromonagas S.A., Petroperija S.A., Boqueron S.A.), dealing with the development of mature fields. Petromonagas S.A. is the largest joint venture.

- 35 horizontal wells were constructed and commissioned.
- 249 well workover and servicing operations were provided, more than 65% of which were executed by the crews of Perforosven S.A. (Rosneft's stake 51%).
- Two additional rig vehicles were successfully commissioned in 2018.
- Pilot testing was successfully completed for the application of chemical additives to reduce diluent consumption, with up to 50% reduction targeted.
- The pilot works for testing a four-phase flowmeter were conducted at 10 wells and proved high reliability of on-line measurements that allowed for the production efficiency growth due to operational monitoring and regulation of well operation conditions.
- The design works for construction of horizontal wells with intelligent completion were finalized. The program was developed to implement a technology that provides production monitoring and control in difficult conditions with a potential possibility of well production increase and water cut reduction.

### Petromiranda S.A.

Established in 2010 for the development of the Junin-6 project, located in the heavy oil belt of the Orinoco Basin. Since 2013, oil has been produced under the fast and early production program.

- Phase 1 is currently in progress. It involves further exploration and infrastructure engineering.

- Pilot development of a priority area is being carried out to characterize the pay zone.

### Petrovictoria S.A.

Petrovictoria S.A. was incorporated in 2014 to implement the Carabobo 2/4 project.

- A temporary extraction permit was obtained in 2018, and production drilling is being performed.
- Drilling is in progress as part of a further exploration program, and the geological and hydrodynamic models are currently updated. The final basic design of the field permanent infrastructure is being expected.
- In 2018, the onshore infrastructure for further exploration and early production was under construction (erection of sites, power transmission lines and substations, setup of well clusters).

### Mejillones and Patao

Rosneft owns a 100% stake in the project, with the option to export the entire gas output, subject to royalty payments in kind.

- In December 2017, Rosneft was granted a production license by the Venezuelan Oil Ministry for natural gas exploration and development at the Patao and Mejillones fields as part of the Mariscal Sucre project offshore Venezuela.
- The activities on the conceptual design of field development were started.
- The production profile optimization and drilling costs were calculated, and the well construction schedule was developed. The updated field reserves estimation was presented to the Venezuelan Oil Ministry in compliance with the license.
- In 2019, it is planned to define the field setup variant.

### Social Projects and Training of Specialists

- 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 was accepted and passed on to the City Council. The Institute is currently working under the supervision of Hugo Chávez Foundation.
- In September 2015 - June 2018, 15 PDVSA representatives were trained at the Gubkin Russian State University of Oil and Gas in Master's program in the oil and gas field. In June 2018, the students successfully defended their final dissertations and completed training.
- Under the tripartite agreement signed in 2017 by Rosneft, PDVSA, and the Gubkin Russian State University of Oil and Gas, 27 new students began their training in Master's oil and gas programs in September 2018.

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

## Offshore Projects in Vietnam

**3.28**  
bcm

actual gas production  
(100% of the project)

**0.06**  
mmt

actual gas condensate  
production (100% of the project)



Rosneft participates in exploration projects and a joint gas and condensate production project at Block 061 in the Socialist Republic of Vietnam (Rosneft Vietnam B.V. - project operator - 35%, ONGC 45%, and PVN 20%). The project is implemented in line with the Production Sharing Agreement. Three gas condensate fields - Lan Tai, Lan Do and PLD (Wild Orchid) are located on Block 061. The fields are 370 km offshore in the Nam Con Son Basin.

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. The license area is located in the region with confirmed oil and gas potential and extensive infrastructure, and borders on the currently developed fields of Block 061.

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 to the onshore processing facility. After that, the products are delivered to the complex of gas turbine power stations to produce electricity (Rosneft Vietnam Pipelines B.V. 32.67%, Perenco 16.33%, PVN 51%).

### Block 06.1

On 22 June 2018, Rosneft Vietnam B.V., one of the Group Subsidiaries operating on the territory of Vietnam, reached an important milestone in its operations - 16 years of accident-free marine activities. Not a single case of staff disability was registered during this period.

In June 2018, drilling of PLD-1P production well was successfully completed by sidetracking of PLD-1X well, confirming the existence of productive deposits at PLD field.

Also in June 2018, LD-3P well was drilled as part of the infill drilling operations at the Lan Do field. Both wells were successfully commissioned on 28-29 October 2018.

The Vietnam Government highly appreciates the Company's performance in the country. Rosneft Vietnam B.V. on 29 November 2018, received the first class Labor Order that is one of the highest national awards in Vietnam.

Actual production in 2018 (100% of the project) totaled 3.28 bcm of gas and 0.06 mmt of gas condensate (Rosneft's

share: 0.78 bcm of gas and 0.01 mmt of gas condensate).

### Block 05.3/11

In June 2018, drilling of the second exploration well TTN-1X on Block 05.3/11 was completed. The well confirmed the existence of productive deposits. On 3 December 2018, the Company notified Petrovietnam Oil and Gas Group on the decision to proceed to the second exploration phase.

### The Nam Con Son Pipeline

The pipeline has a capacity of 7.7 bcm per year, carrying approximately 6.4 bcm of gas in 2018, including the gas produced from Block 061 and other operators in the Nam Con Son Basin.

## The Zohr Project in Egypt

Rosneft has a 30% stake in the project.

The Zohr field was discovered by Eni S.p.A. in 2015. It covers an area of 231 sq. km, with sea depth ranging from 1.2 thousand m to 1.7 thousand m and a gas deposit of 34 km to 4 km. Zohr is one of the biggest offshore fields in the Mediterranean Sea. Gas production at the Zohr field started in December 2017.

In 2018, seven new production wells, four gas treatment unit trains and the second pipeline for gas transportation from the field to the gas treatment facilities were commissioned. This allowed meeting the demand of the Egyptian Government for gas supply

ahead of time by increasing the daily gas production to 57 mmcm per day in September 2018. The infrastructure facilities and gas treatment unit trains are commissioned ahead of schedule.

Rosneft's stake in hydrocarbons production in 2018 was 2.2 bcm of gas and 0.02 mmt of condensate.

By the end of 2019 the gas production is due to reach the design capacity of 76 mmcm per day.

The entire volume of gas produced at the Zohr field is supplied into Egypt's national gas grid.

**12.2**  
**bcm of gas**  
**and 0.1**  
**mmt**

of condensate produced in 2018  
(100% of the project)



Less than a year after the launch of the field, daily gas production reached

**~57**  
**mmcm**

(100% of the project)

**Gas**  
**production**  
**started in**  
**December**  
**2017**



## Brazil



Through its subsidiary, Rosneft Brasil E&P Ltd., Rosneft is implementing a hydrocarbon exploration project at license areas in the Solimões River Basin in the State of Amazonas, Brazil, holding a 100% stake and operatorship in these licenses.

In 2018, two exploration wells were drilled in Buriti and Tamboril. According to the results, the gas content of the basin was confirmed and the reserves were updated. In 2018, 114 sq. km of 3D seismic surveys and 257 linear km of 2D seismic surveys were conducted, the drilling location for the next exploration well was determined, and its drilling is scheduled for 2019.

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**114 sq. km** 3D seismic surveys  
**257 linear km** 2D seismic surveys

---

**100%** Company's stake in the project

---

## Iraq



Bashneft International B.V. is the project operator and owns a 100% stake in the hydrocarbon exploration and production agreement for Block 12.

In February 2018, the Company completed testing of the first exploration well at Block 12 in southwestern Iraq. The tests showed free flows of water-free oil from several formations. The obtained test results give reason to anticipate the discovery of commercial oil reserves. The Iraqi side recognized the discovery of a new field and named it Salman. In 2019, further field exploration and studying of the rest of the license territory will continue.

---

**New Salman field** was discovered based on the results of drilling the first exploration well in Block 12.

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**100%** Company's stake in exploration and production of hydrocarbons in Block 12

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## Iraq (Kurdistan)



In 2017 and 2018, Rosneft and the Government of Iraq's autonomous Kurdistan Region signed a series of agreements on cooperation in the exploration and production of hydrocarbons, including a production sharing agreement regarding five blocks in Iraqi Kurdistan. The Company is the project operator, holding an 80% stake in the production sharing agreement.

In 2018, exploration activities were started in line with the commitments. Seismic survey and drilling of exploration wells are scheduled for 2019.

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**2018** exploration activities were started in line with PSA commitments

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**80%** Company's stake in PSA

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## Offshore Projects in the Republic of Mozambique



As part of efforts to expand strategic cooperation, Rosneft and ExxonMobil formed a consortium to bid for exploration licenses in deep-water areas offshore the Republic of Mozambique.

Following a tender in October 2015, the Government of Mozambique signed the Hydrocarbon Exploration and Production Concession Contracts for Blocks A5-B, Z5-C, and Z5-D in October 2018. The Company's stake in the projects is 20%.

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**2018** Hydrocarbon exploration and production concession contracts for blocks A5-B, Z5-C, and Z5-D were signed

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**20%** Company's stake in the projects in Mozambique

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## Myanmar



Bashneft International B.V. is the project operator at Block EP-4, holding a 90% stake in the production sharing agreement.

The findings identified a number of promising structures. Drilling of the first exploration well is scheduled for 2019.

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In 2018, a total of **336 linear km** of 2D seismic surveys were completed.

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**90%** Company's stake in PSA

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2.9

# Downstream (Refining and Commerce)

Rosneft is No.1 in Russia in terms of capacities and volumes of oil refining. The Company includes 13 large refineries<sup>1</sup> with more than 103 mmt of oil processed in 2018.

# 75.1%

refining depth in 2018

# 58.1%

light product yield

## COMPANY'S OPERATIONS

in oil refining in 2018 were focused on meeting the market demand for high-quality petroleum products.



## Key Performance Metrics of the Group's Russian Oil and Gas Condensate Refineries

Indices	2016 <sup>2</sup>	2017	2018	Change 2017/2018, % <sup>4</sup>
Crude oil distillation capacity, mmt per year	100.9	118.4	118.4 <sup>3</sup>	-
Oil refined, mmt per year	87.5	100.6	103.3	2.8%
Refinery utilization rate, %	86.7	85.0	87.2	2.2 p.p.
Petroleum product and petrochemical output, mmt	84.8	96.9	99.7	2.9%
Refining depth, %	72.0	75.2	75.1	-0.1 p.p.
Light product yield, %	56.6	58.4	58.1	-0.3 p.p.

<sup>1</sup> Including OJSC Slavneft-YANOS.

<sup>2</sup> Including effect from Bashneft purchase in October 2016.

<sup>3</sup> As of 1 January 2019, excluding non-operational capacities undergoing overhauls, including mini-refineries.

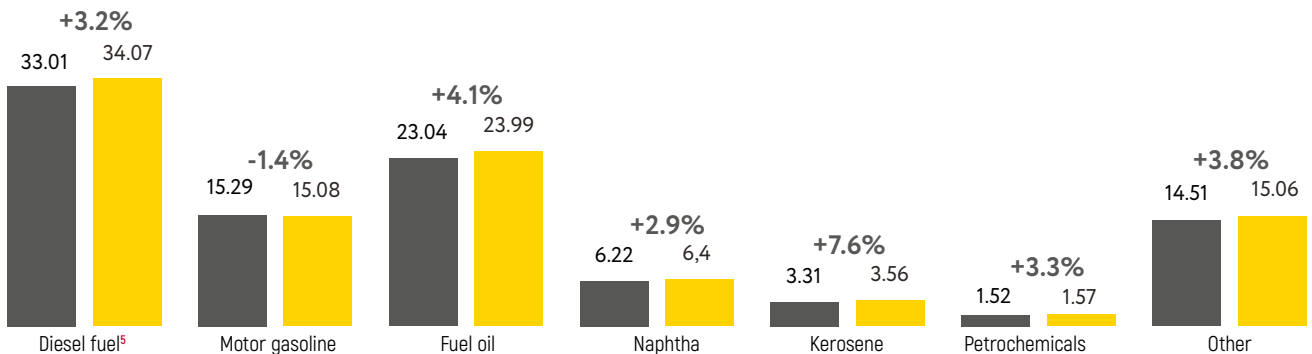
<sup>4</sup> Counted from non-rounded data.

**103.3** <sup>+2.8%</sup>  
mmt

oil refined at Russian oil refineries in 2018



Russian Refinery Product Mix, mmt



■ 2017 year ■ 2018 year

<sup>5</sup> Including marine fuel

## Key Achievements

**1** In April 2018, the Ufa group of the Company's refineries started commercial production of improved high-octane gasoline AI-95-K5 Euro 6 class, which is superior to Euro 5 compliant motor fuels currently produced in the Russian Federation with respect to the environmental and performance indicators.

The Saratov Refinery started commercial production of high-octane gasoline of AI-95-K5 Euro-6 class. The fuel has received positive customer feedback in the sales regions – in the Republic of Bashkortostan and the Krasnodar Territory.

**3** The operator room in the production control center at the Komsomolsk Refinery was equipped with advanced digital equipment allowing to monitor the operating parameters of refinery major process units: two crude oil distillation units, distillate hydrotreating units, sulfur production units. Introducing the modern digital solutions enables the Company to improve the process efficiency, ensure the equipment operational stability, strengthen the product quality control system, significantly improve the industrial safety level and the performance of engineering personnel.

**4** The Angarsk Refinery completed the installation operations for tower replacement on the gas fractionation unit producing the components of gasoline fractions and fuel gas, thereby improving the production reliability, and the environmental and industrial safety level.

**5** Rosneft's refineries began processing gasoline components produced at the Ufa group of refineries. This allowed for redistribution of loads between the units at the refineries and for increased fuel output.

**2** The Syzran Refinery completed the implementation of a large-scale program of re-equipment of the test center for oil and petroleum products - the central laboratory of the refinery.

Rosneft continues implementing the facility maintenance and refinery development projects. The total funding for the maintenance and upgrade projects of the Company's oil refining business amounted to RUB 43.6 bln under IFRS. The key focus areas also

included expansion and implementation of highly efficient projects to debottleneck the refinery configuration, bitumen production development, operational efficiency improvement and operating cost reduction projects.





## Oil Refining

### RUSSIA

Rosneft is the largest oil refinery in Russia, controlling oil refineries in key regions of Russia with a combined throughput capacity of 103 mmt of oil in 2018. The average Nelson Index of the Company's refineries in Russia is approximately 7.0.

### FOREIGN PROJECTS

In Germany, the Company through its subsidiary - Rosneft Deutschland GmbH - holds stakes ranging from 24% to 54% in three refineries, controlling over 12% of oil refining capacities and ranking third by oil refining capacity in the country (with a maximum throughput capacity of 12.5 mmt of oil per year). 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 also 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.

The Company works with partners in the Asia-Pacific Region to explore opportunities in building new oil refineries with petrochemical facilities in both China and Indonesia.

# ~7.0

average Nelson Index of the Company's refineries in Russia

# 115.0<sup>+2.0%</sup>

## mmt

oil refined by the Company in 2018



## Key Focus Areas in 2018

### Implementation of the Refinery Development Program In Russia



Rosneft is continuing the refinery development projects in Russia covering the construction and renovation of production facilities and complexes for improving the refining depth and light product yields, and also increasing the clean motor fuels output to provide the Company's sales channels with petroleum products meeting

the requirements of the Technical Regulations of the Customs Union.

Completing the development projects will improve the product mix, competitive position, and profitability of the Company's refineries in Russia.

#### In 2018:

- major retrofitting of the diesel fuel hydrotreater LCh-24/7 was completed at the Ryazan Refinery, thereby improving the performance indicators of the unit;
- the pre-investment phase of business project «Construction of Advanced Oil Refining Complex» was approved at the Yaroslavl Refinery.

### Refinery Maintenance Program In Russia



The Company continued to pursue projects rectifying the violations and complying with the instructions issued by the regulatory authorities, and addressing the ecological risks by replacing worn-out equipment and implementing the following target programs at the Company's refineries in Russia.

#### In 2018:

- a program was initiated to comply with the instructions issued by the Federal Environmental, Industrial, and Nuclear Supervision Service of Russia (Rostekhnadzor), following the inspections of the Bashneft-Ufaneftekhim branch in 2016–2017;
- a program was initiated to provide measurements of internal product flows;
- the Company continued implementing the projects on renovation

of the gas fractionation section of LK-6Us unit at the Achinsk Refinery and of the Bashneft-Ufaneftekhim Refinery's hydrocracking unit after accidents;

- the Company continued the initiatives aimed to reduce the risk of unscheduled interruptions: replacement of worn-out equipment, industrial and fire safety projects, target programs for replacing and improving reliability of pipelines.

## New Products



In 2018, the range of products from the Company's Russian refineries was expanded to meet the market demand:

- the Ufa group of refineries and the Saratov Refinery started producing AI-95 Euro-6 gasoline that is superior to Euro-5 compliant motor fuels currently produced in the Russian Federation with respect to the environmental and performance indicators. Using a new class of gasoline will minimize the environmental impact of road transport, improve the ecological situation that is crucial for large cities;
- the first batch of Pulsar-100 high-octane gasoline was produced at the Ryazan Refinery in March 2018. This fuel with advanced environmental properties enables to achieve full potential and improve the high power engine performance. Pulsar-100 is the official Russian Circuit Racing Series fuel and is distributed among the majority of filling stations in the Moscow region as from August 2018;
- the Ufa group of refineries started commercial production of road bitumen complying with intergovernmental standards. A new production technology ensures long-term durability of obtained road bituminous binders.

## Ecology



The Company's efforts to improve the environmental and performance indicators of produced fuel are complemented by green investments. In the reporting year, the Company's ecological projects entailed the following:

- reconstruction of isopropylbenzene (cumene) production facilities in Ufaorgsintez with capacity increase and transition to a technology minimizing the environmental impact;
- commissioning of an advanced treatment unit with a membrane bioreactor for the biochemical wastewater treatment facilities at the Novokuibyshevsk Refinery.

The state-of-the-art wastewater treatment facility ensures a high purification rate and water return to the production cycle that helps minimize water consumption while maintaining full automation of the process.



## 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 additives and catalysts produced by Company-owned facilities in Russia. Thus, in 2018, the catalysts purchased for hydrogen production units at the Kuibyshev and Ryazan Refineries were replaced with the catalysts produced by the Angarsk Catalysters and Organic Synthesis Plant.
- The comparison tests of additives from different producers for extending the list of potential suppliers, including domestic ones, allowed to select a supplier for two subsidiaries on a competitive basis – DDP (depressor dispersing additive) producer using a domestic component for additive production.
- Efforts were made to launch the production of RT jet fuel Jett A-1 and TS-1 at Bashneft-Novoil, using alternative anti-wear additives based on hydrotreated fraction, as well as improved motor fuels at the Achinsk refinery VNK, Komsomolsk, Novokuibyshevsk, Saratov, and Syzran Refineries.
- To ensure the timely delivery of fuel under the state orders, the Company obtained approvals for the use of improved motor gasolines, diesel, and RT jet fuels made at the Syzran Refinery, Bashneft-UNPZ, Bashneft-Novoil, Bashneft-Ufaneftekhim, Komsomolsk Refinery, Angarsk Petrochemical Company, Achinsk Refinery VNK, Novokuibyshevsk Refinery, YANOS, Ryazan Refinery for the special equipment.

## Implementing a Comprehensive Accelerated Digitalization Plan



In 2018, the Company went ahead with the comprehensive plan of the accelerated digitalization across the Oil Refining Unit.

- The conceptual designs of 17 digitalization initiatives in nine Group Subsidiaries have been studied;
- A roadmap of projects and activities for 2019–2023 has been developed;
- The Company picked out the following focus projects to be implemented at its refineries:
  - integration of an advanced process control system (APCS) at nine refineries with a total of over 50;
  - improvement of the process equipment reliability;
  - organization of Predix - Predix collection infrastructure;
  - implementation of measuring instrument monitoring solutions and process monitoring at all refineries;
  - online blending of petroleum products



## Improving the Operational Performance of Refineries in 2018



Scheduled and supplementary measures undertaken under the Operational Efficiency Improvement Program resulted in an economic benefit of RUB 17.2 bln in 2018.

The outcomes of the Energy Saving Program are as follows:

- economic benefit of about RUB 1 bln;
- improvement of Solomon energy intensity index by 2.9 p.p. in 2018.

In 2018, the Company implemented the previously approved Oil Refining and Petrochemicals Business Energy Savings Directive. The actual effect was 445.5 thsd tce, against the target of 412.1 thsd tce.

Focus areas of the Operational Efficiency Improvement Program	Key activities implemented in 2018
Capacity and product yield optimization	<ul style="list-style-type: none"> <li>▪ Replacement of internal contact devices</li> <li>▪ Refitting of product shipment systems</li> <li>▪ Optimization of oil and petroleum product loading/unloading rack operations</li> <li>▪ Implementation of optimized process control systems at refineries</li> </ul>
Energy consumption reduction	<ul style="list-style-type: none"> <li>▪ Renovation of steam and heat exchanger networks at plants</li> <li>▪ Enhancement of the efficiency of waste heat boilers</li> <li>▪ Upgrade of furnace efficiency</li> <li>▪ Improvement of the efficiency of heat exchangers</li> </ul>
Reliability and mechanical availability	<ul style="list-style-type: none"> <li>▪ Measures to optimize the timing of overhauls and processing operations at refineries without reducing the workload</li> </ul>
Reduction in oil and petroleum product losses	<ul style="list-style-type: none"> <li>▪ Reduction of raw APG flaring</li> <li>▪ Installation of floating roofs on petroleum product tanks</li> </ul>



## Information on Refineries in the Russian Federation

### Key Focus Areas in 2018

#### Novokuibyshevsk Refinery



**56.5%**

Light product yield

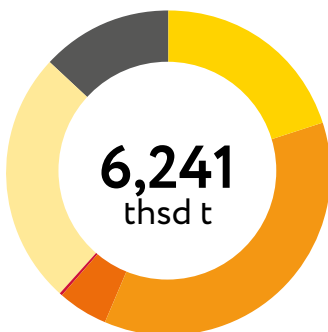
**75.2%**

Refining depth



■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Motor gasolines	1,251
Diesel fuel	2,270
Kerosenes	317
Naphtha	14
Fuel oil	1,587
Others	801

#### Key Focus Areas in 2018

- construction of hydrocracking and hydrotreating complex with offsite facilities;
- operational efficiency improvement projects;
- maintenance of operating facilities.

#### Kuibyshev Refinery



**57.9%**

Light product yield

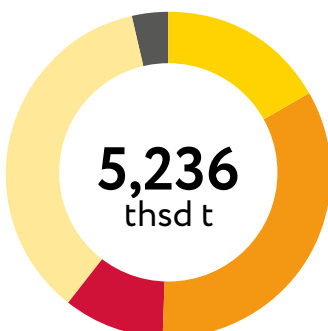
**65.1%**

Refining depth



■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Motor gasolines	884
Diesel fuel	1,775
Naphtha	514
Fuel oil	1,884
Others	179

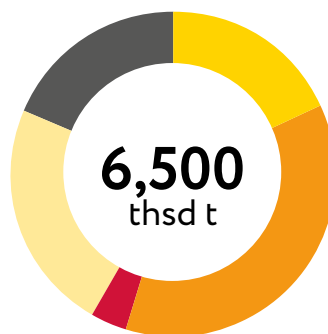
#### Key Focus Areas in 2018

- catalytic cracking complex construction continued (FCC unit offsite facilities, vacuum gas oil hydrotreaters, and hydrogen and sulfur production units);
- operational efficiency improvement projects;
- maintenance of operating facilities.

### Syzran Refinery



Output of Petroleum Products, thousand tonnes



Motor gasolines	1,180
Diesel fuel	2,383
Naphtha	235
Fuel oil	1,510
Others	1,193

#### Key Focus Areas in 2018

- construction of a catalytic cracking complex with offsite facilities, a diesel fuel hydrotreating complex, and a MTBE production unit;
- operational efficiency improvement projects;
- maintenance of operating facilities.

**57.4%**

Light product yield

**76.9%**

Refining depth

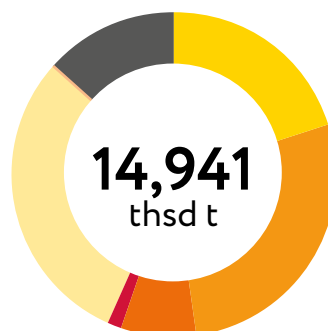


■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

### Ryazan Refinery



Output of Petroleum Products, thousand tonnes



Motor gasolines	3,010
Diesel fuel	4,152
Kerosenes	1,109
Naphtha	222
Fuel oil	4,459
Petrochemicals	31
Others	1,958

#### Key Focus Areas in 2018

- AI-100 motor gasoline brought into the market;
- major retrofitting of the diesel fuel hydrotreater LCh-24/7 was completed to improve its performances;
- initiatives boosting operational efficiency and other investment projects for the refinery's development;
- maintenance of operating facilities.

**55.9%**

Light product yield

**70.7%**

Refining depth



■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

### Saratov Refinery



**51.7%**

Light product yield

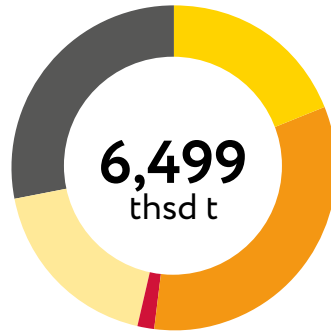
**81.2%**

Refining depth



■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Motor gasolines	1,235
Diesel fuel	2,144
Naphtha	120
Fuel oil	1,181
Others	1,818

#### Key Focus Areas in 2018

- AI-95 Euro-6 motor gasoline with improved environmental and performance characteristics was brought into the market;
- measures to improve the operational efficiency of the refinery;
- FEED phase of the vacuum gas oil hydroconversion complex completed;
- maintenance of operating facilities.

### Tuapse Refinery



**49.3%**

Light product yield

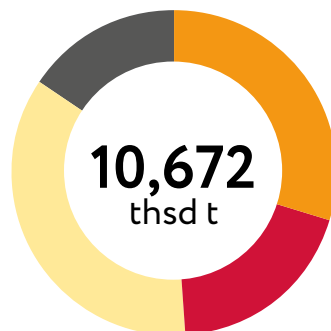
**64.7%**

Refining depth



■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Diesel fuel	3,186
Naphtha	2,055
Fuel oil	3,785
Others	1,645

#### Key Focus Areas in 2018

- construction of a hydrocracking and hydrotreating complex with offsite facilities;
- measures taken to improve the operational efficiency of the refinery;
- maintenance of operating facilities.



### Achinsk Refinery



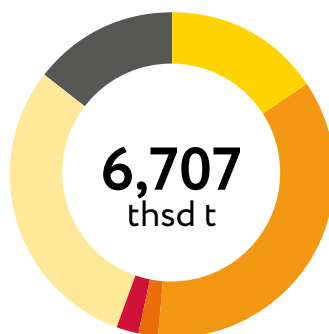
**54.5%** Light product yield

**69.6%** Refining depth



■ Oil refined, thousand tonnes  
 ■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Motor gasolines	1,047
Diesel fuel	2,401
Kerosenes	131
Naphtha	155
Fuel oil	2,014
Others	959

#### Key Focus Areas in 2018

- construction of a hydrocracking complex with offsite facilities and a petroleum coke complex;
- operational efficiency improvement projects, renovation of the gas fractionation section of its LK-6Us unit;
- maintenance of operating facilities.

### Angarsk Petrochemical Company



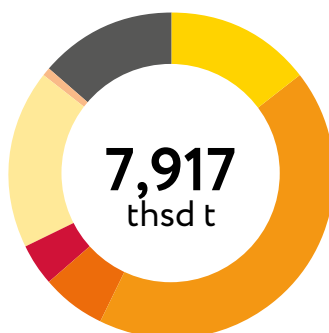
**66.7%** Light product yield

**81.8%** Refining depth



■ Oil refined, thousand tonnes  
 ■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Motor gasolines	1,154
Diesel fuel	3,376
Kerosenes	518
Naphtha	336
Fuel oil	1,406
Petrochemicals	51
Others	1,075

#### Key Focus Areas in 2018

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

### Komsomolsk Refinery



**63.3%**

Light product yield

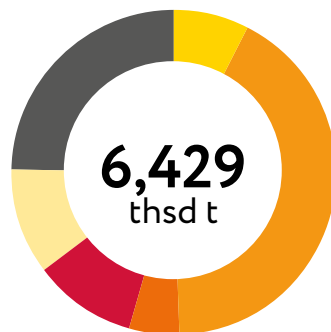
**89.1%**

Refining depth



■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Motor gasolines	486
Diesel fuel	2,695
Kerosenes	329
Naphtha	663
Fuel oil	681
Others	1,575

#### Key Focus Areas in 2018

- construction of the hydrocracking and hydrotreating complex with offsite facilities,
- operational efficiency improvement projects;
- maintenance of operating facilities.

### Bashneft's Oil Refining Business<sup>1</sup>



**65.5%**

Light product yield

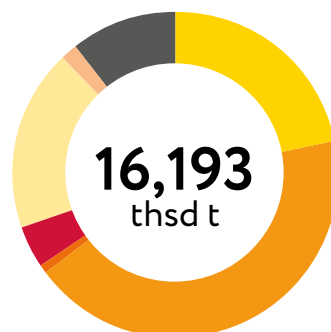
**82.7%**

Refining depth



■ Oil refined, thousand tonnes  
■ Design capacity as of 01.01.2019, thousand tonnes

Output of Petroleum Products, thousand tonnes



Motor gasolines	3,535
Diesel fuel	6,971
Kerosenes	130
Naphtha	681
Fuel oil	2,936
Petrochemicals	231
Others	1,709

#### Key Focus Areas in 2018

- AI-95 Euro-6 motor gasoline with improved environmental and performance characteristics was brought into the market;
- bringing the operating facilities into compliance with corporate standards and regulations, and continued implementation of a comprehensive business development program;
- operational efficiency improvement projects;
- maintenance of operating facilities.

<sup>1</sup> Including Bashneft-Novoil, Bashneft-Ufaneftekhim, and Bashneft-UNPZ.

## Petroleum Product Quality Control

The motor fuels produced by Rosneft's refineries 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, and have high environmental and performance characteristics, which have been repeatedly confirmed by qualification and bench tests in specialized research institutes.

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 quality control of 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 products sales.

The testing laboratories at the refineries are equipped with state-of-the-art analytical 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.

The specialists of the Company's core business units regularly hold quality control days at the refineries to discuss and review the best practices for improving production

efficiency and quality control, and to share experience in petroleum products quality and safety assurance areas.

A project for monitoring marketable product quality giveaway gaps implemented at the Company's refineries helped to improve the efficiency of hydrocarbon feedstock processing.

Efforts to expand the range of additives that increase the performance characteristics of motor fuels have been continued throughout 2019. 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 domestic anti-wear additives produced by Company-owned facilities.



## International Oil Refining Projects

### Mozyr Refinery

The Company indirectly owns a 21% stake in JSC Mozyr Refinery (Belarus) through PJSC NGK Slavneft. In 2018, the Mozyr Refinery's share in Rosneft's refining

throughput totaled 2.1 mmt, including 0.2 mmt from tolling arrangements under a processing agreement. During the year, the Company supplied a total of 5.1 mmt of oil to this refinery. The Company is continuing its investment

project for the construction of a heavy residue hydrocracking unit, scheduled to be launched in 2019.

## Promising International Projects

In order to expand its presence in the growing high-marginal markets, Rosneft is implementing a number of promising oil refining and petrochemistry projects in Indonesia and China.

### Oil Refinery and Petrochemical Complex Construction Project in Tuban

To implement the project for the construction of an oil refining and petrochemical complex in Tuban in the East Java Province (the island of Java, Indonesia), in May 2016, Rosneft and the Indonesian PT Pertamina (Persero) company signed a framework cooperation agreement, and in October 2016 – an agreement on a joint venture.

On 28 November 2017, the PT Pertamina Rosneft Pengolahan dan Petrokimia joint venture was established (Rosneft - 45%, Pertamina - 55%).

In 2018, procedures for selecting engineering processes licensors, Basic Engineering Design and FEED contractors, and a Project Management Consultant were undertaken.

The crude oil distillation capacity of oil refineries will be about 15 mmtpa.

Feedstock comprises imported medium and heavy sour crude oils. The project envisages the construction of a large fuel oil catalytic cracking unit and a petrochemical complex with an ethylene capacity of over 1 mmtpa. Plans are underway to produce motor fuels, aromatic hydrocarbons, various grades of polyethylene, polypropylene, and monomers.

### Chinese-Russian Eastern Petrochemical Company, Tianjin (Vostok Petrochemicals Joint Venture)

The following parties are the members of the joint venture for the construction and operation of the Tianjin refinery/petrochemicals complex:

- Rosneft – 49%;
- China National Petroleum Corporation (CNPC) – 51%.

The planned capacity of the Tianjin refinery is 16 mmtpa.

In May 2016, the Board of Directors of JV Vostok Petrochemicals approved the process configuration of a refinery and aromatic hydrocarbon complex. Currently, the parties continue to discuss the parameters of the project.

The project will ensure the Company's access to the wholesale, small-

scale wholesale, and retail markets of China's petroleum products, as well as to the rapidly growing and underserved market of petrochemical products in China and regional countries.



## Nayara Energy Limited

In August 2017, Rosneft closed a deal to acquire a 49.13% stake in the Indian Essar Oil Limited. On May 25, 2018, by a decision of the shareholders, Essar Oil Limited was renamed as Nayara Energy Limited.

Rosneft acquired a stake in one of the most advanced Asian-Pacific oil refineries in Vadinar, with an annual crude throughput of approximately 20 mmt. While the EOL Refinery in Vadinar is the 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.

Vadinar Refinery has access to its own deep-water port, which can accommodate VLCC supertankers, and also excessively covers the demand for electricity by its own power plants.

The Nayara Energy Limited's business includes a vast network of over 5 thousand filling stations operating under the Essar brand across India.

In 2018, the shareholders approved the start of basic design activities under the first phase of Vadinar Refinery development program, involving the renovation of catalytic cracking unit, organization of the petrochemicals production, entry into Indian petrochemicals market, and production of high-octane components for motor gasoline.





### Rosneft Deutschland GmbH (RDG)

The company entered the German refined products market in 2011 with the acquisition of 50% of JV Ruhr Oel GmbH (ROG). Following the restructuring of ROG, which ended at the end of 2016, Rosneft gained direct control over more than 12% of the refining facilities in Germany with a total annual refining throughput of about 12.5 mmt. Rosneft became a shareholder and doubled its stake in the Bayernoil refinery to 25% (from 12.5%), in the MiRO refinery to 24% (from 12%), and in the PCK Refinery (Schwedt) refinery to 54.17% (from 35.42%). In turn, BP Plc (BP) consolidated a 100% stake in the Gelsenkirchen Refinery.

Rosneft became the third largest oil refiner in the German market and has been operating since 2017 as part of a new subsidiary, Rosneft Deutschland GmbH. Rosneft annually covers about a quarter of German crude oil imports - about 23 mmtpa.

Following up upon the agreement on restructuring the joint venture, Rosneft and BP agreed on gradual changes in the chain of petroleum products sales in order to ensure the timely execution of contracts with refineries' customers during the transition stage. This period was completed as planned.

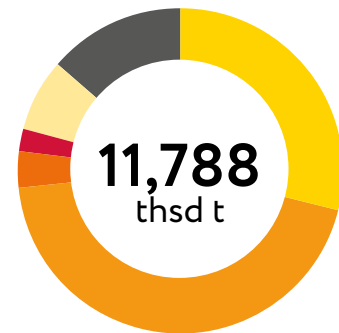
On 1 January 2019, Rosneft Deutschland GmbH went ahead with direct sales of petroleum products. The company sells all petroleum products produced by Rosneft Deutschland GmbH at three German refineries with Rosneft's shareholding, including gasoline, diesel, heating gas oil, jet fuel, liquefied petroleum gases (LPG), bitumen, fuel oil, and petrochemicals. The company is the leading wholesale supplier of petroleum products in the German market

and supplies oil products directly from the refineries and from over 30 shipping terminals in Germany by road, rail, and river. The company's customer base comprises more than 500 enterprises in Germany, Poland, the Czech Republic, Switzerland, Austria, and France.

The successful start of full-scale marketing of products was also contributed by the company's experience in selling bitumen in 2018. During this period, Rosneft Deutschland GmbH delivered products to over 130 German companies.

As part of a strategy to create its own marketing area, Rosneft Deutschland GmbH introduced the new generation information system SAP S/4 HANA. In terms of data size, this project has become the largest in the European oil and gas industry and one of the largest in the world, with the software being a cutting-edge development for enterprise resource planning.

Output of Petroleum Products, thousand tonnes



Motor gasolines	3,434
Diesel fuel	5,221
Kerosenes	424
Naphtha	258
Fuel oil	878
Others	1,574

>12%

Germany's refining capacity

## Petrochemicals

Petrochemical assets form a crucial part of Rosneft's production complex. 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 BashneftUfaneftekhim and the methanol, butyl alcohol, and amine production capacities at the Angarsk Petrochemical Company.

### Far Eastern Petrochemical Company (FEPCO)

The project provides for creating the largest refining and petrochemical complex in the Far Eastern Federal District, enabling the most efficient use of the Asia-Pacific market conditions and high added value of exported commercial products.

Pursuant to the List of Instructions of the President of the Russian Federation No. Pr-2579 dated 29 December 2016, efforts are ongoing to secure state

support for the project. Neftekhimichesky Priority Social and Economic Development Area was established at the territory of Partizansky municipal district with an anchor resident represented by JSC Far Eastern Petrochemical Company, in line with Resolution No. 272 of the Government of the Russian Federation dated 7 March 2017.

At the meeting of the Governmental Commission for Social and Economic Development of the Russian Far East held on 10 August 2018, the Ministry for Development of the Russian Far East

was instructed to develop a comprehensive plan to provide infrastructure for FEPCO project.

In 2018, Russia's Main Directorate of State Expert Review completed development of the working documentation and issued positive opinions for oil refining and petrochemical facilities, high priority facilities of external infrastructure.



### Angarsk Polymer Plant

Its main products include ethylene, high-density polyethylene, propylene, benzene, 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. The feedstock used by the plant includes straight-run gasoline and hydrocarbon gases primarily produced by the Angarsk Petrochemical Company.

In 2018, the Angarsk Polymer Plant processed 723.9 thousand tonnes of hydrocarbon feedstock and produced 558.2 thousand tonnes of marketable products with high added value.



## Novokuibyshevsk Petrochemical Company

NPCC is one of the largest producers of gas processing, petrochemical, and organic synthesis products in Russia and Eastern Europe. Its product mix comprises over 30 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 2018, the company processed 1,005.162 thousand tonnes of feedstock, while its marketable products output totaled 939.9 thousand tonnes.

In 2018, NPCC conducted an enterprise-wide operational efficiency improvement program comprising 79 initiatives; 71 of

these initiatives are currently being tracked and analyzed.

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.

It is an only synthetic ethanol production plant in the country.



## 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 2018, the company processed 591.7 thousand tonnes of crude hydrocarbons and manufactured over 533,1 thousand tonnes of marketable products.



## Gas Processing

The Company's gas processing assets process the associated petroleum gas produced at Rosneft's oil and gas enterprises, and their output is mainly utilized as feedstock for Rosneft's petrochemical entities.

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).

# 5

GPPs are included in the Company

### Otradnensky Gas Processing Plant

In 2018, OGPP processed 257 mmcm of associated petroleum gas derived from the oil and gas assets of Samaraneftgaz 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 2018, NGPP processed 429 mmcm of associated petroleum gas derived from the oil and gas assets of Samaraneftgaz 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.

In 2018, the renovation of a section of the NGL pipeline to NPCC was completed. 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 NPCC with gas processing plants.

### Tuymazinskoye Gas Processing Plant

A part of Bashneft, TGPP has been integrated with Rosneft's operations since October 2016. In 2018, the plant processed 29 mmcm of associated petroleum gas derived from the oil and gas assets of Bashneft-Dobycha (OGPB Tuymazaneft)

and 125 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.

### Shkapovskoye Gas Processing Plant

A part of Bashneft, ShGPP has been integrated with Rosneft's operations since October 2016. In 2018, the plant processed

52 mmcm of associated petroleum gas derived from the oil and gas assets of Bashneft-Dobycha (OGPB Ishimbayneft and OGPB Ufaneft) and 118 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.

### Buzulukskoye Gas Processing Plant

ББГПП 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 2018, the plant processed 1,244 mmcm of associated petroleum gas and unstable gas condensate derived from the oil and gas assets of Orenburgneft. Its main products include combustible natural

dry stripped gas, liquefied gases such as industrial propane/butane mixture, industrial propane, and industrial butane, as well as stable natural gasoline and industrial sulfur.

## Production of Catalysts

### Novokuibyshevsk Catalysts Plant

In December 2018, the construction and installation operations were completed and the commissioning of the pilot industrial site for the production of hydroprocessing

catalysts began. Once commissioned, this site, starting from Q2 2019, will allow for practicing and working-out technologies for the full-scale production of catalysts developed in the laboratories of the Corporate Research and Design Institutes (LLC RN-TsIR - Corporate Joint Research and Development Center,

and JSC VNII NP - Russian National Research Institute for Oil Refinery) and third-party research and development institutes to assess the effective use of new catalysts at refineries and to optimize their qualitative characteristics.

### Angarsk Catalysts and Organic Synthesis Plant

In 2018, ACOSP produced and supplied, to replace the imported ones, the catalysts for steam reforming of methane for hydrogen production units

at the Kuibyshev Refinery, the Ryazan Oil Refinery Company, Bashneft-Ufaneftekhim, and Bashneft-Novoil. Due to replacements made, the share of ACOSP steam reforming catalysts for hydrogen production at the Company's refineries reached 77%.

## 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.

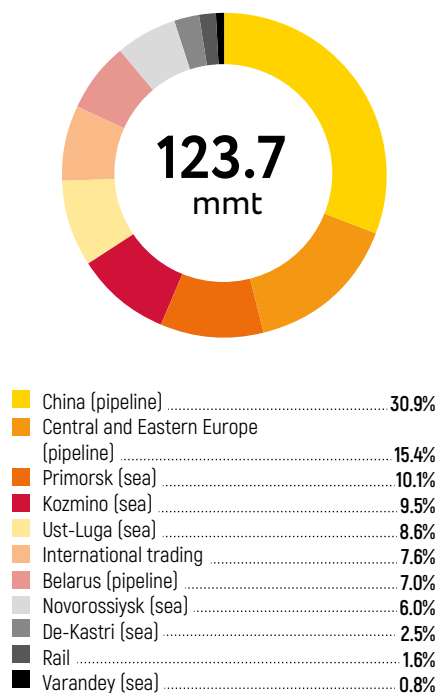
The Company continuously monitors the cost efficiency of its oil monetization channels to maximize the share of high-margin channels in its overall sales structure.

In the reporting year, the Company supplied about 103.3 mmt of oil to Russian refineries, a 3% growth year-on-year.

In addition to the oil supplies shipped to its own refineries in Russia during 2018, the Company shipped 4.6 mmt of own oil to German refineries partially owned by the Company, a 2% growth year-on-year.

The total sales of crude oil shipped to third parties in 2018 totaled 129.1 mmt, including 5.4 mmt of oil sold domestically.

Breakdown of Exports, %



## Oil Exports to FSU and Non-FSU Countries

Rosneft's FSU and non-FSU oil exports totaled 123.7 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 2018, supplies to eastern countries were 59.2 mmt, up 24% year-on-year.

In addition, the Company exported 55.8 mmt of oil to Northwestern, Central, and Eastern Europe, the Mediterranean, and other destinations outside the CIS, while exports to the CIS totaled 8.7 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:

- transportation by pipeline: approximately 108.3 mmt, accounting for 87.5% of total oil exports to FSU and non-FSU Countries, including a further 42.3 mmt via ports and about 66.0 mmt via pipeline to China, Belarus, and Central and Eastern Europe;
- transportation by rail and mixed transport: 1.9 mmt, accounting for 1.6% of total exports. These exports were

mainly supplies via the Caspian Pipeline Consortium (CPC) which runs from the Tengiz oil field in Western Kazakhstan to the port of Novorossiysk;

- Others, including supplies via the De-Kastri oil export terminal: 4.1 mmt.

And about 94 mmt of third-party oil was exported outside the CIS via the Company's trading entities.

### KEY ACHIEVEMENTS:

In 2018, eastbound oil supplies grew 24% to 59.2 mmt

The Company's oil supplies to China, including international trading, grew 27% and amounted to almost 50 mmt

Supplies to China under long-term contracts grew 33% to 40.0 mmt

Rosneft has been participating in the Caspian Pipeline Consortium (CPC) project since 1996 through the Rosneft Shell Caspian Ventures Ltd. joint venture (with a 7.5% stake in the project) owning 51% in the joint venture, while Shell has a 49% stake.





## Oil Supplies under Long-Term Contracts

As part of the Agreement between the Government of China and the Government of the Russian Federation on expanding the cooperation in trading of crude oil dated 22 March 2013, starting from 2018, the oil supplies to CNPC were increased by 10 mmtpa year-on-year.

In 2018, the Company continued supplies as part of an additional agreement signed between Rosneft and China National Petroleum Corporation (CNPC), 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 40 mmt in 2018, including 10 mmt via Kazakhstan.

As part of a long-term contract with the CEFC China Energy Company, over 10 mmt of oil were supplied in 2018.

## Expanding Cooperation with End Consumers of Oil and Petroleum Products

The Company continued its focus on end consumers during 2018, with exports amounting to over 73 mmt, up 12% year-on-year.

The Company renewed its contracts with Shell, Eni S.p.A., and TOTSA for oil supply via the Druzhba oil pipeline to Germany in 2018, which ensured the Company's stability amid unfavorable international market conditions.

As part of the contract with PTT Company (Thailand), the first delivery of Sokol oil was made in 2018.

The Company also continues to develop cooperation with end consumers as part of its supplies of petroleum products. During 2018, Rosneft supplied 0.8 mmt of stable natural gasoline to JX Nippon Oil & Energy Corporation.

For the first time, the Company made a deal to supply vacuum gas oil

on the domestic market of the Russian Federation for further processing at the TANECO refinery, with a total of 374 thousand tonnes of products delivered under this contract during 2018.

# +12%

oil exports to the  
end consumers in 2018



## Petroleum Products Marketing and Distribution

### Petroleum Product Sales to Non-FSU Countries

In 2018, the Company increased its petroleum product exports to 72.6 mmt, up 3.4% year-on-year.

As part of enhancing cooperation with the Republic of Cuba in pursuance of intergovernmental agreements, three diesel fuel supplies and three base oils supplies were made during 2018.

### Domestic Sales of Petroleum Products

Domestic sales of petroleum products totaled 40.5 mmt in 2018, up 3% year-on-year.

Rosneft is the largest motor fuel seller in Russia trading on the exchange.

In 2018, the Company traded extensively in petroleum products on this channel, with its share (including the Ufa group of refineries) in the total exchange trading volume amounting to:

- 47% for motor gasoline;
- 39% for diesel fuel;
- 43% 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 2018, 22.6% of total motor gasoline output, 8.3% of diesel fuel, 14.3% of kerosene, and 3.0% 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.

In 2018, as consistent with the requests received from counterparties, the Company fully and on time delivered motor fuel under the Northern Supply Haul program.

# +3.4%

petroleum products exports  
in 2018

# +3%

increase in domestic sales  
of petroleum products



## Sales of Petroleum Products to FSU Countries

Rosneft carries out regular wholesale deliveries of light and dark oil products to the market of Mongolia. Long-term contracts for motor gasoline and diesel fuel supply with the largest Mongolian importers of petroleum products were signed at the St. Petersburg International Economic Forum, enabling to maintain a stable position of the Company on the Mongolian petroleum products market and to strengthen the cooperation with its Mongolian partners. In 2018, the deliveries of light petroleum products for the first time exceeded 1 mmt.

In 2018, Rosneft continued its stable and uninterrupted tanker supplies of petroleum products to Armenia, supplying 175.4 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, RN-Kyrgyznefteprodukt, for resale via own retail network and wholesale channels. In 2018, supplies of petroleum products to the Republic totaled 110.1 thousand tonnes.

The Company continues to focus on expanding its international footprint and diversifying its supply routes. In 2018, the Company continued to supply petroleum products to the retail network in Georgia, totaling 143.5 thousand tonnes, as well as to European customers, including Demiroren Group (Turkey) and Mabanafit GmbH (Germany), totaling 1,779.1 thousand tonnes of diesel fuel.

> 1 mmt

petroleum products supplies to the market of Mongolia in 2018



### MEETING FEDERAL DEMAND

Meeting the petroleum products demand of federal clients is a priority business area of the Company under Rosneft's Policy. In 2018, Rosneft and its Subsidiaries fully fulfilled their obligations to supply petroleum products to federal clients. The client relations in this area will be continued in 2019.



## Gas Sales

Rosneft supplies natural gas, dry stripped gas, and associated petroleum gas to consumers in the Russian Federation and abroad.

Associated petroleum gas is supplied for processing both to the Company's own gas processing plants (GPPs) and to third-party gas processing enterprises - 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 consumers and regional sales companies in almost 40 regions. Primary destinations of natural gas foreign sales are Egypt and Vietnam.

In 2018, the domestic natural gas sales by Rosneft amounted to 59.13 bcm and revenues - to RUB 200.5 bln.

The Sverdlovsk Region remains Rosneft's leading region of gas sales, where the Company covered approximately 90% of gas demand, ensuring supply to both industrial and household consumers.

The gas foreign sales amounted to 2.9 bcm and were mainly covered by gas derived from the Zohr field.

In 2018, revenues from gas sales increased by 8.8% (to RUB 234 bln) mainly due to the increase in gas foreign sales and the prices indexation for gas intended for further sales to all groups of consumers by 3.4% in H2 2018.

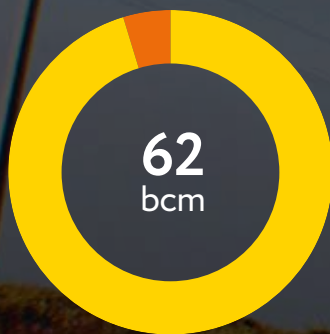
Rosneft maximizes gas monetization by developing a commodity transport flow optimization system used for calculating the operational gas balance.

During 2018, the Company continued its participation in natural gas trading at the St. Petersburg International Mercantile Exchange, launched in October 2014, selling 6.5% of its total exchange trading volume at 0.99 bcm of gas.

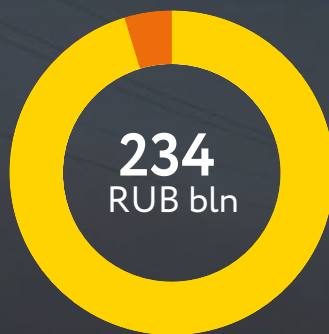
### LONG-TERM DEVELOPMENT STRATEGY

Rosneft is aimed at becoming a leading independent gas supplier on the domestic market of the Russian Federation.

Sales, bcm



Revenues, RUB bln



■ In Russia	59.13	■ In Russia	200.5
■ Abroad	2.9	■ Abroad	33.3

**0.99**  
bcm

gas sold by the Company at the St. Petersburg International Mercantile Exchange in 2018



## Retail Sales

As the largest retail network in the Russian Federation, Rosneft's retail business covered 66 regions of Russia in 2018.

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 2018, the Company's existing network of own and leased filling stations comprised 2,963 stations, including 66 filling stations in Abkhazia, Kyrgyzstan, and the Republic of Belarus, and housing 1,933 shops.

As at 31 December 2018, the Company had 138 oil depots with a combined capacity of 2.1 mmcm and approximately one thousand of gasoline tanker trucks in operation.

Petroleum product retail sales amounted to 13.8 mmt in 2018, constituting a 16% year-on-year increase with petroleum

product sales per filling station averaging 12.8 tonnes per day.

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

- the membership of the Family Team and BP-Club loyalty programs continued to grow; as of 31 December 2018, 10.3 million people in 58 regions of the Russian Federation were enlisted;
- a pilot project was implemented to launch a virtual card at Rosneft and BP filling stations (for the Family Team and BP Club loyalty programs);
- a virtual fuel card for B2B segment was launched into commercial service in the Moscow Region;
- the Company won the Product of the Year award for new Pulsar fuel nominated as the Most Popular New Product of the Year in Fuel category;
- the Company brought to the domestic market a new high-octane fuel Pulsar 100, AI-95 Euro-6 motor gasoline with improved environmental

and performance characteristics and a new line of fuel with ACTIVE technology;

- in the course of rebranding of the TNK filling stations, the exterior and shops of 230 stations were completely upgraded;
- the Company expands the offering of filling station cafés by creating self-service areas (coffee corners) and installing modules for making hot dogs. Currently, the network houses 1,138 full-format cafés, and coffee is offered at 2,352 filling stations/oil depots, and hot dogs at 1,275 filling stations/oil depots. The Company is continuing an Active Sales program, with sales targets of key product categories set for each oil depot;
- as part of expanding the range of cafés at the federal level, a hot drink line has been brought in;
- the first new-style small-size filling station under BP brand has been opened. This new-style filling station, being a rebranded TNK station, has

**13.8**  
mmt

retail sales of petroleum products in 2018

**12.8**  
t/day

average sales of petroleum products per filling station

been opened on the Federal Highway M-5 Moscow–Ryazan. This filling station features the concept of “Wild Bean Café - a single customer service area”. Two-thirds of the store’s space is taken by a café, which serves not only snacks for the road (key “to go” offering) but also full-scale breakfasts and lunches;

- the product offering has been optimized across the entire network; there is also a range of products under its own brand, which spurred the income growth in the following categories: water - by 7%, wet wipes - by 28, and granola bars - by 39%;
- to pursue fuel quality control, over 8 thousand inspections using own mobile laboratories have been conducted at filling stations and oil depots in 47 constituent entities of the Russian Federation;
- the control system for filling stations designed to prevent unauthorized

entry has been improved, which significantly reduced the risks of fraud, and increased the fuel filling accuracy and customer’s confidence in the absence of underfilling.

Small-scale wholesale distribution of petroleum products at regional oil depots totaled 6.6 mmt in 2018, up 14% year-on-year. The drivers behind the growth of sales are as follows:

- active customer attraction policies;
- raising the number of supplies to the government customers according to the results of tendering and being a single supplier;
- exchange sales development. In 2018, 23 Rosneft Group Subsidiaries from 34 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 23 regions of the Russian Federation.

In November 2018, the Company signed an Agreement on measures to stabilize and develop the domestic market for petroleum products; the obligations under the Agreement have been fully fulfilled.

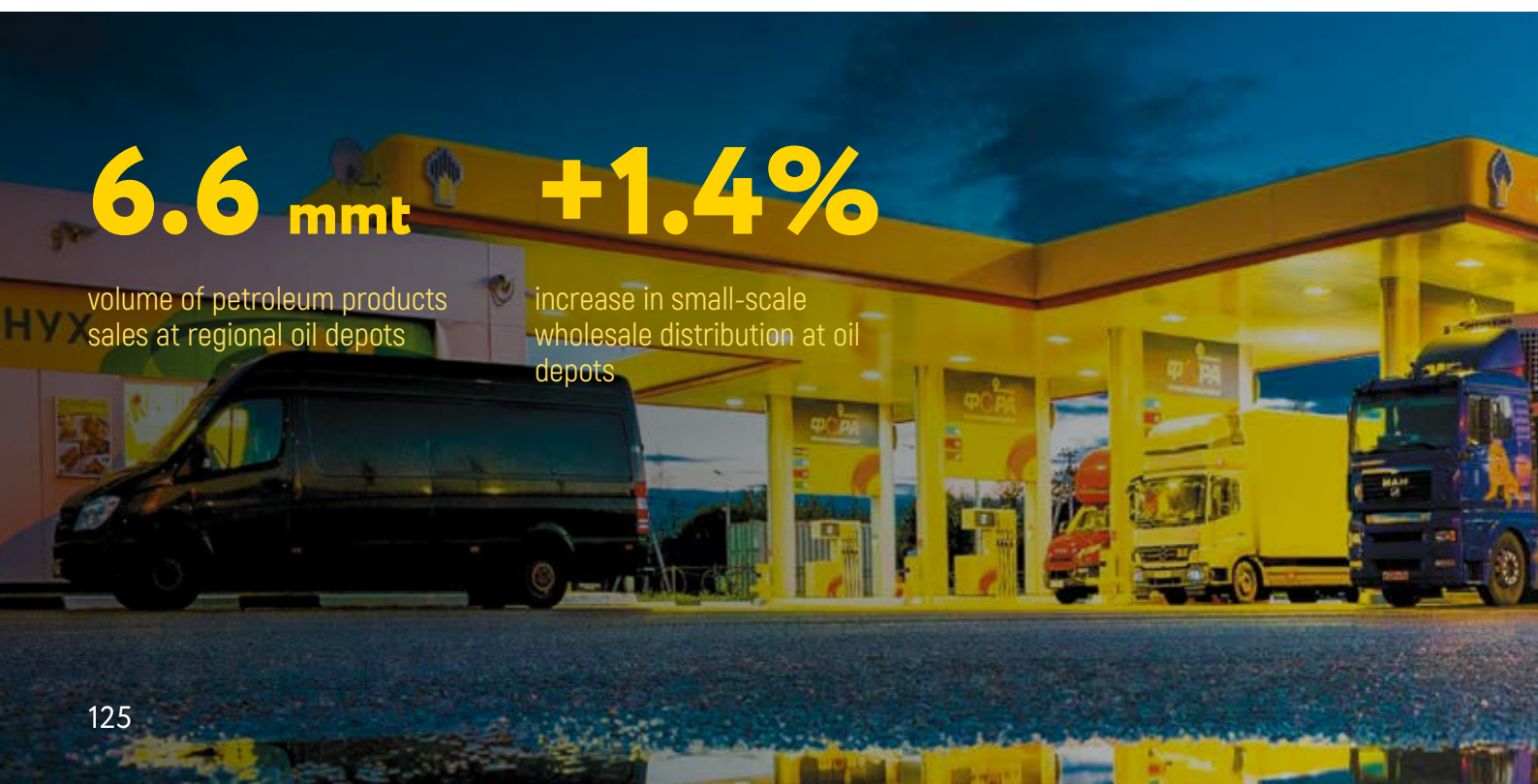
### Improvements in Retail Business Efficiency

The focus in 2018 was on the phased 100% automation of measurements of all product flows, as well as introduction of a system for preservation of petroleum products in the oil products supply company. In 2018, 24 oil depots were equipped with automatic filling systems for gasoline tanker trucks and 46 oil depots - with automated in-tank

**6.6 mmt**      **+1.4%**

volume of petroleum products sales at regional oil depots

increase in small-scale wholesale distribution at oil depots





measurement systems. The measurement and accounting automation at key oil depots is 95%, at regional depots - 29%, which covers over 70% of material flows.

The main priorities for ensuring sustainable demand and leading customer loyalty in the Company's retail and small wholesale network are:

- implementation of a risk-based fuel quality management system across the entire supply chain (from refinery to consumer);
- consistent efforts to counter unfair participants in the fuel market;
- introduction of an electronic system on gasoline tanker trucks for guaranteed delivery of petroleum products in terms of quantity and quality.

Fuel consumption for own operational needs was reduced by 3% year-on-year in volume terms.

Initiatives were continued to improve the Company's retail business efficiency, including optimizing operating costs of filling stations and oil depots, and administrative costs. In 2018, operating costs decreased by 3% year-on-year, on a comparable basis. Despite the increase in sales by 16%, which leads to an increase in the variable costs of storage and transportation, there are still cost savings. Within efforts to improve the efficiency of its oil depot facilities in 2018, the Company closed five 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 scheduled upgrading its tanker fleets, with direct supply volumes in 2018 increasing by 20% year-on-year.

# 2,963

Rosneft's filling stations in operation, including 66 filling stations in the Republic of Belarus, Abkhazia, and Kyrgyzstan.

The largest retail network in the Russian Federation:

# 66 regions



## Aircraft Refueling Business

The sales of jet fuel in 2018 increased by 6% year-on-year and amounted to 3.5 mmt, also due to the growth in passenger traffic in the Russian Federation.

Break-down of Consumers in 2018:

- 2.3 mmt – airlines and refueling complexes (+11% year-on-year);

- 1.2 mmt – bulk sales, including exchange trading (0.5 mmt).

Domestically, jet fuel is sold through a network of refueling facilities controlled by Rosneft in 18 airports, and third-party refueling facilities in 19 airports. The Company also sells jet fuel

at six airports in Germany, Georgia, and Mongolia.

The Company's main customers are Aeroflot, S7, Ural Airlines, Pegas Group, Volga-Dnepr Group, Utair Group, Yamal, NordStar, Turkish Airlines, and Lufthansa.

## Bunkering Business

Rosneft's bunkering business covers all major Russian sea and river ports and a number of foreign destinations. Bunker fuel sales in 2018 increased by 10.7% year-on-year to 3.1 mmt, driven by the successful cooperation in the Far Eastern ports with major foreign consumers - operators of transcontinental container lines.

Breakdown of sales in 2018: – 2.5 mmt (80%) to foreign shipowners, – 0.6 mmt (20%) domestically.

In 2018, a number of initiatives were implemented to maintain and expand the Company's presence in the bunkering market, including:

- bunkering volumes in the Kaliningrad port increased from 18 to 46 thousand tonnes, and in the Caucasus port - from 53 to 76 thousand tonnes;
- the Komsomolsk Refinery launched the production of DMF III marine distillate fuel with new quality characteristics. During the year, the sales totaled 31 thousand tonnes;

- long-term contracts were concluded with the key domestic consumers, i.e. FSUE Rosmorport, LLC Russian Fishery, and FSBI Marine Rescue Service.

In anticipation of entry from 1 January 2020 restrictions MARPOL (International Convention pollution prevention environment) by content sulfur in marine fuel by the Company working on options for setting for the production of low-sulfur species fuels to ensure supplies like on the inner and outer bunker markets.

Breakdown of sales by the bunkering business in 2018:

**3.5**  
mmt

jet fuel sales in 2018

**2.5**  
mmt (80%)

to the foreign shipowners

**0.6**  
mmt (20%)

domestically



## Bitumen Products Sales

The sales of bitumen materials in 2018 amounted to 2.6 mmt. Furthermore, in 2018 the Company increased the bitumen production and sales according to new GOST. Sales for 2018 amounted to 0.6 mmt, which is significantly higher year-on-year (0.03 mmt).

Domestic sales accounted for 95% of the Company's total sales of bitumen products during the reporting period.

## Lubricants Sales

The Company's total sales of oils in 2018 amounted to 1,006 thousand tonnes, including 652 thousand tonnes sold in the domestic market (65% of total volume).

In the reporting period, premium lubricant sales amounted to 84 thousand tonnes, up 21% year-on-year.

Rosneft is developing the production and sales of an innovative polymer-modified bitumen (PMB), which substantially improves road surface quality. In 2018, PMB sales rose 84% year-on-year to 76 thousand tonnes.

In 2018, the volume of lubricants shipments to end consumers on direct contracts increased by 32 thousand tonnes (+ 25%) year-on-year.

# 2.6

## mmt

sales of bitumen products in 2018

# > 1

## mmt

sales of lubricants in 2018



## Production Planning and Logistics

### Main Results in 2018

- 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;
- agreements signed with Russian Railways to provide discounted railway transportation for supplies from the Komsomolsk Refinery, the Saratov Refinery, Samara Group Refineries, and ROSPAN;
- a new transshipment direction created for the whole range of the Company's petroleum products and LPG in the Taman port;
- a pilot project implemented to synchronize daily production and shipment targets with a subsequent daily factor analysis of the variance at the branch of RN-Trans in Angarsk and at the Angarsk Petrochemical Company, which reduces the non-production idle hours of empty rail cars.

### LLC RN-MORSKOY TERMINAL TUAPSE, PETROLEUM PRODUCTS TRANSSHIPMENT TERMINAL

Supply sources:

- Tuapse Refinery;
- Saratov Refinery;
- Samara Group Refineries.

The terminal is implementing a production asset renovation program aimed at bringing them in line with new requirements of industrial, environmental, and fire safety, as well as a program to develop production facilities to cover the prospective cargo turnover of the Tuapse Refinery.

The following facilities have been commissioned:

- Refitting of vertical steel tanks No. 15, 16 for 10 thousand cub. m (according to GP) for motor gasoline and jet fuel (installation of floating roofs);
- Tank farm. Modernization (retrofit) of the TRL/2 system (stage II).

The following projects have been continued:

- designing the facilities for Modernization

of the Gas-Catching System

and Gas-Equalizing - the 2nd phase;

- Equipping of racks No. 1, 2, and 3 with scales;
- Renovation (extension) of the South-Eastern (Pervomaysky) Wave-Breaking Jetty, Stationary Fall Protection Systems;
- Ongoing amendments to design documentation of the Left Bank Treatment facilities (III, IV Start-Up Facilities).

**15.7 mmt**

transshipments of own petroleum products

**0.4 mmt**

transshipments of third-party products

**1.2 mmt of oil**

transshipment via the Tuapse terminal for the Tuapse refinery needs



### Key Strategic Priorities:

- optimization of production programs at refineries and petroleum product sales to the most profitable destinations;
- reduction of logistics costs involved with product transportation by diversifying modes of transport and optimizing costs of the Company's own logistics assets;
- meeting of commitments for the rail shipment of petroleum products from the Saratov Refinery, the Samara

Group Refineries, the Komsomolsk Refinery, and ROSPAN in order to extend the discounting conditions provided to the Company by Russian Railways in 2019;

- pilot operation of the petroleum products real-time accounting system at the Company's offshore terminals, which will enable to carry out automatic accounting validity control procedures and procedures for monitoring the imbalances arising during acceptance, shipment, storage,

- inventory, and intra-warehouse movements of petroleum products;
- elaboration of initiatives to increase processing margins, synchronization of daily production and shipment targets, followed by a variation analysis;
- development and organization of new efficient logistics schemes;
- structuring and development of the Company's shipping activities in view of the preparation for a substantial increase in the number of vessels navigated.

#### LLC RN-MORSKOY TERMINAL NAKHODKA, PETROLEUM PRODUCTS TRANSSHIPMENT TERMINAL

Supply sources:

- Komsomolsk Refinery;
- Angarsk Petrochemical Company;
- Achinsk Refinery;
- Third Party Suppliers.

The terminal is implementing a production asset renovation program aimed at bringing the assets in line with new requirements of industrial, environmental, and fire safety. In 2018, the Company was continuing a program to renovate the tank farm, oil pier, process pipelines, and utility networks at the terminal in order to bring them up to the requirements of existing legislation.

**5.3 mmt**

transshipments of own petroleum products<sup>1</sup>

**0.3 mmt**

transshipments of third-party products

<sup>1</sup> With bunkering on the export and domestic markets.

#### LLC RN-ARKHANGELSKNEFTEPRODUKT, PETROLEUM PRODUCTS TRANSSHIPMENT TERMINAL

Supply sources:

- Samara Group Refineries;
- Angarsk Petrochemical Company;
- Third Party Suppliers.

In addition, the terminal is used to deliver fuel to the Far North and to supply wholesale customers in the Arkhangelsk Region. In 2018, the design of the Arkhangelsk Terminal renovation project was completed.

**0.86 mmt**

transshipments of own petroleum products via the terminal

**0.26 mmt**

transshipments of third-party products









# 03

## Market Overview and Competitive Environment

### Leadership in Efficient Production

The Company has a strong lead in oil production unit costs among competitors and sets the retention of this leadership as its goal

## 3.1

# Macroeconomic Situation in 2018

## GDP Variation

According to January 2019 estimates from the International Monetary Fund (IMF), global economic growth in 2018 (PPP<sup>1</sup> GDP in constant 2011 prices) dropped to 3.7% (3.8% in 2017). GDP growth rates in developed countries decreased from 2.4% in 2017 to 2.3% in 2018, and in developing countries – from 4.7% to 4.6%.

Among the developed countries, the US economy posted significant growth in 2018 – up to 2.9% (2.2% year-on-year), primarily as a result of stimulating fiscal policy,<sup>2</sup> which had a positive impact on household consumption. In 2019, according to the IMF projections, this country is expected to face a progressive slowdown in economic growth rates of up to 2.5, as the effect of fiscal incentives is exhausted.

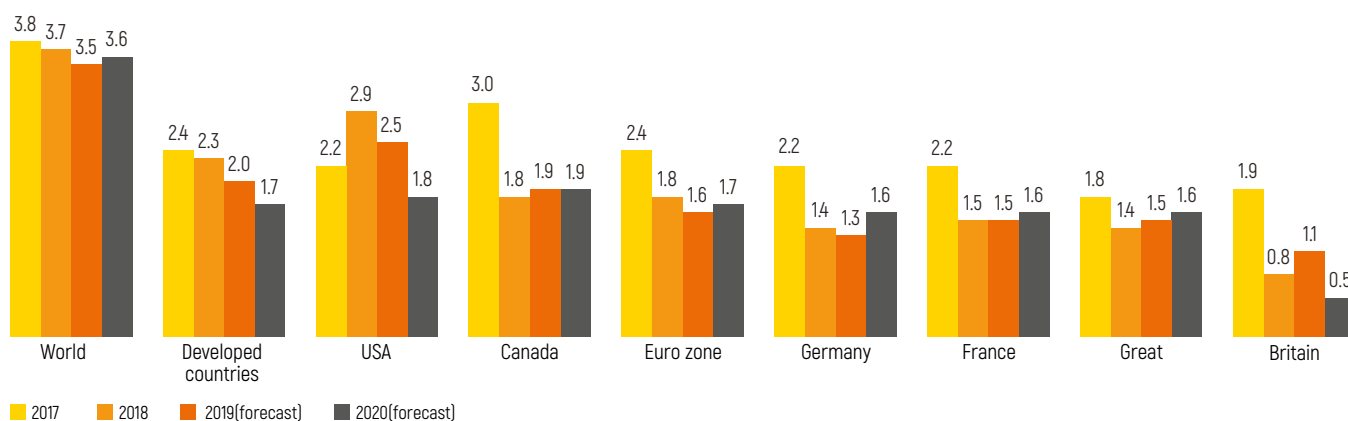
The GDP growth rate of the Eurozone in 2018 decreased from 2.4% in 2017 to 1.8, which is associated with a deceleration in the growth of private consumption and foreign demand for European goods driven by increased protectionism in global trade. The Eurozone economic slowdown was also entailed by the re-adjustment of automotive production to new environmental standards, which adversely affected commercial production.

The export-oriented economies were significantly affected by changes in trade agreements and the introduction of new export/import duties in 2018. In particular, GDP growth in Germany<sup>3</sup> in 2018 decreased from 2.2% in 2017 to 1.4%.

As a result of the stagnant private consumption and demand for exported goods and services in 2018, Japan's GDP growth slowed down (from 1.9% in 2017 to 0.8% in 2018), as well as Canada's (from 3.0% to 1.8%), France's (from 2.2% to 1.5%),<sup>4</sup> and Great Britain's GDP (from 1.8% to 1.4%).

As reported by OECD, China's GDP growth in 2018 slowed down from 6.8% in 2017 to 6.6% (the lowest value since 1990) due to a slower growth rate of goods and services exports and investments in fixed assets. In light of this, the Chinese authorities are taking fiscal and monetary accommodation measures.

### GDP Growth in Developed Countries



Sources: IMF, OECD, Eurostat

<sup>1</sup> Purchasing power parity.

<sup>2</sup> In 2018, the lower cut-off rate for individuals in the USA fell from 15% to 10%, and the upper rate – from 39.6% to 37%. From 2018 on, the maximum rate of 37.0% applies to income in excess of USD 500,000 (USD 600,000 for joint fillers).

<sup>3</sup> According to Eurostat.

<sup>4</sup> According to OECD.



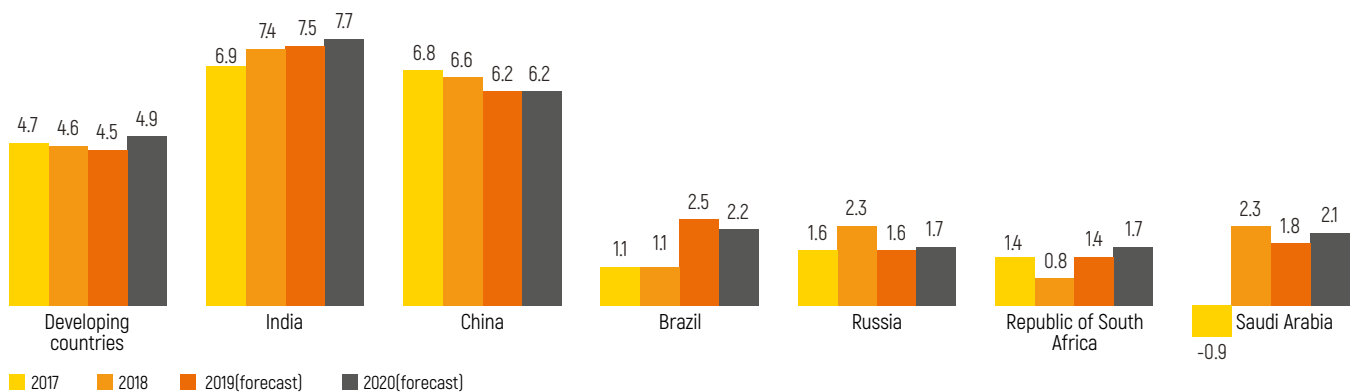
India enjoyed the significantly accelerated economic growth: in 2018 its GDP increased by 7.4% (against 6.9% in 2017).

In 2018, GDP of the Middle Eastern and Northern African countries rose by 2.4% (against 2.2% in 2017), including 2.3% increase in Saudi Arabia after 0.9% decrease in 2017.

The economic growth rates of the CIS countries (excluding Russia) increased by 0.3 p.p. to 3.9%. GDP growth in Latin America and the Caribbean slowed to 1.1% year-on-year (in 2017 – 1.3% year-on-year) and in European developing countries – to 3.8% year-on-year (in 2017 – 6.0% year-on-year).

The IMF lowered its January 2019 forecast for the global economic growth in 2019 to 3.5% (October 2018 forecast – 3.7%). The GDP growth rates of developed countries in 2019 will decrease to 2.0%, and the same in developing countries – to 4.5%. In 2020, global GDP growth rates will heighten to 3.6%.

**GDP Growth in Developing Countries**



Sources: IMF, OECD, Rosstat

## Global Trade

2018 was marked with a slowdown in the international trade growth on the back of trade confrontations and the deterioration of external financing for emerging market countries. According to IMF estimates, the growth in international trade in goods and services decelerated from 5.3% in 2017 to 4.0 in 2018, whereas the growth rate of trade in goods and services in developed countries declined from 4.3%

in 2017 to 3.2% in 2018, and in developing countries – from 7.1% to 5.4%.

As projected by IMF, the growth rate of global trade in 2019 and 2020 will be 4.0% year-on-year. The main drivers behind the slowdown in global trade, as set out in the IMF report, are a further escalation in protectionism and an increase in base interest rates by leading central banks (USA, Europe, and Japan).

## Russian Economy

In 2018, the Russian economy enjoyed accelerated growth: its GDP, according to Rosstat (first estimate), increased by 2.3% (in 2017 – by 1.6%). Rallying domestic investment and consumer activities supported manufacturing industry, wholesale and retail trade, and construction, which made the most significant contribution to GDP growth in 2018. The cumulative contribution of these activities to GDP growth was about 0.7 p.p.

In 2018, the gross value added (GVA) across the intermediary services sectors (real estate, financial, and insurance services), transportation and storage, as well as information and communication services continued to grow. The cumulative contribution of these activities to GDP growth was about 0.5 p.p.

A significant positive contribution to GDP growth in 2018, as a year earlier, was made by the mining of minerals – about 0.4 p.p.

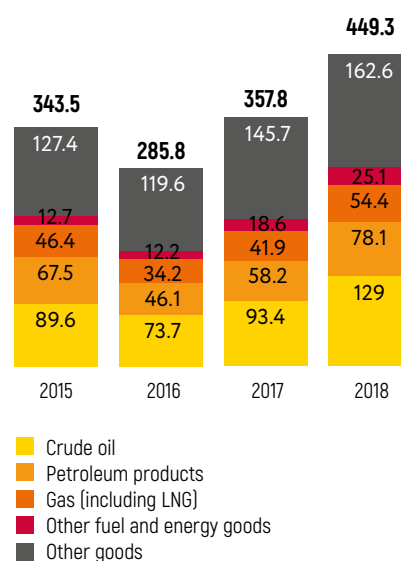
Exports of Russian goods<sup>1</sup> in 2018, according to the Federal Customs Service of the Russian Federation (FCS of Russia), amounted to RUB 449.3 bln. Against 2017, exports of goods grew by RUB 91.5 bln, or 25.6%.

The major contributors to the increased exports of goods (in value terms) were fuel and energy products, which, according to the Federal Customs Service of Russia, accounted for 81.6% of the total growth, mainly due to the surge in world prices for oil and natural gas. Other minor contributors were metals and metal products (7.4%), and food and agricultural raw materials (4.6%).

Crude oil exports (in value terms) jumped up by 38.2% to USD 129.0 bln, petroleum products – by 34.1% to USD 78.1 bln, and gas (including LNG) – by 30.0% to USD 54.4 bln. The share of hydrocarbons and petroleum products in the total volume of exported goods in 2018 was 58.2%, up 4.1 p.p. year-on-year.

With the economy growing, the employment volume at the end of 2018 (compared to the same period of the previous year), according to Rosstat, increased by 0.2 million people, or by 0.2% year-on-year, to 72.6 million people. Unemployment to economically active population ratio at the end of 2018 was 4.8% (5.1% year-on-year).

Russian Exports, USD bln



Source: Federal Customs Service of Russia

<sup>1</sup> According to the customs statistics.

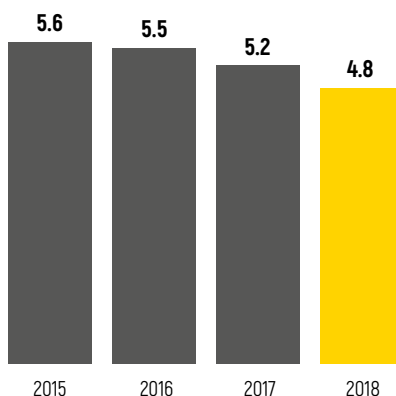


In 2018, the decline in real disposable cash income was 0.2% year-on-year, despite the large increase in real earnings (+ 6.8% year-on-year). One of the factors exerting downward pressure on the real disposable money incomes of the population was a large-scale expansion of consumer and mortgage lending with a fairly high debt servicing cost.

As projected by the Bank of Russia (as of February 2019), Russia's GDP growth rates in 2019 will slightly decrease and stand at 1.2–1.7% year-on-year. In 2019, the flow of domestic demand will be held down by increased VAT, a slowdown in the rise of the economy's revenues from the export of goods due to lower oil prices, and a slight slowdown in lending growth.

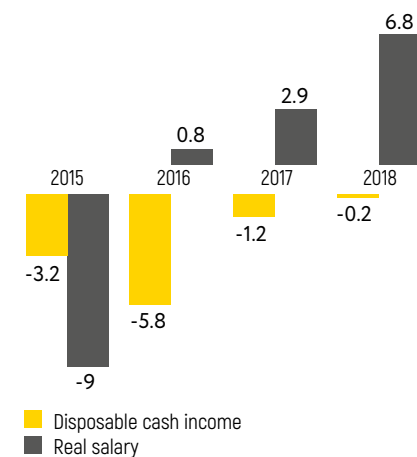
In 2020–2021, the growth of the Russian economy will accelerate to 1.8–2.3% and 2.0–3.0%, respectively. This growth

#### Unemployment rate in Russia (EOY), % of economically active population



will be promoted by the gradual buildup of positive effects from the planned fiscal policy and restructuring measures, given their successful implementation.

#### Changes in real disposable incomes of the population and earnings in Russia, % year-on-year



Source: Rosstat

## Energy Prices. Exchange Rate and Inflation in Russia

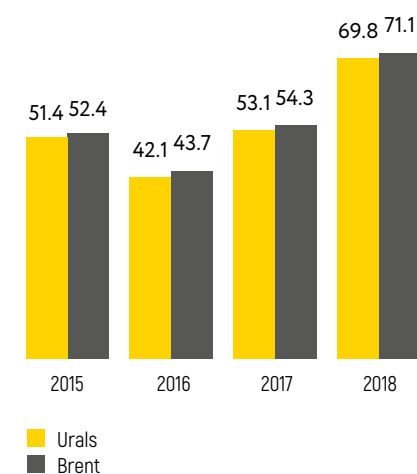
The upward trend in oil prices persisted from January to early October 2018 until the undersupply of the oil market changed to surplus. On 4 October in 2018, the Brent oil price maxed out at USD 86.16 per barrel, and then, in December, it began to decline to the level of USD 50 per barrel. The average annual price of Brent oil in 2018 was USD 71.1 per barrel, up 31.0% year-on-year (USD 54.3 per barrel). The average annual price of Urals oil in 2018 was USD 69.8 per barrel. (53.1 USD year-on-year).

In 2018, on the back of new US sanctions against Russia in April and August, which triggered off a capital outflow from the Russian Federation, as well as amid continued high geopolitical tensions and reduced demand for financial assets of developing countries, the Russian national currency was reported to be weakening. However,

relatively high oil prices were holding back the depreciation of the nominal ruble exchange rate. In 2018, the average annual nominal RUB/USD rate, according to the Bank for International Settlements, decreased by 7.1%, the average annual RUB/USD exchange rate was RUB 62.81 per one U.S. dollar.

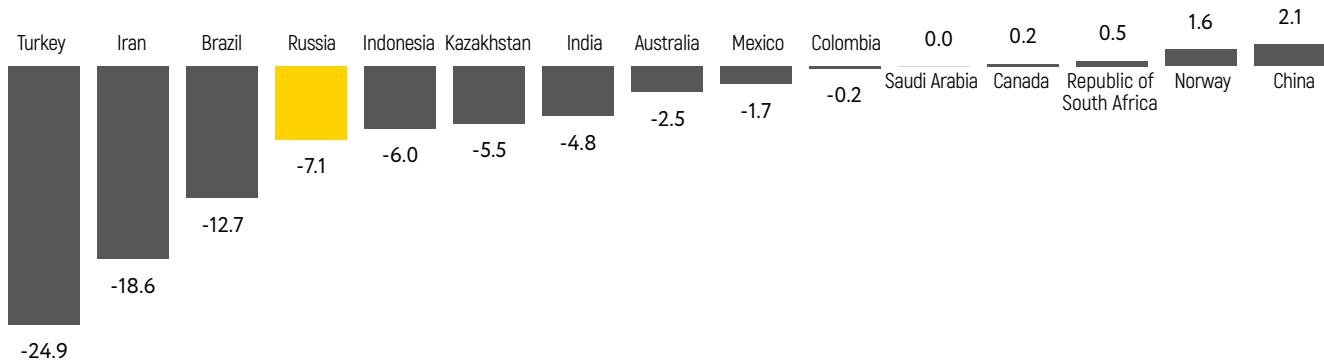
At the end of December 2018, as a result of the fall in oil prices and the deteriorating economic situation in developing countries with a downturn in demand for risky assets driven by the tightening of the monetary policy of the US Federal Reserve (the base rate in 2018 was raised from 1.25–1.50% to 2.25–2.5% at the end of December 2018), the nominal RUB/USD rate, according to the Bank for International Settlements, decreased by 16.9% year-on-year, the RUB/USD exchange rate was RUB 69.62 per a U.S. dollar as at 31 December 2018.

#### Urals and Brent Average Annual Price, USD per barrel

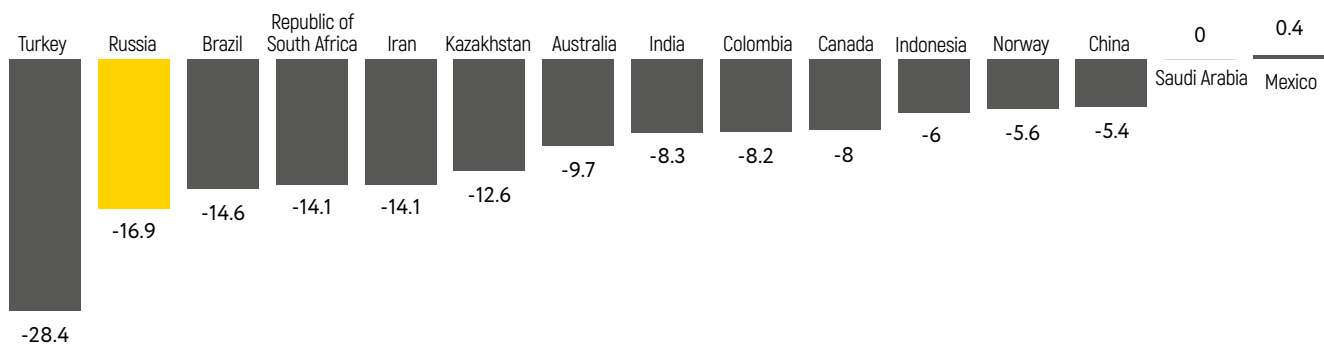


Source: Platts

Variance of average annual nominal exchange rates of the largest developing and oil-producing countries to USD in 2018, % YOY



Variance of nominal exchange rates of the largest developing and oil-producing countries to USD as of the end of December 2018, % YOY



In 2018, inflation was at 4.3%<sup>2</sup> (against 2.5% in 2017), which is above the inflation target for 2018 (4.0%) set in the Main Monetary Policy Guidelines of the Central Bank of the Russian Federation (Bank of Russia) for 2018–2020. In 2018, the annual average consumer price index was 2.9% (against 3.7% in 2017).

The main driver behind the accelerating inflation in 2018 was the weakening of the ruble, given the significant share of imported goods in household consumption (about 36%). An additional source of increased inflationary pressure in the Russian Federation in 2018, according to Bank of Russia estimates, was a rise in world energy prices, which affected the acceleration of producer price growth in oil production and refining, thereby leading to higher domestic consumer prices for motor fuel.

<sup>1</sup> Strengthening of the national currency – "+", weakening of the national currency – "-". Source: Bank for International Settlements  
<sup>2</sup> December-on-December



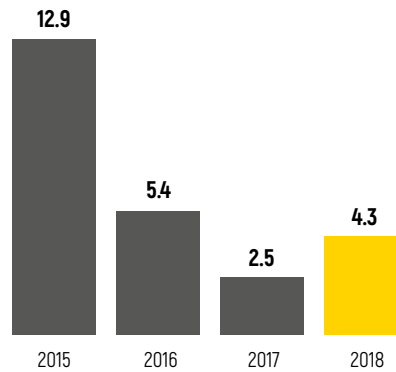
According to the Bank of Russia's projections (as of February 2019), annual inflation in 2019 will rise to 5.0–5.5%. According to the Bank of Russia estimates, the main contributor to the changes in consumer prices in 2019 will be the increased VAT rate, + about 1 p.p. to annual inflation.

The Bank of Russia considers the persisting uncertainty of the external conditions of the Russian economy, associated with geopolitical factors, sanctions, and capital outflows from developing countries, as the main risks of accelerating inflation in 2019.

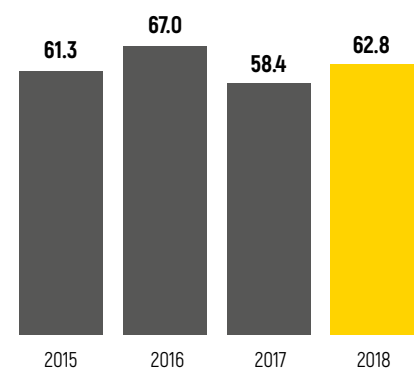
According to the Bank of Russia, annual inflation will return to 4% in H1 2020 once the effects of the weakening ruble and the increased VAT will be exhausted.

Industrial products producer prices in the domestic market in 2018 surged by 11.7% year-on-year (against 8.4% in 2017). The average annual index of producer prices in the domestic market in 2018 was 11.9% (against 7.6% in 2017). According to the forecast of the Ministry of Economic Development, the producer prices

#### Inflation in Russia, % (December-on-December)



#### Average nominal exchange rate, RUB / USD



Sources: Bank of Russia, Bank for International Settlements

in the domestic market in 2019 will rise by 2.6% (December-on-December).

In 2018, oil companies' transportation costs in Russia grew following an increase in tariffs. Since 1 January 2018, the indexation of Transneft's tariff rates for oil transportation via trunk pipelines was 3.95%.

In January 2018, railway transportation tariffs were increased by 54%. In 2018,

Russian Railways made a number of resolutions on the application of degression factors to the current tariffs for the transportation of goods by Rosneft in certain directions.



## 3.2

# Global Oil and Gas Market

## Global Oil Market

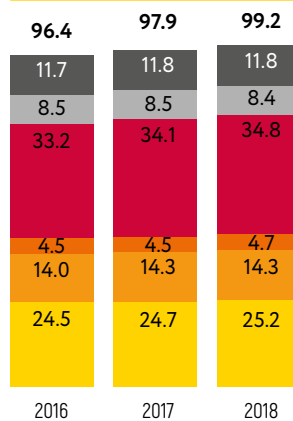
The slowdown in global GDP growth in 2018 had an impact on global demand for liquid hydrocarbons (LH)<sup>1</sup>. According to the International Energy Agency (IEA), growth in global demand for liquid hydrocarbons in 2018 slowed to 1.3% (against 1.6% in 2017). World demand amounted to 99.2 mmb per day. The bulk of the increase in LH demand in 2018 was provided by Asian (56% of world growth) and North American countries (36%), which accounted for 35% and 25% of world demand for liquid hydrocarbons, respectively.

According to IEA, global LH output<sup>5</sup> in 2018 grew by 2.7 mmb per day to 100.1 mmb per day. LH production growth accelerated from 0.5% year-on-year in 2017 to 2.8% year-on-year in 2018.

The United States became the leader in LH production growth in 2018, providing 82% of the world output increase. Daily output of liquid hydrocarbons in the United States in 2018 grew by 16.7% year-on-year to 15.5 mmb, including crude oil daily production – by 17.1% to 11.0 mmb. The actual growth rates of crude oil production in the USA in 2018 were above the IEA projections of January 2018 (+11.8% year-on-year).

Another country enjoying significant increase in LH production in 2018 was Canada – by 8.1% year-on-year to 5.2 mmb per day, while Mexico exhibited the fall in this figure by 7.0% year-on-

Demand for Liquid Hydrocarbons, mmb per day



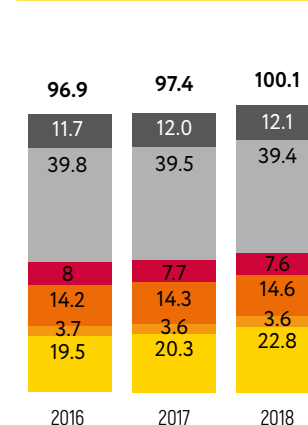
■ North America  
■ OECD Europe  
■ FSU countries<sup>2</sup>  
■ Asia  
■ Middle East  
■ Others

Source: IEA

year to 2.1 mmb per day. The country participates in OPEC + agreement to cut oil production, and in 2018 it significantly overfulfilled the obligations under the agreement due to a natural decline in production at the major fields.

In 2018, the production of liquid hydrocarbons in Asian countries continued on the downward track, but at a slower rate of 1.8% year-on-year (3.3% year-on-year); by the end of the year, the daily output of liquid hydrocarbons in the region amounted to 7.6 mmb. The LH production in China in 2018 decreased by 0.8%

Production of Liquid Hydrocarbons, mmb per day



■ North America  
■ Europe  
■ FSU countries<sup>2</sup>  
■ Asia  
■ OPEC<sup>3</sup>  
■ Others<sup>4</sup>

year-on-year (by 2.8% year-on-year) and amounted to 3.8 mmb per day.

The total daily output of liquid hydrocarbons in OPEC-countries<sup>3</sup> in 2018 decreased by 0.2% year-on-year to 39.4 mmb, including crude oil daily output – by 0.4% year-on-year to 32.5 mmb. Production trends varied across OPEC-countries. The largest decline in production in 2018 was in Venezuela and Iran. With further year-on-year decline in the daily production of liquid hydrocarbons in Venezuela in 2018 by 28% to 1.5 mmb (- 43% against the 2014 level), including crude oil – by 29% 1.4 mmb,

<sup>1</sup> Hereinafter, 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, and etc.).

<sup>2</sup> Excluding Estonia and Latvia.

<sup>3</sup> 15 OPEC-countries as of 31 December 2018.

<sup>4</sup> Includes production in other countries, global production of biofuels and the cubical expansion of hydrocarbons during processing.

<sup>5</sup> Hereinafter, LH output indicates the production of crude oil, gas condensate, gas condensate liquids, and production of hydrocarbon components from unconventional sources (biofuel, GTL, CTL, and etc.). Global production of liquid hydrocarbons includes the cubical expansion of hydrocarbons during processing.



the economic crisis in the country got more intensified.

Iran showed a 3.6% year-on-year decrease in LH production to 4.6 mmb per day, including crude oil – by 6.1% to 3.6 mmb per day. The falling production is attributable to the USA withdrawal in May 2018 from the Joint Comprehensive Plan of Actions (JCPOA) to resolve the Iran's nuclear program issue and the resumption of US sanctions against Iran in August and November 2018.

As a result, in mid-2018 there was a significant over-fulfillment of commitments by countries to cut oil production amid an existing undersupply and expected shrinkage in Iranian oil exports due to sanctions. In June 2018, the regular meeting of OPEC + representatives resolved to strive for a 100% fulfillment of obligations to curtail the output. To this end, crude oil daily output by OPEC + countries was projected to rise by a total of 1 mmb. Thus, the production of liquid hydrocarbons

in Saudi Arabia in 2018 increased by 3.1% year-on-year to 12.4 mmb per day, including crude oil production – by 3.7% year-on-year to 10.3 mmb per day.

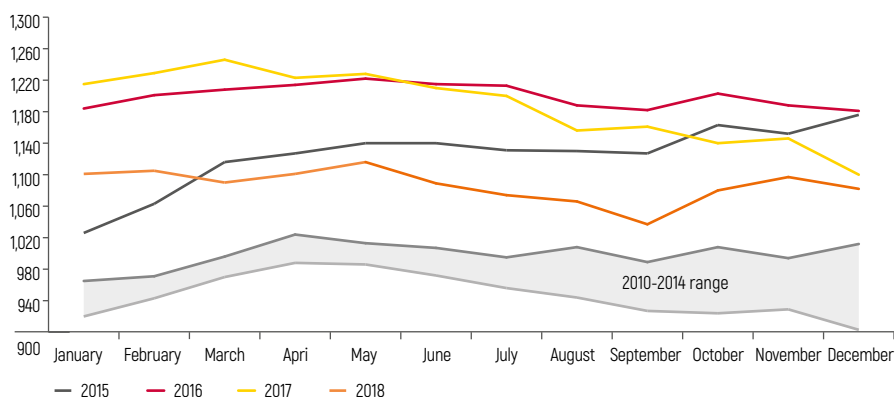
At the same time, in light of the high growth rates of oil production in the USA (mainly due to shale oil production), in September 2018 the production deficit on the oil market gave way to production surplus. As the sanctions imposed by the USA against Iran turned out to be not as harsh as expected – the USA granted temporary (180 days) easing of its sanctions regime for 8 countries (China (including Taiwan), Greece, India, Italy, Japan, South Korea, Taiwan, and Turkey) in terms of acquiring oil from Iran – the global oil market got more imbalanced. Due to the growing oversupply and falling oil prices in December 2018, OPEC + representatives decided to curb daily oil production from January to June 2019 by a total<sup>7</sup> of 1.2 mmb against the level of October 2018<sup>8</sup>.

At the end of 2018, an oversupply of 0.9 mmb per day was recorded in the oil market according to IEA. Commercial crude inventories of OECD countries<sup>9</sup> in December 2018 amounted to about 1.08 mmb, down 1.7% year-on-year.

As projected by IEA<sup>10</sup>, the global demand for liquid hydrocarbons in 2019 will increase by 1.4% year-on-year to 100.6 mmb per day.

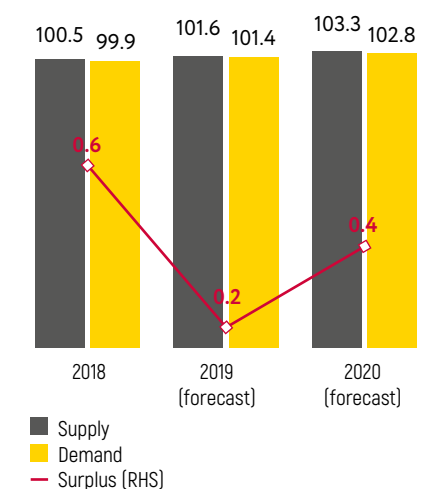
The US Energy Information Administration (EIA) forecasts that in 2019–2020 there will still be a small surplus of production of liquid hydrocarbons in the global market. According to EIA estimates, global demand for liquid hydrocarbons<sup>11</sup> in 2019 will rise by 1.5% year-on-year to 101.4 mmb per day, global production of liquid hydrocarbons – by 1.1% year-on-year to 101.6 mmb per day.

### Commercial Crude Inventories in OECD Countries, mmb



Source: IEA

### EIA's Forecast of Global LH Demand and Output, mmb per day



Source: Forecast by US Energy Information Administration as of February 2019

<sup>7</sup> From 1 January 2019, Qatar has withdrawn from OPEC. Qatar does not participate in the agreement.

<sup>8</sup> For all countries, except Azerbaijan (September 2018), Kuwait (September 2018), and Kazakhstan (November 2018).

<sup>9</sup> Official national estimates of crude inventories, IEA data. The discrepancies in crude stock estimates for 2010–2017 as compared to the previous annual report of the Company are due to IEA's updates and revisions made during the year.

<sup>10</sup> Forecast of March 2019.

<sup>11</sup> Forecasts of global LH demand and supply for 2019–2020 were based on EIA data, since IEA's Oil Market Report contains global demand outlooks for 2019 only. The discrepancy between EIA's LH demand and supply data for 2018 and IEA's data are due to different calculation methodologies.

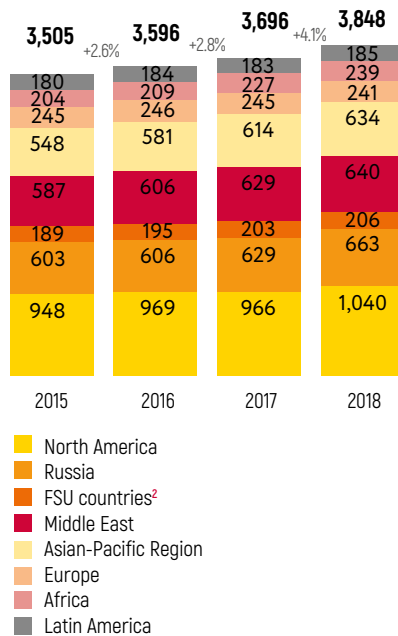
## Global Oil Market

The global demand for gas grew by 4.2% to 3.85 tcm<sup>1</sup> in 2018. The global demand growth is supported by the policy of stricter environmental standards in many countries, including those related to CO2 emission monitoring, as well as the development of the gas infrastructure and transportation technologies, specifically in form of liquefied natural gas (LNG). The increasing popularity of gas as a motor fuel is an important trend facilitating the gas demand increase.

In 2018, the gas consumption went up in all regions, except for Latin America, where the gas demand reduced by 0.6% year-on-year and achieved 175.6 bcm (4.6% of the global gas consumption). North America became the leader in the gas demand growth (+62 bcm or +6.5% year-on-year to 1.0 tcm, 26.5% of the global gas consumption) mainly on account of the USA due to higher gas demand in electric-power industry, housing and utilities. Asia-Pacific provided the second largest total growth of the gas consumption (+48.1 bcm year-on-year or +6.1% year-on-year) that reached 830.6 bcm (21.6% of the global consumption).

The demand growth was accompanied by an increase in global gas output<sup>1</sup> to 3.85 tcm, with 27% of the global output attributable to North America, approximately 23% to Russia and CIS,

Gas Production by Regions, bcm

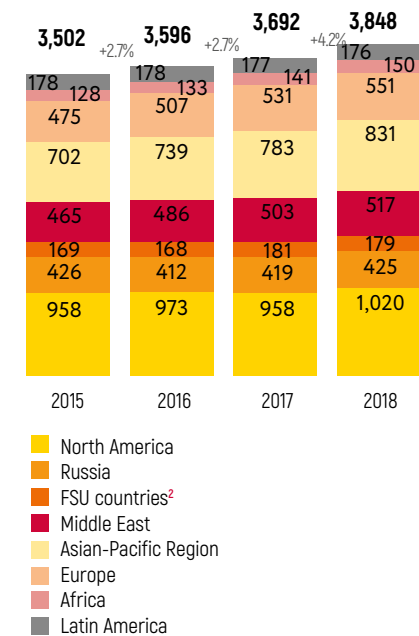


Source: IHS

17% to Asia-Pacific, and 17% to the Middle East. Natural gas production in Europe decreased to 240.5 bcm (-1.9% year-on-year).

The annual export rate is approximately 31% of the natural gas produced all around the world. According to the Company's assessment<sup>3</sup>, about 1.2 tcm of gas were exported in 2018. Approximately 65% of global gas exports are transported by pipelines, and 35% as LNG. Russia,

Gas Consumption by Regions, bcm



Source: IHS

the largest gas exporter in the world, provided about 21% of global gas supplies to the international market in 2018 (247.5 tcm, +8.3% year-on-year).

A slowdown in the growth rate of the global gas demand<sup>4</sup> is expected in 2019 and 2020 to 2.4% year-on-year and 1.8% year-on-year, respectively. Gas consumption will reach 3.9 tcm in 2019 and 4.0 tcm in 2020.

<sup>1</sup> IHS Markit preliminary estimates.

<sup>2</sup> Excluding Estonia, Latvia and Lithuania.

<sup>3</sup> Based on IHS Markit, IEA data.

<sup>4</sup> IHS Markit estimates.

## LNG Market

In 2018, global LNG exports grew by 9.5% year-on-year to reach 319.7 mmt (or 441.0 bcm)<sup>5</sup>. The LNG share in the global natural gas consumption in 2018 was 11.4% (11.3% in 2017)<sup>6</sup>.

Thereat, the expected LNG surplus production and fall of prices did not occur in 2018. The prices remained high for most of the year.

The LNG demand exceeded the forecasted value mainly due to China that suddenly increased the imports in 2018 (to 55 mmt, +40.6% year-on-year). South Korea did not manage to become the second among the largest importers irrespective of a noticeable growth in demand (up to 45 mmt, +17% year-on-year). LNG demand in Japan, a major global LNG importer, went down by 1.1% year-on-year to 82.9 mmt.

The demand in India jumped to 23.2 mmt (+20.4% year-on-year), in the European countries to 50.1 mmt (+7.0% year-on-year),

in the inter-American region to 17.9 mmt (+4.5% year-on-year).

LNG demand in the Middle Eastern and Northern African countries<sup>7</sup> significantly reduced by 38.9% year-on-year and achieved 9.7 mmt resulting from the discovery and development of gas fields in the region – in Egypt and UAE. Start-up of the Zohr field allowed Egypt to become self-sufficient considering gas and stop LNG imports in October 2018. The field is developed by an international consortium including PJSC NK Rosneft with a 30% stake.

In general, the LNG market expands ahead of schedule and will probably maintain high growth rates in 2019 as well.

The growth was largely attributable to new LNG trains commissioned in 2018:

- start-up of the second train at Wheatstone LNG Plant, and the first train at Ichthys LNG Plant (each line capacity is 4.45 mmt per year) in Australia that has remained

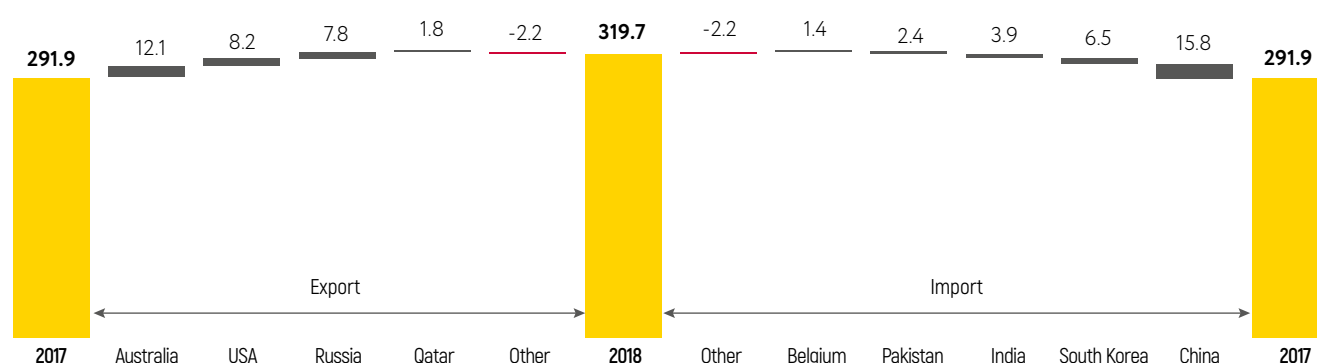
the leader by the total LNG exports growth since 2015 (+21.5% year-on-year to 68.5 mmt, 21.4% of the global exports in 2018);

- start-up of the second and third trains at Yamal LNG Plant having the total capacity of 11.0 mmt per year<sup>8</sup> in Russia (+70.0% year-on-year to 18.9 mmt, 5.9% of the global LNG exports);
- start-up of Cove Point LNG Plant (5.25 mmt per year) in the USA (+63.7% year-on-year to 21.1 mmt, 6.6% of the global LNG exports).

Moreover, Qatar recovered the export rate (+2.3% year-on-year to 78.5 mmt) after its reduction in 2017 and accounted for 24.6% of the global LNG exports.

In 2018, the final investment decision<sup>9</sup> was made for three projects of 21 mmt total capacity: LNG Canada (Canada), Tortue FLNG (Mauritania/Senegal) and Corpus Christi T3 (USA).

### LNG Exports and Imports Increase in 2018 by Country, mmt



Source: IHS

<sup>7</sup> IHS Markit preliminary estimates.

<sup>8</sup> The estimate calculated based on IHS Markit data.

<sup>9</sup> Egypt, Israel, Jordan, Kuwait, UAE.

<sup>10</sup> The first train at Yamal LNG Plant with an annual capacity of 5.5 mmt was commissioned in December 2017.

<sup>11</sup> Final investment decision (FID) is the decision to proceed with a project. It is usually made after completion of the design stage, obtaining necessary permissions, signing the EPC contract, specifying the investment sources and areas of the project products sales.

## Long-Term Forecast for Hydrocarbon Demand

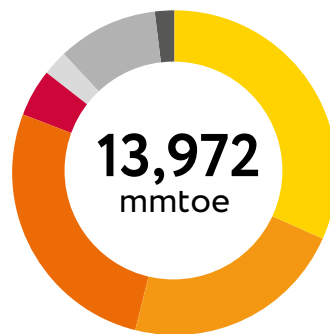
A possibility of fossil fuels substitution with renewables has natural limits, and top global energy agencies expect that the hydrocarbons will be the major energy resources and their weight in the global energy balance will remain largely unchanged until 2040. While oil will continue dominating other resources in global energy consumption, its share, as with coal, will decline in favor of gas, nuclear energy, alternatives, and renewables.

Under IEA's baseline forecast scenario as of November 2018, global oil demand<sup>1</sup> will increase by 11,5 mmb per day year-on-year and reach 106.3 mmb per day by 2040. The bulk of this growth will be attributable to Asia-Pacific<sup>2</sup>, which will account for approximately 37% of global oil demand (39.5 mmb per day).

In North America, oil demand will decline to 19.3 mmb per day in 2040, and in Europe – to 8.7 mmb per day in 2040. These regions will provide 18% and 8% of global oil demand in 2040, respectively.

According to the IEA's forecast, global gas demand<sup>3</sup> under the baseline scenario will reach 54 tcm in 2040 with gas consumption expected to grow in all the regions except for Europe. The major gas consumption in the forecast period will be attributable to Asia-Pacific, where the oil demand will increase by approximately 804 bcm year-on-year to 1.6 tcm exceeding the consumption level of North America (1.2 tcm of gas in 2040, +201 bcm year-on-year) North America will remain the leader in natural gas production (1.33 tcm in 2040, about 25% of global production). The major increase in gas production (approximately 25% of global growth) in the forecast period will be attributable to the Middle Eastern countries (1.0 tcm in 2040).

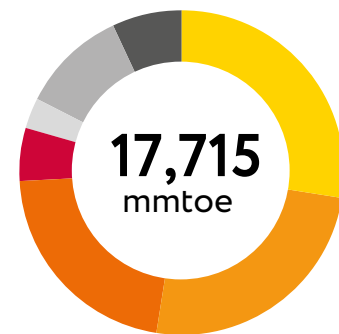
Global Energy Consumption by Fuel Type in 2017



Oil	31.8%
Gas	22.2%
Coal	26.9%
Atomic energy	4.9%
Hydro	2.5%
Biomass (including biofuel)	9.9%
Other renewables	1.8%

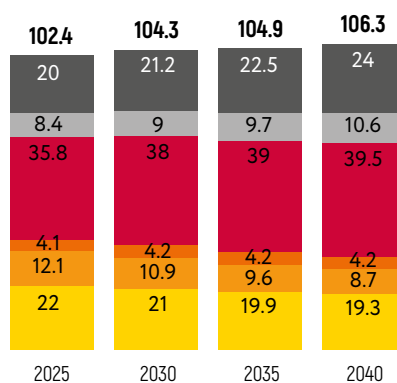
Source: IEA's forecast of November 2018.

Global Energy Consumption by Fuel Type in 2040, IEA's Baseline Scenario



Oil	27.7%
Gas	25.0%
Coal	21.5%
Atomic energy	5.5%
Hydro	3.0%
Biomass (including biofuel)	10.4%
Other renewables	6.9%

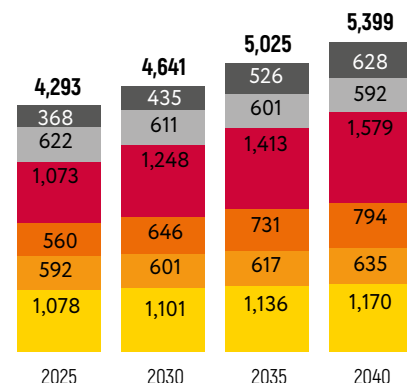
Oil Demand by Region<sup>4</sup>, IEA's Baseline Scenario, mmb per day



North America
Europe
Eurasia
Asian-Pacific Region
Middle East
Others <sup>5</sup>

Source: IEA's forecast of November 2018.

Gas Demand by Region (IEA's Baseline Scenario), bcm



North America
Eurasia
Middle East
Asian-Pacific Region
Europe
Others <sup>5</sup>

<sup>1</sup> Herein, oil demand is understood as consumption of petroleum products made of oil and gas condensate, as well as consumption of oil as a fuel.

<sup>2</sup> Regional demand does not include demand from international aviation and bunkering.

<sup>3</sup> Regional demand does not include international bunkering.

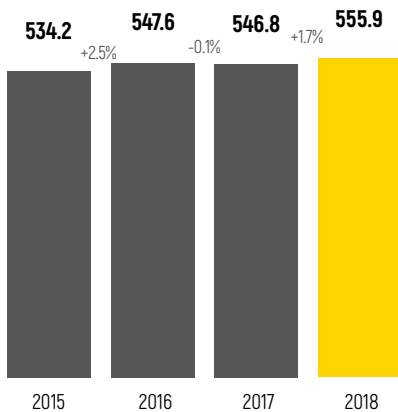
<sup>4</sup> Regional demand does not include international aviation (excluded from oil demand estimates only) and bunkering.

<sup>5</sup> Includes demand for oil from other countries, as well as international aviation and bunkering.



## Russian Oil Industry

Oil and Gas Condensate Production in Russia, mmt

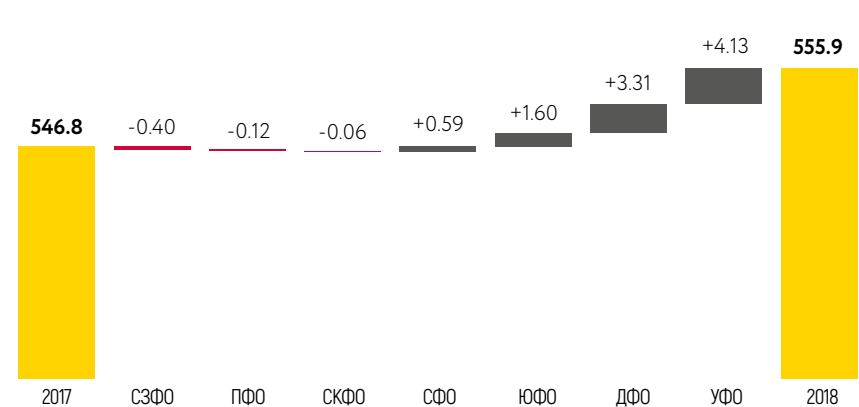


Source: CDU TEK of Russia

Russia is one of the three leading global oil producers (USA, Saudi Arabia). Oil and gas condensate production in Russia amounted to 555.9 mmt in 2018, up by 1.7% year-on-year. The production growth in Russia resulted from the resolution on a partial increase of oil production made by OPEC+ countries in June 2018 to offset deficient supply (and expected USA sanctions relative to Iraq) in the oil market.

The major production growth was provided by the Ural Federal District (+14% year-on-year to 307.0 mmt; 55.2% of Russia's production) and the Far Eastern Federal District (+11.8% year-on-year to 31.5 mmt; 5.7% of Russia's production). Oil production in the Ural Federal District went up in the Khanty-Mansi Autonomous Area (by 0.5% year-on-year to 236.4 mmt; 42.5% of Russia's production), in the Yamal-Nenets Autonomous Area (by 2.4% year-on-year to 58.0 mmt; 10.4% of Russia's production), in the Tyumen Region (by 14.5% year-on-year to 12.6 mmt; 2.3% of Russia's production). Oil and gas condensate production in the Far Eastern Federal District increased in the Sakhalin Region, including shelf (by 8.3% year-

Oil and Gas Condensate Production by Federal District, mmt



Source: CDU TEK of Russia

on-year to 19.3 mmt; 3.5% of Russia's production), in the Republic of Sakha (by 17.7% year-on-year to 12.2 mmt; 2.2% of Russia's production).

In 2018, production decline continued in the Northwestern Federal District (-1.2% year-on-year to 31.6 mmt; 5.7% of Russia's production) mainly due to a production drop in the Nenets Autonomous Area (-4.3% year-on-year to 16.6 mmt; 3.0% of Russia's production), as well as in the Volga Federal District (-0.1% year-on-year to 117.3 mmt; 21.1% Russia's production) largely owing to lower production in the Republic of Bashkortostan (-1.2% year-on-year to 16.1 mmt; 2.9% of Russia's production), the Samara Region (-5.2% year-on-year to 15.6 mmt; 2.8% of Russia's production), the Republic of Udmurtia (-1.7% year-on-year to 10.6 mmt; 1.9% of Russia's production).

Russia is one of the three leading global oil producers.

# 555.9

## mmt

oil and gas condensate production in Russia in 2018

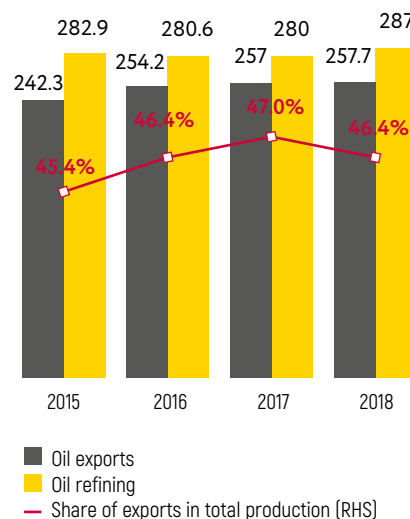
In 2018, Russian oil and gas condensate refining volumes increased by 2.5% year-on-year and reached 287.0 mmt, while oil exports increased by 0.3% year-on-year to 257.7 mmt, so the export share in total oil and gas condensate production accounted for 46.4% (-0.6 p.p. year-on-year) by the end of 2018.

Growth in oil and gas condensate exports was related to the expansion of supplies to countries outside the CIS to 239.7 mmt (+0.3% year-on-year). Almost 61% (approximately 145.6 mmt) of export volumes outside the CIS were transported by sea, including 16.1% via Primorsk and 12.7% via the Kozmino oil port. Meanwhile, oil and gas condensate exports

to CIS countries in 2018 decreased by 0.2% year-on-year to 18.0 mmt due to lower supplies to Uzbekistan (by 47.2% year-on-year to 36.0 thousand tonnes).

The "big tax manoeuvre" in the Russian oil industry resulted in a 5.5% increase in oil production compared with 2014. Exports grew by 16.3%, while oil refining volumes decreased by 0.7%.

Russian Oil and Gas Condensate Exports and Refining, mmt



Source: CDU TEK of Russia

## Russian Gas Industry

Russia is the second largest gas producer (after the USA) and the first gas exporter in the world.

In 2018, natural and associated gas production in Russia increased by 5.0% year-on-year, reaching 725.3 bcm<sup>1</sup>. Rosneft produced 64.3 bcm of gas, constituting approximately 9% of the country's total production.

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

According to data from the Federal Customs Service of Russia and CDU TEK, Russia's natural gas exports amounted to 247.5 bcm in 2018, up by 8.3% year-on-year. Total supplies via Gazprom's<sup>2</sup> pipeline system were 220.6 bcm, 184 bcm of which was exported to countries outside the CIS, resulting in a 3.1% increase year-on-year, while exports to CIS countries totaled 36.6 bcm, up 6.6% year-on-year.

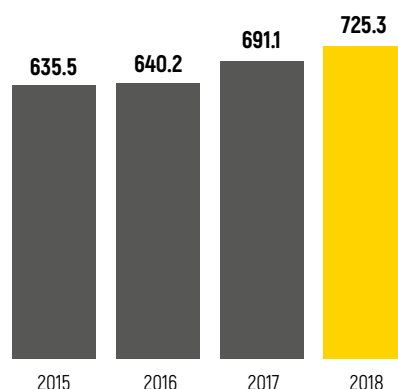
A total of 26.9 bcm (up 71.7% year-on-year) was exported as LNG, mostly by members of Sakhalin-2 and Yamal LNG PSA<sup>3</sup> consortiums.

Major gas consumers in Russia include power generation companies, households, housing and utilities, 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

Natural and Associated Gas Production in Russia, bcm



Source: CDU TEK of Russia

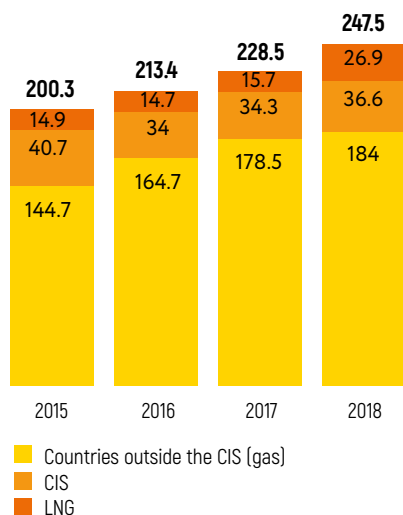
Anti-Monopoly Service of the Russian Federation ("regulated gas prices"). Currently, applicable wholesale prices of gas for all categories of Russian consumers (excluding households) were set by Order No. 1088/18 of the Federal

<sup>1</sup> CDU TEK data are referenced proceeding from the conditions: temperature is 20 degrees Celsius, pressure is 101,325 Pa. International agencies' data: temperature is 15 degrees Celsius, pressure is 101,325 Pa.

<sup>2</sup> Pursuant to Federal Law of the Russian Federation No. 117-FZ On Gas Export dated 18 July 2006, the exclusive right to natural gas export shall be granted to the owner of the Unified Gas Supply System or to its wholly-owned subsidiary.

<sup>3</sup> PSA - Production Sharing Agreement.

### Gas Exports from Russia, bcm



Source: Federal Customs Service of Russia

Anti-Monopoly Service dated 3 August 2018, and the wholesale gas prices for households were set by Order No. 609/18 of the Federal Anti-Monopoly Service dated 11 May 2018. Pursuant to the above Orders, regulated gas prices for all consumer categories were indexed by 3.4%.

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

Gazprom owns the Unified Gas Supply System facilities and provides services for gas transportation via trunk pipelines for independent producers, and transportation charges are set by Orders of the Federal Anti-Monopoly Service of Russia (formerly, the Federal Tariffs Service (FTS))<sup>4</sup>. 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 is set for the "inlet – outlet" pair and depends

on the distance between these points, while the pumping fee depends on Gazprom's handling and transportation costs.

Current tariffs were approved by Order No. 216-e/1 of the FTS dated 8 June 2015 and were not revised in 2016, 2017, or 2018.

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 for a storage season (from 1 April to 31 March of the next year). Rosneft makes use of UGS facilities to offset 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 gas producers in the total volume of domestic 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 2018, it continued to develop organized trade in natural gas. Exchange contracts may be negotiated on three balance points (Nadym CS, 622.5 km CS (Lokosovo), Parabel CS) with gas supply during the next month. During 12 months of 2018, natural gas supplies under the contracts signed through stock trading accounted for 15.1 bcm. Since its launch, the Exchange has organized the sale of above 60 bcm of gas.

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.

### Actual Growth in Regulated Gas Prices in Russia

Indices	2016	2017	2018
Price growth for consumers other than households, %	0.0	July 3.9	August 3.4
Price growth for households, %	July 2.0	July 3.9	July 3.4

### Indexation of Regulated Prices (Tariffs) for Infrastructure Sector Products (Services) in 2019–2021, %

Indices	2019	2020	2021
	Forecast		
Wholesale price indexation for all categories of consumers other than households, %	July 1.4	July 3.0	July 3.0
Wholesale price indexation for households, %	July 1.4	July 3.0	July 3.0

Source: Forecast of Social and Economic Development of the Russian Federation for the period through to 2024

<sup>4</sup> The Federal Tariff Service of Russia was relinquished by Presidential Decree No. 373 dated 21 July 2015, with the FAS of Russia appointed as its successor.

### 3.3

# Competitive Analysis

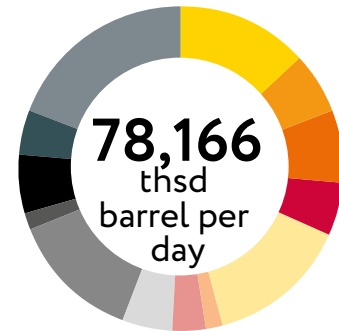
## Hydrocarbon Exploration and Production

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 liquid hydrocarbons 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, as well as resource base integration

and expansion across new assets and license areas. Proved hydrocarbon reserves of Rosneft under SEC standards amounted to 41,431 mmboe (5,597 mtoe) as of 31 December 2018. Hydrocarbon reserves grew by 1,524 mmboe (202 mtoe), or 4%, year-on-year. DeGolyer & MacNaughton conducted an audit with the assessment of reserves till the end of the field producing life.

At the year-end, SEC-proved reserve life of Rosneft amounted to over 20 years. SEC-proven hydrocarbon reserve replacement ratio stood at 173%<sup>1</sup> in 2018.

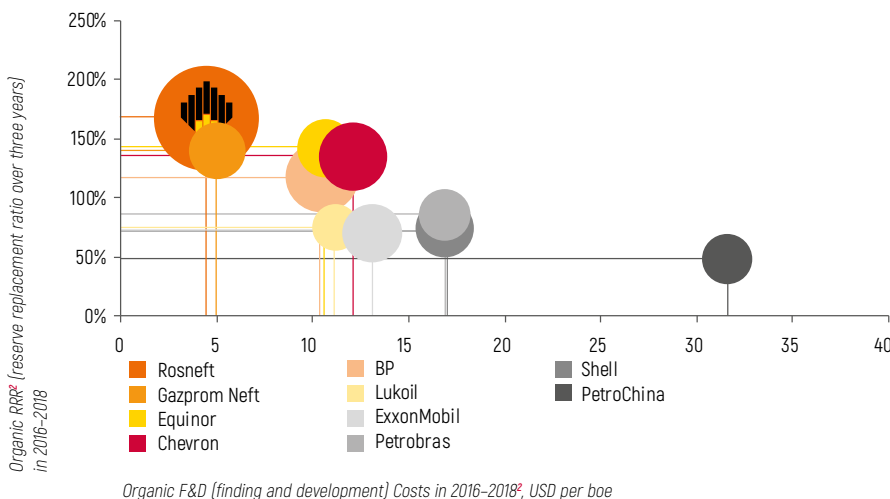
Global Oil Production, thsd barrel per day



Saudi Arabia	13%
Rosneft	6%
Russia (without Rosneft)	7%
Canada	5%
USA	14%
Norway	2%
Brazil	3%
China	5%
Other OPEC	13%
Venezuela	2%
Iraq	6%
Iran	5%
Other	19%

Source: Wood Mackenzie

### Reserve Replacement and Upstream Costs



The pie size reflects the organic reserves additions in 2016-2018.

**41,431**  
mmboe  
in 2018

The leader among public oil and gas companies in proven hydrocarbon reserves according to the SEC classification

<sup>1</sup> Reserve replacement ratio is calculated in tonnes of oil equivalent (toe). Reserve replacement ratio in barrels of oil equivalent (boe) was 175%.

<sup>2</sup> Including affiliates. PetroChina - data for 2015-2017 excluding affiliates.



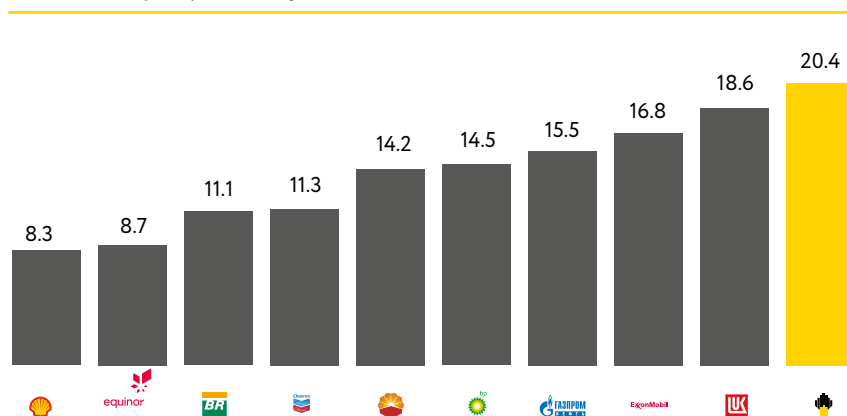
For several years, Rosneft has been a prominent leader among the major public international oil companies in SEC-proven reserve life and SEC-proven reserve replacement ratio (average value over three years), demonstrating the lowest hydrocarbon reserves exploration and development costs against the other international competitor companies.

As of 31 December 2018, the hydrocarbon reserves under the PRMS (Petroleum Resources Management System) classification comprised 47,045 mmboe (6,368 mmtoe) of 1P reserves, 84,094 mmboe (11,388 mmtoe) of 2P reserves, and 121,165 mmboe (16,426 mmtoe) of 3P reserves.

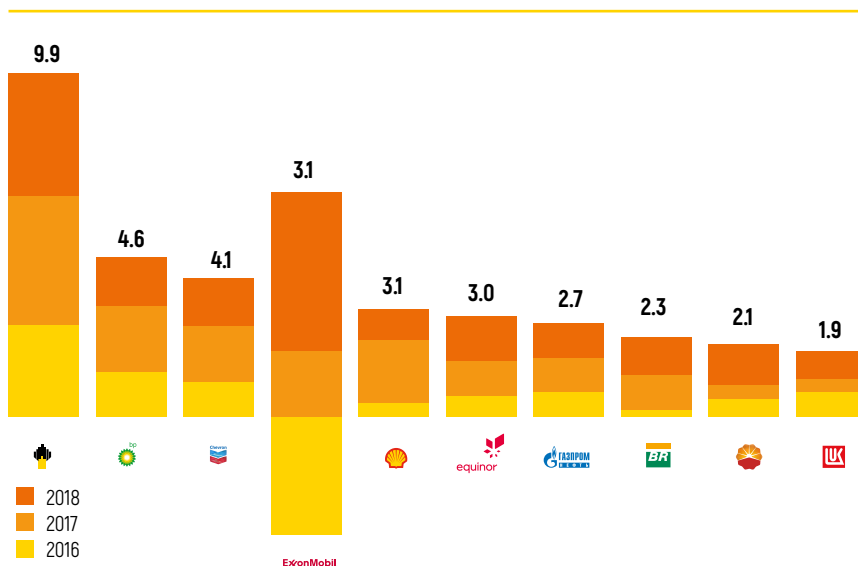
Rosneft is the leader among major Russian and international public oil and gas companies in both volume and cost of organic reserve additions due to its traditionally high efficiency in exploration.

For years, Rosneft has steadily maintained high levels of its reserve replacement ratio (reserve replacement cost in 2016–2018 was USD 0.2 per boe). The Company intends to replace at least

**Reserve Life (SEC) in 2018, years<sup>3</sup>**



**Organic Reserves Growth (SEC), bboe<sup>4</sup>**



<sup>3</sup> Including affiliates. PetroChina – data for 2017 excluding affiliates.

<sup>4</sup> Including affiliates. PetroChina – data for 2015–2017 excluding affiliates.



100% of its hydrocarbon production in 2019–2022. The Company also plans to fast-track development of new reserves with shorter project preparation timelines, accelerate resource transfers to reserves based on profitability, and improve exploration drilling success rates within the Russian Federation. The Company's share in the total oil production of Russia is 41%, and approximately 6% in global oil production.

In 2018, the Company produced 230.2 mmt of liquid hydrocarbons (4.67 mmb per day), an average daily production increase of 2.1% year-on-year. The key growth factors are the record-high production volume at the Company's largest asset, RN-Yuganskneftegaz; the launch of large green fields and agile manoeuvring in development of brownfields in the context of the Company's obligations on production cuts under OPEC+ Agreement.

The average daily liquid hydrocarbons production in Q4 2018 was 4.79 mmb, +1.4% from indicators of Q3 2018. Unlike many competitor companies in Russia, Rosneft managed to quickly increase the production right after the elimination of above-mentioned restrictions using the prepared additional production potential. The Company entirely restored the production rates to the initial level of the OPEC+ Agreement (October 2016) and ramp up the production under new projects through flexible optimization of production conditions at high watercut and marginal wells in mature fields (RN-Nyaganneftegaz, Varyoganneftegaz, RN-Purneftegaz, Orenburgneft, Tomskneft) accompanied by the improved market conditions.

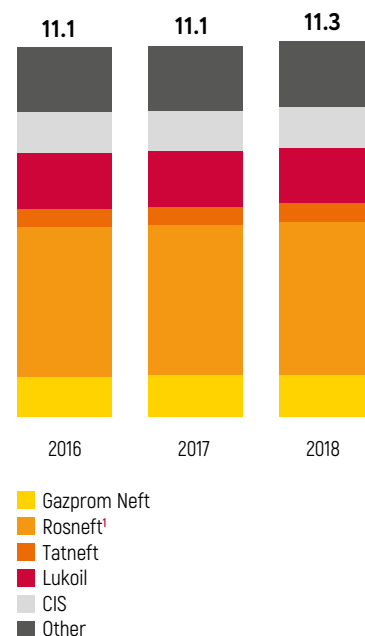
Year-on-year growth of oil and gas condensate daily average production in Russia in 2018 was 182 thsd barrel, more than a half provided by Rosneft. Meanwhile, the Company's daily average

production in Russia in December 2018 went up by 4.7% year-on-year.

Rosneft is the leader among its competitors in current hydrocarbon production and 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. The annual output of the Company's largest oil and gas producing asset, RN-Yuganskneftegaz, exceeded 70 mmt of oil (a year-on-year increase of 5.5%) for the first time in the modern history of Russia. At the end of 2018, the company set a record for daily output over the entire history of its operations since 1964 – 197.5 thousand tonnes of oil per day (146 mmb per day). RN-Yuganskneftegaz attained these high outputs due to the improved development methods for hard-to-recover reserves of the Middle Priobye, application of advanced well drilling and completion technologies, systematic work on the expansion of resource base, the introduction of new production facilities, and contribution of the company's personnel. In 2018, with the commissioning of the Sorovskoye field, RN-Yuganskneftegaz began the commercial development of the East-Salym license area. RN-Uvatneftegaz continues to successfully maintain the production plateau at more than 10.5 mmt (> 213 thsd barrels per day) through implementation of a set of measures. The key measure is to involve new fields in the development of reserves. In 2018, the Taltsikoye new field was commissioned. Today it produces over 2.8 thousand tonnes of oil per day (~21 thsd barrel per day). A pool of new projects has still been developed according to the stated plans. Total production of liquid hydrocarbons

Oil and Gas Condensate Production in Russia, mmb per day



Source: CDU TEK of Russia

**78,166**  
thsd barrel  
per day

global oil production in 2018

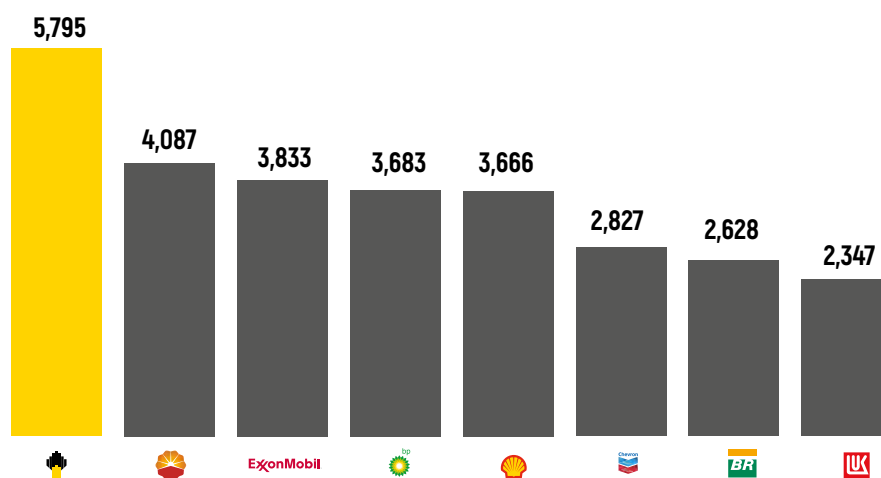
<sup>1</sup> Rosneft included Bashneft's performances from 1 January 2016.

in 2018 at the Suzunskoye, East Messoyakhsky, Yurubcheno-Tokhomskiye, and Kondinskoye fields, which had been launched since 2016, exceeded 75 mmb. According to the approved plans, in Q4 2018, the company provided for phased commissioning of the Tagulskoye, Russkoye, and Kuyumbinskoye fields and the second phase of the Srednebotuobinskoye field.

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, Srednebotuobinskoye, Kharampur, North Komsomolskoye, Yurubcheno-Tokhomskiye fields, and Rospan.

An important milestone in the diversification of the producing assets portfolio and the development of the Company's exploration and production projects abroad was the discovery of the Iraqi Salman field in Block 12 in H1 2018 based on the results of drilling the first exploration well. Rosneft continues to foster cooperation with Iraq's autonomous Kurdistan Region. In May 2018, the Company and the Iraqi Kurdistan Regional Government signed an agreement on the development of the gas business in the region, including the elaboration of a comprehensive development plan and the front-end engineering of the construction and operation of a gas pipeline in Iraqi Kurdistan. Earlier, on 18 October 2017, production sharing agreements (PSA) related to five production blocks located in Iraqi Kurdistan entered into force. The parties also announced the start of joint implementation of the infrastructure

#### Hydrocarbon Production in 2018, thsd boe per day



Sources: companies' reports

#### Average Growth Rate of Hydrocarbon Production over 10 years, %

Rosneft	+9.6%
PetroChina	+2.4%
Shell	+1.2%
Chevron	+1.1%
Petrobras	+0.9%
LUKOIL	+0.7%
ExxonMobil	-0.2%
BP	-0.4%

project for the operation of the oil pipeline in Iraq's autonomous Kurdistan Region.

Through participating in the development of the Zohr field, a unique production asset, together with world majors and its strategic partners – Eni (50%) and BP (10%), Rosneft significantly increased its gas production abroad in a short time and enter the Egyptian gas market, thereby providing opportunities for the Company to further expand its presence in the country and region.

In June 2018, Mubadala Petroleum also joined the project. In 2018, Rosneft, together with its partners and Egyptian oil and gas companies, commissioned seven production wells, four lines of the integrated gas treatment unit (GTU), and the second transport gas pipeline from the field to the GTU. Given the achieved commissioning rate of new facilities, the level of daily production of 76 mmcm<sup>3</sup> of gas could be reached as early as 2019.

<sup>3</sup> In 100%

## Downstream (Refining and Commerce)

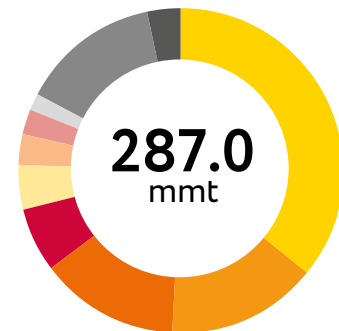
Rosneft is the largest refiner in the Russian Federation; the Company's refining business includes 13 large refineries, as well as petrochemical and gas processing plants located in five federal districts – Central, Volga, Southern, Siberian, and Far Eastern. The Company's oil refining operations are focused primarily on the strategic task of supplying high-quality petroleum products to the Russian domestic market, including remote Russian regions. Thus, the Achinsk, Komsomolsk, and Angarsk refineries are the key suppliers of motor fuels for the Eastern Siberian and the Far Eastern regions, ensuring uninterrupted supply and trimming the rise in price that would inevitably be the case if petroleum products were delivered from refineries of Central Russia.

In general, unlike the majority of other Russian producers, the Company's oil refineries are characterized by a considerable remoteness from export markets due to their geographical location, which limits the economic efficiency of oil refining; in the meantime, the Company continues its efforts to connect the refineries to the Transneft's oil trunk pipeline system.

Oil refining throughput at the Company's Russian refineries in 2018 amounted to 103.3 mmt (a year-on-year increase of 2.8%). Taking into account foreign assets, amid improved market conditions, this figure grew by 2.0% to 115.0 mmt. Oil refining throughput at the Company's Russian refineries in Q4 2018 amounted to 26.8 mmt (a quarter-on-quarter increase of 0.1% and a year-on-year increase of 5.6%).

The oil refineries are continuing the projects for the development and maintenance of their existing capacities. In line with the previously approved Rosneft–2022 Strategy, in 2018, the Syzran Refinery implemented large-scale programs for the technical re-equipment of the oil and petroleum products testing center – the central laboratory. In H2 2018, the operator room in the production control center at the Komsomolsk Refinery was equipped with advanced digital equipment enabling to monitor the operating parameters of refinery major process units: two crude oil distillation units, distillate hydrotreating units, and sulfur production units. Introducing the modern digital solutions enables the Company to improve the process efficiency, ensure the equipment operational

Oil Refining Structure in Russia, mmt

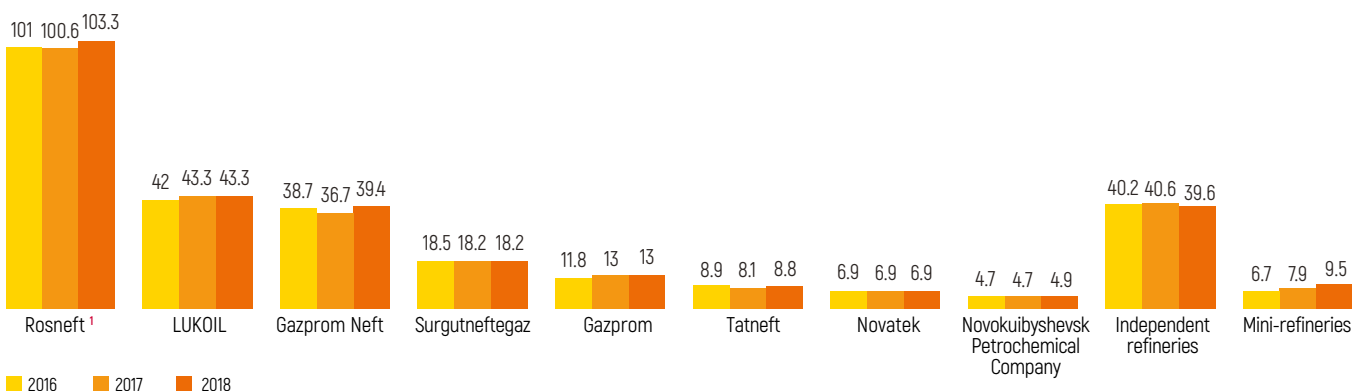


Rosneft	103.3
LUKOIL	43.3
Gazprom Neft	39.4
Surgutneftegaz	18.2
Gazprom	13.0
Tatneft	8.8
Novatek	6.9
Novokuibyshevsk Petrochemical Company	4.9
Independent refineries	39.6
Mini-refineries	9.5

Source: CDU TEK of Russia, Rosneft – Financial Statements.

Rosneft consistently implements the most ambitious program for developing refining facilities in the country

Oil Refining in Russia, mmt



Source: CDU TEK of Russia, Rosneft – Financial Statements.

<sup>1</sup> Rosneft's data for 2016 – with volumes of Bashneft from 1 January 2016.



stability, strengthen the product quality control system, and significantly improve the industrial safety level and the performance of engineering personnel. In May 2018, Ufaorgsintez finished an investment project on upgrading the isopropyl benzene (cumene) production unit. The new operating procedure provides a safe environmentally friendly production and reduces the consumption of feedstock and energy. Ufaorgsintez was a pioneer in applying this technology in Russia.

In April 2018, the Ufa group of the Company's refineries started commercial production of improved high-octane gasoline AI-95 of Euro-6 class, which is superior to Euro-5 compliant motor fuels currently produced in the Russian Federation with respect to the environmental and performance indicators. In September 2018, the Saratov Refinery joined the commercial production of high-octane gasoline of Euro-6 class. The fuel has received positive customer feedback in the sales regions – in Bashkortostan and the Krasnodar Territory. In August 2018, the first batch

of Pulsar-100 high-octane gasoline was produced, which is currently sold at most of the Rosneft's filling stations in the Moscow Region.

In H2 2018, the Novokuibyshevsk Refinery put an environmental facility into operation – an advanced treatment unit with a membrane bioreactor at biochemical wastewater treatment facilities. This unit provides a high degree of purification and return of water to the production cycle, thereby minimizing the consumption of water resources.

As part of the import substitution program in 2018, the catalysts purchased for hydrogen production units at the Kuibyshev and Ryazan Refineries were replaced with the catalysts produced by the Angarsk Catalyzers and Organic Synthesis Plant.

In December 2018, the Angarsk Refinery completed the installation operations to replace a column of the gas fractionation unit producing the components of gasoline fractions and fuel gases, thereby

## Euro-6

Commercial production started

The first batch of high-octane gasoline produced

## Pulsar-100



improving the production reliability and the environmental and industrial safety level.

Rosneft is an active player in the oil and petroleum products market in Russia and abroad and 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.

Developing cooperation with key partners in oil supply is essential to enhancing the Company's competitive advantage in the international oil market. 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 China National Petroleum Corporation and supplies to Europe under direct contracts. In 2018, Rosneft signed long-term contracts with Grupa Lotos to supply 6.4 to 12.6 mmt of oil to Poland and with Total Oil Trading to supply 4.8 to 10.8 mmt of oil to Germany. The Company also captures opportunities of expanding partnership through short-term contracts. Rosneft

and the China National Chemical Corporation (ChemChina) in November 2018 signed a contract to supply 2.4 mmt of ESPO oil during the year via the port of Kozmino. This contract makes it possible to increase the direct supply of oil to the Chinese market having strategic importance for the Company. Rosneft also signed annual contracts with Shell and Eni to export 3.9 mmt of feedstock to Germany and with Socar Trading to supply up to one mmt of oil to the Turkish oil refinery. As part of enhancing cooperation with the Republic of Belarus, the Company signed contracts with Naftan, BNK, and Mozyr Oil Refinery to supply a total of up to 8.7 mmt of oil.

Thus, the Company continues to successfully diversify oil supply channels with a general ramp-up in feedstock exports in the eastern direction: in 2018, deliveries totaled 59.2 mmt (+24.1% year-on-year), with 16.1 mmt – in Q4 (+2.6% quarter-on-quarter).

In February 2018, 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 is consolidating its competitive position in the European market through refining oil at German refineries. Since 1 January 2017, following the restructuring of the ROG joint venture with BP Plc, Rosneft's indirect interest stake increased from 12.5% to 25% in the Bayernoil Refinery; from 12% to 24% in the MiRO Refinery; and from 35.42% to 54.17% in the PCK Refinery (Schwedt). The Gelsenkirchen Refinery is now fully controlled by BP Plc. Rosneft is consistently implementing plans to expand its presence in the Asia-Pacific markets. Rosneft successfully closed a strategic deal to acquire a 49% stake in Essar Oil Limited in August 2017 (since June 2018, Nayara Energy Limited). The acquisition of a stake in the 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. 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





products supplies, and implementation of new projects. The Vadinar refinery development program is currently being elaborated, including the setting-up for petrochemical production and access to the Indian petrochemical market.

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, Equinor, Saudi Aramco, NIOC, and etc.

Rosneft is one of the largest players on Russian gasoline and diesel fuel markets and has the largest retail sales network (2,897 filling stations) in Russia. 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.

The Company fully fulfills its obligations to ensure the stable supply of petroleum products to the domestic market, acting within the agreement "On Measures to Stabilize and Develop the Domestic Market of Petroleum Products" concluded with the Ministry of Energy and the Federal Antimonopoly Service of Russia.

As the leading supplier of petroleum products to the domestic market, Rosneft in 2018 increased domestic sales of motor fuels to 28.1 mmt, up 3.7% year-on-year. Moreover, in 2018, the Company exceeded the exchange-traded ratio of motor gasolines and diesel fuel by more than twice and by more than a half, respectively.

As with oil, the Company's petroleum products are exported to European, Asia

## Rosneft

is the largest oil exporter in the Russian Federation

## Rosneft

is one of the largest participants in the Russian automotive market of motor gasoline and diesel fuel



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. To promote existing partnership relations between Petrocas Energy (Rosneft Group company) 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. While expanding cooperation with end consumers, the Company concluded a contract with the Japanese company, JXTG Nippon, envisaging the supply of over 0.7 mmt of gasoline and gas mixture in 2019.

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 the 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 ultralow 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. In H1 2018, the Company signed long-term contracts for the supply of gasoline and diesel fuel with the largest Mongolian importers of petroleum products. The total value of contracts is USD 2.1 bln. Over 10 years of its presence on the Mongolian fuel market, the Rosneft increased its share to 80%.

In January 2018, Rosneft Deutschland began marketing and selling bitumen in Germany and neighboring countries, providing commercial volumes of road bitumen manufactured at the PCK, Bayernoil, and MiRO refineries. The company signed a contract with Bitumina Handel GmbH & Co. KG for the production of polymer-modified bitumen products according to Rosneft (Alfabit)'s formulation. As a result of successful efforts made





in 2018 to create its own marketing direction, a Company's subsidiary, Rosneft Deutschland, began full-scale marketing and selling oil products in Germany in January 2019 and now acts both as one of the largest refiners and as the leading wholesale supplier of petroleum products to this market. Thus, the transition period following the dissolution of the ROG joint venture was completed as planned. The company supplies petroleum products directly from three German oil refineries partially owned by Rosneft, as well as from over 30 German export terminals by road, rail, and river. The company's customer base comprises more than 500 enterprises in Germany, Poland, the Czech Republic, Switzerland, Austria, and France.

Its main competitors in domestic sales of petroleum products are Russian vertically integrated companies such

as LUKOIL, Surgutneftegas, Gazprom Neft, Tatneft, and others, while the main competitors supplying petroleum products to the export market are major international oil companies such as Shell, BP, Total, ExxonMobil, Chevron, and others.

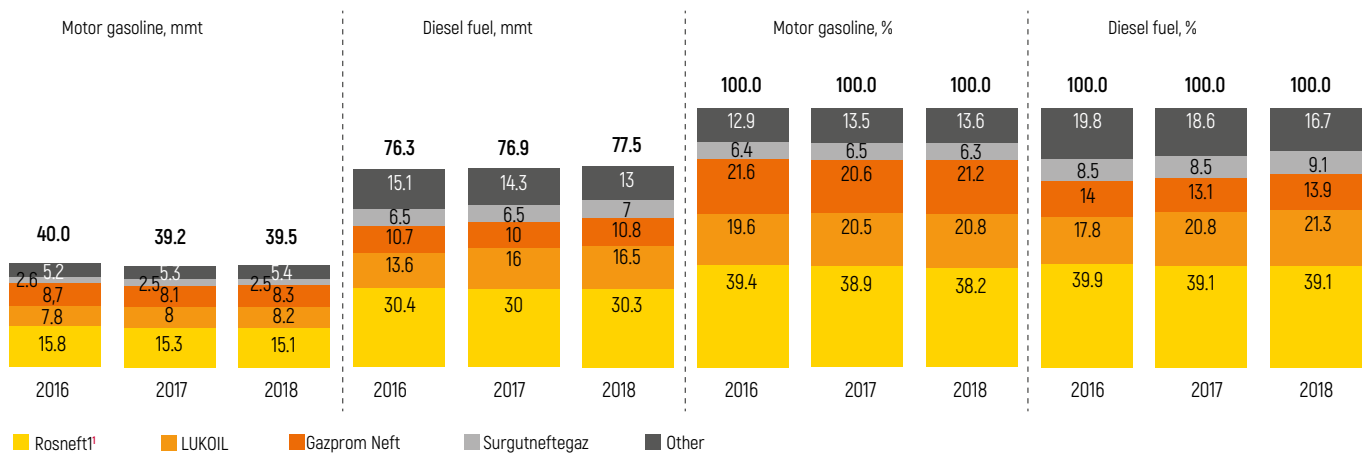
The company has a special focus on developing the gas business, including improved use of production technologies, efficient gas monetization through the formation of a long-term supply contracts portfolio, the participation in LNG production projects and in the gas and gasoline fuel development program in the Russian Federation, as well as in efforts on creating equal conditions for access to infrastructure facilities and consumers.

Developing the NGV filling station network in Russia is one of Rosneft's key priorities in the retail business and one

of the most important focus areas to expand its competitive advantages in the domestic market. In November 2018, the Company and Beijing Gas Group Company Limited (hereinafter – Beijing Gas) signed a joint venture agreement for construction and operation of the NGV filling stations network in Russia based on LLC Vankorskoye UTT. Under the terms of this agreement, Beijing Gas will receive a share of 45%. The parties are planning to build about 170 NGV filling stations in Russia. They will also consider the possibility to use LNG as a motor fuel.

Rosneft is also augmenting up its trading potential and trading competencies in the international LNG market. –

## Motor Fuels Production in Russia



Source: CDU TEK of Russia

<sup>1</sup> Reporting data. Rosneft's diesel fuel volumes are given excluding marine fuel. Rosneft's data for 2016 are from the pro forma, including Bashneft's from 1 January 2016

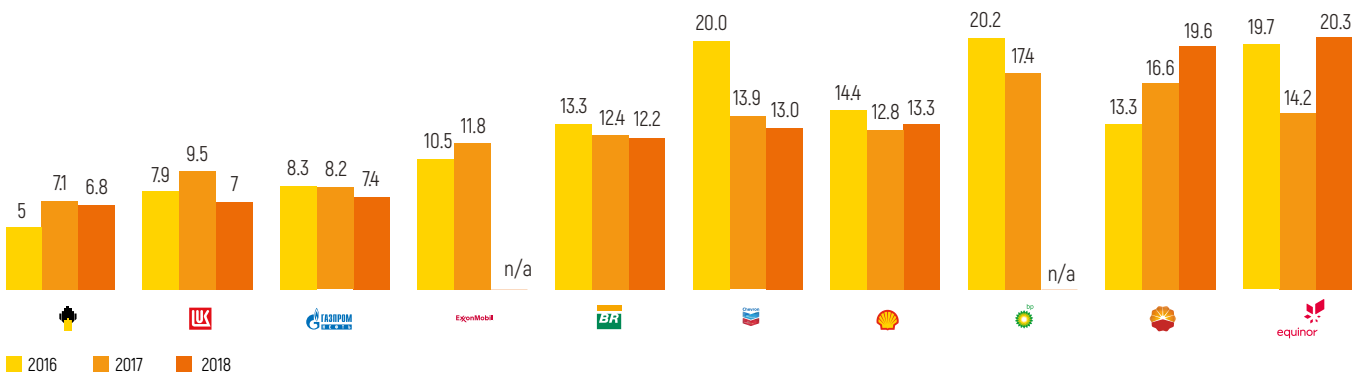
## Operational and Financial Performance

High cost efficiency and smart allocation of upstream capex in 2018 helped the Company to maintain well-balanced production levels both by launching

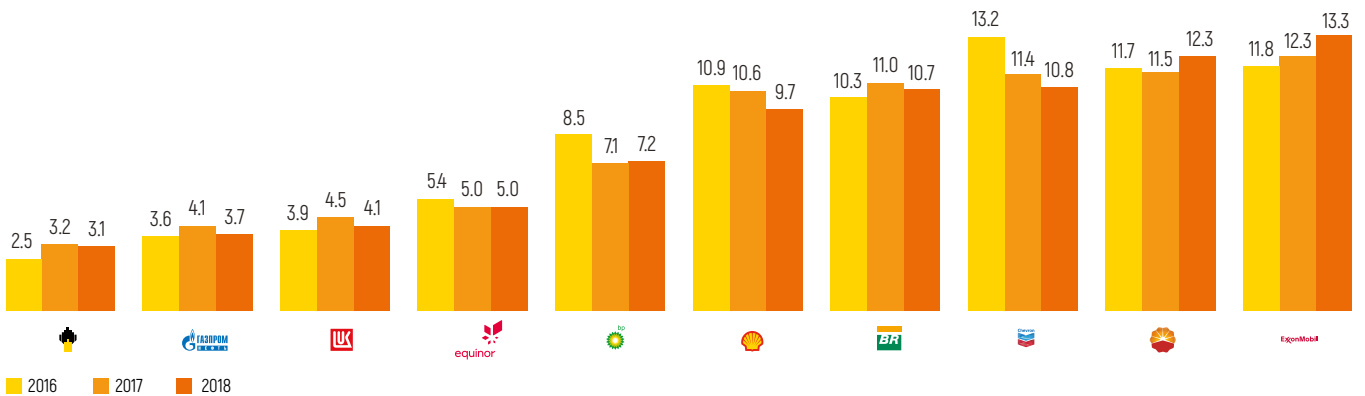
new projects and enhancing production at mature fields with the lowest unit upstream capex in the industry among public oil and gas companies.

In 2018, Rosneft maintained its steady leadership in the oil industry among public oil and gas companies in terms of unit production costs.

Unit Upstream Capex, USD per boe

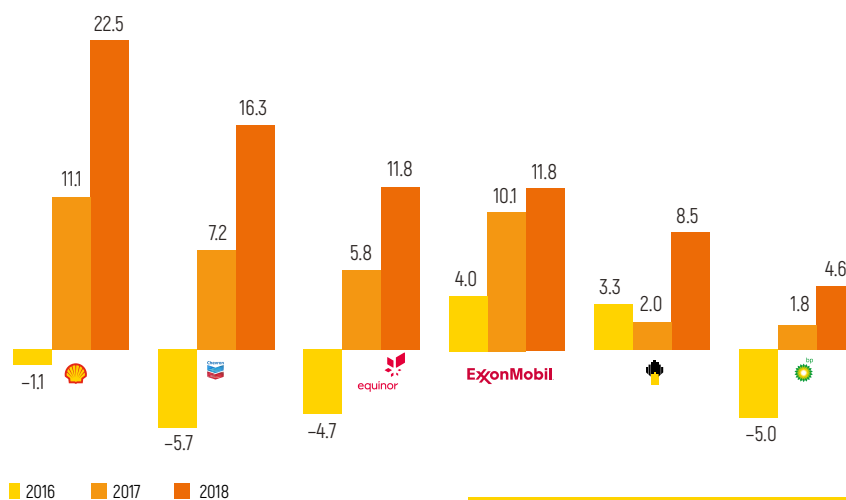


Unit Lifting Costs, USD per boe



While most of its competitors demonstrate highly volatile performance going into negative zone in periods after the purchase/sale of assets and in the launch phase of investment projects, Rosneft has been consistently generating a positive free cash flow (FCF) over the years. In 2018, being in the middle of the investment cycle accompanied by a significant increase in capex due to the construction and launch of new projects, the Company scaled up its free cash flow at a record pace, managing to overcome the negative impact of changes in working capital occurred in 2016 and 2017.

2016-2018 free cash flow: a comparative analysis (majors), USD per boe



Over the years, Rosneft has been consistently generating a positive free cash flow

<sup>1</sup> Per boe of produced hydrocarbons, including affiliates.



## 3.4

# Overview of Key Taxation Changes in the Russian Federation, with the Largest Impact on the Company's Financial and Business Operations

## Tax Regime in Oil Industry

The main parameters of the tax regime in 2018, in general, corresponded to the year-on-year taxation parameters of the oil industry. In 2018, there was a planned increase to RUB 357 per tonne of Kk coefficient, increasing the mineral

extraction tax (MET) rate for oil (in 2017 – RUB 306 per tonne).

Also, since January 2018, a tax deduction from the MET in an amount of RUB 2.9 bln per month has been

applied to oil produced in certain areas of the subsoil in the Nizhnevartovsk district of the Khanty-Mansi Autonomous Area. This deduction is applicable to the subsoil areas of the Samotlor field, with the rights of use belonging to the Company.

## Excise Taxes on Petroleum Products

From 1 January 2018, the excise rates on Euro-5 gasoline, diesel fuel, and middle distillates were raised (by 11–13% year-on-year). However, pursuant to the Federal

Law No. 199-FZ dtd 19 July 2018, excise rates on these goods were significantly reduced for the period from 1 June 2018 to 31 December 2018 in order

to stabilize prices for motor fuels on the domestic market against rising global oil prices.

Excise Tax Rates on Petroleum Products in 2017–2018, RUB per tonne

Excisable Products	from 1 January to 31 December 2017	from 1 January to 31 May 2018	from 1 June to 31 December 2018
<b>Motor gasoline</b>			
non-compliant with Euro-5	13,100	13,100	13,100
compliant with Euro-5	10,130	11,213	8,213
<b>Straight-run gasoline</b>	13,100	13,100	13,100
<b>Diesel fuel</b>	6,800	7,665	5,665
<b>Jet fuel</b>	2,800	2,800	2,800
<b>Motor oil</b>	5,400	5,400	5,400
<b>Benzene, paraxylene, orthoxylene</b>	2,800	2,800	2,800
<b>Middle distillates</b>	7,800	8,662	6,665



## Further Changes in Tax Legislation

In 2018, a number of laws were passed, significantly changing the fiscal mode in the oil industry and in the economy

as a whole. The Company's mainstream innovations are as follows:

### IMPOSING A TAX ON ADDITIONAL INCOME FROM OIL PRODUCTION

From 1 January 2019, a tax is imposed on additional income from hydrocarbons production, which is charged at a rate of 50% of oil income calculated as the difference between estimated revenue and costs associated with the production,

preparation, and transportation of crude hydrocarbons. The projects that have switched to this tax regime are provided with a reduction in the level of rental payments – MET and export customs duties.

The additional income tax regime applies to subsoil areas in new production regions (with a voluntary switch-over option) and a limited number of pilot projects in the Western Siberia (the list is fixed by law).

### COMPLETION OF “TAX MANEUVER” IN THE OIL INDUSTRY

Pursuant to the laws adopted in 2018, from 2019 on, there is a gradual decrease in export customs duties on oil (down to zero from 1 January 2024) with an equivalent increase in the MET rate.

Another important element of the fiscal regime amid

the completion of the “tax maneuver” is a “reverse excise” on oil feedstock introduced on 1 January 2019 – a mechanism involving the accrual of the excise tax with the right to receive an increased deduction. The “reverse excise” mechanism provides for additional incentive measures for oil

refineries located far from export markets (largely, for enterprises in the Krasnoyarsk Territory and the Republic of Khakassia), as well as the introduction of a special “damping” component necessitated by the need to stabilize prices for motor fuel in the domestic market.

### INCREASE IN GENERALLY APPLICABLE VAT RATE

The VAT rate increases from 18% to 20% (0% and 10% rates remain unchanged). The new VAT rate will be applied to the goods (works, services), property rights shipped (completed, rendered) transferred starting from 1 January 2019.

### INTRODUCTION OF TAX BENEFITS FOR MOVABLE PROPERTY

From 1 January 2019, movable property is excluded from the item taxable by corporate property tax.





04

## Sustainable Development

### Leadership and Responsibility

Rosnefts's strategic goal is to 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.

# 4.1

## Health, Safety, and Environment

Being aware of the nature and the scope of own activity impact and understanding the responsibility, the Company tries to achieve its strategic goal – the leadership in provision of safe operation and workspaces, protection of its employees’ health, as well as mitigation of environmental impact in the regions of Company operation.

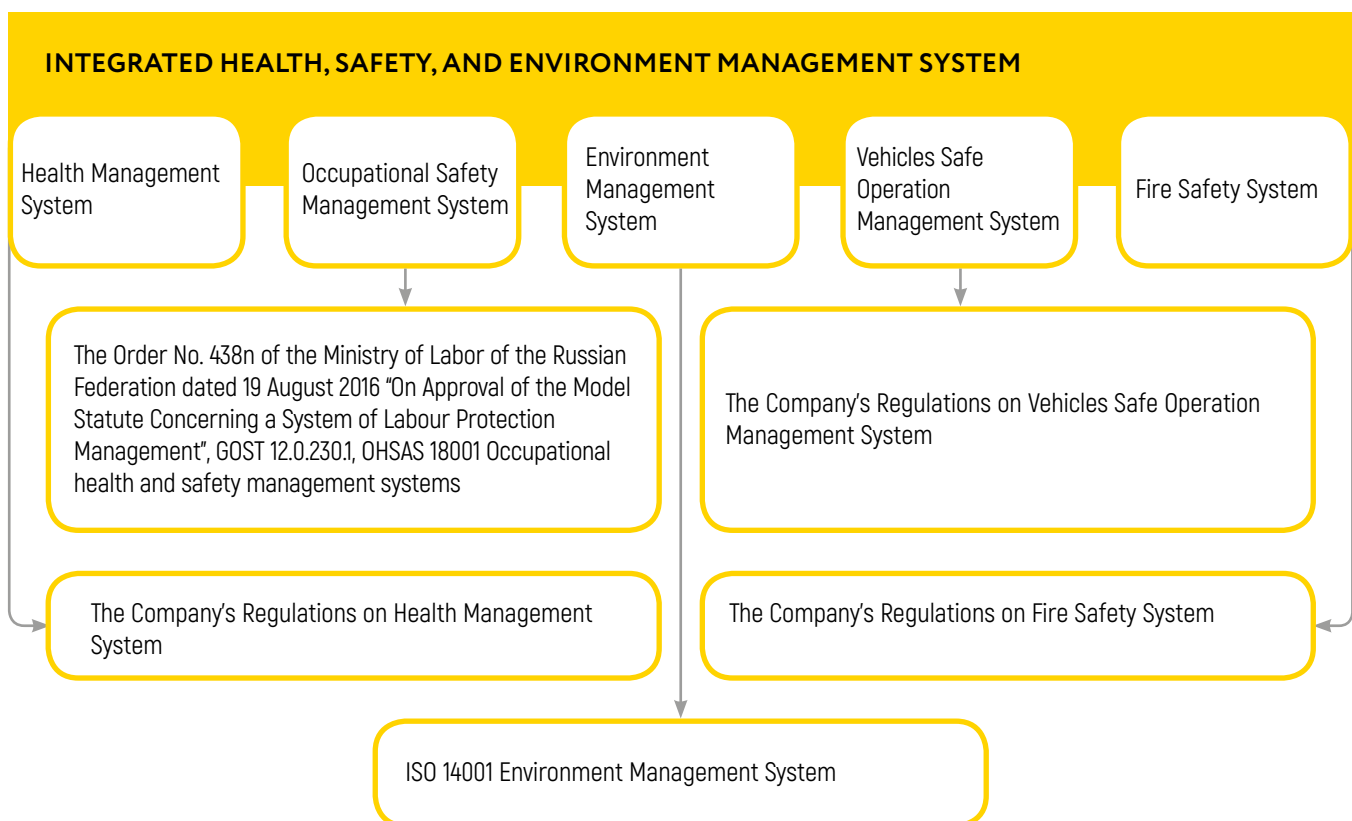
### Integrated HSE Management System

The integrated HSE management system is a part of the Company's management system. It is used

for implementation of the HSE policy and achievement of the Company's goals in the sphere of health, safety,

and environment protection, as well as risk and environmental aspects management.

HSE IMS components and regulating documents





In 2018, an independent certification center conducted a regular certification audit of the Company's HSE IMS compliance with the following standards: ISO 14001:2015 Environmental Management Systems. Requirements with Guidance for Use; OHSAS 18001:2007 Occupational Health and Safety Management Systems. Requirements. The results of the certification audit confirmed the management system compliance, so the certificates were issued, and the number of certified Group Subsidiaries increased from 51 to 57.



**CONTRACTOR RELATIONS**

The works and services agreements shall mandatory include the standard Appendix "Health, Safety, and Environment Requirements to the Organizations Involved in the Works and Services Provided at the Company's Facilities"

and responsibility in case of failure to comply with the requirements. The Appendix states the contractors' responsibilities related to compliance with the HSE requirements, and the requirements related to personnel training and compulsory

briefings, personal protective equipment, transport vehicles in operation, environment protection, prohibiting work permit for employees intoxicated with alcohol, narcotics, or any toxic substance.



## Industrial Safety

Production activities focused on supporting the industrial safety of production facilities in 2018 included target programs, except for the standard ones, of annually implemented operations on diagnosis, maintenance, repair and overhaul.

In Upstream business, the basic Program on Improvement of the Rosneft's Pipelines Reliability allowed to achieve the failure reduction goal resulting decreasing the environmental pollution level and increasing the pipelines safe operation period.

Due to the Program implementation in 2018 the pipelines failure rate decreased by 5.9% year-on-year.

Under Oil Refining and Petrochemicals business, a complex of Programs is implemented to ensure the equipment integrity and to prevent emergency conditions resulting in adverse environmental impact. Under the above mentioned programs, 177 pcs of the most critical pipelines were replaced, 319 blind areas of the process pipelines were eliminated, and 2,062 elements of pipelines were replaced in order to ensure compliance of the material used with the operational conditions.

In Commerce and logistics business, the Company successfully began implementing the first phase of target HSE Program on Equipping Petroleum Product Tanks at the Oil Depot Facilities

with Process Equipment, Monitoring Systems for Hydrocarbons Vapor Concentration in the Atmosphere, and Ventilation Systems. The system will ensure safety of the working spaces and more efficient control over the operational processes. Installation of the siphon drains / stripping nozzles will minimize the risks of unfavorable events during tanks and vessels stripping operations.

In 2018, due to the Company's comprehensive and intense activities aimed to ensure industrial safety the amount of accidents decreased by more than 55% (from 11 to 6).



## Occupational Safety and Health<sup>1</sup>

The managers at all levels identify clear HSE goals according to unified Principles of Company's leadership and priority in life, health and safe working conditions. Activities of the employees and contractors shall comply with the Golden Rules of Labor Safety; they must make provisions to stop the works in case of danger to human life or health.

The Golden Rules of Labor Safety are brief and demonstrative instructions for ten most dangerous work types. The Rules have been introduced in the Company since 2014; they contribute to the employees safety during all production activities.

Rosneft regularly arranges and holds activities ensuring traffic safety,

and implements the initiatives preventing the road accidents.

The Company put in place the Regulations on Transport Safe Operation Management System, which specify requirements to the transport vehicles, equipment and drivers and apply to the Company, contractors and subcontractors. According to the Regulations, as of the end of 2018, 83% of vehicles were equipped with the in-vehicle monitoring systems, and 71% of vehicles were equipped with event data recorders.

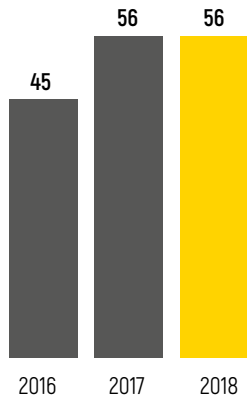
Employees' knowledge and expertise in the field of labor safety are necessary to ensure the works safety. The Company establishes and strictly controls the process of compulsive personnel training, including the Labor Safety Course.

Besides compulsive training, the Company extensively implements the programs of additional in-house training in the field of labor safety. The Company implemented the training practice by efforts of in-house coaches among the Company's employees, who develop the courses on urgent subjects in the field of labor safety. As at 2018, 587 in-house coaches were trained at the Company. During the reporting period, 421 training courses were organized and 5,622 employees were trained at the internal corporate courses, Leadership in Health and Safety, Incident Investigation, HSE Risk Assessment and Management. In 2018, total number of hours for additional in-house training in labor safety was above 300,000 hours.

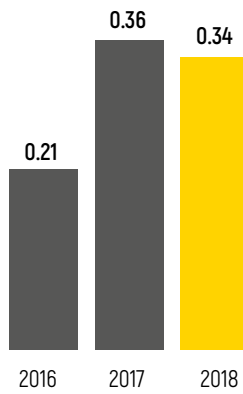
<sup>1</sup> As at the date of the Report publishing, Health and Safety indexes for years 2016-2017 were configured considering all the Group Subsidiaries being under the Rosneft operational management.



Health and Safety Costs, RUB bln



Lost Time Injury Frequency (LTIF)



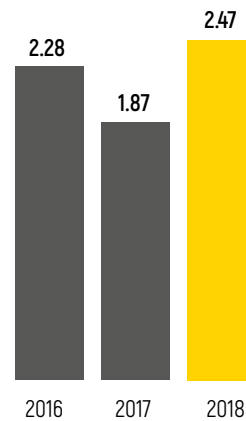
FAR change in 2018 is linked with a flight accident at the Vankor field, when the transportation services were rendered to the Company by a contractor.

The Company assumes the responsibility for saving the people's life and health whether they work at the Company or at contractors/subcontractors. To strengthen the control over such accidents prevention the Company

urgently developed and implemented the following measures:

- arranging the air navigation servicing directly at the Vankor landing field and signing a contract on flight-information service establishing
- implementing the multilevel Company's air support monitoring system, which includes technical aviation audit of the contractor airlines

Fatal Accident Rate (FAR)



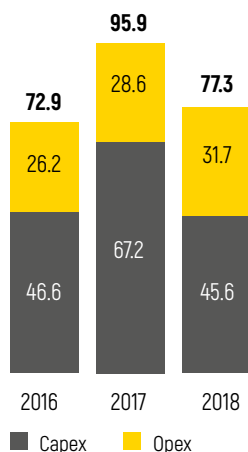


## Environmental Protection

Environmental care is an integral part of Rosneft's corporate culture and social responsibility. Rosneft follows the principle of responsible attitude to the environmental issues. Managing the production processes, the Company accounts for full scope of data related to the environmental impact of the projects planned or being implemented.

In 2018, green investment amounted to RUB 45.6 bln. Over the last five years, the Company's green investment amounted to over RUB 240 bln.

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



**>240**  
**RUB bln**

the Company's green investment over the last five years



## Waste Management and Land Reclamation

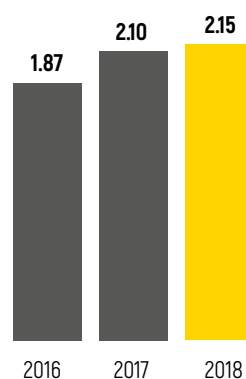
In 2018, the area of accumulated petroleum-contaminated soils reduced by 14%, disposal volume of runoff and spilled oil and petroleum products decreased by 7% and 9%, respectively, the volume of treated petroleum-contaminated wastes exceeded their annual formation by 15% year-on-year.

90% of the accumulated petroleum-contaminated wastes are considered to be "historical heritage", the wastes

generated in the past by business operations of the third parties and located at the territories and/or facilities currently operated/exploited by the Company.

In collaboration with Rosatom the Company implements the target innovative project No.140 focused on developing the technology for treatment of petroleum-contaminated wastes with high radionuclide content.

Water Consumption, bcm



The regions of the Company's operation do not belong to the regions with water supply deficit. The other parties are provided with free access to all water bodies directly or indirectly used for the Company's benefits according to the access provided by the government bodies. The water bodies are generally accessible for all parties concerned, and fauna forms.

Rosneft fulfils the requirements set by the legislation concerning the water resources utilization through timely infrastructure repair and retrofit and implementation of the best available technologies. The Company continuously monitors the environmental conditions allowing to take timely measures minimizing the environmental impact.

In 2018, the volume of reclaimed and serially reused water remained at the level of previous reporting period (about 93% in gross volume of water used for production needs).

Under the Agreement concerning interaction with the Ministry of Natural Resources and Ecology of the Russian Federation and the Federal Service for Supervision in the Sphere of Natural Resource Use the Company implements eight top-priority environmental projects. Six of them are intended to improve water quality and to increase efficiency of its use. The following projects were implemented in this area:

- complex of biological treatment plants at Bashneft-Ufaneftekhim, which is unprecedented in Russia

and in Eurasia countries and which was commissioned in 2018 to provide treatment of production, storm, and house wastewater at Bashneft Refinery and 66 local plants and to reduce abstraction of river water by 2.5 times through the use of treated wastewater;

- completed construction of treatment facility comprising the membrane bioreactor at Novokuibyshevsk Refinery intended to increase the treatment efficiency and to reduce the fresh water consumption at full automation of process.

In 2018, the Company allocated over RUB 1.2 bln for these projects implementation.



## Oil and Petroleum Products Spillage Prevention and Cleanup

The Company is aimed at prevention, reduction and minimization of oil and petroleum products spillage effects.

The Company has established and continues to develop the system for prompt response to oil and petroleum products spillages, for their containment and cleanup in order to minimize

the environmental consequences, including impact on water resources. The activities to prevent oil and petroleum products spillage are carried out together with activities to improve the production facilities and the equipment reliability and provide sufficient resources for spillages isolation and cleanup. Following the target to reduce the volume

of oil spillage, the Company implements the Pipelines Reliability Improvement Program. For example, in 2018 the volume of oil and petroleum products spillage decreased to 2.81 tonnes per 1 mmt of oil produced, i.e. 6% decrease year-on-year.

## Biological Diversity Conservation

The Company has approved and implements the Program on conservation of marine ecosystems biological diversity at the Company's license areas located in the Arctic region of the Russian Federation. Since 2012, the Company has been regularly implementing the comprehensive scientific-research expeditions focused on investigating the state of marine Arctic ecosystems; special attention is paid to marine mammals (walrus, seals) and polar bear populations; the programs of marine environment state monitoring are implemented at the license areas.

In 2018, under the Biological Diversity Conservation Program the Company:

- developed the Guidelines concerning prevention of collisions between human and polar bear for the companies operating in the Arctic Region;
- completed operations on environmental monitoring of marine ecosystem at the Medynsko-Varandeyevsky license area in the Pechora Sea;
- developed a technological form of microbial preparation based on the psychrophilic microorganisms intended for oil contamination disposal in the northern seas. The preparation being developed will allow to make a breakthrough in safe petroleum products disposal in marine

environment at negative temperatures; this preparation can be used particularly to ensure environmental safety of the bunkering process at the sea, port area and oil terminals of the Company's Arctic projects.

Under the International Convention on the Protection of the Black Sea against Pollution (Bucharest Convention), the legislation of the Russian Federation and the Rosneft's Policy on Environmental Protection, since 2017, Rosneft has been financing the Black Sea dolphins study program implemented by the P.P. Shirshov Institute of Oceanology. The first activities took place in September 2018. The results obtained are being analyzed and published, and serve as a basis for improvement of the methodological approaches to minimizing the industrial activities impact on the marine mammals.

Rosneft implements the projects concerning the biological diversity conservation in the regions of operation: the Evenki Deer at the Krasnoyarsk Territory; fish resources recovery in the rivers and water bodies of the Archangelsk, Vologda, Novosibirsk, Tyumen regions, the Krasnoyarsk Territory and the Krasnodar Territory, the Yamalo-Nenets Autonomous District, the Republic of Karelia, the Republic of Sakha

(Yakutia); monitoring of birds population at the territory of Upper Dvuboye swamplands at the Khanty-Mansiysk Autonomous District.

In 2018, the Company completed the works on artificial reproduction of water biological resources in order to compensate the possible damage to water biological resources and their environment. For this purpose about 3.6 mln valuable fish juveniles were released, including peled, Siberian sturgeon, grayling, red salmon, Atlantic salmon, Siberian salmon and muksun in the Republic of Sakha (Yakutia), the Krasnoyarsk Territory, the Kamchatka Territory, the Arkhangelsk Region, the Republic of Karelia and the Khanty-Mansiysk Autonomous District.

**THE COMPANY IMPROVED ITS ENVIRONMENTAL RESPONSIBILITY RATING (WWF, Creon) to rank seven in 2018 from rank ten in 2017. Considering Information Disclosure category, the Company rose by eight points in the environmental responsibility rating: from rank ten to rank two compared to the previous period.**

## Combating Climate Change

As a party to United Nations Global Compact, the Company aims to reduce the impact on the climate change due to its activities. Rosneft-2022 Strategy make provisions for reduction of greenhouse gas emissions. The Company implements the Investment Gas Program and the Energy Saving Program aimed to prevent greenhouse gas emissions in the volume above 8 mmt of CO<sub>2</sub>-equivalent till 2022.

Investment Gas Program is mainly focused on the reduction of associated petroleum gas flaring to the level below 5% according to the target value stated by the Government of the Russian Federation. This can be achieved by means of comprehensive approach to the oil field construction: development of infrastructure for gas gathering, use and supplies to the consumers or gas re-injection in the reservoir.

Under implementation of the pilot project "Well flowback after hydraulic fracturing and gas condensate mixture treatment at Vostochno Urengoy sky license area", the average duration of well flowback operations after the hydraulic fracturing reduced from ten to two days providing for a significant decrease in methane flaring.

A temporary underground gas storage facility and gas compressor station for re-injection of gas being disposed

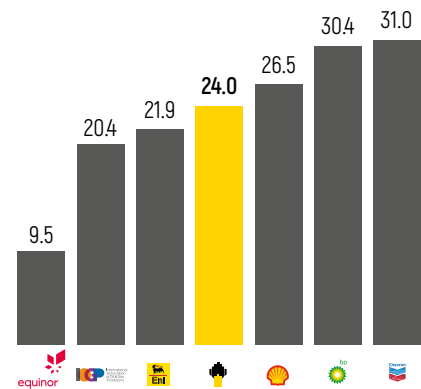
in the reservoir were put into operation at JSC Verkhnechoshnknftegaz. RUB 8,787 mln were invested. Operation of the facilities will allow prevention of APG flaring exceeding 5% and provide a possibility of future appropriate use of the APG reinjected.

To reduce methane emissions during natural gas production, transportation and distribution, the Company consistently undertakes the following measures:

- prevention of atmospheric emissions without flaring through the use of technologies that ensure complete and safe flaring of the whole volume of the gas condensate mixture vented during repair and preventive maintenance;
- running of gas-dynamics surveys of wells without gas release to the atmosphere (surveys with separators);
- regular inspections of equipment and pipelines by the field personnel according to approved schedules and instructions;
- technical diagnosis of pipelines once every two years by expert organization in order to promptly detect the leaks in the equipment/pipelines.

As for greenhouse gas emission (GHG) rates, the Company demonstrates results comparable to the leading global oil and gas companies.

Greenhouse Gas Emissions Indicator, Upstream, tonnes of CO<sub>2</sub> eq./thousand boe<sup>1</sup>



<sup>1</sup> The indicator reflects greenhouse gas emissions (direct and indirect) volume / production volume ratio, tonnes of CO<sub>2</sub> eq./thousand boe



## 4.2

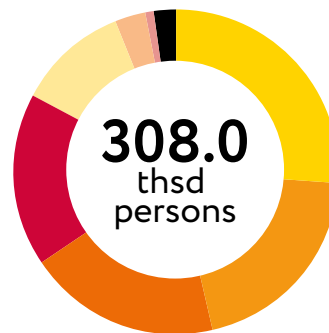
# Personnel and Social Programs

The Company's leading asset is its highly-qualified professionals who are focused on efficiency. Throughout 2018, the average headcount of Rosneft Group Subsidiaries totaled 308.0 thousand. The average headcount increased by 6.0 thousand persons year-on-year.

The headcount increase was primarily due to acquisition of new assets or their including into the Company's Business Plan (Kharampurneftegaz, LLC SevKomNeftegaz, OJSC VNIPIneft, Russian National Research Institute for Oil Refinery, Russian Scientific Research and Process Design Institute of Oil Refining and Petrochemical Industry, Geology and Fossil Fuels Exploitation Institute, etc. – 1.9 thousand employees) in 2018, taking on personnel from third-party service contractors, and the increased number of subsidiaries due to business expansion.

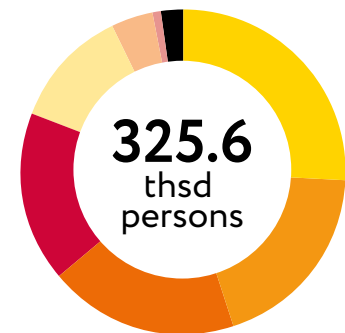
The average age of the Company's personnel did not deviate strongly from previous years, sitting at 40.2 years (40.1 years as at the end of 2017). Executive positions were held by 38.1 thousand employees (37.3 thousand in 2017), In 2018, the percentage of executive employees amounted to 12.4% of overall average headcount that is almost equal to the percentage in 2017 (12.3%).

Average-Headcount in 2018



Upstream, including gas	26%
In-house service (oilfield services)	20%
Commerce and logistics	19%
Oil refining and petrochemicals	17%
Corporate services	11%
Research	3%
Head Office (Rosneft)	1%
Other	2%

Nominal Roll as at 31 December 2018



Upstream, including gas	26%
In-house service (oilfield services)	19%
Commerce and logistics	19%
Oil refining and petrochemicals	17%
Corporate services	12%
Research	4%
Head Office (Rosneft)	1%
Other	2%

## Workforce Productivity and Organizational Effectiveness

As workforce productivity remains a key priority for the Company, the internal methods of calculating workforce productivity were updated in 2018 for the entire Company, its major businesses, and the Group Subsidiaries. The target for workforce productivity across the entire Company was met

as of the end of 2018 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 is taken into consideration as part of the annual business planning procedure when target headcounts are being discussed.

During 2018, fourteen standard corporate structures were developed and distributed

to the Group Subsidiaries for production and functional activity areas of the Group Subsidiaries within the major businesses. The structures will be implemented in steps by 2020 inclusive. The work on standard corporate structures will continue in 2019.

To gain benefits from automation of methodologically unified HR business processes, distributing the "Unified corporate template of HR management, work payment and social development" methodology was continued among

34 Group Subsidiaries based on two corporate IT-platforms: SAP and 1C.

## Talent Pool Management

**1** Rosneft's talent pool was managed in 2018 through HR committee meetings held by business areas and under the chairmanship of the Company's top managers, in which a talent pool was approved for target first-level management positions. The talent pool of Bashneft Group Subsidiaries was developed.

The process of automating the Company's talent pool continued throughout 2018. 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.

**2** In 2018, 10.3 thousand employees were assessed for including into the talent pool and development of succession pool members' skills. Approximately 2.3 thousand succession pool members benefited from the training.

## 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, 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.

In 2018, 534.8 thousand compulsory vocational, and managerial training man-courses were taught, exceeding the year's plan by 22%.

## Management Training

To develop management skills of the Company's current executives and the talent pool, the following important corporate programs were implemented in 2018:

- MBA and mini-MBA – four programs hosted by MGIMO University of the Ministry of Foreign Affairs of the Russian Federation in association with the Nord University Business School (Norway) and the Polytechnic University of Turin (Italy), the Saint Petersburg State University and the Gubkin Russian State University of Oil and Gas for 125 participants;
- training courses for management potential enhancement, such as Management Analysis, Leadership, Process Control, for 118 participants;
- training courses for personal performance development, such as Negotiations, Effective Presentation Skills, Stress Management, Emotional Intelligence, for 150 participants;
- the General Director University – a three-level advanced training program for the senior managers of the Group Subsidiaries hosted by the Saint Petersburg State University and involving teachers from the NOVA University (Portugal) for 96 participants.

<sup>1</sup> The standard corporate structure includes a standard subordination diagram, detailed description of functionality, standard numbers of employees per functions (if applicable and possible).

## Professional Training by Business Areas

In 2018, the Young Engineers Comprehensive Program was continued, involving the career planning and development of young engineers in the following Upstream business areas: Drilling Supervizing and Engineering, Oilfield Chemistry, Offshore Drilling Supervizing, Offshore Drilling, Sedimentology and Sequence Stratigraphy, Petrophysics, Sedimentology. 167 young engineers of the Company were trained under the programs.

In association with the Lomonosov Moscow State University Business School, the professional retraining program for Production Efficiency Improvement and Production Rationalization Methods was organized for 40 shop supervisors and succession pool members of extraction enterprises.

More than 1,650 employees of the Company's Group Subsidiaries participated in the international training

course Well Monitoring. Gas, Oil and Water Inflows Well Control.

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, offshore petroleum geology of the Russian Federation at both the Gubkin Russian State University of Oil and Gas, and the Lomonosov Moscow State University.

Through 2018, seven short-term corporate training courses were carried out in the following areas: Modern Refinery Technologies and Innovations, Securing Accident-Free and Reliable Operation of All Types of Process Unit Equipment, Production Planning and Control at Refining Facilities, etc.; and the Oil Refining and Petrochemistry professional retraining program was implemented.

151 Company's employees took part in the programs.

During execution of 2018–2020 Roadmap for Enhancing Energy Efficiency and Implementing the Energy Management System at Rosneft, 360 employees from 67 Group Subsidiaries were taught under four Energy Efficiency programs hosted by the Ufa State Petroleum Technical University.

Thirteen corporate advanced training programs for procurement were organized, including ones on the following subjects: Inventory Management; Basis of Corporate Procurement of Goods, Works, Services. Procurement Legislation of the Russian Federation; Category Management; Management of Negotiations with Suppliers; Procurement by Auctions and Tenders; Lotting. The Company implemented the professional retraining



program for Supply System Management in the Oil and Gas Sector. 691 Company's employees participated in the abovesaid training programs.

Eight corporate training courses were organized for capital construction: Construction Project Management; Studying the Experience of Large-Scale Investment Projects Implementation; Advanced Methods of Design and Organization of Oil and Gas Facilities Capital Construction; Organization of CAPEX Current Planning and Accounting; etc., where 416 Company's employees were taught.

Under the Company's retail development strategy, training in corporate

service standards is currently in progress for filling stations, marketing, and associated product sales.

The Gubkin Russian State University of Oil and Gas and the Polytechnic University of Turin organized joint programs: Practical Engineering and Oil and Gas Production Technologies; Engineering Economics of Oil and Gas Production; Occupational Safety. 114 Company's employees took part in training.

Rosneft organized mandatory training of 1,671 employees under the Occupational Safety program at the Gubkin Russian State University of Oil and Gas.

More than 15 thousand Company's employees were involved in classroom and distance learning on anti-corruption, fraud management, and compliance.

## Development of In-House Training Expertise

47% of training (253 thousand man-courses) is provided internally through corporate training centers with in-house coaches, experts, and workplace mentors.

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

In 2018, the Rosneft Corporate Training and Development Center at MGIMO University (Odintsovo Branch) was refitted with additional equipment. The project for the Company's Technical Skills Center

at the Gubkin Russian State University of Oil and Gas is continued.

The Company has started up the project for creation of the Professional Training Center with practical training sites in 2018–2020 at the Grozny State Oil Technical University, the Chechen Republic. The first stage was completed in 2018, including renovation and equipment of premises in the laboratory building for the Center arrangement and provision of training activities in it.

The Company is developing an internal training system to retain and share expertise within the Company.

Through 2018, a total of 537 internal Company-wide training courses were developed and taught to 10,491 employees.

150 training courses were executed under the Company's in-house coaches training program, where 1,840 coaches were taught.

Over 53 thousand distance learning man-courses were conducted in 2018.

In 2018, 36 Company's mentors took part in the Mentor All-Russian Forum and Best Mentor Competition organized by the Administration of the President of the Russian Federation. Two mentors – representatives of OJSC Achinsk Refinery and OJSC Samaraneftgaz – came through to the Competition final.



## Participation in WorldSkills movement

The Company participates in WorldSkills, a global movement promoting vocational skills, providing preparation and running of the corporate championship in the Laboratory Chemical Analysis in Novokuibyshevsk (July 2018) with 30 participants and 32 experts involved. The Company's team (six participants,

six experts) participated in Hi-Tech 2018 national championship in Yekaterinburg in three categories. The team members took the second prize in the Laboratory Chemical Analysis category and the third prize in the Occupational Safety category. They came forth in the Electrical Wiring category.

The Company participated in the national WorldSkills 50+ championship "Skills of Wise". The representative of OJSC Ryazan Oil Refining Company came the third in the Laboratory Chemical Analysis category.



## Training of Foreign Citizens

Rosneft engages its foreign partners in discussions relating to personnel training for their involvement in future joint projects and business projects in the fuel and energy sector.

In 2018, Rosneft continued its joint educational projects with both Cuba Petr leo (Cuba), Petr leos de Venezuela S.A. (PDVSA) (Bolivarian Republic of Venezuela), and the Mongolian Ministry of Education, Culture and Science. Rosneft

continued organizing on-the-job training for KazMunayGaz employees at Rosneft's facilities in Kazakhstan.

In March 2018, Rosneft and the Qatar Foundation signed the Science and Education Cooperation Agreement providing for advanced training and retraining of Russian and Qatar specialists and engineers in educational institutions supervised by the Qatar Foundation and leading Russian universities

being Rosneft partners. Collaborative work on the training process arrangement is in progress.

In September 2018, Rosneft and the China National Petroleum Corporation (CNPC) signed the Education and Training Cooperation Agreement providing for implementation of joint educational projects and programs on oil and gas subjects, as well as sharing experiences

in technology development in the oil and gas industry.

In compliance with the Agreement provisions:

- CNPC's employees underwent the on-the-job training at RN-Uvatneftegaz and RN-Center of Expert Support and Technical Development (Tyumen) in practical aspects of project management in October – November 2018. The training was attended by 20 managers of CNPC production departments.
- The Company's employees participated in practical training in oil recovery enhancement methods in China (Daqing, Chengdu) in December 2018, including sharing experiences in technology utilization and service provision at CNPC enterprises and sharing best practices. 23 managers of development, production and drilling departments were trained.

Within the framework of Educational Cooperation Agreement between Rosneft and ONGC Videsh Ltd (India), 20 managers and experts in production, processing and sales areas of Indian oil and gas companies were taught at the Gubkin Russian State University of Oil and Gas on production intensification and oil recovery enhancement at oil fields. The training took place in December 2018 and was held in English.

A three-party educational agreement was signed by Rosneft, the Saint Petersburg State University and NOVA University on 30 November 2018, so implementation of joint programs was started.

In 2018, 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 at two meetings.

According to the last monitoring, the Company applies approximately 250 out of over one thousand approved national professional standards, with 38 standards being qualification prerequisites (depending on a subsidiary's business). The standards apply to over 37.5 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. According to the Council's Action Plan, Rosneft has developed three industry standards with involvement of its Professional Expertise Center, the Nefteyugansk Corporate Institute, in 2018. These standards were publicly discussed in the community of professionals.



## 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 the 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 2018 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. The Model reflects the Company's culture and values, and includes an outline of each senior manager's skills. In 2018, the Company used its Skills Model for over 17 thousand employee assessments.

The professional and technical skills assessment of the 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), the Tomsk Polytechnic University (for Oil and Gas Production and Offshore projects), as well as leading Russian and foreign consulting companies.

In 2018 under the TIP the materials for the following business units were worked out by the Corporate Research and Design Institutes (CRDI): Procurement, Energy Efficiency Improvement; Economics, Finance, Accounting and Tax Accounting; Gas Projects; Oil Refining and Gas Processing, Oil and Gas Chemistry, and Energy.

Within the scope of the TIP, the professional and technical skills and tools of personnel

enhancement assessment by business units were developed and implemented into the Company activities: Offshore Projects, Oil Refining, Oil and Gas Production, Oil Products Supply, Logistics and Transport, Capital Construction, Economics and Finance, Procurement, Energy Efficiency, Drilling and Well Retrofitting, Field Development.

Sets of materials for personnel assessment in Gas unit and Oil Refining and Gas Processing, Oil and Gas Chemistry, and Energy (CRDI) unit were prepared in 2018. Materials for assessment of professional and technical skills in CRDI Geology and Development unit, as well as CRDI Survey and Design Works of Production unit, were updated.

The professional and technical skills assessment system was implemented in 2018 for workers of nine key trades in Oil Refining, Oil and Gas Chemistry business units and three trades in Production business unit. The Company developed materials for skills assessment relative to six trades in Internal Service business unit. The project is being implemented in response to government policy on developing the national qualifications system, and its outcomes are the basis for the professional standards of the Ministry of Labor of the Russian Federation. Over 14 thousand of senior managers, specialists and workers underwent professional and technical skills assessments in 2018.

## Youth Policy

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

In line with its youth policy, Rosneft is also actively working on building an external

young talent pool based on educational institutions in its regions of operation. In accordance with Rosneft – 2022 Development Strategy, one of the youth policy priorities in 2018 was working with talented youths.

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. Rosneft class – from school to enterprise – is one of the Company's strategic projects.

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 with advanced technical studies 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, 2,762 students attended 117 Rosneft classes that operated successfully in 2018

at a total of 62 educational institutions located in 56 cities and settlements of the Russian Federation (26 regions).

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

In 2018, four Rosneft classes were opened in the cities of Ufa (the Republic of Bashkortostan), Tyumen (the Tyumen region), Vladivostok (the Primorye Territory) and Izluchinsk urban-type settlement (the Khanty-Mansi Autonomous Area – Yugra). The Rosneft classes in Vladivostok and Bolshoy Kamen focus on training specialists in shipbuilding, in response to the rapidly growing shipbuilding cluster in the Russian Far East.

In 2018, the Company started development of a system for working with talented school students in Rosneft classes: special attention to participation of Rosneft class students in school Olympics movement, organization and execution of a pilot

affiliate program for talented students of Rosneft classes hosted by the Sirius Educational Center (Sochi) in association with Talent and Success Educational Foundation. The Program was vocationally orientated; the educational component was implemented by means of project activities of the participants with direct involvement of young CRDI scientists and engineers.

The Pre-University Training project makes a strong positive impact on the Company's reputation across the 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. In 2018, 116 graduates of Rosneft classes were hired by 33 Group Subsidiaries, a total of 678 graduates of Rosneft classes were hired by 52 Group Subsidiaries.





## Work with Young Specialists

In 2018, 3,994 young specialists worked in 108 Group Subsidiaries, 1,459 of them were hired during the current year.

The work with young specialists is accomplished according to the Regulations on Organizing Work with Young Specialists covering all focus areas of work with the mentioned target audience:

- onboarding;
- training and development;
- recognition and development of potential leaders;
- progress assessments;
- financial support and social protection.

77 young specialists councils and the Supervision Institute work for onboarding of young specialists at the Group Subsidiaries. Training and professional growth of the young specialists take place according to their individual development plans.

In 2018, for development of professional, technical, corporate and managerial skills of young specialists:

- a total of 3,378 man-courses were conducted under professional, technical, and managerial skills development programs;
- participation of 2,391 young specialists in regional and cluster R&D conferences was organized. The Inter-Regional Research and Development Conference was attended by 334 young specialists, 93 of which were prize-winners, and 83 projects were recommended for implementation.

In efforts to build up a strategic young talent pool, 360 young specialists of the third year of employment from 74 Rosneft Group Subsidiaries underwent performance assessments in the form of competitive business evaluation games from June to September 2018. Based on the game results, 171 young specialists from 56 Group Subsidiaries were selected as ones 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 2018, 115 young specialists were selected based on the results of the competitive business evaluation games that were held the year prior.

Aimed at increasing the efficiency of young professionals councils, the Annual Council Conference for Young Specialists was held in December 2018, attended by 71 participants.

In 2018, Rosneft's work on implementing the Youth Policy was highly esteemed by the Ministry of Energy of the Russian Federation – the Company was announced the winner of contest The Best Socially Oriented Company in Oil&Gas Industry in 2018 in nomination The Youth Policy.



## Cooperation with Universities

In 2018, cooperation with 60 universities in Russia and abroad was developed under the related agreements in the majority of the Company's regions of operation. Among them, 24 are Rosneft's partner universities.

Agreements with the universities contribute to rapid development of cooperation in the field of personnel training and retraining, scientific and innovative activities, improvement of education and research infrastructure of universities for highly qualified specialists training according to current business needs.

In 2018, the Company took the following steps in line with cooperative agreements with universities:

- continued functioning of 21 departments and establishment of two new specialized departments involving 78 employees
- continued implementation of the universities infrastructure development projects improving the quality of specialists training (the Marine Engineering Research and Educational Center at the Saint Petersburg State Marine Technical University; Rosneft's drilling laboratory at the Tyumen Industrial University; the Engineering Research and Educational Center Rosneft – Ufa State Petroleum Technological University; etc.);
- continued financial support of interdisciplinary and convergent investigations cluster establishment in the field of sciences concerning education under the Russian Academy of Education Development Program for 2017–2020;
- career guidance and image-building events - Rosneft's Days - attended by over 20 thousand students;
- 7,014 students and 39 teaching employees of the universities passed practical training at the Company's enterprises;
- In 2018, the Company's Administration organized long-term practical training for 105 Master's students of Rosneft's partner universities.

In 2018, the Company promoted the cooperation with

# 60

Russian and foreign Universities



## Charitable aid to educational institutions

Rosneft and Group Subsidiaries provide charitable aid to educational institutions of different levels to build an external talent pool and to provide the Company with a long-term talent pipeline, to develop partnership relations with the educational institutions training the specialists according to the business needs of the Company and participating in implementing the corporate continuing education framework "School – University – Enterprise". The aid is aimed at:

- supporting the education program syllabuses and organizing additional education in the disciplines relevant to Rosneft classes;

- providing the specialized classrooms with equipment;
- organizing the professional development of teachers;
- organizing team-building and career guidance events for students;
- working with talented students.

In 2018, Rosneft allocated RUB 213.6 mln to develop educational and infrastructural cooperation with higher and vocational education institutions, including improving and developing material and technical resources of the educational institutions, supporting operations of the specialized departments and Master's courses

of the partner universities to meet the Company's strategic project needs, supporting the gifted students who aim for professional development within the Company, and the talented teachers (742 corporate scholarships and 209 corporate grants were awarded in 2018). RUB 973.9 mln were allocated for the charitable aid to educational institutions for the mentioned areas.

## Social partnership and social benefits

For development and consolidation of the Corporate Social Partnership Program, Rosneft carried out the following activities in 2018:

- continued activities on making positive and mutually profitable decisions together with the Interregional Trade Union Organization of Rosneft with respect to improvement of the Standard Collective Agreement of Rosneft Group Subsidiaries. In 2018, more than 35 updates and additions improving the social security of the employees were made;
- tradition of annual meetings between the Company's various focus areas managers and the HR and social service representatives with leaders of labor union organizations affiliated with ITUO Rosneft is maintained. The meeting held in November 2018 in Moscow covered major concerns of the personnel of Group Subsidiaries both as to the Company development strategy, priority tasks and projects, and to the more specific issues: indexation of wages, quality of workwear and order of its procurement process, provision

with subsidized vacation tours, pension schemes, as well as issues pointed by the union leaders and requiring consideration by the Company.

Besides the Corporate Social Partnership Program, Rosneft actively promotes social partnership at the industrial level. Thus, in 2018, the Company continued activities within the framework of partnership relations with the Russian Association of Oil and Gas Employers. In this regard, Rosneft's representative was included into the Council of the Russian Association of Oil and Gas Employers (the collective control body). During the reporting year, the Company's representative attended the meetings of four Social and Labour Relations Regulation Committees. According to the results of this work, the Industry Agreement on the Companies of the Oil and Gas Industry and the Construction of the Oil and Gas Industry Facilities of the Russian Federation was amended allowing joining the Group Subsidiaries on reasonable terms. After such amendment, 63 Group Subsidiaries joined to the Industry Agreement.

# 63

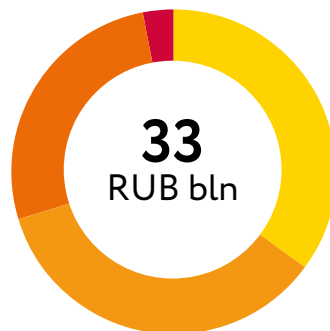
Group Subsidiaries joined to the industrial agreement concerning organizations of oil and gas industry and construction of oil and gas complex facilities in the Russian Federation

## Social Programs

Rosneft has been one of the most socially responsible employers in Russia for years. In 2018, according to the additional initiatives to Rosneft-2022 Strategy approved by the Board of Directors, the focused efforts on promoting the motivation and social security of the Company's employees and pensioners were significantly enhanced.

In 2018, the Company allocated RUB 33 bln (for reference, RUB 28.1 bln in 2017) to creating optimal working conditions, promoting healthy lifestyles, and providing its employees with healthcare and social guarantees. Rosneft's management has been committed to meeting high social security standards for its employees.

### Key Social Policy Costs



■ Private pension schemes .....	35 %
■ Healthcare, healthy lifestyle promotion, and other social contributions .....	35 %
■ Optimal workplace conditions and social infrastructure maintenance .....	27 %
■ Housing .....	3 %

# 17%

growth of key social policy costs in 2018

## Corporate Pension Schemes and Social Support of Veterans

The corporate pension program is an integral part of the Company's HR and social policy. The program is aimed to promote the social security of the employees while retiring.

Pension contributions made by Rosneft Group Subsidiaries under such schemes totaled RUB 11.6 bln, while RUB 455.4 mln in social support were provided to veterans.

In 2018, JCS Targin, JSC Kondaneft, PJSOC Bashneft integrated in the Group before, and a number of other Group Subsidiaries have signed the pension agreements with JSC Neftegarant Non-State Pension Fund. Thus, since the beginning of 2018, about 17 thousand employees of the Group Subsidiaries have been provided with corporate pension as an additional social security level.

For more than 10 years, the veteran social assistance program has been supported in the Company involving 27.5 thousand persons at the end of 2018 and providing monthly corporate pension payment through the JSC Neftegarant Non-State Pension Fund. Annual indexation of corporate pensions at 5% was undertaken under the veteran project.

The Company also continues providing financial assistance to retirees on holidays, subsidizing resort treatments, and granting one-off bonus payments.

In addition to corporate pension schemes for the Company's employees, in 2018 the Active Longevity Program has been developed and approved focusing on improving the social conditions for retirees on holidays. The Program will be implemented within three years beginning from 2019. It includes two initiatives:

- One-time indexation of corporate pensions granted through the year 2010;
- Annual indexation of all corporate pensions covered by NFP Neftegarant investment income allowing to keep the purchasing power of corporate pensions during the whole period of payment.

Implementing the mentioned initiatives allows not only to extend the existing amount of social benefits and guarantees for the Company's employees, which are well above the mandatory social package, but also to raise the social security of retirees on holidays.

The Company intends to maintain a strong focus on the development of its corporate pension program, as it helps address social issues and provides the Company with a competitive advantage by attracting and retaining the best talent in the industry.





## Corporate Housing Program

For over 13 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 886 families were improved through long-term mortgages provided by Rosneft in 2018.

Relocated specialists are provided with corporate apartments, the total number of which in the Company's regions of operation exceeds 1.5 thousand.

# 886 families

of the Company's employees improved their living conditions in 2018

## Working Conditions and Recreation

Rosneft continued an integrated program aimed at creating favorable working conditions for its employees in 2018. The program's key focus is the construction and development of 95 employee housing complexes. Rosneft's living quarters accommodated for close to 35 thousand employees of the Company and its contractors in 2018.

In 2018, the expenditure on the maintenance of industrial social service facilities totaled RUB 7.6 bln.

In 2018, the capital investments in construction, renovation, development and arrangement of employee housing, supporting facilities, sites, and workshops amounted to RUB 8 bln.



## Health Care and Personal Insurance

Rosneft consistently provides a range of healthcare and personal insurance initiatives to its employees with the primary objective to preserve career longevity, bolster health and promote a healthy lifestyle.

The major initiatives include:

- provision of emergency and planned medical aid for employees, including at remote and inaccessible Company's production facilities;
- voluntary health insurance that provides Company's employees access to high-quality healthcare

services at the finest Russian medical institutions in addition to the standard government ones;

- provision of resort and rehabilitation treatment services for employees;
- implementation of programs on disease prevention and reduction, promotion of healthy lifestyle, conducting the recreational activities;
- 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 aeromedical evacuation of injured or sick persons from the production facilities.

At present, all Company's health centers are supplied with modern medical equipment. Considerable attention is given to medical personnel qualifications and large-scale medical training alerts focusing on exercising the emergency medical treatment skills, including aeromedical evacuation.

Under Rosneft–2022 Strategy approved by the Company's Board of Directors, implementation of the following target programs has been started:

- equipping the health centers with modern training aids for exercising the emergency medical treatment skills;
- creating corporate telemedicine network consolidating the health centers of remote production facilities and the major regional advisory centers in order to significantly improve availability and quality of medical service in the inaccessible regions of Company's operations;
- organizing and conducting the standard medical examination of the Company's employees focused on early identification of cardiovascular and oncological diseases.

Since 2017, the Company has been successfully implementing the program on prevention of the Group Subsidiaries' employees cardiovascular diseases focusing on preserving the career longevity, reducing the risks of temporary disability, permanent disability and early mortality. In 2018, over 100 thousand employees from 140 Group Subsidiaries were involved in the program.

Live Longer! program is being implemented, which provides medical screening and identification of disease development risk factors, supporting of sports initiatives and involving of the Company's employees in active lifestyle.

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 2018, Rosneft provided health resort treatment to a total of 78 thousand employees, their families, and retirees both in the Company's own health resorts and those of the third parties. Implementing the program on employees recreation and rehabilitation in the Republic of Cuba is continued. During the past year, over two thousand persons were treated in the Cuban health resorts. Throughout the whole period of cooperation since December 2013, over 10 thousand employees and their families improved their physical condition in the Republic of Cuba.

In 2018, the personal insurance programs (voluntary health insurance

and voluntary accident insurance) covered over 300 thousand employees of the Group Subsidiaries and Rosneft Head Office.

Voluntary health insurance primarily focuses on extending the amount of medical and preventive treatment institutions for medical services rendering, including involvement of high-technology multi-field clinics with modern equipment, proximity of medical aid service to employees' place of residence and improvement of medical services quality.

Voluntary accident insurance agreements concluded by the Group Subsidiaries ensure twenty-four-hour protection of employees in case of total/partial disability and resulting loss of income. Insurance terms and conditions ensure receiving the insurance indemnity by an employee's family in case of accidental death. In 2018, 38 Group Subsidiaries considerably increased the individual amounts insured, within which the insurance indemnity can be paid to employees or their families.



## 4.3

# Social and Economic Development of Regions and Charity in 2018

Rosneft represents the national interests not only in the sphere of oil and gas sector. Along with development of industrial potential it systematically implements the charity policy focused on integrated social and economic development of the regions of the Company's operations.

Under the cooperation agreements concluded by Rosneft with regional government agencies on an annual basis, the Company supports developing the raw-materials base, improving the investment climate and preserving the social stability in the regions; implements the programs focused on the development of industrial and scientific potential of the regions, increase of environmental safety level and production energy efficiency.

Cooperation agreements also establish the arrangements on coordinated solution of tasks related to social sphere development, and define the main directions, principles and formats of balanced bilateral interaction.

Federal Law No. 135-FZ dated 11 August 1995 "On Charitable Activity and Charitable Organizations" states the charitable activities goals followed by the Company, including:

- 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.

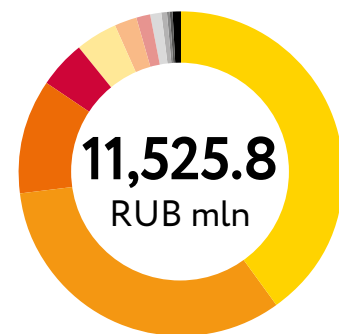
In addition, the fixed and mandatory conditions for the Company when carrying out the charitable activities are:

- legal compliance;
- social responsibility;
- openness and transparency;
- prevention of corruption.

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.

In 2018, Rosneft traditionally donated considerable finances for social infrastructure development and creation of comfortable environment in a number of localities.

Charity Expenses in 2018



Development of physical education and sports, including children's sports, promotion of healthy lifestyle .....	40.2%
Infrastructure development in regions, districts, and municipalities .....	33.0%
Education, research .....	11.4%
Healthcare .....	4.7%
Culture .....	4.3%
Kindergartens .....	2.2%
Support for veterans, the disabled, and people in need .....	1.4%
Support for indigenous peoples of the North .....	0.9%
Charities, NGOs, humanitarian aid .....	0.7%
Orphanages .....	0.4%
Revival of cultural heritage .....	0.2%
Others <sup>1</sup> .....	0.7%

<sup>1</sup> Including pensioner support, low-income families, youth organizations, municipal events, social facilities and amenities, and agricultural enterprises, environmental projects



A substantial part of social investments was allocated for the redevelopment of urban and rural areas, construction and repair of road traffic system and engineering infrastructure facilities, provision and improvement of material and technical resources of the strategic vital infrastructure facilities, implementation of regional and municipal programs related to housing and utility development and environmental improvement.

In the field of supporting education, science, and youth policy in 2018, along with the conventional repairs, redevelopment, and improvement of material and technical resources for schools and kindergartens, the Company plays a crucial role in ensuring anti-terrorist security, fire safety, and sanitary and epidemiological control at the mentioned organizations.

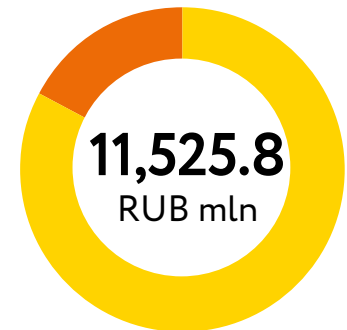
The primary focus areas of the Company's charitable activities in 2018 were represented by designing new educational,

cultural and recreational, sports facilities, and completing construction of existing ones to improve the living standards of the residents in the regions of the Company's operation to the highest level.

In addition, in 2018, Rosneft conventionally supported a wide range of international and regional activities focused on developing the physical training, promoting the grassroots and junior sports, supporting the education and culture, science, art, enlightenment, patriotic upbringing, and intellectual development. Many of the projects mentioned have become a claim to fame for the regions of the Company's operation.

The Company's annual charitable policy is integral with health maintenance, sponsorship of child welfare institutions, organizations uniting the disabled people and veterans of war and labor, with financial assistance and running events confined to the Victory Day of the Great Patriotic War.

#### Charity Financing in 2018, RUB mln



■ Social financing under signed agreements .....	9,543
■ Individual charitable projects .....	1,983



## 4.4

# Company's Sponsorship

Rosneft traditionally 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 sports.

In 2018, Rosneft and its Group Subsidiaries allocated RUB 2,057 mln for the sponsorship projects, this being evidence of the Company's social responsibility.

In 2018, Rosneft lent assistance to nine Russian and foreign business forums and conferences. Among them: the St. Petersburg International Economic Forum and the Eastern Economic Forum attended by the President of the Russian Federation,

the Russian Energy Week International Forum, and a number of others.

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



The Sretensky Monastery Choir in Doha



Rosneft supports the St. Petersburg Eifman Ballet



A unique exhibition of the Japanese Edo Painting and Engraving in the Pushkin Museum of Moscow

Tula Football Club. Rosneft supports the Russian car manufacturers and contributes to the development of motorsports in Russia, being a sponsor of Lada Sport Rosneft racing team. The Company is a title sponsor to the International Sambo Federation.

Rosneft is reviving and building the traditions of business and cultural community partnership. In 2018, the Company provided financing to a unique exhibition of the Japanese Edo gravures in the Pushkin Museum of Moscow and an exhibition of works of an Italian artist of XV century, Piero della Francesca, at the State Hermitage Museum.

Rosneft is sponsoring and bolstering its partnership with the D.D. Shostakovich St. Petersburg Academic Philharmonia. The Company sponsored a symphony concert performed by the philharmonic orchestra under the baton of Yu.Kh. Temirkanov in Berlin. Rosneft is a primary sponsor to the International Bravo Music Awards, the White Nights festival, and others.

It is actively involved in developing cultural relations between countries. In 2018, within Russia – Qatar bilateral year, Rosneft was

a title partner of the painting collection exhibition "Russian avant-garde: Pioneers and Direct Descendants" at the State Tretyakov Gallery and got up the Sretensky monastery chorus concert. Both events were held at the capital city of Qatar, Doha.

Environmental protection and safety are one of the Company's priorities. Rosneft strongly contributes to environmental support and protection and focuses particularly on the protection of endangered species and studying of marine mammals. In 2018, the Company continued its comprehensive program (started in 2013) to protect polar bears living in Russian zoos. The Company provided financial support to the first sea expedition to study the Black Sea dolphins undertaken by the P.P. Shirshov Institute of Oceanology affiliated to Academy of Sciences. The studies were conducted for the first time since the early 1980s and very important in obtaining information about the Black Sea condition as a whole. In addition, the Company supports a number of projects developed by the scientists of Siberian Federal University and focused on the investigation of Evenk deer, sable, and Red Book goose species.

## 2.1 RUB bln

total sponsorship expenses of the Company in 2018

## 9 Russian

and foreign business forums and conferences got assistance



Russian Circuit Racing Series – Lada Sport Rosneft team



Sambo competitions



## 4.5

# Improvements in 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 2018, the Company's<sup>1</sup> fuel and energy resources consumption totaled 20,501 thousand tonnes of coal equivalent (tce)<sup>2</sup>, or RUB 227,483 mln in monetary terms.



<sup>1</sup> Data are given from 100% for the most energy-intensive assets under the direct operating management of Rosneft over 2018.

<sup>2</sup> Physical units of electrical power and heat power are converted into nominal units as per GOST R 51750-2001, units of fuel – as per Resolution No46 of the Federal State Statistics Service.



### Breakdown of Energy Consumption and Energy Expenditures in 2018 by the Segments of Operations

Segment	Fuel and Energy Consumption			In thsd tce/RUB mln	Share of fuel and energy resources, %
	Electrical power, thsd kWh / RUB mln	Heat power, thsd Gcal / RUB mln	Fuel, thsd t / RUB mln		
Oil and gas production	40,533,890 / 130,632	2,808 / 6,254	1,769 / 3,048	7,748 / 139,934	37.8%
Oil refining	6,209,655 / 18,809	20,059 / 20,863	4,532 / 24,174	10,550 / 63,847	51.5%
Petrochemicals and gas processing	2,528,491 / 5,935	7,662 / 6,169	402 / 1,295	1,990 / 13,399	9.7%
Gas production and distribution	54,778 / 287	29 / 55	- / -	11 / 342	0.1%
Marketing and distribution	387,574 / 1,909	70 / 94	6 / 37	64 / 2,039	0.3%
Services	542,455 / 6,049	168 / 168	34 / 1,718	138 / 7,934	0.7%
<b>TOTAL</b>	<b>50,256,843 / 163,620</b>	<b>30,796 / 33,603</b>	<b>6,743 / 30,260</b>	<b>20,501 / 227,483</b>	<b>100%</b>

## Energy Saving Program

In 2018, the Company launched its 2018–2022 Energy Saving Program approved by the Board of Directors in December 2017. It is aimed at more efficient use of electricity and heat, as well as boiler and furnace fuel across key business lines.

Moreover, Rosneft's 2019–2023 Energy Saving Program was developed 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 4,351 thousand tce, or RUB 49,099 mln.

### Actual Savings of Fuel and Energy Resources in 2018

Segment	Savings in 2018			In thsd tce	Share, %
	Electrical power, thsd kWh	Heat power, thsd Gcal	Fuel, tce		
Oil and gas production	1,765,425	66	23,876	642	55.2%
Oil refining	108,438	994	260,422	445	38.3%
Petrochemicals and gas processing	26,420	268	19,265	68	5.9%
Gas production and distribution	205	6	468	14	0.1%
Marketing and distribution	13,101	1	760	5.4	0.5%
Services	1,877	1	322	1.1	0.1%
<b>TOTAL</b>	<b>1,915,466</b>	<b>1,136</b>	<b>305,112</b>	<b>1,163</b>	<b>100%</b>

## Implementation of the 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 2018:

- the list of Group Subsidiaries under Rosneft's 2019–2023 Energy Conservation Program has been revised; new gas and oil producing assets - LLC Taas-Yuryakh Neftegazodobycha, JSC Kondaneft, and JSC Suzun - have been added; five enterprises have been excluded from the Energy Conservation Program, following the consolidation/disposal of assets and considering the absence of new energy-saving activities within 2019–2023;
- the standard corporate structure of the business units has been updated according to the energy efficiency of the oil and gas production plants based on the energy consumption criteria, number of production facilities, and their remoteness;
- the internal energy efficiency training has been streamlined; training materials have been prepared, with the Energy Efficiency Managers of Group Subsidiaries appointed as in-house coaches (the in-house training target for Q4 2018 – 2019 is 1,580 employees);
- The Company's Reference Guide «the Best Available Technologies, Technical Solutions, and Equipment for Enhancing Energy Efficiency and Energy Saving in Crude Hydrocarbon Processing» was developed, it describes and outlines the recommendations for applying 629 energy efficiency technologies in the project activities and optimizing the current technological and support processes;
- In 2018, LLC Bashneft-Dobycha was certified by ISO 50001 International Standard for Energy Management Systems; the certification of LLC Sorovskneft, LLC Bashneft-Polyus, PJSC Bashneft branches (Bashneft-Ufaneftekhim, Bashneft-Novoil, Bashneft-UNPZ), and PJSC Ufaorgsintez is scheduled for 2019.

## Power Generation Development

In 2018, major power generating facilities were built and commissioned within the scope of projects intended to meet the projected demand at oil and gas producing Group Subsidiaries:

- 110/35/6 kV 2x40 MVA Ugutskaya-2 and 110/35/6 kV 2x40 MVA Ombinskaya-2 substations with 110 kV feeders (23 km) to LLC RN-Yuganskneftegaz;
  - 110/35/6 kV 2x40 MVA substation of Vstrechnoye field, 2x40 MVA Sredneugutskaya-2, Argo 2x25 MVA with 110 kV feeders (21.5 km) built for LLC RN-Yuganskneftegaz under the grid connection agreements with JSC Tyumenenergo;
  - 110/35/10 (2x25 MVA) at PWDU of the Titov field with 110 kV overhead power line (81 km) from 220/110/35 substation (2x63 MVA) of LLC Bashneft-Polyus;
  - the Company finished the construction and started pre-commissioning operations of 220 kV facilities comprising three 220 kV substations (220/110/10 kV 2x63 MVA Pikhtovaya substation, 220/110/10 kV 2x125 MVA Lyantinskaya substation, 220/110/35 kV 2x63 MVA Protozanovskaya substation) and 220 kV overhead lines with 320 km total length for LLC RN-Uvatneftegaz;
  - 36 MW gas turbine electric power plant of the Kondinskoye field of JSC Kondaneft.
- The transformer capacity in the 220-110 kV voltage class was increased by 922 MVA in 2018. Generating capacity was increased by 36 MW.
- In meeting the projected heat demand at the FEY Zvezda Shipbuilding Plant, construction of boiler house No. 1 (phase one and two), with installed heat capacity of 165 Gcal/h, was completed in 2018.
- In accordance with the instructions of the Russian President, Vladimir Putin, the Company constructed and commissioned 10 kV submarine cable duct of 5 km long on the bottom of Lake Ladoga from the Vladimirskaia Bay to the Konevets Island, and 10/04 kV 2x2 500 kVA central distribution transformer substation.

## Improvement of Power Supply Reliability

With a focus on higher reliability and efficiency of power supply for the existing and projected production facilities, the Company conducted technical audits of power equipment maintenance and management. In 2018, eight technical audits were conducted, with the elaboration of actions on improving power supply reliability.

In 2018, 1038 corrective actions were carried out, the scheduled time for 1875 actions is not expired yet. The corrective actions allowed a 23% reduction year-on-year of the number of power-generating

equipment emergency shutdowns in own networks of oil and gas producing subsidiaries in 2018 that resulted in a 26% decrease of the specific oil underrun index at emergency shutdowns over 2018.

The technical audits also include checks of health and safety regulatory requirements observation during the equipment operation. The injury rate during power-generating equipment operation declined by 33% year-on-year due to execution of corrective actions in 2018.

In the same year, the number of power-generating equipment emergency shutdowns in own networks of oil and gas producing subsidiaries reduced by 23% year-on-year.

In 2018, the injury rate during power-generating equipment operation declined by 33% year-on-year.





## 4.6

# Localization and Development of Industrial Clusters

## Import Substitution and Equipment Localization Program

In 2015, Rosneft developed and implemented the Import Substitution and Equipment Localization Program in the Russian Federation (hereinafter referred to as the Program).

The Program is based on the Company's strategic goals and objectives in line with the Rosneft-2022 Strategy and the Company's Long-Term Development Program.

The Program is focused on the Company's goals and based on its strategic priorities, such as efficiency, sustainable growth, transparency, social responsibility, and technological self-sufficiency.

Program activities are aimed at the following objectives:

- ensuring Rosneft's development as an advanced oil and gas company;
- sustaining the technological leadership in key competencies: oil and gas production, oil refining, and gas processing;
- establishing the Company's sustainable technological position in the hydrocarbon market by increasing the share of Russian products and implementing the projects intended for the localization of foreign equipment manufacturing in Russia in cooperation with the world leading manufacturers of oil and gas equipment.

The implementation of the Program activities improves oil production efficiency.

Delivering the extensive production plans is inextricably linked with the increase in production drilling and technological advancement. In 2018, the share of advanced horizontal wells in the Company's drilling projects grew by 10% year-on-year.

To promote the technological self-sufficiency as related to high-tech drilling equipment, the Company implements import substitution projects in cooperation with JSC Bashneftegeofizika and ROSATOM, including the development and testing of the domestic rotary steerable system and equipment for high-tech well logging during and after the drilling.





## Technologies and Equipment for Geology and Field Development

Hard-to-recover reserves are highly important for the Company's future development. Effective monetization of these categories of reserves is directly related to the ability to determine their geological and geophysical characteristics.

The Company has been implementing the import-substituting project «Technological Strategy for Developing the Advanced Well Logging» as part of the import substitution activities for the high-tech well logging. In accordance with the cooperative agreement between Rosneft

and ROSATOM, the Company is developing well logging instruments with the elements of nuclear magnetic and neutron technologies.

Russian catalysts production development is another strategic focus area of the Company. In 2018, the Company introduced a new line of arctic motor oils that maintain reliable operation of vehicles at extremely low temperatures. OMTI fire-resistant oil provides safe operation of power plants and is designed for high-power turbines, including those used in nuclear power plants.

Rosneft also sees the development of own specialized software applications as one of key strategic areas. In particular, RN-KIN software package covers 100% operational tasks related to field development, whereas RN-KIM software package offers 100% of the basic functionalities for 3D hydrodynamic simulation of oil fields. RN-GRID software package is intended for hydraulic fracturing operations with a full design cycle, ensuring 100% import substitution, and is available for commercial use by oil and gas companies.

## Industrial and Shipbuilding Cluster in the Russian Far East

Upon instruction from the President of the Russian Federation, an industrial and shipbuilding cluster was established through OJSC Far Eastern Shipbuilding and Ship Repair Center (FESRC), with a core shipyard, the Zvezda Shipbuilding Complex in Bolshoy Kamen.

The Zvezda Shipbuilding Complex is a large-scale project that is crucial for the whole country and the Russian shipbuilding industry. This is the first Russian shipyard for the construction of large-capacity vessels with a metal working capacity of 330 ktpa, meeting

the demands of Russian oil and gas producers for building the nuclear-power vessels, drilling platforms and marine equipment for natural resource production on the Russian continental shelf.



The total investments in the Zvezda Shipbuilding Complex project will exceed RUB 200 bln.

A shipbuilding cluster is rapidly developing around the Zvezda Shipbuilding Complex, thus promoting maximum localization of the shipyard production chain in the Primorye.

In 2018, the Zvezda Shipbuilding Complex was equipped with a unique floating transfer dock with a carrying capacity of 40 thousand tonnes. The floating dock is one of the largest in Russia and allows launching vessels with a maximum length of 300 m and a maximum width of 50 m, and other marine facilities. The floating dock also allows lifting, shifting to the pier and lowering of vessels under repair, towing of a ship or drilling platform element within the operating area.

The most state-of-the-art shipyard in Russia is equipped with high-technology equipment facilitating the application of high-precision methods of metal marking, welding, and cutting (including laser techniques). The shipbuilding process also involves testing methods based

on non-contact measurements and 3D modeling, modern technologies to control the production cycle throughout all stages – from the design documentation development to vessel commissioning.

In 2018, the ice-class tanker was constructed and delivered to the Customer at the Dalzavod Ship Repair Center, being a part of JSC FESRC.

In 2018, the keel-laying ceremony of the first ship of Aframax class tankers was held on the open-air heavy outfitting berth as part of the visit of the President of the Russian Federation, Vladimir Putin, to the Zvezda Shipyard. The Zvezda Shipyard started serial manufacturing of modern large-capacity vessels for crude oil and petroleum products transportation. Aframax tankers will be the first ships of such type built in the Russian Federation.

As at the end of 2018, the Zvezda Shipbuilding Complex concluded the contracts for the construction of 36 vessels, including Aframax class tankers, Arctic shuttle tankers, supply vessels, and a shallow-draught icebreaker

in accordance with the long-term utilization plan.

Rosneft places a particular emphasis on social infrastructure expansion in Bolshoy Kamen and construction of housing for shipyard employees. In 2018, the first block of apartments was commissioned.

## 36 vessels

will be constructed at the Zvezda Shipbuilding Complex according to the contracts concluded





## Sapphire Applied Engineering and Training Center

### Project to Design Steerable Thrusters

An industrial shipboard equipment cluster is formed around the Zvezda Shipbuilding Complex. The cluster also comprises a workshop of the steerable thrusters production plant that can be used for ice-class vessels, including gas carriers.

LLC VRK Sapphire Plant, a joint venture of Rosneft and General Electric, manages the project for design and localization of the production of steerable thrusters, a key component of marine electric propulsion systems.

At the present day, the building of the steerable thruster production plant is constructed, while the activities on designing 7.5 MW steerable thrusters for multi-functional support ice-breakers are near completion. Designing of 15 MW steerable thrusters has been started.

## Construction of a Coastal Support Base for Offshore Projects

In pursuance of Resolution No. Pr-1553 of the President of the Russian Federation, Putin V.V., dated 11 July 2013, Rosneft is continuing to build a supporting infrastructure for oil and gas projects on the Russian Arctic shelf in the residential area of Roslyakovo in Murmansk.

Along with upgrading the plant's ship repair facilities, the Company plans to construct a coastal support base on the premises of OJSC Ship Repair Plant 82 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.

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, the Company developed basic design solutions.

**AN INDUSTRIAL SHIPBOARD EQUIPMENT CLUSTER IS FORMED AROUND THE ZVEZDA SHIPBUILDING COMPLEX.**



## 4.7

# 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 2.1 trln.

The procurement process is designed to meet the demand of Rosneft's 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 2018

**1** As a vertically integrated holding company, Rosneft performs the consolidated procurement of goods, works, and services for Group Subsidiaries. This approach is consistent with the recommendations of federal executive bodies. Rosneft's procurement is centralized at 69.3%, including 55.3% of procurement handled by the Head Office, and 14.0% sourced regionally.

**2** In an initiative to improve procurement efficiency, the Company transitioned to signing long-term contracts, providing favourable commercial terms.

In 2018, 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 cables, chemicals, substations, pumping equipment, buildings, shut-off and control valves, as pertaining to capital construction, drilling, oil production, and non-production works and services.

**3** The Company is committed to establishing long-standing relationships with suppliers. Its local regulations stipulate long-term (18-month) accreditation, thereby reducing costs incurred by potential suppliers participating in procurement procedures. In 2018, a total of 7,566 potential suppliers of goods, works, and services had valid accreditation to participate in procurement procedures.



**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. Maximum transparency is ensured through publishing their procurement plans, information on procurement procedures and their outcomes, and on the signing and execution of contracts (nearly 99% data on procurements being executed is publicly available in the Internet).

**5** To achieve the procurement objectives and key principles via the electronic trading platform CJSC TEK-Torg (in Rosneft's section), the Company and Group Subsidiaries initiated 58,605 procurement procedures with a total initial (maximum) value of RUB 2.035 trln and registered 40,382 suppliers (cumulative result since the electronic trading platforms has been launched) in 2018.

**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 in 2018 (including those signed by Group Subsidiaries on behalf of Rosneft and considering payments falling on 2018) amounted to RUB 34.8 bln, with RUB 10.2 bln worth of contracts signed as a result of direct procurement from SMEs. SMEs account for over 76% of the total number of suppliers with valid accreditation in Rosneft.

**8** The Company is implementing a comprehensive program to automate its procurement processes. Based on 2018 results, core tasks were completed across key IT projects and business areas:

- Transition to electronic document workflow: an IT solution was implemented that enables signing electronic contracts as a result of procurement procedures, allowing a sixfold reduction of the average contracting term (from 30 to 5 calendar days), and excluding the costs of contract paper copy administration. More than 50 Group Subsidiaries have implemented and use the functionality for signing electronic contracts. As of today, more than 10 thousand contracts worth over RUB 200 bln have been signed.
- The questionnaire and specification base (hereinafter - the base) has been completed. The base provides

for high-level standardization of materials and equipment through the use of unified questionnaires.

- According to the IT development priorities, the Company has developed and approved the concept design of procurement processes and initiated the project for implementing the corporate vertically-integrated procurement within the pilot outline. The project is aimed at creating the shared information space for the through business-processes and a common control space based on a modern hi-tech IT platform.

## 4.8

# Research, Design, and Innovations

## Research and Innovations

Rosneft carries out its innovative activities in accordance with the Innovative Development Program approved by the Company's 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 in key performance indicators for operating processes;
- increasing the Company's capitalization and competitive advantages in the global market.

In 2018, to confirm the justified selection of focus areas and KPI targets for the Company's innovative development, the technological development level and the Program KPIs were compared with the same KPIs of the leading peer companies.

### TOTAL

R&D costs in 2018 amounted to RUB 32.1 bln.

# 57

## applications

for obtaining security documents were submitted by the Company in 2018

## Target Innovative Projects

Over the reporting year, comprehensive works were executed for the implementation of R&D results

and registering intellectual property rights. Following the results of innovation activities in 2018, the Company filed

57 applications for obtaining security documents.



## Key Project Results Achieved in 2018

### Upstream



- Positive results were obtained when testing the low-permeability reservoir production technology based on horizontal producing and injection wells with multi-stage hydraulic fracturing at a pilot site of the Prirazlomnoye field. Development elements involving horizontal wells as injection ones (HW for reservoir pressure maintenance) proved to be effective:
  - the average specific injectivity index of horizontal wells was three times higher than that of vertical wells;
  - the fluid flow rate decline in the pilot wells (HW for reservoir pressure maintenance) was above the basic engineering technology.
- Based on the testing results, the technology was rolled out at LLC RN-Yugansneftegaz, involving 77 wells (41 producing wells and 36 injection wells).
- At the Priobskoye field, testing of high-speed hydraulic fracturing technology was continued 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.
  - Approaches to the localization of potentially productive zones in argillaceous and siliceous low-permeability rocks of Upper Jurassic deposits were developed. Exploitability categories of these deposits were mapped, and LLC RN-Yuganskneftegaz planned the horizontal drilling with multi-stage hydraulic fracturing, accordingly.
  - An integrated solution on decontamination and disposal of petroleum-contaminated soil with a high content of natural radionuclides was developed. Design inputs for a pilot production plant for technology testing were prepared.
  - Rosneft developed procedures and technologies of the survey, localization, and development of reserves, as well as the assessment of potential resources at the Berezovskaya suite deposits. While implementing the project, the Company booked significant B1B2 gas reserves in 2018.
- Technologies of structure remodeling and prediction of oil and gas occurrence in paleobasins were developed to improve the exploration efficiency and build up the Company's resource base.
- A technology was developed for the integration of multi-scale studies to research deposits of the Jurassic high-carbon formation (Bazhenov suite) of the Tomsk-Tyumen zone, Western Siberia. Maps of relative density distribution of formed hydrocarbon compounds were constructed.
- The Company developed the design documentation for a mobile modular unit of early initial water separation and electricity generation from the separated APG. This unit reduces the time period for putting the field on production and obtaining commercial products and minimizes the risk of unreasonable expenses for capital construction facilities.

## Science-Intensive Technological Software



- RN-GRID software package designed by the Company, the first industrial hydraulic fracturing simulator in Eurasia, was brought into commercial production. The Company has become the first in Russia to phase out the import hydraulic fracturing simulation software. The simulator makes all calculations required for the hydraulic fracturing design and analysis. In 2018, RN-GRID software was used to conduct over 4 thousand hydraulic fracturing operations with the complete design cycle.
- The corporate RN-SIGMA software suite for industrial use was designed for the geomechanical modeling of the bore hole stability during drilling. The designed software suite allows mitigating the risks of drilling troubles. The software suite is undergoing pilot testing at the Company's Subsidiaries.
- RN-KIM hydrodynamic simulator software modules were developed to examine geological and hydrodynamic models, to model hysteresis of relative permeability and capillary forces, to simulate horizontal multilateral and multihole wells. In 2018, 67% hydrodynamic models were generated in RN-KIM, the software solution is handed over to the industry-related departments at the leading universities for training the Company's specialists. According to the results of the project, the own simulator will not only cover 80–90% of the Company's need for hydrodynamic modeling, but also allow the active use of artificial intelligence technologies for field development planning.
- The geological modeling software modules of RN-Geosim software suite were designed to ensure task flow control, well logging data visualization and processing, 2D and 3D visualization of geological features, and structural surfaces design. Based on the project results, RN-Geosim software suite will satisfy 80% of the Company's demand for hydrodynamic modeling.
- The process modeling software modules of RN-Simtep software suite were designed for calculation of physical and chemical properties, the pipelines network, and surface infrastructure facilities. According to the project results, RN-Simtep will satisfy up to 80% of the Company's demand for production process modeling. The software is planned to be further developed to fit the oil refinery and petrochemicals areas.
- A prototype intelligent management system of Company's standard design system was developed for collecting, storing and using the documentation in the preparation of the Company's design specifications, design and procurement activities.

## Arctic Shelf



- The Kara-Summer 2018 research expedition was organized and conducted in the Kara and Laptev Seas. The obtained research results will be used to design facilities and to perform operations in the Company's license areas on the Arctic shelf. During the expedition, the recently installed measuring infrastructure facilities were maintained.
- The meteorological surveys were conducted in the area of the Khastyr temporary field base (the Khatanga



Bay, the Laptev Sea) during the summer and autumn 2018. The data collected in course of the meteorological and actinometric observations will be also used to forecast the ice evolution in the Khatanga Bay depending on the thermodynamic conditions.

- The wellhead and wellhead setup winterization methods were studied

during a two-year cycle of exploration drilling on the Arctic shelf for Ragozinskaya-1 and Ragozinskaya-2 sites, the Vostochno-Prinovozemelsky-2 license area in the Kara Sea. Conceptual solutions were developed for protective structures that provide shelter for wellhead setup from dangerous ice formations under various geotechnical conditions.

- As part of the research work «Comprehensive Study of International Legal Problems of the Development of Hydrocarbon Resources in the Arctic», the international legal regime of oil and gas development on the continental shelf was studied and proposals were made to amend the current legislation of the Russian Federation accordingly.

## Associated Petroleum Gas Monetization Technology



- Design inputs for GTL-1.5 pilot production plant were prepared.
- A sample of synthetic crude oil with higher isoalkane content was generated to investigate the impact of synthetic crude oil on qualitative parameters of commercial oil products.

## Oil Refining and Petrochemicals



- The design inputs and basic design of the pilot production plant for manufacturing synthetic high-viscosity polyalphaolefin base oils were drafted. These oils are used as feedstock for gearbox oils and oils for high-load assemblies and mechanisms.
- The design inputs for industrial production of the third-generation fire-resistant oil used in high-power turbines, including nuclear power plants installations, were completed. Technical and regulatory documentation to produce the fire-resistant oil test batch was prepared: specifications, industry standards, and quality certificates for target and intermediate products.
- Design inputs for a pilot production plant of isopropyl alcohol by hydrogenation of acetone using a proprietary technology were drafted.
- Technologies for producing own line of reagents for oilfield chemistry, including corrosion inhibitors, salting inhibitors, inhibitors/solvents for asphalt, resin and paraffin deposits, hydrate inhibitor/solvents, and mutual solvent, were developed.
- The composition and method of obtaining depressant-dispersant additives for diesel fuels, with the advantage of bifunctionality - a combination of depressant-dispersant and anti-wear properties were elaborated

- The performances were confirmed by independent testing at the Company's refineries.
- A pilot batch of Ht-100RN diesel fuel hydrotreating catalyst was produced and loaded into one of the diesel fuel hydrotreating units of the Company's refinery. The catalyst was developed by LLC RN-TsIR to obtain winter and arctic diesel fuel with sulphur content of 7 ppm maximum.
- The preparation technology of the catalyst for hydrotreating the mixture of straight run diesel and secondary process diesel fractions was developed and issued as specifications and process manuals to prepare the catalyst test batch.
- A technology was developed to prepare the synthetic component of RN-RKM-7, RN-RKM-10 oil bases for the aerospace industry.
- The Russian-made Mixoil V4-38 thickening agent was selected and adapted for the additive package for all-season energy efficient hydraulic oils of HVLP level. Test batches of the additive package and all-season energy efficient hydraulic oils were produced according to the technologies developed.

### Polymeric Materials for Oil Production



- A test batch of ultra-lightweight polymeric proppant based on polydicyclopentadiene (PDCPD) was generated. At the end of 2018, the first stage of the pilot project was delivered, including the low-capacity hydraulic fracturing operations with the use of proppant at three wells of the Samotlor field. The hydraulic fracturing performed proved that the proppant could be injected to the formation without any technical problems. Utilization of PDCPD proppant in the Company's operations will efficiently develop previously unprofitable, and thus, undeveloped hydrocarbon deposits.

### CORPORATE RESEARCH AND DESIGN COMPLEX

Rosneft includes 29 corporate research and design institutes employing over 13.5 thousand highly qualified specialists, about 5% of them holding ScD and PhD degrees. Specialized institutes were established on the basis of the corporate research and design institutes that have become competence centers in focused and difficult activity areas.

100% of Rosneft's oil and gas production projects were supported as part of the Corporate Research And Design Complex operation. Starting this year, 361 project design documents for field development (including those related to the Company's key fields - Russkoye, Suzunskoye, Verkhnechonskoye, Kuyumbinskoye, Kharampur,

and Northern tip of the Chaivo field) were developed and approved by the Central Development Commission of the Federal Agency for Subsurface Use of Russia (Central Development Commission of Rosnedra).

## Adaptation and Adoption of Advanced Technologies in 2018

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 2018. 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 producing subsidiaries.

In 2018, 20 Group Subsidiaries tested 149 technologies. A total of 721 tests was conducted as part of pilot test projects, and 119 thousand tonnes of incremental oil production were recovered as a result. 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, the Company implemented and rolled out 92 new technologies that had been previously tested as part of the pilot tests and of which the economic viability had been confirmed. The scope of implementation and roll-out amounted to 3.9 thousand items, with funding totaling RUB 1,889 mln.

### Implementation of Projects for New Technologies Testing

Activity	Quantity, pcs	Total incremental oil production, thousand tonnes	Total economic benefit, RUB mln
Testing of new technologies	149	119	905
Implementation of tested technologies	92	552	5,898

As part of the efforts to implement the results of Target Innovative Projects, 10 license agreements worth a total of RUB 66.8 mln were signed for the transfer of software solutions (RN-KIM, RN-GRID, Gorizont+, technology of synthetic high-index low-cold-test base oils,

technology for detection of cavernous fractured reservoirs and their parameters specification by the innovative methods of scattered wave processing and interpretation), including to train students in industry-related programs at leading Russian universities.

In 2018, the combined proven economic benefit from the results of Targeted Innovative Projects implemented over the last three years exceeded RUB 21 bln.









# 05

## Corporate Governance

### Implementing the Growth Prospects

The market capitalization growth by more than 40% since the approval of the Rosneft 2022 Strategy - despite the volatility of the oil market - indicates a high appreciation of management's decisions by the investment community

## Message from the Chairman of the Board of Directors

### Dear shareholders and investors,

In 2018, our Company continued to implement one of the most ambitious strategies in the industry - Rosneft - 2022. Due to diligent efforts of the Company's management and employees, we managed to increase business profitability, improve the quality of project management and corporate culture, and enhance our technological capabilities.

During 2018, the Board of Directors has maintained continuous contact with the executive bodies regarding key management matters. The Board of Directors focused on the issues of risk management and audit, assessment of performance of governing bodies' members, accelerated technological development, KPIs monitoring, etc.

The Board of Directors understands the Company's role and responsibilities in the Russian and in the world economy. We are giving considerable attention to the security matters, introducing the best risk management practices and training methods for the Company's employees and our counterparties.

Sustainable development is our strategic priority. In the reporting year, the Board of Directors reaffirmed its commitment to the UN sustainable development goals. We firmly intend to pursue this course to enhance the Company's advantage as a responsible world energy leader.

In 2018, the Technological Council was established comprising the Board members, representatives of leading research institutes, businessmen, and innovation and technology experts. The Technological Council is an advisory board aimed at promoting the Company's development strategy in technologies and innovations.



The Company is one of the major issuers in the Russian stock market. With our shareholders in mind, we expand our portfolio of assets, improve management efficiency and quality of corporate governance:

- in 2018, the Company has ensured a high level of dividend payout;
- the Board of Directors approved the share repurchase program intended for market price support.

We mean to continue taking steps for long-term sustainable growth of the Company's shareholder value.



## 5.1

# Key Principles and Improvement of the Corporate Governance System in 2018

Rosneft is one of the leaders in the global oil market and national capital market, and one of the largest taxpayers and employers in the Russian Federation. Commitment towards sustainability is governed by the Company's role in the national and global economy, which is considered in corporate management approaches.

### CORPORATE GOVERNANCE TARGET

maintaining the long-term sustainable growth of shareholder value.



## Guidelines of the Company's Governing Bodies

### CARE FOR SHAREHOLDERS

The Company operates in line with the best practices in corporate governance, the requirements of the CBR Corporate Governance Code, and ensures:

- equal and fair opportunities for exercising shareholder rights;
- strategic management by an efficient and competent Board of Directors with an adequate number of independent directors, accountability of the Board of Directors to shareholders;
- efficient risk management and supervision of significant corporate actions, including those in affiliated organizations;
- full disclosure of most important aspects of the Company's operations to shareholders and investors.

The Company allocates a substantial portion of net income for dividend payouts. A total of RUB 225 bln was paid out by the Company to the shareholders as dividend in 2018 (see more on p. 260). The Company is committed to developing effective communication with the shareholders (see more on p. 264).

### INNOVATIONS AND GLOBAL LEADERSHIP

The Company strives to achieve global leadership in the industry and invests in modern technologies (see more on p. 201).

The Technological Council comprising the leaders of business, science

and technology sector was established in the Company. In 2018, new developments related to advanced materials creation, exploration and oil production were demonstrated (see more on p. 202).

### FAVORABLE ENVIRONMENT FOR THE COMPANY'S SUSTAINABLE GROWTH

The Company cares about people: employees and their families, as well as local community members in the regions of the Company's operation (see more on p. 172).

The Company cares about the environment by gradually introducing clean extraction technologies for mineral raw materials (see more on p. 168).

The Company supports the development of culture and sports, invests in healthcare and contributes to reviving spiritual values (see more on p. 187).

The Company's relations with its counterparties and employees are based on the commitment to high ethical standards and universally recognized values (see more on p. 199).

### PARTNERSHIP WITH PUBLIC ORGANIZATIONS AND COOPERATION WITH STATE INSTITUTIONS

The Company is a participant in the UN Global Compact. In 2018, the Board of Directors reaffirmed its commitment to UN sustainable

development goals (see more on p. 26). The Company is one of the largest taxpayers in Russia (see more on p. 31).

### SECURITY TO SHAREHOLDERS AND KEY STAKEHOLDERS

Company's care about consumers and counterparties is implemented by introducing the best practices of risk management and internal

control, developing the industrial safety and cyber risk protection technologies, and ensuring products safety (see more on p. 246).



## Key Achievements in 2018

- Self-assessment of performance of the Board of Directors was undertaken.
- Performance assessment of the Board of Directors was initiated with the involvement of an outside consultant. The assessment results will be presented in 2019.
- Performance of the corporate governance framework was audited.
- The Company's Regulations on Insider Information were updated.
- The performance audit of the risk management framework and internal controls was completed.
- Assessments were carried out to check that Board candidates and the elected members of the Board of Directors meet the independence criteria.
- Compliance monitoring in the Company was finished. The effectiveness of the current framework was confirmed by the Board of Directors.
- The pilot implementation of the analysis information system "Corporate Governance" was started. This system is established for enhancing shareholder relations, automating the key corporate governance processes and achieving a high level of information protection. The system production start-up is expected in 2019.

## 2019 Priorities

- Improving the corporate governance system to ensure shareholder value protection and capitalization growth.
- Sustaining our leadership in corporate governance practices among Russian publicly quoted companies.
- Updating the Company's Charter and internal documents to accommodate the amendments to corporate law applied in 2018.

### THE COMPANY'S CORPORATE GOVERNANCE

complies with 93.2% of recommendations of the CBR Code, which is higher than the 2017 indicator by 0.8% and significantly higher than the minimum threshold (65%) recommended by the Federal Agency for State Property Management - Rosimushchestvo (the results of assessment for compliance with the recommendations of the Bank of Russia's Code are given in Appendix 3 to this Annual Report).



## Corporate Governance and Control Structure

The Company maintains a two-level management model involving a division of management functions between the Board of Directors and the executive bodies.

### Board of Directors

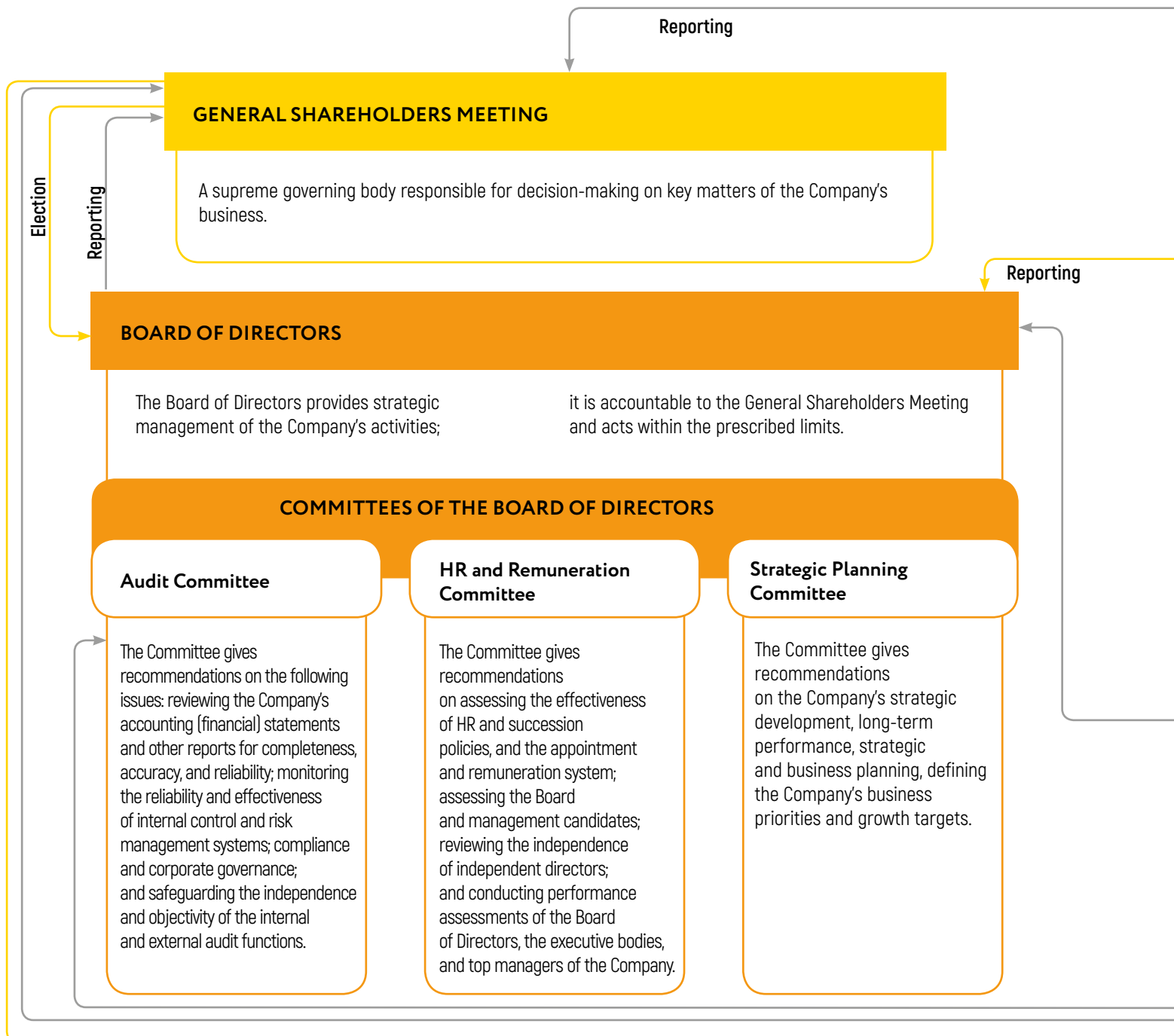
The Board of Directors has two key functions in line with the Law of the Russian Federation::

- control over the executive bodies;
- strategic management of the Company's activities involving the approval of strategic documents and major transactions.

### Executive Bodies

- The legislation provides for the mandatory sole executive body (Chief Executive Officer) authorized to act in relations with third parties on behalf of Rosneft without a power of attorney.
- The Company has established the Collective Executive Body (the Management Board) headed

by the sole executive body. In compliance with the Law of the Russian Federation, the Management Board and its members are not authorized to take legal action and close any deals on behalf of the Company without a power of attorney.



**EXECUTIVE BODIES**

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 Officer**

**Management Board**

**Coordinating and consultative bodies**

Coordinating and consultative bodies under the Company's Chief Executive Officer for enabling further elaboration of individual matters:

- Technological Council;
- Investment Committee;
- Budget Committee.

Other coordinating and consultative bodies under the management system:

- Council for Business Ethics;
- Central Procurement Committee;
- Information Technology Review Board;

- Review Board for Quality and Safety of Petroleum Products;
- other Company's coordinating and consultative bodies.

**Head of Internal Audit is appointed by the Board of Directors**

**Administrative subordination**

**INTERNAL AUDIT SERVICE**

Assesses the robustness and effectiveness of the Company's business processes, identifying the internal potential for improving the Company's financial and business performance, including that of the Group Subsidiaries.

**CORPORATE SECRETARY**

Ensures the compliance of the Company's governing bodies with the legislation, the Charter and internal documents, which guarantee exercising of the rights and legitimate interests of shareholders. Supports activities of the Board of Directors and effective communications between shareholders, the governing and supervisory bodies, and the Company's management.

**Functional subordination**

**EXTERNAL AUDITOR**

A commercial organization selected through the procurement process and approved by the General Shareholders Meeting of the Company upon the recommendation of the Board of Directors based on the assessment by the Audit Committee.

**AUDIT COMMISSION**

Supervises the financial and business operations of the Company and performance of its governing bodies, executives, units and services, branches and representative offices.

**Election**

**Reporting**

Set-up, assessment

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

## 5.2

# General Shareholders Meeting

The General Shareholders Meeting is the supreme governing body. In the reporting year, two General Shareholders Meetings were held – one Annual and one Extraordinary Meeting.

## Annual General Shareholders Meeting

On 21 June 2018, Rosneft's Annual General Shareholders Meeting was held in Krasnoyarsk, attended by holders of 92.5% of the Company's shares.

The Annual General Shareholders Meeting approved the Annual Report, the Company's Annual Accounting

(Financial) Statements, and Net Profit Distribution of Rosneft for 2017 (including dividend payouts). The Meeting also elected the Board of Directors and the Audit Commission, determined their remuneration at the end of the reporting period, and approved the External Auditor of the Company.

The Meeting was broadcast live to shareholders in locations where the Company operates and on its production sites<sup>1</sup>. While viewing the broadcast, shareholders could ask their questions on the agenda.

## Extraordinary General Shareholders Meeting

On 28 September 2018, Rosneft's Extraordinary General Shareholders Meeting was held by absentee voting. The Meeting resolved to pay out dividend

based on 1H 2018 results. The voting was attended by holders of 92.4% of the Company shares.

**ALL RESOLUTIONS ADOPTED BY THE GENERAL SHAREHOLDERS MEETING** were fully complied with in 2018 as at 31 December 2018.

## Board of Directors

The Board of Directors is elected by the General Shareholders Meeting and provides strategic management of the Company's activities for the benefit of the Company and its shareholders.

A Chairman and Deputy Chairmen of the Board of Directors are elected at the first face-to-face meeting of the Board.

The responsibility of the Board of Directors and Management Board members, Chief Executive Officer and key employees is insured by the Company (see more on p. 241).

Details on the membership and proceedings of the Board of Directors are disclosed on Rosneft's official website.

<sup>1</sup> Gubkinsky, Izhevsk, Irkutsk, Komsomolsk-on-Amur, Krasnodar, Moscow, Nakhodka, Neftekumsk, Nefteyugansk, Nizhnevartovsk, Ryazan, Samara, St. Petersburg, Tyumen, Tuapse, Usinsk, Ufa, Khabarovsk, Yuzhno-Sakhalinsk, the Vankor field, and the Achinsk Refinery.



## 5.3

# Members of Rosneft's Board of Directors

as at 31 December 2018

On 21 June 2018, the General Shareholders Meeting elected a new Board of Directors among the candidates with considerable experience in strategic management and competencies sufficient to make well-informed and unbiased decisions on economic, financial and risk management issues. The composition of the Board of Directors is in line with the scope of the Company's business and needs.



### Gerhard SCHROEDER

Chairman of the Board of Directors,  
Independent Director

Chairman of the Shareholders' Committee of Nord Stream AG (Switzerland), Chairman of the Board of Directors at Nord Stream 2 AG (Switzerland), Chairman of the Supervisory Board at Hannover 96 GmbH&Co. KG (Germany), Deputy Chairman of the Supervisory Board at Herrenknecht AG (Germany).

Born in 1944.

1976 Graduated from the University of Goettingen, the Department of Law.

Foreign fellow of the Russian Academy of Sciences.

1998–2005 Chancellor of Germany.

Since September 2017 Elected as a member of Rosneft's Board of Directors.



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**.

**1984** Graduated from Leningrad State University. 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.

Since June 2004 Elected for the first time as a member of Rosneft's Board of Directors.

**From 2004 to June 2011** Chairman of the Board of Directors. Re-elected to Rosneft's Board of Directors in November 2012. Since June 2013: Deputy Chairman of Rosneft's Board of Directors.

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 Rosneft's share capital).

Has been actively involved in the development of social sphere, science, sports and education, being the Chairman of the Board of Trustees at St. Petersburg Academic University of the Russian Academy of Sciences, Deputy Chairman of the Supervisory Board Russian Volleyball Federation, member of the Board of Trustees of Lomonosov Moscow State University, National Intellectual Development Foundation, St. Petersburg State University, the Graduate School of Management of St. Petersburg State University, State Federal-Funded Educational Institution of Higher Professional Training Saint-Petersburg Mining University, Federal State Budgetary Institution Russian Academy of Education, MGIMO University of the Ministry of Foreign Affairs of the Russian Federation, Non-Government Organization Russian Geographical Society, member of the Supervisory Board at the Global Energy Association, Chairman of the Board of Trustees at FSBI Granov Russian Research Center for Radiology and Surgery Technologies under the Ministry of Health of the Russian Federation, member of the Board of Trustees at the Foundation for Churches Construction in Moscow, University gymnasium (boarding school) of Lomonosov Moscow State University, member of the Supreme Supervisory Board of the Russian Boxing Federation.



## 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**.

**1981** Graduated from the Bruno Leuschner Higher School of Economics (Berlin).

**2006–2016** Managing Director of Nord Stream AG (Switzerland).

**2008 – present** Director of Interatis AG (Switzerland).



**Holds 92,633 shares of Rosneft**  
(0.0009% of Rosneft's share capital).

**2015 – present** Executive Officer of Nord Stream 2 AG (Switzerland).

**Since June 2011** Elected as a member of Rosneft's Board of Directors.

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 Administrative Board at Gas Project Development Central Asia AG (Switzerland), and Interatis Consulting AG (Switzerland).



## Faisal ALSUWAIDI

Member of the Strategic Planning Committee of the Board of Directors

**2004-2010** Deputy Chairman at Qatar Gas Transport Company.

**2005-2010** Member of the Board of Directors at Ras Laffan LNG Company.

**2012-2018** President of Research and Development at Qatar Foundation.

**2018 – present** Member of the Board of Trustees at Qatar University.

**2018 – present** Representative of Qatar Investments Authority.

**Since June 2017** Elected as a member of Rosneft's Board of Directors.

Decorate by the French Government – «Ordre national de la Légion d'honneur». Awarded the «Certificate of Excellence» by His Highness Sheikh Mohammed Bin Rashid Al Maktoum, Prime Minister of UAE and Ruler of Dubai distinguished Arab Manager category.

**1978** Graduated from Merton Technical College (Great Britain).

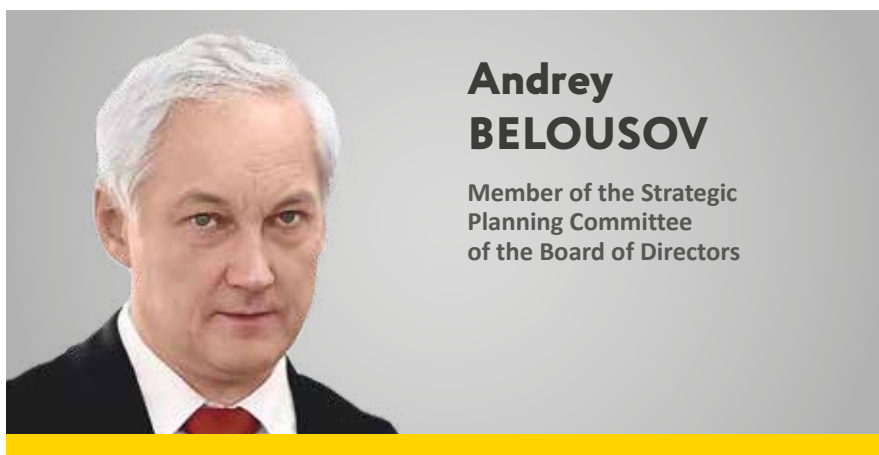
**1992-2010** Member of the Board of Directors at Qatar Petroleum.

**1992-2010** Chief Executive Officer, Deputy Chairman at Qatar LNG Company.

**1992-2011** Chief Executive Officer at Qatar Fertilizers Company.



Holds no shares of Rosneft.



## Andrey BELOUSOV

Member of the Strategic Planning Committee of the Board of Directors

Has been actively involved in the development of social and business sphere, church and culture, being the Chairman of the Supervisory Board at State Space Corporation ROSCOSMOS, member of the Supervisory Board of State Development Corporation VEB RF, Chairman of the Supervisory Board at Autonomous Non-Profit Organization Digital Economy, Autonomous Non-Profit Organization Agency for Strategic Initiatives to Promote New Projects, 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 Russian Orthodox Church (Moscow Patriarchate), member of the Board of Trustees for Restoration of Sarov Hermitage and Diveyevo Monastery of the Religious Organization Holy Dormition Monastery – Sarov Hermitage, the Nizhny Novgorod Diocese of the Russian Orthodox Church (Moscow Patriarchate).

Born in **1959**.

**1981** Graduated from Lomonosov Moscow State University. 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.

**Since June 2015** Elected as a member of Rosneft's Board of Directors. From June 2015 to September 2017: Chairman of Rosneft's Board of Directors.

Member of the Board of Directors at JSC ROSNEFTEGAZ.



Holds no shares of Rosneft.



## Oleg VIYUGIN

Member of the Strategic Planning Committee of the Board of Directors, member of the Audit Committee of the Board of Directors, Independent Director

Born in 1952.

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

**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 (civil contract).

**Since June 2015** Elected as a member of Rosneft's Board of Directors.

Chairman of the Supervisory Board at PJSC Moscow Exchange, Chairman of the Board of Directors at NAUFOR and PJSC SAFMAR Financial Investments, member of the Board of Directors of LLC Skolkovo – Venture Investments and PJSC Unipro, member of the Supervisory Board of the National Settlement Depository.

Has been actively involved in strategic development, promotion of entrepreneurship, corporate governance and education, being the 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.



Holds no shares of Rosneft.



## Ivan GLASENBERG

Member of the Strategic Planning Committee of the Board of Directors

Born in 1957.

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

**2002 – present** Chief Executive Officer of Glencore International AG.

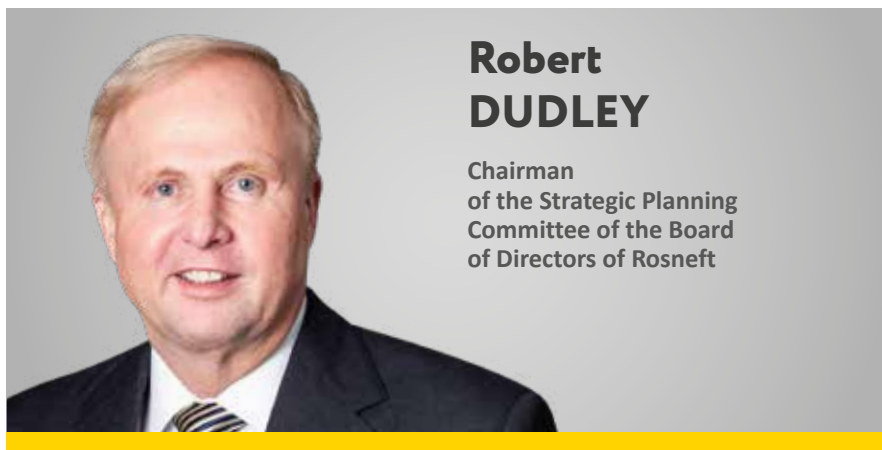
**2011 – present** Chief Executive Officer of Glencore plc.

**Since June 2017** Elected as a member of Rosneft's Board of Directors.



Holds no shares of Rosneft.





## Robert DUDLEY

Chairman  
of the Strategic Planning  
Committee of the Board  
of Directors of Rosneft

Company.

Participates in the social activity in the sphere of geography and applied (associated) sciences, being a member of the Board of Trustees of the Russian Geographical Society (All-Russian NGO) and the Royal Academy of Engineering in the UK. Chairs the Oil and Gas Community of the World Economic Forum and has chaired the Oil and Gas Climate Initiative (OGCI) since 2016.

Born in **1955**.

In **1977** graduated from University of Illinois,

In **1979** graduated from Thunderbird School of Management

**2010 – present** - Chief Executive Officer of BP Group.

In **June 2013** was elected as member of the Board of Directors of Rosneft Oil



Holds no shares of Rosneft.



## Guillermo QUINTERO

Rosneft Board of Directors HR  
and Remuneration Committee  
member

Born in **1957**.

In **1979** graduated from University of Southern California.

**2010-2015** – Regional President Brazil, Uruguay, Venezuela and Colombia BP Energy do Brasil Ltda and President and Director of BP Brasil Ltda.

**2011-2015** – President BP Exploracion do Brasil Ltda.

**2011-2016** – Director BP Petroleo y Gas S.A.

**2014-2016** – President BP Exploracion de Venezuela S.A.

**2016 - present** - Director of GQO Consultants LTD.

**June 2015** – elected as member of the Board of Directors of Rosneft Oil Company.



Holds no shares of Rosneft.



## Alexander NOVAK

Deputy Chairman of the Strategic Planning Committee of the Board of Directors

Chairman of the Board of Directors of PJSC ROSSETI, PJSC Transneft, member of the Board of Directors at PJSC Gazprom.

Actively involved in the development of education and sport, in the field of power industry - Member of the Supervisory Board at ROSATOM, Chairman of the Board of Guardians at National Research University Moscow Power Engineering Institute, member of the Board of Guardians at Siberian Federal University, at Gubkin Russian State University of Oil and Gas, Russian Motorcycle Federation, Chairman of Russian National Committee of the World Energy Council and Head of the Board of Guardians at Russian Athletics Federation.

Born in 1971.

1993 Graduated from Norilsk Industrial Institute, 2009 Graduated from Lomonosov Moscow State University.

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

2012 – present Minister of Energy of the Russian Federation.

June 2015 – June 2017 Elected for the first time as a member to Rosneft's Board of Directors. September 2017 Re-elected to Rosneft's Board of Directors.



Holds no shares of Rosneft.



## Hans-Joerg RUDLOFF

Chairman of the Audit Committee of the Board of Directors, member of the HR and Remuneration Committee of the Board of Directors, Independent Director

Capital S.A.

2015 – present President of ABD Capital Eastern Europe S.A.

June 2006 – June 2013 Elected for the first time as a member the Rosneft's Board of Directors. June 2018 Re-elected to Rosneft's Board of Directors.

Member of the Council of International Center for Monetary and Banking Studies (ICMB), member of Advisory Council TBG Holdings NV (Thyssen-Bornemisza Group), and member of the Board of Directors of Decolef, Guardian Capital.

Born in 1940.

1965 Graduated from the University of Bern.

1998–2014 Chairman of the Board of Barclays Capital Bank.

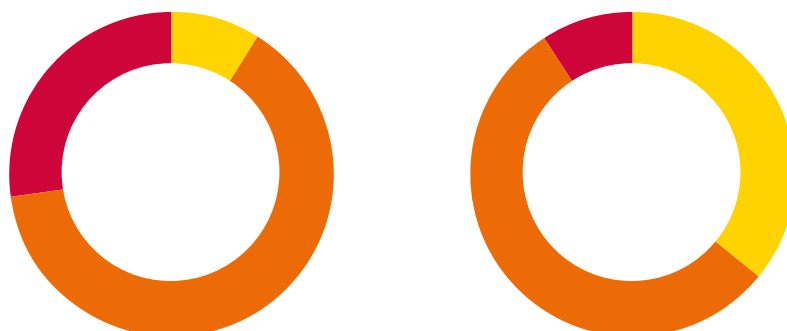
2002 – present Chairman of the Management Board of Marcuard Holding.

2003 – present Executive Director of ABD



Holds no shares of Rosneft.

## Membership and Structure of the Board of Directors



From 46 to 55 years	9%
From 56 to 65 years	64%
Above 66 years	27%

Independent	36%
Non-Executive	55%
Executive	9%

## Key Competencies of the Board's members

Members of the Board of Directors	Fields of Competence								
	Strategy	Oil&Gas	Corporate Governance and M&A	Law	Finances & Audit	Risk Management	Policy/GR	HSE	HR
Gerhard Schroeder	X			X			X		X
Igor Sechin	X	X	X	X		X	X		X
Matthias Warnig	X	X	X		X	X			X
Faisal Alsuwaidi	X	X	X						X
Andrey Belousov	X	X	X	X	X	X	X		
Oleg Viyugin	X		X		X		X		X
Ivan Glasenberg	X		X		X				
Robert Dudley	X	X	X		X	X		X	X
Guillermo Quintero	X	X			X	X	X	X	X
Alexander Novak	X	X	X		X		X		
Hans-Joerg Rudloff	X		X		X	X			
Donald Humphreys <sup>1</sup>	X	X	X		X	X			

<sup>1</sup> Resigned from the Board of Directors on 21 June 2018.

## Directors' Attendance at the Board and Committee Meetings in 2018

Board of Directors					
Director	Status (Executive/Non-Executive/Independent)	Attendance at meetings	Audit Committee	HR and Remuneration Committee	Strategic Planning Committee
Gerhard Schroeder	Independent	24/24			
Igor Sechin	Executive	23/24			
Matthias Warnig	Independent	24/24	14/14	13/13	
Faisal Alsuwaidi	Non-Executive	24/24			13/13
Andrey Belousov	Non-Executive	22/24			13/13
Oleg Viyugin	Independent	24/24	14/14		13/13
Ivan Glasenberg	Non-Executive	24/24			13/13
Robert Dudley	Non-Executive	24/24			13/13
Guillermo Quintero	Non-Executive	24/24		13/13	
Alexander Novak	Non-Executive	22/24			13/13
Hans-Joerg Rudloff	Independent	13/13	6/6	6/6	
Donald Humphreys <sup>1</sup>	Independent	11/11	8/8	7/7	

**Note:** 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

**For reference:** Chairman of the Board of Directors Gerhard Schröder and the members of the Board of Directors Igor Sechin, Matthias Warnig, Robert Dudley, Hans-Joerg Rudloff, and Donald Humphreys were not entitled to vote on agendas, which could give rise to a potential conflict of interests of legal and (or) business grounds.

## Initiation

The Company established the initiation procedure for newly elected directors to ensure their prompt entry into the work of the Board of Directors and efficient use of their professional skills.

Due to the change of the Board of Directors composition in 2018, the management promptly introduced Hans-Joerg Rudloff to the current

activities of the Company, its strategy, corporate and organizational structure, and corporate governance practices.

For the efficient exercise of his powers, Hans-Joerg Rudloff was given recommendations on non-disclosure behavior, the procedure of attendance of the Board of Directors meetings and committees.

## Performance of the Board of Directors

In 2018, 24 meetings of the Board of Directors were held (4 meetings in person, 20 meetings by absentee voting), 127 issues were reviewed (23 issues in person and 104 at virtual meetings).

### Matters Reviewed



Transactions	30%
Corporate Governance	17%
Review of reports	10%
Finances, business projects	9%
Audit, risks	7%
Approval/revision of local regulations	6%
Matters related to the Company's Strategy	5%
HR and remuneration (KPI)	5%
Directives of the Government of the Russian Federation	5%
Others	6%

<sup>1</sup> Resigned from the Board of Directors on 21 June 2018



## Major Decisions

### Additional initiatives to Rosneft–2022

**Strategy have been approved** in the field of social development, human resources, environment, regional development, accelerated digitization, and technological capacity development (Digital Rosneft).

### The Information Technology Strategy

**has been approved for 2018–2022 (IT-strategy)**, defining the focus areas and basic development scenario for the Company's information technologies, the target model of meeting the demands in the field of information technologies, metrology, automatic process control systems, test instruments, and automatics.

### The strategic guidelines and Public statement of the Company - "Rosneft: Contributing to Implementation of UN

**Sustainable Development Goals" have been approved**, and five goals of strategic priority which are directly supported by its core operations have been determined: Good Health and Well-being, Affordable and Clean Energy, Decent Work and Economic Growth, Climate Action, and Partnerships for the Goals.

### The Long-Term Development Program

**has been updated** to reflect new strategic guidelines and to review its progress in 2017.

### The financial and business plan has been

**approved**, its results have been reviewed and the 2017 plan has been normalized.

### Carrying out instructions given

**by the President of the Russian Federation and the Government of the Russian Federation**, the issues have been reviewed in the field of:

- implementing recommendations on managing intellectual property rights and inventory auditing intellectual property rights;
- introducing professional standards into the Company's operations;
- innovative development;
- compliance with the laws on the procurement of goods, works, and services;
- approval of planning and program-targeted documents on the development

of the Far East by the Ministry for Development of the Russian Far East.

### Implementation of business projects

on developing the Zohr field in Shoruk block (Egypt), the Chupalsky license area, the East Messoyakhsky license area and the Suzunskoye field has been approved.

### Compliance of the members of Rosneft's

**Board of Directors** (Gerhard Schröder, Matthias Warnig, Oleg Vyugin, and Hans-Joerg Rudloff) with the independence criteria has been assessed.

### The progress against the Roadmap for Incorporating Key Provisions of the Bank of Russia's Corporate Governance Code in Rosneft's operations has been reviewed.

**Parameters and layout of the Rosneft's shares acquisition plan at an open market (share repurchase program) have been approved.**

### The amendments have been approved or incorporated into the following internal documents:

- the Policy on Anti-Corruption and Prevention of Corporate Fraud;
- the HSE Policy;
- the Policy on the Risk Management and Internal Control System;
- the Regulations on Procurement of Goods, Works, and Services;
- the Regulations on Rosneft's Audit Committee of the Board of Directors;
- the Regulations on Insider Information;
- the Regulations on the Procedure for communications via Interagency website of State Property Management;
- the Regulations on the Procedure for Managing Conflicts of Interest at Rosneft and Group Subsidiaries.

### The following programs and reports have been reviewed/approved:

- the performance reports of the Committees of the Board of Directors in the 2017–2018 corporate year;
- the progress report on the 2017–2021 Energy Saving Program in 2017;

- the progress reports on Non-Core Assets Disposal Program for 2017 Q4 and 2018 Q1-Q3;
- the report on Rosneft's related party transactions in 2017;
- the reports on the Company's HSE activities;
- the report on the Company's internal audit results for 2017 and H1 2018;
- the report on the Company's compliance with the legislative requirements to countering the misuse of insider information and market manipulation for H2 2017 and H1 2018;
- the progress report on the Company's Information Policy for 2018;
- the progress report on the Company's Innovative Development Program for 2017;
- the progress report on the Company's Risk Management and Internal Control Holistic Development Plan for 2017;
- the progress report on the Action Plan of Introducing Professional Standards in the Company's Operations as at 1 November 2018.

### The following has been approved in the sphere of incentive system:

- 2018 KPIs for Rosneft's top managers;
- normalized top management KPIs for the purposes of the 2017 annual bonus program, as well as the achievement of these KPIs by top managers and their remuneration in 2017.

### Over 150 related party transactions have been approved.

In the reporting year, the self-assessment of the Board of Directors' performance has been carried out for 2017/2018 corporate year. According to the results of the assessment, the members of the Board of Directors have confirmed their high level of organization and performance in the core activities.

The members of the Board of Directors provided recommendations on the ways to improve certain focus areas of the Board of Directors' operation, these improvements being recorded in the approved 2019 Improvement Plan of the Board of Directors.

## 2019 Priorities

Meetings of the Board of Directors are held on a scheduled basis. The Plan is approved by the Board of Directors semiannually and considers the following matters:

- implementation of the Strategy;
- financial and business plans and results;
- implementation (of results) / updating of the Long-Term Development Program;

- approval of team and individual management KPIs;
- preparations for, and conduct of, the general shareholders meeting.

Strategic matters, which are listed in the Rosneft's Charter, are discussed by the Board of Directors in person.

An additional list of matters the Board of Directors tends to discuss in person is stipulated by the Rosneft's Corporate Governance Code.

With due account to the schedule of the Board of Directors' meetings, the Board Committees shall approve their own action plans.

## Committees of the Board of Directors

The Company put in place three Committees of the Board of Directors:

- Audit Committee;
- HR and Remuneration Committee;
- Strategic Planning Committee.

Members and chairmen of the Committees are elected at the first in-person meeting of the Board of Directors.

### AUDIT COMMITTEE'S MEMBERS

**Hans-Joerg Rudloff<sup>1</sup>** – Chairman  
(Independent Director)

**Matthias Warnig**  
(Independent Director)

**Oleg Viyugin**  
(Independent Director)

### HR AND REMUNERATION COMMITTEE'S MEMBERS

**Matthias Warnig** – Chairman  
(Independent Director)

**Hans-Joerg Rudloff**  
(Independent Director)

**Guillermo Quintero**

### STRATEGIC PLANNING COMMITTEE'S MEMBERS

**Robert Dudley** – Chairman

**Alexander Novak** – Deputy  
Chairman

**Faisal Alsuwaidi**

**Andrey Belousov**

**Oleg Viyugin** (Independent Director)

**Ivan Glasenberg**

<sup>1</sup> From 1 January 2018 to 21 June 2018, Donald Humphreys was the Chairman of the Committee. On 21 June 2018, he resigned from the Board of Directors upon the expiry of term of his powers.

## Performance of the Board's Committees



### Message from Hans-Joerg Rudloff, Chairman of Audit Committee

Ensuring the compliance with international and Russian financial reporting standards is one of the key factors for the investors to take a decision on acquiring the Company's shares.

The Audit Committee together with the Company's top managers and Ernst & Young LLC auditing company seek to ensure the compliance with the above-said standards and internal documents and to improve audit management and risk management and internal control processes.

### Major Decisions

The Board of Directors was recommended to approve the proposals to the General Shareholders Meeting on the **distribution of the Company's profit** for the financial year 2017, the amount of dividend and dividend payout procedure for 2017 and H1 2018.

#### As part of preparing the Company's accounting (financial) statements and safeguarding the objectivity and independence of the external audit function:

- the Company's consolidated financial results and financial statements, as well as their audit results, were reviewed (on a quarterly basis);
- a nominee to the Company's auditor - LLC Ernst & Young - and the auditing cost were recommended to the Board of Directors;
- an issue of overseeing the audit tendering process in 2019-2021 was discussed.

#### As part of ensuring an efficient internal control and risk management system, the following was preliminarily reviewed:

- the report on corporate risks monitoring for 2017;
- the progress report on Internal Control Development, Implementation, and Maintenance Plan for 2017;
- the reports on the identification of the current financial and business corporate risks for 2019;
- the amendments to the Rosneft's Regulations on the Audit Committee of the Board of Directors and to the Policy on the Risk Management and Internal Control.

#### As part of assuring objective and independent internal audit, the following was reviewed:

- internal audit reports for 2017 and H1 2018, and information on independence and objectivity of the internal audit;
- information on assessment and monitoring of potential conflicts

In 2018, the Audit Committee held **14 meetings** and reviewed **36 matters**.

of interest related to the Head of Internal Audit holding the position of a Member of the Management Board (on a quarterly basis).

**As part of corporate governance,** the amendments to the Company's Regulations on Insider Information were previewed and recommended for approval by the Board of Directors.

The matters of financial statements and data prepared by the auditor had been discussed at conference calls attended by Committee's members, the Company's management, and representatives of the External Auditor.



### Message from Matthias Warnig, Chairman of HR and Remuneration Committee

In 2018, the Committee reviewed the key issues on the efficiency of the Company's HR and Social Policy, the appointment and remuneration system, and assessment of the Board of Directors', executives' and top managers' performances.

The Board of Directors was recommended to improve the top managers' remuneration system.

## Major Decisions

**As part of involving the best talent in the Company's management** and creating incentives to drive their performance, the Committee:

- reviewed the proposed remuneration of members of the Board of Directors and the Audit Commission for the 2017–2018 corporate year, and reimbursement of expenses they incurred when discharging their duties;
- recommended top manager candidates for appointment to the Management Board;
- evaluated the compliance of the candidates to the Board of Directors with independence criteria.

**As part of assessing the performance of the Company's governing bodies, the Committee:**

- reviewed the 2018 team and individual KPIs for top managers, as well as normalized criteria for achievement of the top manager KPIs for 2017 and the progress against the KPIs for the purposes of the 2017 annual bonus program;
- preliminarily reviewed the amendments to the Regulations on Annual Remuneration of Top Managers and Heads of the Company's Units and recommended them to the Board of Directors;
- evaluated the expedience of implementing the long-term incentive program for the Company's top managers;
- reviewed the results of the self-assessment of the Board of Directors' performance for the 2017–2018 corporate year;
- recommended the Board of Directors to assess their performances (efficiency) in 2019, involving an independent consultant.

In 2018, the HR and Remuneration Committee held **13 meetings** and discussed **22 matters**.

A report on **PJSC NK Rosneft sustainable development** in 2017 was negotiated<sup>1</sup>.

Upon an initiative of Matthias Warnig, phone conferences with the members of the Company's Committee and management were held to discuss the key aspects of the Committee's activities.

<sup>1</sup> The report is posted on the Company's official website.





## Message from Robert Dudley, Chairman of Strategic Planning Committee

In the reporting year, aside from focusing on the key issues of the strategic development and business planning, the Committee recommended to the Board of Directors to review the sustainable development principles and approve the public statement of the Company in relation to ESG<sup>2</sup>.

Commitment to 17 UN sustainable development goals confirms that one of the Company's core values is corporate social responsibility.

## Major Decisions

### As part of defining the business priorities, the Committee:

- reviewed the progress of Rosneft – 2022 Strategy, approved additional initiatives to Rosneft – 2022 Strategy;
- approved the strategic sustainable development guidelines and the public statement of the Company – “Rosneft: contributing to implementation of UN Sustainable Development Goals”;
- approved the updated Long-term Development Program;
- approved the financial and business plan for 2019–2020, and reviewed the results of implementation and normalization of the Rosneft's financial and business plan for 2018.

### As part of health, safety, and environment, the following have been approved:

- the reports on the Company's HSE activities;
- the HSE Policy;
- the Policy on offshore hydrocarbon exploration and production.

### As part of implementing the Company's business projects, the Board of Directors was recommended to approve key performance indicators and investment for several business projects.

### As part of innovation activities, the Committee:

- approved the progress report on the Company's Innovative Development Program for 2017;

In 2018, the Strategic Planning Committee held **13 meetings** and reviewed **25 matters**.

- agreed the Terms of Reference to benchmark the technological development level and KPI values of the Company's innovative activities against the leading foreign peer companies.

While considering the key issues, the Chairman and the member of the Committee consulted with the Company's management, requested additional information, and received written and verbal explanations.

<sup>2</sup> ESG (Environment, Social, Governance) is corporate responsibility in relation to the environment, social and governance issues

## 5.4

# Executive Bodies

## EXECUTIVE BODIES:

Chief Executive Officer

Management Board

As stated by the Charter, the Chief Executive Officer acts as a sole executive body and as a Chairman of the Management Board of Rosneft.

Igor Sechin has been the Chief Executive Officer of the Company since 2012. He manages the current activities of the Company, prepares an agenda for the Management Board's meeting, and chairs the Board meeting.

The procedure for forming the Management Board, the rights, duties and responsibilities of the members of the Management Board, the procedures and guidelines for the Management Board's activities are governed by the Regulations on the Collective Executive Body (the Management Board) of the Company.

## Changes to the Membership of the Management Board

In 2018, Yury Narushevich, a member of the Management Board, has served his full term in office.

Elena Zavaleeva, Vice President of the Company, was elected to the Board as a State Secretary.

The size of the Management Board was not changed in the reporting year and totals 11 members. The Management Board includes the heads of key business lines, operation service, and support function segments of the Company.



# Members of Rosneft's Management Board



## Igor SECHIN

Chairman of the Management Board, Chief Executive Officer

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.

Holds positions in different non-profit organizations, participates in the development of social sphere, science, sport, and education (for the full list of other organizations, see Section "Board of Directors" on page 217 at official website).

Holds 13,489,350 shares of Rosneft (0.1273% of the Company's share capital).







**Yuri  
KALININ**

Deputy Chairman of the Management Board,  
Vice President for HR and Social Policy

Born in 1946.

1979: Graduated from Saratov Institute of Law.

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 December 2012: Vice President of Rosneft.

Since March 2013: Vice President for HR and Social Policy of Rosneft.

February 2013: Appointed to the Management Board of Rosneft; since

October 2014: Deputy Chairman of the Management Board of Rosneft.

Board member of JSC NEFTEGARANT Non-State Pension Fund, member of boards of directors of LLC RN-Upstream, LLC RN-Commerce, LLC RN-Resource, and LLC RN-Refining.

Holds 203,916 shares of Rosneft (0.0019% of the Company's share capital).



**Eric  
Maurice  
LIRON**

First Vice President

Born in 1954.

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

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 the 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.

Since September 2013: Member of Rosneft's Management Board.

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 share capital).





## Gennady BUKAEV

Vice President,  
Head of Internal Audit

Born in 1947.

1971: Graduated from Ufa State Oil Technical University. 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.

Since 2013: Advisor to the President of Rosneft.

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 June 2016.

General Director, member of the Board of Directors at JSC ROSNEFTEGAZ, Chairman of the Supervisory Board at Gubkin Russian State University of Oil and Gas, member of the Management Board at Autonomous Non-Profit Organization Hockey Club Salavat Yulaev.

Holds no shares of Rosneft.

Gennady Bukaev is not entitled to vote on matters within the Management Board's competence related to the Company's operations, which could potentially be subject to audit / management decision-making with regard to audited entities, that is a subject for review by the Board of Directors (see more on p. 253).



## Didier CASIMIRO

Vice President for Refining,  
Petrochemical, Commerce,  
and Logistics

Born in 1966.

1991: Graduated with distinction from Ghent University, Belgium.

1992: Graduated from Ghent University, Belgium/Lisbon University, Portugal.

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.

Since June 2012: Member of Rosneft's Management Board.

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, Nayara Energy Limited, and member of the Board of Directors at SIA ITERA Latvija. Holds 457,598 shares of Rosneft (0.0043% of the Company's share capital).



**Yuri  
KURILIN**

Vice President, Chief of Staff

Born in 1972.

1994: Graduated from Lomonosov Moscow State University. 1998: graduated from California State University, Hayward, with an MBA degree.

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.

2011–2014: worked at BP America, 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.

Since April 2017: Member of Rosneft's Management Board.

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

Born in 1967.

1990: Graduated from the Plekhanov Moscow Institute of National Economy.

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.

Since February 2012: Financial Director of Rosneft.

Since June 2011: Member of Rosneft's Management Board.

Chairman of the Board at NEFTEGARANT Non-State Pension Fund, Chairman of the board of directors at LLC RN-Resource, Deputy Chairman of the Board at JSC DSRC, member of the board of directors at Rosneft – MP Nefteprodukt, JSC FESRC, 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).





**Elena  
ZAVALEEVA**

State Secretary –  
Vice President

Born in 1981.

2003: Graduated from the Moscow State Social University of the Ministry of Labor and Social Development, majoring in Legal.

Holder of a government award.

In 2008: joined PJSC NK Rosneft.

2013–2017: Held the leading positions

Since September 2017: State Secretary – Vice President of PJSC NK Rosneft.

Since April 2018: Member of Rosneft's Management Board.

Chairman of the Board of Directors at LLC Reestr-RN, member of the Board of Directors at PJSOC Bashneft, LLC RN-Refining, LLC RN-Upstream.

Holds 6,250 shares of Rosneft (0.00006% of the Company's charter capital).



**Zeljko  
RUNJE**

Vice President  
for Offshore Projects

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 PJSC NK Rosneft. Since March 2013: Vice President for Offshore Projects of PJSC NK Rosneft.

Since November 2012: Member of Rosneft's Management Board.

Chairman of the Supervisory Board at PJSC RosneftSakhalin, 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, 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

Born in 1953.

Graduated from the Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1977 and completed a post-graduate program there in 1984 .

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 PJSC NK Rosneft in charge of the Gas Business.

Since July 2017: Member of Rosneft's Management Board.

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

Born in 1959.

Graduated from the Gubkin Moscow Institute of the Petrochemical and Gas Industry in 1985, Finance Academy under the Government of the Russian Federation in 1996, 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 PJSC NK 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 Innovations.

Since April 2015: Member of Rosneft's Management Board.

Chairman of the board of directors at JSC FESRC, JSC 82 SRF, JSC Okhinskaya TETS, LLC Zvezda-Hyundai, JSC Lazurit CDB, JSC TomskNIPlneft; member of the board of directors at RIG Research Pte. Ltd., PJSC RusHydro, JSC USC, LLC SNGT, LLC Zvezda Marine Technology, Antares Singapore Pte. Ltd., LLC RN-Assets, LLC RN-Upstream, LLC RN-Commerce, LLC RN-Refining, 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 Supervisory Board at the National Association of Technology Transfer, member of the Board of Trustees at the Gubkin Russian State University of Oil and Gas .

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



**Members and Structure of the Management Board**



Above 45 years .....	9%	Men .....	82%
From 46 to 55 years .....	27%	Women .....	18%
From 56 to 65 years .....	45%		
66 years and over .....	18%		

**THE MEMBERS OF THE MANAGEMENT BOARD SPEAK RUSSIAN, ENGLISH, FRENCH, GERMAN, SPANISH, PORTUGUESE, DUTCH, AND CROATIAN.**

**Duration of Work in the Management Board**

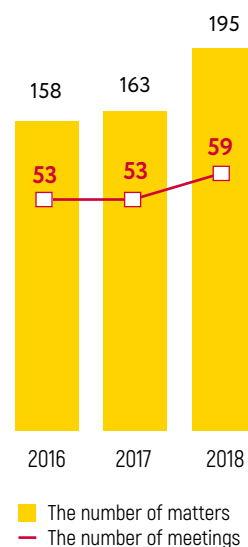
Igor Sechin	Since 2012 (6 years)	
Yuri Kalinin	Since 2013 (5 years)	
Eric Maurice Liron	Since 2013 (5 years)	
Gennady Bukaev	Since 2016 (2 years)	
Didier Casimiro	Since 2012 (6 years)	
Yuri Kurilin	Since 2017 (1 year)	
Peter Lazarev	Since 2011 (7 years)	
Elena Zavaleeva	Since 2018 (under 1 year)	
Zeljko Runje	Since 2012 (6 years)	
Vlada Rusakova	Since 2017 (1 year)	
Andrey Shishkin	Since 2015 (3 years)	

## Performance of the Management Board in 2018

In 2018, the Management Board held 59 meetings, reviewed and made resolutions on 195 matters:

- reviewed the status of Rosneft – 2022 Strategy implementation;
- implemented the long-term incentive program for executives of the Group Subsidiaries;
- established the Technological Council, Science and Technology Committee, Information Technology Expert Council, Import Substitution Committee, created and approved internal documents that specify their operation procedures;
- updated the Company-wide register of non-core and non-performing assets;
- approved implementation of eight business projects for field development and construction, oil pipelines retrofitting, conducting geological surveys, oil refining development;
- approved 79 related party transactions for oil and oil products supply to foreign and domestic markets, for gas supply to the domestic market, for provision of oil sales services on a commission basis;
- liquidated/reorganized ten Group Subsidiaries to optimize the Company's corporate structure;
- approved participation of the Company in 23 organizations;
- approved the Company's internal documents on:
  - health, safety, and environment;
  - risk management and internal control;
  - organization of operation of Technical and Technology Expert Council and Science and Technical Council;
  - quality control of oil products, etc.;
- reviewed the results of the Company's management activities for 2017 and approved the KPI values for senior managers of Rosneft business units and executives of key Group Subsidiaries for 2018;
- approved the candidates for election to the boards of directors and executive bodies of key Group Subsidiaries.

Quantity of the Matters Reviewed and Meetings Held in 2016-2018



## Planning of the Management Board's work

The Management Board works on a scheduled basis.

The Management Board's action plans are developed quarterly with regard to proposals submitted by the members of the Management Board and top managers of the Company.

In 2019, the Management Board will continue works on implementation of the Company's Development Strategy in accordance with resolutions of the Board of Directors.

## Corporate Secretary

In May 2014, the functions of the Corporate Secretary were vested in the Director of Rosneft's Corporate Governance Department Svetlana Gritskevich<sup>1</sup>.

The Corporate Governance Department is the Company's business unit exercising functions of the Corporate Secretary Administration.

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 the Regulations on the Corporate Secretary. Key functions are as follows:

- enhancement of the corporate governance system;
- organization of preparations for, and conduct of the General Shareholders Meetings;
- support of activities of the Board of Directors and its Committees, execution of functions of the Management Board Secretary;
- prevention of corporate conflicts;
- ensuring the exercise of shareholder rights;
- implementation of the information disclosure policy;
- organization of works for Company's compliance with the requirements of the Russian legislation on countering the misuse of insider information and market manipulation;
- monitoring of Company's compliance with the requirements of the Russian legislation on countering the misuse of insider information and market manipulation;
- communication with the registrar and government bodies authorized to regulate corporate relations and the securities market.

To provide efficient work of the Company's Board of Directors, a shared information space has been created for the members of the Board of Directors and the Corporate Secretary Administration – Portal of the Board of Directors – with round-the-clock access to materials (agendas, minutes, bulletins, documents) of meetings of the Board of Directors and a possibility to communicate on the points of interest from any place in the world.



### 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) and work experience as a member of board of directors at several joint stock companies.

Since 2013: Rosneft's Department Director for Corporate Governance.

Member of the Moscow Exchange Share Issuers Committee.

Holds 393 shares of Rosneft (0.000004% of the Company's share capital).

To provide efficient work of the Company's Board of Directors, a shared information space has been created for the members of the Board of Directors and the Corporate

Secretary Administration – Portal of the Board of Directors – with round-the-clock access to materials (agendas, minutes, bulletins, documents) of meetings of the Board of Directors and a possibility to communicate on the points of interest from any place in the world.

Has held the first positions<sup>2</sup> in the corporate governance ratings in the energy and fuel sector according to the Kommersant Publishing House and the Association of Managers (TOP-1000 Russian Managers rating).

Ranked among the 25 Best Corporate Governance Directors / Corporate Secretaries for 2018 according to the assessment of the Association of Independent Directors and the Russian Union of Industrialists and Entrepreneurs in a partnership with PwC.

<sup>1</sup> Minutes No. 34 dated 5 May 2014.

<sup>2</sup> The first place according to the results of 2016-2017; the third place according to the results of 2018 in TOP-50 Corporate Governance Directors rating.

## 5.5

# Remuneration of Members of the Board of Directors

The Company's Regulations on Payment of Remuneration and Reimbursement of Expenses of Members of the Board of Directors specify the entire list of types and terms of payments to directors, which ensures transparent remuneration payment process.

**ON 21 JUNE 2018, THE ANNUAL GENERAL SHAREHOLDERS MEETING RESOLVED TO PAY THE FOLLOWING REMUNERATION AMOUNTS TO MEMBERS OF THE BOARD OF DIRECTORS PRO-RATA TO THE TIME SERVED:**

**Gerhard Schroeder** – USD 600,000  
(for discharging the functions of a Chairman of the Board of Directors);

**Faisal Alsuwaidi** – USD 530,000  
(for discharging the functions of a Board member and a Strategic Planning Committee Member);

**Matthias Warnig** – USD 580,000  
(for discharging the functions

of a Chairman of the Board of Directors, a Chairman of the HR and Remuneration Committee, and a member of Audit Committee);

**Oleg Viyugin** – USD 565,000  
(for discharging the functions of a Board member, a Chairman<sup>1</sup>/a member of the Strategic Planning Committee, and a member of Audit Committee);

**Ivan Glasenberg** – USD 530,000  
(for discharging the functions of a Board member and a Strategic Planning Committee Member);

**Donald Humphreys** – USD 580,000  
(for discharging the functions of a Board member and a Chairman of the Audit Committee);

No remuneration for 2017/2018 corporate year was paid to Andrey Belousov, Robert Dudley, Guillermo Quintero, Alexander Novak, Igor Sechin.

The total remuneration to the members of the Board of Directors for the 2017–2018 corporate year amounted to USD 3,385,000 mln.

<sup>1</sup> Acted as the Chairman of the Strategic Planning Committee till 29 September 2017.



## 5.6

# Remuneration of the Management

The complex incentive system in force ensures that managers is interested in the results of their work and in achieving the Company's strategic goals.

### THE INCENTIVE SYSTEM INCLUDES THE FOLLOWING:

#### Monetary Remuneration

The remuneration to top managers depends on the Company's performances and implementation of key projects. It is based on the team and individual KPIs achieved.

The KPIs, their implementation and annual bonuses are approved every year by the Board of Directors, with due account to the recommendations of the HR and Remuneration Committee.

The KPI system and its interrelation with the Company's Strategy are detailed in Section 1.3 "Company KPIs of this Report".

#### Social Package

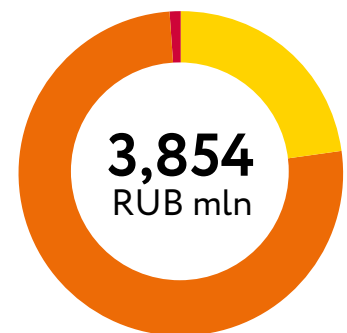
The total remuneration to the members of the Board of Directors for 2018 amounted to RUB 3.8 bln<sup>2</sup>, down 1.9% year-on-year.

Considering the changes in the nominal roll, the annual average of payouts per one member of the Management Board in 2018 decreased by 13% year-on-year.

No loans and borrowings have been provided for the members of the Board of Directors and the Management Board in the reporting year.

#### Non-financial Incentives

#### Management Remuneration Structure, RUB mln



Salary (base remuneration)	881
Bonuses <sup>3</sup> (annual and one-time bonuses for major projects)	2,949
Reimbursement of expenses	24

<sup>2</sup> Information on remuneration and reimbursement of expenses of the collective executive body (the Management Board) was published on 5 February 2019, 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 2018.

<sup>3</sup> In 2018, the bonuses included annual bonuses for the previous year, one-time bonuses for major projects, and bonuses for the Russian Federation government awards.

## 5.7

# Civil Liability for the Members of the Board of Directors and the Management

Civil liability covers management bodies and employees of the Company and all the Group Subsidiaries according to the insurance contract signed with SOGAZ JSC in 2017 and approved by the decision of the Annual General Shareholders Meeting on 22 June 2017.

The insurance contract is signed to cover all possible risks in case of harm inflicted to third parties for the period from 10 July 2017

to 10 July 2020 with the retrospective risk coverage from 10 July 2006.

The contract liability limit is USD 150 mln.

Additional limits of liability:

- for all independent directors – USD 6 mln, and separately for each independent director – USD 1 mln ;
- for protection in case of environmental pollution – USD 2.5 mln, and in the sphere of environmental management – USD 5 mln.

## 5.8

# Managing Possible Conflicts of Interest

Possible conflicts of interest are managed at all levels of the Company.

### Shareholders

For the avoidance of any potential conflicts among its shareholders, the Company provides equal opportunities for exercising shareholder rights established by the applicable laws.

Ensuring the Company's interaction with shareholders and participating in the prevention of any corporate conflicts are within the competence of the Corporate Secretary. The Corporate Secretary has to promptly notify the Board of Directors of any threatened violation of the applicable laws, shareholder

rights or any conflicts of interest. The Company has arranged activities on shareholder relations, including explanations of the Company's position by the shareholders' requests.

## Board of Directors

The Board of Directors is responsible for managing any conflicts of interest in the Company. The Charter specifies the procedure for the Board of Directors to review the related party transactions. The Regulations on the Board of Directors specifies the duties of the Board of Directors' members related to avoidance and management of any 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. 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 conflicts of interest are communicated by members to the Chairman of the Board of Directors and/or the Corporate Secretary.

For the avoidance of any potential conflicts among the Company's employees, the Board of Directors specified the rules of conducting transactions in financial instruments by persons included in the insider list, as well as the rules for disclosing insider

information, and checks adherence to these rules on a regular basis.

## Executive Bodies

According to the internal documentation, the 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 – 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 other benefits from such persons.

## Top-managers and Employees

The rules of avoidance and prevention of conflicts of interest are regulated by the Code of Business and Corporate Ethics, which defines the terms "conflict of interest" and "corruption" and specifies the procedure of corporate frauds prevention. The Company has in place the Council for Business Ethics. Managing the conflicts of interest is among the functions of this Council.

Special rules on prevention of corporate frauds are listed in the Company's Policy on Anti-Corruption and Countering Corporate Fraud. The Policy stipulates the key principles and the organizational structure of the Company's for countering corporate fraud, monitoring procedures, and anti-corruption training for the employees, including the algorithms in case of threatened violation of anti-corruption rules.

Special rules aimed at preventing the securities market manipulation and the misuse of insider information are stipulated in the Regulations on Insider Information, which define the rules for disclosing insider information and conducting transactions in financial instruments by persons included in the insider list.

The Corporate Secretary - Svetlana Gritskevich - was appointed by the Board of Directors to be a person responsible for all required arrangements for execution of legislative and internal requirements in relation to countering the misuse of insider information.

The Board of Directors on a quarterly basis should review information on assessment and monitoring of potential conflicts of interest related to the Head of Internal Audit holding the position of a Member of the Management Board, and consider the measures taken by the Company to minimize this risk as adequate.

## Prevention of Corruption

In the reporting period, the Company continued to focus on improving anticorruption and anti-fraud efforts, ensure compliance by top managers and employees with international and Russian anticorruption legislation, and the applicable local regulations.

As part of anti-corruption practices:

- The Company has been consistently working on improving the 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; for that purpose, Rosneft's Comprehensive AntiFraud and Anti-Corruption Program for 2019–2020 was drafted and approved by Rosneft's Council for Business Ethics on 10 December 2018;
- 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; a standard anti-corruption clause is included in agreements with legal entities and individuals; in 2018, due diligence was conducted on 122,048 potential bidders (to supply inventories, perform capital construction projects, and provide oilfield and nonoperating services), with 2,593 bids rejected;
- 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 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;
- The Company collects and verifies the information on income, property, and property obligations for certain categories of employees;
- The Company enhances 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

**27,081**  
calls

received by the Hotline in 2018

**34.52**  
RUB mln

the amount of damage prevented

**32**

employment contracts terminated



for failure to comply with antifraud and anti-corruption requirements of the Company's local regulations in employee job descriptions.

- The Company is working on instilling zero tolerance for corruption in its employees.
- The Company operates a 24/7 Security Hotline to report on cases of corporate fraud and corruption. Members of the Company's Board of Directors are updated on the Security Hotline operation on a quarterly basis.

#### 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 AntiCorruption Policy);
- security hotline contacts;
- information on cooperation with law enforcement authorities, etc.



**90**  
employees

got disciplinary sanctions

**Findings of**  
**20**  
audits

were submitted to law enforcement authorities

## 5.9

# Audit Commission

The Audit Commission is a body responsible for auditing the Company's financial and business operations. The Commission comprises five members who are elected on an annual basis.

The Audit Commission audits the Company's financial and business operations, verifies accuracy and reliability of data included in Rosneft's annual

reports, annual accounting (financial) statements, and prepares proposals and recommendations for improving the efficiency of asset management

and streamlining the risk management and internal control systems.

**UNDER THE RESOLUTION OF THE GENERAL SHAREHOLDERS MEETING DATED 21 JUNE 2018, 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.  
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 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 at the Department for State Regulation of Tariffs and Infrastructure Reforms, Ministry of Economic Development of the Russian Federation.

Under the resolution of the Annual General Shareholders Meeting, the annual remuneration paid in 2018 to members of the Audit Commission amounted to RUB 440,000. No remunerations were paid to the members of the Audit Commission holding State posts.

In 2018, the Audit Commission held three meetings, which included, among other things, the approval of the action plan and the financial and business audit program of the Audit Commission, and the review of the audit results.

The findings of the Audit Commission were communicated to the General Meeting

of Shareholders as an opinion of the Audit Commission on the accuracy and reliability of data included in the Annual report, annual accounting (financial) statements as at 31 December 2018, and in reports on related party transactions under the reporting period, as part of the materials for shareholders.

## 5.10

# The Risk Management and Internal Control System

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<sup>1</sup>, developed based on recommendations of international agencies specializing in risk management, internal control, and audit services. They are aimed at reasonable assurance that the Company will achieve the goals that can be grouped into four main categories:

**1**

Strategic goals contributing to the accomplishment of the Company's mission

**2**

Operational goals related to the Company's financial and business performance, and asset integrity

**3**

Goals of compliance of the Company's activities with the applicable laws and local regulations, including HSE requirements, requirements for information and personal security

**4**

Goals of timely preparation of reliable financial statements or non-financial reports, internal and/or external reports



<sup>1</sup> 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

### I. GOAL-SETTING AND CONTROL

#### The Board of Directors and the Audit Committee of the Board of Directors:

- approve RM&ICS focus areas, control of their implementation
- approve corporate reports on the financial and business risks
- approve risk appetite
- monitor the RM&ICS reliability and performance

### II. RISK MANAGEMENT AND EXECUTION OF RESOLUTIONS

#### Chief Executive Officer

- validates RM&ICS focus areas
- validates RM&ICS reports
- validates risk appetite

#### Risk Management Committee

- validates the RM&ICS issues reported to the Chief Executive Officer
- resolves RM&ICS operational disputes

#### Management

- allocates powers and responsibilities among employees
- manages risks
- develops and executes controls
- conducts self-assessment of internal control

### III. RISK MANAGEMENT AND DECISION-MAKING

#### JVCos Performing Separate RM&ICS Functions

- compile and consolidate reports on RM&ICS
- manage the rollout of RM&ICS elements and develop proposals for risk management methodology
- assist the Company's management in conducting self-assessment of internal control

#### Rosneft's 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, conduct self-assessment of internal control

#### Risk and Internal Control Experts

- coordinate the risk management and internal control process in the business unit
- 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



#### IV. RM&ICS INDEPENDENT MONITORING AND PERFORMANCE ASSESSMENT

##### Internal Audit Service

- assesses the RM&ICS reliability and performance
- conducts audits
- monitors the incorporation of RM&ICS improvement proposals made by internal auditors
- assists the Company's executive bodies in investigating wrongdoings / unlawful acts by the Company's employees and third parties

##### Audit Commission

- audits the Company's financial and business operations, verifies the accuracy and reliability of data included in the Annual reports and annual accounting (financial) statements

#### V. COORDINATION AND GUIDELINES

##### 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 units and Group Subsidiaries
- provides guidelines to key RM&ICS stakeholders, trains in risk management and internal control
- develops, implements, and supports insurance programs
- reinsures the Company's risks in Russian and international insurance markets
- settles insurance claims on risks realized

##### Security Service

- develops, updates, and introduces local regulations and administrative documents on anti-corruption and prevention of corporate fraud
- enforces the compliance with the local regulations and the implementation of anti-corruption and corporate fraud prevention initiatives taken by the Rosneft's executive bodies
- manages security Hotline
- conducts inspections / investigations of wrongdoings / unlawful acts of the Company's employees and third parties

## Enhancement of the Risk Management and Internal Control System

Consistent development and enhancement of the Company's RM&ICS enable to promptly and adequately respond to changes in the external and internal environment, improve operational efficiency and effectiveness, and maintain and add value.

The Company has in place the RM&ICS holistic development plan for the short and medium terms. This plan sets goals, objectives, and key initiatives contributing to the achievement of the Company's established goals for the RM&ICS.

The RM&ICS holistic development plan for 2018-2020 is endorsed by the Company's Risk Management Committee, Chief Executive Officer and approved by the Rosneft's Board of Directors.

## Initiatives on RM&ICS in 2018

The RM&ICS focus areas include:	Key results
Improving the guidelines on the RM&ICS. Training the Company's employees	<p>The Company's local documents regulating the RM&amp;ICS were updated, including:</p> <ul style="list-style-type: none"> <li>the Company's Policy on the Risk Management and Internal Control System;</li> <li>the Company's Standard on the Corporate-Wide Risk Management System (CWRMS);</li> <li>the Company's Standard on the Internal Control System.</li> </ul> <p>Over 350 employees of Rosneft and Group Subsidiaries were trained on RM&amp;ICS.</p>
Developing the risk management and internal control infrastructure and procedures at the Company	<p>The Company-wide Register of Risks and Control Procedures is kept updated.</p> <p>A number of quantitative models for evaluating the Company's key risks have been developed, and the existing quantitative risk assessment models have been verified.</p>
Introducing and maintaining the Internal Control System	<p>The development, implementation, and streamlining of the Company's business controls is ongoing.</p>
Producing and improving the information resources of the development and maintenance of the RM&ICS	<p>The Risk Management and Internal Control information resources on the basis of SAS information system were launched into commercial operations.</p>

## Internal Control System

### THE INTERNAL CONTROL SYSTEM IS AN INTEGRAL PART OF THE RM&ICS

- Both systems have 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 reveal the risks inherent to business processes and implement controls so as to make business processes more efficient and manageable while ensuring the reliability of its financial statements and compliance with legislation and local regulations of the Company.

## To achieve the ICS objectives, the Company needs to:

1

Define and update the ICS focus areas that have to be aligned with the Company's needs and stakeholders' requirements

2

Develop, adopt, and follow controls, including the development of uniform guidelines for the organization and high performance of the Company's ICS

3

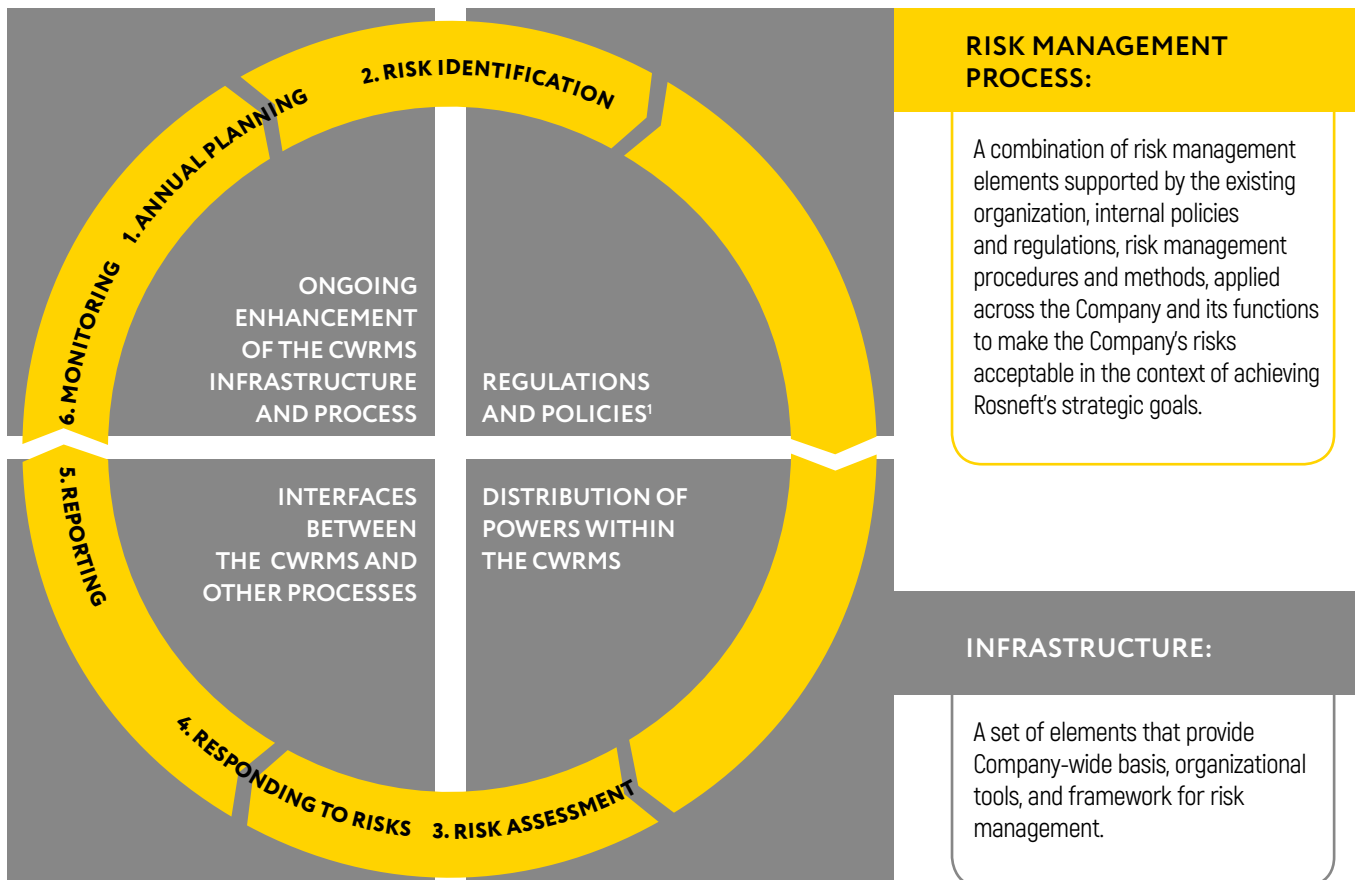
Identify shortcomings in existing controls, develop and implement measures to address them; streamline and ration the controls

4

Develop and implement tools to enhance communication and internal control information sharing among all RM&ICS stakeholders, including via information systems

## The Corporate-Wide Risk Management System (CWRMS)

### Key CWRMS Components:



<sup>1</sup> Key CWRMS regulations and policies 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.

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.

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 for review / approval to the members of the Board's Audit Committee /

the Board of Directors and communicated to the management.

Heads of the Company's businesses organize and coordinate risk management processes within the scope they are responsible for. When choosing a risk response and specific mitigation measures, risk owners seek to find an optimal trade-off while maintaining an acceptable risk level (risk appetite).

## Rosneft's Risks<sup>1</sup>

### INDUSTRY-WIDE RISKS



On-the-job injury risk



Risk related to reducing the quality of crude hydrocarbons delivered for processing



Risk related to failure to achieve the oil and gas condensate production target



Risk related to failure to achieve the natural gas and gas condensate production target



Accident risk



Risk related to failure to comply with the repair plan for the oil refining business



Risk related to rising power purchase prices



Risk to receive tax claims and to lose the right to use tax incentives

### COUNTRY AND REGIONAL RISKS



Risk related to international projects

### FINANCIAL RISK



Market risk



Credit risk related to the crude oil, petroleum products, gas, petrochemicals, and gas processing products supply agreements



Corporate functions



Downstream



Upstream



Health and safety



Gas Business

<sup>1</sup> Details of the Rosneft's basic risks are given in Appendix 2, Basic Risks.



### US AND EU SANCTIONS

Starting from 2014, the USA, European Union, and some other countries have been consistently imposing the sanctions on the Russian Federation, including sectoral sanctions affecting the operations of individual companies in the energy and other sectors of the Russian economy (including Rosneft and some its subsidiaries).

Rosneft takes the current sanctions into account in its operations and monitors them on a regular basis in order

to minimize the negative effects, takes measures and consulting with existing and potential partners, and consistently implements the Program on Import Substitution and Equipment Localization in the Russian Federation.

Due to the intense discussions of various initiatives in the USA aimed at strengthening the sanctions against Russia, probable extension of sanctions may influence the individual promising projects of the Company.

### CHANGES IN LEGISLATION AND REGULATORY ENVIRONMENT

The Company's operating results can be strongly affected by the changes in the applicable legislation, including tax, currency exchange, customs regulations, etc. Rosneft ensures continuous monitoring of the changes in legislation, assesses, and predicts degree of impact on the Company's operations. The Company's experts are regularly involved in working groups responsible for drafting laws in various areas of legislation.

## The Company's Risk Appetite

IN 2018, THE ROSNEFT'S BOARD OF DIRECTORS APPROVED THE COMPANY'S RISK APPETITE FOR 2019

#### Financial and Economic Performance

The Company strictly complies with the covenants. The Company ensures that all its short- and long-term commitments are discharged as they fall due.

#### Health, Safety, and Environment

Recognizing the nature and scale of the footprint of its business, products, and services, the Company realizes the responsibility for safe operation and protects the health and safety of its employees and the local residents in the regions of operation.

To prevent potential adverse impacts, the Company makes relevant commitments and carries out all necessary activities focused on environmental safety and natural resource conservation and restoration.

#### Corporate Governance

The Company adheres to the principle of zero tolerance to corporate fraud and corruption of any kind and form.

## Corporate Insurance

Rosneft uses insurance as a risk management tool enabling it to pass financial losses caused by insured occurrence through to insurers.

The Rosneft's corporate insurance program covers:

- the Company's fixed production assets;
- civil liability;
- business risks.

For its fixed main production assets, Rosneft has insurance coverage in place 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.

The most material risks are reinsured on the international market with companies having the reliability rating of at least A- by S&P, AM Best, and Fitch.

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).

## Internal Audit

The Company has in place the following local regulatory documents on internal audit:

- the Company's Policy on Internal Audit No. P4-01 P-02;
- the Company's Standard on the Organization of Internal Audit No. P4-01 S-0021;
- the Company's Regulations on the Internal Audit Quality Assurance and Improvement Program No. P4-01 R-0038;
- 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 No. P4-01 R-0041;
- Rosneft's Instruction on the Procedure for Internal Assessment of Internal Audits No. P4-01 I-01014 YuL-001;
- Rosneft's Instruction on the Procedure for Internal Audits No. P4-01 I-0013 YuL-001;
- Rosneft's Instruction on the Annual Internal Audit Action Planning No. P4-01 I-01016 YuL-001;
- and other the Company's local regulations governing internal audit operations.

governance efficiency and improving overall financial and business performance, particularly through application of a consistent systematic approach to reviewing and assessing the Risk Management and Internal Control System (hereinafter - 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 function assists Rosneft's Board of Directors and the Company's executive bodies in increasing the Company's

Rosneft's internal audit function is performed by the Vice President – Head of Internal Audit; and the structural units – 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.

## THE MAIN FUNCTIONS OF THE INTERNAL AUDIT SERVICE UNITS ARE:

- assessing the reliability and efficiency of the Risk Management and Internal Control System, its compliance with the scale and complexity of the Company's business;
- assessing corporate governance;
- conducting audits in line with the internal audit action plan approved by Rosneft's Chief Executive Officer and endorsed by the Audit Committee of Rosneft's Board of Directors;
- performing other inspections and tasks as instructed by Rosneft's Board of Directors (the Audit Committee of the Board of Directors) and / or Rosneft's Chief Executive Officer within the competence, including those based on the information received via the security hotline of Rosneft;
- carrying out comprehensive inspections (auditing) of the activities of auditees, which imply the documentary and physical verification of the legality of conducted financial and business transactions,
- their accurate and correct reporting in the accounting (financial) statements, subsequent control of the financial and business activities of the auditee;
- analyzing the auditees in order to study specific aspects of their activity and estimation of the state of an auditee's certain sphere;
- consulting the Company's executive bodies on risk management, internal control, and corporate governance (assuming the preservation of the independence and neutrality of the Internal Audit);
- monitoring the incorporation of RM&ICS and corporate governance improvement proposals made by internal auditors, addressing shortcomings and violations identified during inspections;
- assisting the Company's executive bodies in investigating wrongdoings / unlawful acts by the Company's employees
- and third parties, including negligence, corporate fraud, corrupt practices, abuses, and various improprieties that inflict damage to the Company;
- developing the Internal Audit action plan for the period prioritizing the internal audit activities (one year, within the three-year planning horizon);
- cooperating between the Internal Audit Service and Business Units of Rosneft and Group Subsidiaries on Internal Audit issues;
- conducting quality controls and evaluating the results obtained;
- performing the other functions essential in solving the tasks assigned to the Internal Audit Service by the Company.

## Reporting and Accountability Lines of the Internal Audit Service

Functionally, the Internal Audit Service reports to Rosneft's Board of Directors. Functional management of the Internal Audit implies:

- approving the Policy-level local regulations on Internal Audit (the Regulations on Internal Audit governing the goals, objectives, and authorities of the Internal Audit);
- taking a decision on the appointment and dismissal of the Head of Internal Audit;
- reviewing the internal audit action plans and reports on the internal audit results;
- approving a budget of Rosneft's Internal Audit Service and the remuneration to the Head of Internal Audit;
- reviewing by the Audit Committee of Rosneft's Board of Directors the significant limitations of authorities and other restrictions that could impinge upon the effective implementation of the internal audit function.

Administratively, the Internal Audit Service reports directly to Rosneft's Chief Executive Officer. Administrative management of the Internal Audit implies:

- allocating the necessary funds within the approved budget;
- approving the internal audit action plans;
- reviewing reports on the internal audit results;
- facilitating the cooperation between Rosneft and joint venture companies of Group Subsidiaries;
- administering the internal audit policies and procedures (among them, approving local regulations on internal audit and amendments thereto, approving organizational documents of Rosneft's Internal Audit Service, approving business trips, and validating the involvement of external experts to internal audits).

The existing reporting lines, by which the Vice President as 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 decisions on audited entities.

The Head of Internal Audit was appointed to Rosneft's Management Board following a decision made by the Rosneft's Board in July 2016. The Head of Internal Audit is not entitled to vote on matters requiring management decisions on audited entities.

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 Rosneft's risk evaluation results. The internal audit action plan comprises scheduled audits and other internal audit activities for the planned period (one year, within the three-year planning horizon) and is submitted to Rosneft's Chief Executive Officer and the Audit Committee of Rosneft's Board of Directors for approval. Details of the action plan are presented to the Board of Directors for review together with the internal audit report for the previous period.

The functions of the Head of Internal Audit include the following activities: preparing the internal audit report and submitting this report to Rosneft's Board of Directors and executive bodies (this 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 RM&ICS and corporate governance). The 1H 2018 and 2018 internal audit reports were reviewed by the Audit Committee of the Board of Directors and the Board of Directors of Rosneft.

Based on the results from the risk management and internal control system (RM&ICS) efficiency assessment in 2018, the internal audit concluded that the RM&ICS ensured overall support of the risk management process

and effective functioning of the internal control system, providing reasonable assurance that Rosneft would achieve its goals. The assessment results were reviewed by the Rosneft's Board of Directors.

The internal auditors provide written confirmation of their personal objectivity to the heads of Internal Audit Service's divisions and to the Head of Internal Audit at least once a year, thereby raising awareness among the Service's employees of potential conflicts of interest and related factors, 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.

The basic internal audit task for the reporting period is **to improve the performance and increase the labor efficiency**, including through:

- standardizing the audits and internal audit procedures;
- digitalizing the internal audits;
- training and developing the skills of the Internal Audit Service's employees.

In the reporting period, the automated information system for managing internal audit, internal control, and risk management processes - AIS SAS - was launched. The system will significantly reduce the time spent on planning, preparing and recording



audits, as well as monitoring the elimination of violations and shortcomings identified during internal audit inspections. All employees of the Internal Audit Service utilize the SAS AIS while executing their internal audit functions.

During 2018, more than 300 inspections were carried out, covering most of the risks related to the Company's critical business processes and the financial and business risks of its Key Group Subsidiaries.

Over 90% of the total number of inspections are thematic inspections and audits 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.

In the reporting period, the Internal Audit Service conducted the regular in-house self-assessment on its internal audit quality. This in-house regular self-assessment was aimed at ensuring and improving the performance and efficiency of both the internal audit, in general, and individual internal audit inspections. The self-assessment findings are as follows: internal audit operations generally comply with the requirements of the Company's Policy on Internal Audit and local internal

audit regulations, the International Standards for the Professional Practice of Internal Auditing, and the Code of Ethics of the International Institute of Internal Auditors. The Internal Audit Service developed and approved the Company's Policy on Internal Audit, local regulations on internal audit, and put them in practice.

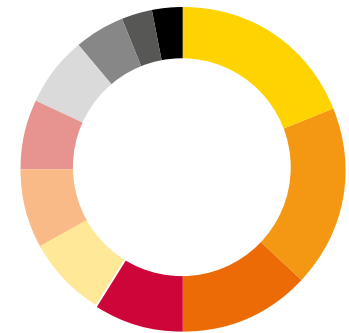
The Internal Audit Service is involved in a range of activities, such as facilitating the effective interaction with the Audit Committee of Rosneft's Board of Directors (and also in in-person meetings with the Audit Committee's Chairman), Rosneft's Chief Executive Officer (including through personal reports on substantial audit results), Rosneft's management, and Group Subsidiaries' management.

The Head of Internal Audit interacts with Rosneft's Audit Commission, the external auditor, and the audit commissions of the Group Subsidiaries.

# >300 inspections

conducted by the Internal Audit Service in 2018.

#### Key Focus Areas of Internal Audit in 2018, %:



Commerce and logistics	19
Upstream	18
Oil refining, petrochemicals, and gas processing	13
Technologies and innovations	9
Corporate governance and property	8
Capital construction and investments	8
Production support	7
Procurement	7
Finance, accounting, and taxation	5
Planning and control	3
Corporate services	3







# 06

## Information for Shareholders and Investors

### Sustainable Growth of Returns

During 2018, record dividends in a total of RUB 225 bln were paid according to the results of 2017 and H1 2018.

## 6.1

# Share Capital

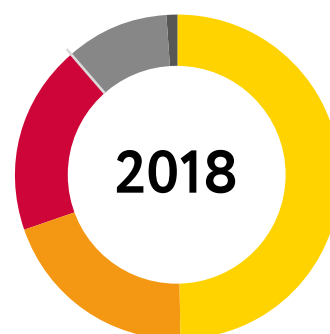
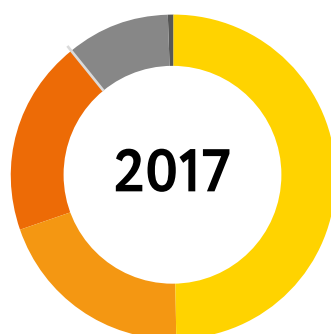
The share capital of the Company is divided into 10,598,177,817 ordinary shares with a par value of RUB 0.01 each.

The Company's shares are traded at the Moscow Exchange (First (Top) Tier Quotation List). The shares are traded abroad in the form of Global Depository Receipts (GDRs) at the London Stock Exchange.

As at 31 December 2018, J.P. Morgan as a depository bank issued the Global Depository Receipts for 6.1% of the Company's ordinary shares<sup>1</sup>.

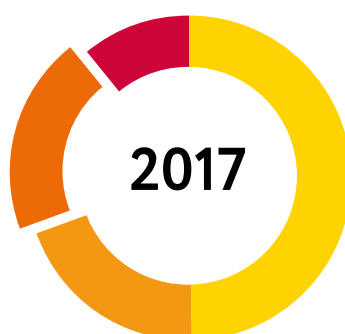
The Company's shareholders and investors include over 97 thousand individuals and legal entities, as well as more than 500 GDR holders

## Main Shareholders of the Company<sup>2</sup>



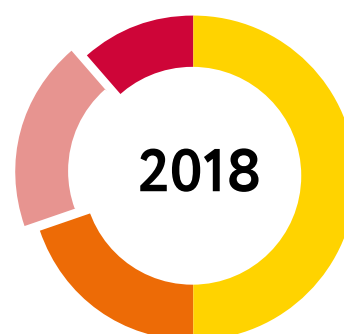
	as at 31.12.2017	as at 31.12.2018
JSC ROSNEFTEGAZ <sup>2</sup> (shareholder)	50.00000001%	50.00000001%
BP Russian Investments Limited (shareholder)	19.75%	19.75%
QHG Oil Ventures Pte.Ltd.	19.50%	0%
QH Oil Investments LLC (shareholder)	0%	18.93%
The Russian Federation represented by the Federal Agency for State Property Management (shareholder)	less than 0.01%	less than 0.01%
National Settlement Depository (Nominee Central Depository)	10.38%	10.40%
Other individuals and legal entities	0.37%	0.92%

## Share Capital Structure as at 31 December 2017, %



JSC ROSNEFTEGAZ and the Russian Federation	50.00000001%
BP Russian Investments Limited	19.75%
QHG Oil Ventures Pte. Ltd.	19.50%
Free float	10.75%

## Share Capital Structure as at 31 December 2018, %



JSC ROSNEFTEGAZ and the Russian Federation	50.00000001%
BP Russian Investments Limited	19.75%
QH Oil Investments LLC	18.93%
Free float	11.32%

<sup>1</sup> One Global Depository Receipt certifies rights to one registered share.

<sup>2</sup> Based on data from Rosneft's Shareholder Register. Information on the shareholders owning more than 5% of the Rosneft's share capital is updated at the Company's official website on a monthly basis.



## 6.2

# The Dividend Policy

The Dividend Policy formalizes the 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.

Principles of the Dividend Policy:

- 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.

The payout decision is made by the General Shareholders Meeting of the Company upon the recommendations of the Board of Directors.

In 2018, the Company fulfilled 99.98% of its obligations to pay out dividends. 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.

The Company'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 the applicable legislation.

On 16 April 2019, Rosneft's Board of Directors recommended the General Shareholders Meeting to approve RUB 11.33 per share as dividend for FY2018. The total amount of dividends for FY2018 including the amount already paid for 1H 2018 is RUB 274.6 bln or RUB 25.91 per share<sup>3</sup>. The dividend payout ratio (dividends / non-consolidated net profit under RAS) for 2018 is 59.6%, while the dividend payout ratio (dividends / consolidated net profit under IFRS) is 50%.

In 2018, the Company paid out dividends in the total of RUB 225 bln for FY2017 (RUB 70.5 bln) and for H1 2018 (RUB 154.5 bln).

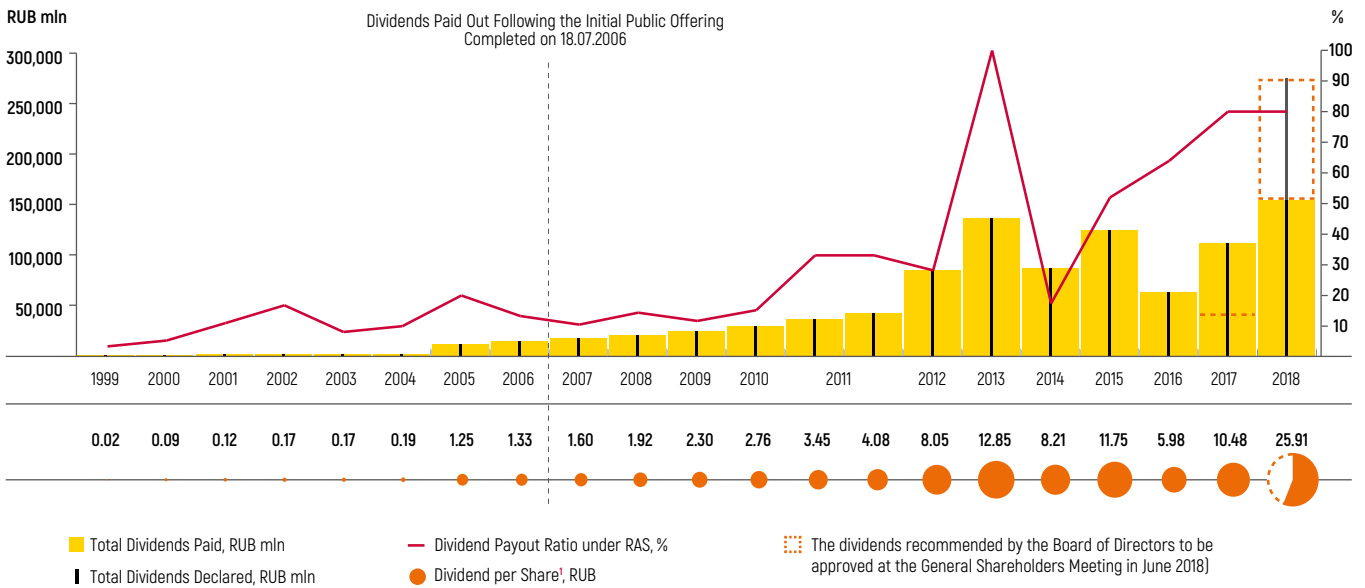
# 25.91

## RUB per share

dividends for 2018, including dividends for H1 2018

<sup>3</sup> Including the dividends for H1 2018 and the dividends recommended by the Board of Directors to be approved at the General Shareholders Meeting in June 2019.

Rosneft's Dividend History



<sup>1</sup> The 1:100 share split of September 2005 is factored in the amount of dividends per share.

<sup>2</sup> Net profit for 2006 is adjusted for one-off items.

## 6.3

# Shareholders Relations, Key Events in 2018

The Company established a multi-level system for securing the rights of its shareholders.

## The Guarantees of the Shareholders' Rights as Required by the Legislation and the Listing Rules

Pursuant to the legislation of the Russian Federation, the Company's shareholders are entitled to:

- vote at the General Shareholders Meeting on one-share-one-vote basis;
- bring issues to the agenda of the General Shareholders Meeting and the Meeting of candidates to the Board of Directors (if a shareholder owns at least 2% of voting shares);
- exercise a pre-emptive right when placing the shares and issue-grade securities convertible into shares;
- receive dividends declared by the Company in proportion to the amount of shares owned by a shareholder;
- get acquainted with the information and materials submitted as part of the preparation to the General Shareholders Meeting;
- obtain information on the Company's activities on request and as stated by the Russian legislation;
- make free use of Rosneft's shares;
- exercise other rights stated by the Russian legislation.

## Additional Guarantees of the Rights Embodied in Rosneft's Charter and Internal Documents

The Company offers equal and fair opportunities for its shareholders to exercise their legal rights, e.g. by securing additional rights

and procedures in the Charter and internal documents, including the right to:

- share in the Company's profit distributed as dividends;
- receive necessary information on the Company on a timely and regular basis;
- influence the governance of the Company.

## Independent and Professional Board of Directors

The number and membership of the Board of Directors reflect the Company's shareholding profile. Electing the Board's members by cumulative voting secures their rights and legal interests.

The Board of Directors consists of four independent Directors with internationally recognized business standing.

## Official Shareholders Relations Channels

### Efficient vehicles were created to foster relations of the shareholders and the Company

The Company has in place several communications channels used to safeguard the exercise of its corporate rights and to maintain efficient shareholder relations, including:

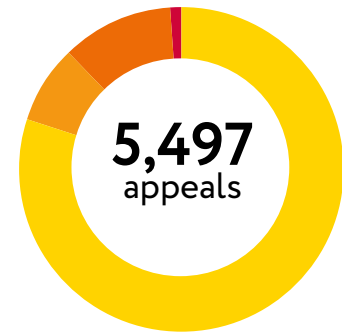
- hotline for Rosneft shareholders - a multichannel phone line to receive and handle calls;
- 8 (800) 500-11-00 (toll-free within Russia); +7 (495) 987-30-60;
- mailing address for letters: 26/1, Sofiyskaya Embankment, Moscow, 117997, Russian Federation.
- e-mail: shareholders@rosneft.ru;
- fax: +7 (499) 517-86-53;

- shareholder account (within the startup of analysis information system "Corporate Governance" planned for 2019).

The Corporate Governance Department acting as the Corporate Secretary Office handled 5,497 appeals in 2018, including:

- 4,384 phone calls;
- 427 letters;
- 82 e-mails;
- 604 requests on dividends payout for previous periods.

Types of Shareholders Appeals, %



Phone calls .....	80%
Letters .....	8%
Requests on dividend payout .....	11%
E-mails .....	1%



Answers to frequently asked questions of the shareholders are posted on the Company's website.

## Share Rights Protection Tools

The Company practices reliable and safe methods to record the share rights and attracts a professional registrar to maintain the Shareholder Register.

The Registrar is LLC Reestr-RN acting under a perpetual license for registering security holders.

LLC Reestr-RN has been operating in the registrar services market for 17 years and ranks among the top ten Russian registrars. The company keeps registers for more than 2 thousand issuers, with

an inventory of 553 thousand personal accounts to record the rights of their shareholders. Shareholders Service and transfer agent outlets of LLC Reestr-RN operate in regions where the most of the Company's shareholders reside: Head Office, 13 branches, 45 transfer agent outlets at regional branches of LLC Reestr-RN's partner registrars, five

transfer agent outlets at Rosneft's partner banks, and one Shareholders Contact and Service Centers of the Company.

The Company together with LLC Reestr-RN regularly notifies the shareholders about the need to update the shareholders' data contained in the Rosneft's Shareholders Register.



The resolutions of the General Shareholders Meeting are posted on the website



The Regulations on Provision of Information to Rosneft Shareholders are posted on the website



The contact details of the Registrar and its Service Outlets are posted on the website



## 6.4

# Institutional Investor Relations

Rosneft shares are among the most attractive investment tools in the Russian stock market. 11.32% of its shares are free float, including 6.1% in the form of Global Depositary Receipts (GDR) traded on the London Stock Exchange (LSE). The Company enjoys a diversified investor base of over 500 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 31 December 2018, Rosneft share prices on the Moscow Exchange grew by 113% (more than twice). As at late 2018, the Company's capitalization was RUB 4.584 trln.

In 2014–2018, Rosneft's total shareholder return (TSR) was 146.9%, i.e. 27.1 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, First Vice President, heads of business and the Investor Relations Department. In 2018, the Company completed an extensive IR program, including several strategic speeches made 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.

21 investment banks currently provide analytical coverage of the Company. 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](http://www.rosneft.ru).

As at February 2019, 16 major investment banks recommend to "buy" or "hold" Rosneft shares / GDRs.

### 2019 PRIORITIES

Improve disclosure standards

Focus on investor and shareholder relations

Promote fast, high-quality, and skillful financial communications

## 2018 Investor Relations Highlights

### JANUARY

#### Deutsche Bank

Deutsche Bank CEEMEA Conference, London



HSBC Non-Deal Road Show, London, Singapore

### FEBRUARY



Credit Suisse Energy Summit, Vail

#### J.P.Morgan

J.P. Morgan Credit Emerging Markets Conference, Miami



Citi Non-Deal Road Show, San Francisco, Los Angeles

### MARCH

#### J.P.Morgan

J.P. Morgan CEEMEA Conference, London



Credit Suisse Citi Non-Deal Road Show, Boston

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

Disclosure of the Company's performance for 2017

### APRIL

#### Goldman Sachs

Goldman Sachs Russia Corporate Days, Frankfurt



BAML Energy and Utilities Conference, London

### MAY

#### Morgan Stanley

Morgan Stanley CEEMEA Conference, London



Sberbank CIB Russia Conference Moscow

Trip to the Yurubcheno-Tokhomskoye field with investors and analysts, Krasnoyarsk

Disclosure of the Company's performance for Q1 2018

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

### JUNE



UBS Annual LATEMEA Conference, London



BAML CalGEMs CEO/CFO Conference, Los Angeles

### AUGUST

Disclosure of the Company's performance for Q2 2018

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

### SEPTEMBER



HSBC GEMs Investor forum London

### OCTOBER

#### Goldman Sachs

Goldman Sachs European Non-Deal Road Show



Renaissance Capital Middle East and Asia Non-Deal Road Show, Dubai, Abu Dhabi, Singapore

### NOVEMBER

#### Goldman Sachs

Goldman Sachs CEEMEA, London

#### Goldman Sachs

Goldman Sachs Global Natural Resources conference, London



UBS Global Emerging Markets 1:1 Conference, New York

VTB Capital Investment Forum RUSSIA CALLING!, Moscow



HSBC North America Non-Deal Road Show, New York, Boston

Disclosure of the Company's performance for Q3 2018

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

### DECEMBER



Wood & Company Winter Emerging Europe Conference, Prague

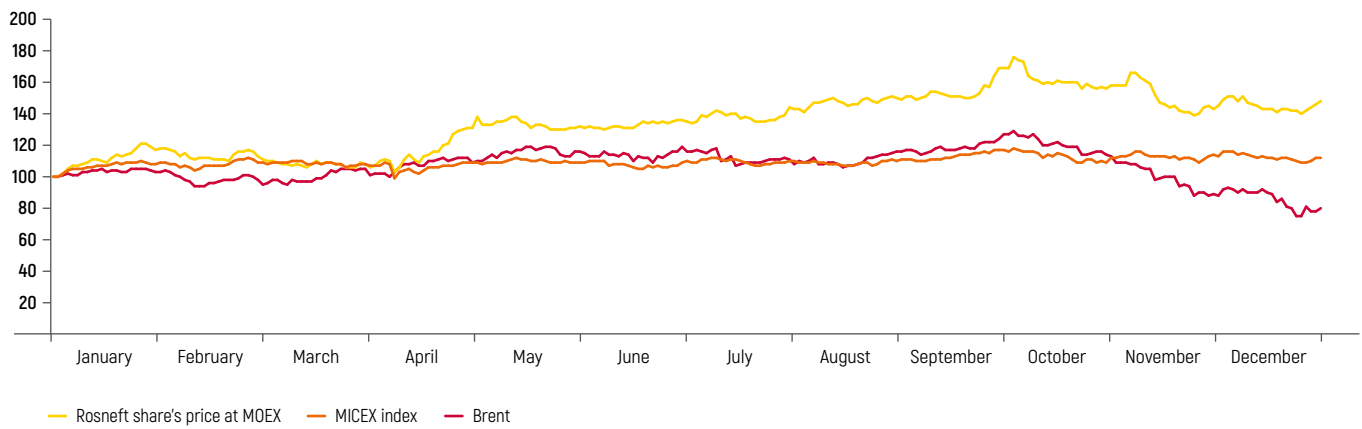
Index	Rosneft Shares and Depository receipts Index Weight as at the End of 2018, %
MSCI Russia	3.33
FTSE Russia IOB	4.48
MICEX	5.84

List of the Largest Institutional Investors in Stocks and Depository Receipts in January 2019	Free float <sup>1</sup> , %
BlackRock Fund Advisors	3.83
The Vanguard Group, Inc.	3.60
SAFE Investment Co. Ltd.	3.14
JPMorgan Asset Management (UK) Ltd.	1.60
Macquarie Investment Management Business Trust	1.53
SSgA Funds Management, Inc.	1.52
Wellington Management Co. LLP	1.22
Abu Dhabi Investment Authority (Investment Management)	1.11
Pzena Investment Management LLC	1.02
Van Eck Associates Corp.	1.02

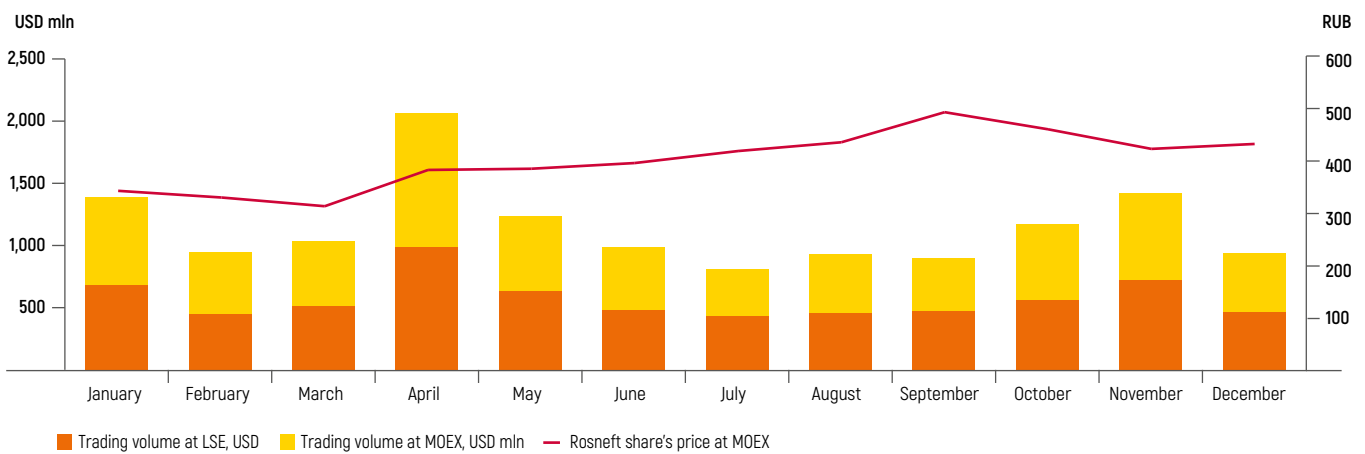
No.	Bank	Recommendation, early 2018	Recommendation, late 2018
1	Citi	Buy	Buy
2	Veles Capital	No recommendation	Buy
3	BCS	Buy	Buy
4	Merrill Lynch	Buy	Hold
5	ATON	Buy	Buy
6	UBS	Buy	Buy
7	Renaissance Capital	Buy	Buy
8	Goldman Sachs	Buy	Buy
9	HSBC	Buy	Buy
10	Deutsche Bank	Buy	Put on review
11	Wood&Company	Hold	Buy
12	Morgan Stanley	Buy	Buy
13	Credit Suisse	Hold	Buy
14	Raiffeisen Bank	Buy	Buy
15	SOVA Capital	Buy	Hold
16	J.P. Morgan	Hold	Hold
17	Gazprombank	Put on review	Put on review
18	Alfa Bank	Put on review	Put on review
19	Uralsib	Hold	Put on review
20	Sberbank	Sell	Hold
21	VTB Capital	Put on review	Put on review

Without strategic investors

Comparative Trading Dynamics of Rosneft's Shares, the MICEX Index and Brent Quotes, the Base Value - 100



Trading Value and Volume of Rosneft's Shares at LSE, MOEX<sup>1</sup>



Total Shareholder Return of Rosneft and Russian Peers in 2014–2018, %



<sup>1</sup> Share value is given as at the end of the month.



## 6.5

# Bonds and Credit Ratings of the Company

## BBB-

Credit rating by Standard & Poor's

## Baa3

Credit rating by Moody's

In February 2019, "Standard & Poor's" upgraded Rosneft's investment outlook to "Stable" at "BBB-". In January 2018, "Moody's" also upgraded Rosneft's outlook to "Stable" at "Baa3".

Rosneft is one of the major high-quality Russian borrowers in the domestic market. In 2017–2018, "Expert RA" assigned its highest rating of debt instruments' reliability (ruAAA) to all ruble bonds of Rosneft with stable outlook.

Within the program of Eurobonds issue for a total of USD 10 bln, in 2012 Rosneft issued two Eurobonds series in the amount of USD 1 bln maturing in 2017 and in the amount of USD 2 bln maturing in 2022. 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 2.5 bln, issued by Rosneft and its subsidiaries that had previously been part of TNK-BP, remained outstanding as at 31 December 2018.

In 2012–2017, Rosneft launched four Ruble Bond Programs with 41 issues of corporate and exchange-traded ruble bonds for a total of RUB 2,261 bln.

In November 2017, Rosneft registered its fifth multi-currency Exchange-Traded Bond Program with a total par value of RUB 1.3 trln, and had three ruble bond issues with a total par value of RUB 630 bln in December 2017, and two more ruble bond issues for a total of RUB 70 bln in Q1 2018.

### HIGHEST RATING

of debt instruments' reliability (ruAAA) was assigned by Rating Agency "Expert RA" to all ruble bonds of Rosneft.

Par Value, bln	Currency	Coupon, %	Series / Issue Number	Issue Date	Maturity Date	Issuer
<b>Eurobonds</b>						
0.8	USD	6.625	Series 4	March 2007	March 2017	Rosneft Finance S.A.
1.1	USD	7.875	Series 6	October 2007	March 2018	Rosneft Finance S.A.
0.5	USD	7.250	Series 8	February 2010	February 2020	Rosneft Finance S.A.
1	USD	3.149	Series 1	December 2012	March 2017	Rosneft International Finance Ltd.
2	USD	4.199	Series 2	December 2012	March 2022	Rosneft International Finance Ltd.
<b>Ruble bonds</b>						
20	RUB	7.900	Series 04, 05	October 2012	October 2022	Rosneft
30	RUB	7.300	Series 07, 08	March 2013	March 2023	Rosneft
40	RUB	7.000	Series 06, 09, 10	June 2013	May 2023	Rosneft
40	RUB	8.500 <sup>1</sup>	Series BO 05, BO 06	December 2013	December 2023	Rosneft
35	RUB	8.900 <sup>1</sup>	Series BO 01, BO 07	February 2014	February 2024	Rosneft
225	RUB	9.400	Series BO 02, BO 03, BO 04, BO 08, BO 09, BO 10, BO 11, BO 12, BO 13, BO 14	December 2014	November 2024	Rosneft
400	RUB	7.850	Series BO 15, BO 16, BO 17, BO 24	December 2014	December 2020	Rosneft
400	RUB	7,600 <sup>1</sup>	Series BO 18, BO 19, BO 20, BO 21, BO 22, BO 23, BO 25, BO 26	January 2015	January 2021	Rosneft
600	RUB	7.600 <sup>1</sup>	001P-01	December 2016	November 2026	Rosneft
30	RUB	9.390	001P-02	December 2016	December 2026	Rosneft
20	RUB	9.500	001P-03	December 2016	December 2026	Rosneft
40	RUB	8.650	001P-04	May 2017	April 2027	Rosneft
15	RUB	8.600	001P-05	May 2017	May 2025	Rosneft
266	RUB	8.500	001P-06, 001P-07	July 2017	July 2027	Rosneft
100	RUB	7.600 <sup>1</sup>	001P-08	October 2017	September 2027	Rosneft
600	RUB	7.600 <sup>1</sup>	002P-01, 002P-02	December 2017	November 2027	Rosneft
30	RUB	7.750	002P-03	December 2017	December 2027	Rosneft
50	RUB	7.500	002P-04	February 2018	February 2028	Rosneft
20	RUB	7.300	002P-05	March 2018	February 2028	Rosneft

<sup>1</sup> Coupon rate as at 31 December 2018.

## 6.6

# The Information Disclosure, Policy, and Transparency

The Company is scrupulous about timely and reliable disclosure of information. The Board of Directors approved the Information Policy and supervises the fulfilment thereof in order to ensure taking the balanced investment and managerial decisions by the shareholders, investors, and stakeholders.

The Company utilizes various disclosure channels and methods in order to ensure free and easy access to the information to be disclosed according to the legislation requirements, the rules of the Moscow Exchange and London Stock Exchange, and the provisions of internal documents.

To ensure equality of Russian and foreign shareholders and investors, the Company discloses the information in Russian and English simultaneously.

Official website of the Company and "Interfax" also contains the Company's Charter and other internal documents, annual and quarterly reports, sustainability reports, annual and quarterly accounting (financial) statements under Russian standards, 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. When publishing information, the Company

## KEY PRINCIPLES

of the Information Policy are regular, prompt, accessible, reliable, and content-rich disclosures of corporate information.



Relevant information is posted on the website



2018 Disclosure Items



■ Accrued and paid income on bonds and shares .....	139
■ Meetings and resolutions of Rosneft's governing bodies .....	53
■ Bond issues .....	27
■ Licenses for operations that are material for the Company .....	18
■ Disclose of, and access to, the Company's reports (annual report, quarterly reports, accounting statements, consolidated financial statements, list of affiliates) .....	17
■ Completed transactions and projects, including stakes held in other entities .....	10
■ Others .....	34

also uses the webpage of an information provider operating in the securities market (LLC Interfax Corporate Information Disclosure Center).

The Company is continuously implementing a set of measures to prevent, detect, and curb the misuse of insider information.

The Company focuses its attention on information disclosures made by controlled entities through continuous methodological support and regular training sessions.

The Company additionally discloses the information not stipulated by the legislation and stock exchanges' requirements:

- operating and financial performances with explanations of the Company's top management for annual reporting and interim financial statements;
- the Company's policy on sustainable development, health and safety;
- the Company's operational structure.

Conference calls and meetings with institutional investors are held. The Company's representatives take part in the investment conferences and road shows in the major International Financial Centers. The Investment Banking professionals visit the industrial facilities.

 [see more on p. 264].

**THE COMPANY PUBLISHED AND HELD:**

- 114 press releases and information messages on the official website;
- 8 media interviews of top managers and members of the Board of Directors;
- 7 press conferences, press scrums and briefings of the Company's management and representatives of the major shareholders;
- 4 regular financial performance presentations.





# Independent auditor's report

To the Shareholders and Board of Directors  
of Rosneft Oil Company

## OPINION

We have audited the consolidated financial statements of Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the consolidated balance sheet as at 31 December 2018, 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 2018 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
<p><b>Impairment of goodwill and property, plant and equipment of refining and distribution segment</b></p> <p>We considered this matter to be one of most significance in our audit due to the materiality of goodwill impairment amount for Refining and distribution segment and the balances of property, plant and equipment to the consolidated 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 rouble exchange rate, regulatory changes and restrictions 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 such assets of the Company. Information on goodwill and property, plant and equipment and the impairment tests performed is disclosed in Notes 24 and 25 to the consolidated financial statements.</p>	<p>We have compared the current value-in-use model, and its key assumptions with those used in prior years. We compared the key assumptions used in the model to the published macroeconomic indicators and market forecasts. In the assessment of pricing assumptions used, we have considered the recent government initiatives with respect to taxation and pricing on the domestic petroleum products market.</p> <p>We tested the mathematical accuracy of the impairment models and analyzed the sensitivity of value-in-use to the changes in the key assumptions.</p> <p>We have also analyzed the composition of Refining and distribution cash generating units ("CGUs") for the purpose of impairment review and the impairment indicators analysis thereof. For where the indicators were present, we have tested, as discussed above, the calculation of recoverable amounts for the CGUs with the highest risk of impairment.</p> <p>We involved our business valuation specialists in the analysis of management's testing of impairment and calculation of recoverable amounts.</p> <p>We have also analyzed the disclosure of the information with respect to goodwill and property, plant and equipment impairment in the consolidated financial statements.</p>
<p><b>Investments in associates and joint ventures and other non-current non-financial assets</b></p> <p>We considered this matter to be one of most significance in our audit due to the materiality of the balances of such assets to the financial statements, their susceptibility to various external risks, including geopolitical risks, difficult economic situation in certain countries, where the Company's associates and joint ventures operate, the high level of subjectivity in assumptions underlying the impairment analysis and, also, the significant judgements and estimates made by management. Information about those assets is disclosed in Notes 27 and 28 to the consolidated financial statements.</p>	<p>We have obtained and analyzed the latest available financial information (financial statements) and assessed their financial position, the presence of impairment indicators and liquidity position.</p> <p>We have obtained and analyzed contracts, agreements and other documentation, which support the intention and ability of third parties to recover the amounts invested by the Company. We assessed the presence of legal or other restrictions for the recovery of invested amounts.</p> <p>As discussed below in the key audit matter Estimation of oil and gas reserves and resources we also compared, where applicable, the estimation of oil and gas reserves and resources and related forecasted cash flows of associates and joint ventures used in the impairment review of those assets with the external expert data.</p> <p>We analyzed the respective disclosures in consolidated financial statements.</p>
<p><b>Estimation of oil and gas reserves and resources</b></p> <p>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.</p> <p>The estimation of oil and natural gas reserves and resources is a significant area of judgement due to the technical uncertainty in assessing quantities and complex contractual arrangements dictating the group's share of reportable volumes.</p> <p>Reserves and resources are also a fundamental indicator of the future potential of the group's performance.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>We compared the estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and amortization and decommissioning provisions.</p>

## OTHER MATTER

The information accompanying the consolidated financial statements which has been disclosed as Supplementary oil and gas disclosure on page 85 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 consists of the Management's discussion and analysis of financial condition and results of operations for 2018 [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 2018 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 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 are responsible for overseeing the Company's financial reporting process.

## 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 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 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 Group 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 Dmitry E. Lobachev.

D.E. Lobachev  
Partner Ernst & Young LLC  
February 5, 2019

### Details of the audited entity

Name: Rosneft Oil Company

Record made in the State Register of Legal Entities on July 19, 2002, State Registration Number 1027700043502.

Address: Russia 115035, Moscow, Sofiyskaya embankment, 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.

## CONSOLIDATED BALANCE SHEET (IN BILLIONS OF RUSSIAN RUBLES)

	Notes	As of December 31,	
		2018	2017 (restated)
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	19	832	322
Restricted cash	19	12	13
Other short-term financial assets	20	633	336
Accounts receivable	21	642	843
Inventories	22	393	324
Prepayments and other current assets	23	510	454
<b>Total current assets</b>		<b>3,022</b>	<b>2,292</b>
<b>Non-current assets</b>			
Property, plant and equipment	24	8,445	7,923
Intangible assets	25	75	75
Other long-term financial assets	26	239	606
Investments in associates and joint ventures	27	735	635
Bank loans granted		239	121
Deferred tax assets	16	28	26
Goodwill	25	85	265
Other non-current non-financial assets	28	295	285
<b>Total non-current assets</b>		<b>10,141</b>	<b>9,936</b>
<b>Total assets</b>		<b>13,163</b>	<b>12,228</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	29	1,130	971
Loans and borrowings and other financial liabilities	30	978	2,229
Income tax liabilities		23	39
Other tax liabilities	31	327	278
Provisions	32	43	29
Prepayment on long-term oil and petroleum products supply agreements	33	354	264
Other current liabilities		19	26
<b>Total current liabilities</b>		<b>2,874</b>	<b>3,836</b>
<b>Non-current liabilities</b>			
Loans and borrowings and other financial liabilities	30	3,413	1,783
Deferred tax liabilities	16	837	814
Provisions	32	244	245
Prepayment on long-term oil and petroleum products supply agreements	33	1,072	1,322
Other non-current liabilities	34	46	45
<b>Total non-current liabilities</b>		<b>5,612</b>	<b>4,209</b>
<b>Equity</b>			
Share capital	36	1	1
Additional paid-in capital	36	633	627
Other funds and reserves		(191)	(322)
Retained earnings		3,610	3,313
<b>Rosneft shareholders' equity</b>		<b>4,053</b>	<b>3,619</b>
Non-controlling interests	17	624	564
<b>Total equity</b>		<b>4,677</b>	<b>4,183</b>
<b>Total liabilities and equity</b>		<b>13,163</b>	<b>12,228</b>

Chief Executive Officer

**I. I. Sechin**

February \_\_\_\_\_, 2019

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



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(IN BILLIONS OF RUSSIAN RUBLES, EXCEPT EARNINGS PER SHARE DATA, AND SHARE AMOUNTS)

	Notes	For the years ended December 31,	
		2018	2017(restated) <sup>1</sup>
<b>REVENUES AND EQUITY SHARE IN PROFITS OF ASSOCIATES AND JOINT VENTURES</b>			
Oil, gas, petroleum products and petrochemicals sales	8	8,076	5,877
Support services and other revenues		80	77
Equity share in profits of associates and joint ventures	27	82	57
<b>Total revenues and equity share in profits of associates and joint ventures</b>		<b>8,238</b>	<b>6,011</b>
<b>Costs and expenses</b>			
Production and operating expenses		642	607
Cost of purchased oil, gas, petroleum products and refining costs		1,099	837
General and administrative expenses		167	172
Pipeline tariffs and transportation costs		638	596
Exploration expenses		11	15
Depreciation, depletion and amortization	24, 25	635	586
Taxes other than income tax	9	2,701	1,919
<b>Export customs duty</b>	10	<b>1,061</b>	<b>658</b>
<b>Total costs and expenses</b>		<b>6,954</b>	<b>5,390</b>
Operating income		1,284	621
Finance income	11	122	107
Finance expenses	12	(290)	(225)
Other income	13	49	110
Other expenses	13	(294)	(75)
Foreign exchange differences		107	3
<b>Cash flow hedges reclassified to profit or loss</b>	6	<b>(146)</b>	<b>(146)</b>
Income before income tax		832	395
<b>Income tax expense</b>	16	<b>(183)</b>	<b>(98)</b>
<b>Net income</b>		<b>649</b>	<b>297</b>
Net income attributable to:			
· Rosneft shareholders		549	222
· non-controlling interests	17	100	75
<b>Net income attributable to Rosneft per common share (in RUB) – basic and diluted</b>	<b>18</b>	<b>51.80</b>	<b>20.95</b>
<b>Weighted average number of shares outstanding (millions)</b>		<b>10,598</b>	<b>10,598</b>

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

(IN BILLIONS OF RUSSIAN RUBLES)

	Notes	For the years ended December 31,	
		2018	2017
<b>Net income</b>		<b>649</b>	<b>297</b>
<b>Other comprehensive income – to be reclassified to profit or loss in subsequent periods</b>			
Foreign exchange differences on translation of foreign operations		4	51
Foreign exchange cash flow hedges	6	146	145
(Loss)/income from changes in fair value of debt financial assets at fair value through other comprehensive income		(2)	10
Increase in loss allowance for expected credit losses on debt financial assets at fair value through other comprehensive income		7	-
Equity share in other comprehensive loss of associates and joint ventures		1	-
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods	6	(30)	(31)
<b>Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax</b>		<b>126</b>	<b>175</b>
<b>Other comprehensive income – not to be reclassified to profit or loss in subsequent periods</b>			
Income from changes in fair value of equity financial assets at fair value through other comprehensive income		6	-
Income tax related to other comprehensive income – not to be reclassified to profit or loss in subsequent periods		(1)	-

<sup>1</sup> Some amounts for the twelve months ended December 31, 2017 have been restated – see Note 7.

	Notes	For the years ended December 31,	
		2018	2017
<b>Total comprehensive income – not to be reclassified to profit or loss in subsequent periods, net of tax</b>		5	-
<b>Total comprehensive income, net of tax</b>		780	472
<b>Total comprehensive income, net of tax, attributable to:</b>			
Rosneft shareholders		680	397
non-controlling interests		100	75

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(IN BILLIONS OF RUSSIAN RUBLES, EXCEPT SHARE AMOUNTS)

		Share capital	Additional paid-in capital	Other funds and reserves	Retained earnings	Rosneft shareholders' equity	Non-controlling interests	Total equity
<b>Balance at January 1, 2017</b>	10,598	1	603	(497)	3,195	3,302	480	3,782
Net income	-	-	-	-	222	222	75	297
Other comprehensive income	-	-	-	175	-	175	-	175
<b>Total comprehensive income</b>	-	-	-	175	222	397	75	472
Dividends declared (Note 36)	-	-	-	-	(104)	(104)	(43)	(147)
Change of interests in subsidiaries (Note 17)	-	-	24	-	-	24	44	68
Disposal of subsidiaries	-	-	-	-	-	-	(1)	(1)
Other movements	-	-	-	-	-	-	9	9
<b>Balance at December 31, 2017</b>	10,598	1	627	(322)	3,313	3,619	564	4,183
Adjustment on initial application of IFRS 9	-	-	-	-	(27)	(27)	(1)	(28)
<b>Balance at January 1, 2018 adjusted for the effect of IFRS 9</b>	10,598	1	627	(322)	3,286	3,592	563	4,155
Net income	-	-	-	-	549	549	100	649
Other comprehensive income	-	-	-	131	-	131	-	131
<b>Total comprehensive income</b>	-	-	-	131	549	680	100	780
Dividends declared (Note 36)	-	-	-	-	(225)	(225)	(61)	(286)
Change of interests in subsidiaries (Note 17)	-	-	5	-	-	5	21	26
Other movements	-	-	1	-	-	1	1	2
<b>Balance at December 31, 2018</b>	10,598	1	633	(191)	3,610	4,053	624	4,677

## CONSOLIDATED STATEMENT OF CASH FLOWS

(IN BILLIONS OF RUSSIAN RUBLES)

	Notes	For the years ended December 31,	
		2018	2017 (restated)
<b>OPERATING ACTIVITIES</b>			
Net income		649	297
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>			
Depreciation, depletion and amortization	24, 25	635	586
Loss on disposal of non-current assets	13	14	13
Dry hole costs		3	3
Offset of prepayments received on oil and petroleum products long term supply agreements	33	(283)	(255)
Offset of prepayments made on oil and petroleum products long term supply agreements		205	-
Foreign exchange gain on non-operating activities		(77)	(24)
Cash flow hedges reclassified to profit or loss	6	146	146
Offset of other financial liabilities		(164)	(105)
Equity share in profits of associates and joint ventures	27	(82)	(57)
Non-cash income from acquisitions, net	13	(26)	(1)
Gain on out-of-court settlement	13	-	(100)
Loss from disposal of non-production assets	13	1	3
Changes in provisions for financial assets		6	16
Loss from changes in estimates and impairment of assets		238	23

	Notes	For the years ended December 31,	
		2018	2017 (restated)
Finance expenses	12	290	225
Finance income	11	(122)	(107)
Income tax expense	16	183	98
<b>Changes in operating assets and liabilities</b>			
Decrease/(increase) in accounts receivable, gross		215	(184)
Increase in inventories		(68)	(41)
Decrease/(increase) in restricted cash		5	(10)
Increase in prepayments and other current assets		(74)	(27)
Increase in long-term prepayments made on oil and petroleum products supply agreements		(72)	(207)
(Decrease)/increase in accounts payable and accrued liabilities		(29)	24
Increase in other tax liabilities		48	56
Decrease in other current liabilities		(8)	-
Increase in other non-current liabilities		8	-
Interest paid on long-term prepayment received on oil and petroleum products supply agreements		(6)	(10)
Net increase in operating assets of subsidiary banks		(139)	(144)
Net increase in operating liabilities of subsidiary banks		144	170
Proceeds from sale of trading securities		-	3
<b>Net cash provided by operating activities before income tax and interest</b>		<b>1,640</b>	<b>391</b>
Income tax payments		(221)	(112)
Interest received		67	37
Dividends received		16	21
<b>Net cash provided by operating activities</b>		<b>1,502</b>	<b>337</b>
<b>Investing activities</b>			
Capital expenditures		(936)	(922)
Acquisition of licenses and auction fee payments		(3)	(34)
Acquisition of short-term financial assets		(419)	(103)
Proceeds from sale of short-term financial assets		189	258
Acquisition of long-term financial assets	26	(71)	(58)
Proceeds from sale of long-term financial assets		466	127
Financing of joint ventures		(2)	(2)
Acquisition of interest in associates and joint ventures	27	(2)	(219)
Proceeds from sale of investments in joint ventures		7	-
Acquisition of interest in subsidiaries, net of cash acquired, and joint arrangements	7	(35)	(215)
Proceeds from sale of property, plant and equipment		7	5
Placements under reverse REPO agreements		-	(1)
Receipts under reverse REPO agreements		-	2
<b>Net cash used in investing activities</b>		<b>(799)</b>	<b>(1,162)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from short-term loans and borrowings	30	429	1,431
Repayment of short-term loans and borrowings		(1,366)	(787)
Proceeds from long-term loans and borrowings	30	1,311	508
Repayment of long-term loans and borrowings		(289)	(806)
Proceeds from other financial liabilities		338	336
Repayment of other financial liabilities		(64)	(22)
Interest paid		(284)	(219)
Repurchase of bonds		(40)	-
Proceeds from sale of non-controlling share in subsidiary		23	73
Other financing		4	9
Dividends paid to Rosneft shareholders	36	(225)	(104)
Dividends paid to non-controlling shareholders		(65)	(38)
<b>Net cash (used in) / provided by financing activities</b>		<b>(228)</b>	<b>381</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>475</b>	<b>(444)</b>
Cash and cash equivalents at the beginning of the year	19	322	790
Effect of foreign exchange on cash and cash equivalents		35	(24)
<b>Cash and cash equivalents at the end of the year</b>	<b>19</b>	<b>832</b>	<b>322</b>

# Rosneft Oil Company notes to the consolidated financial statements December 31, 2018 (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 December 7, 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 ROSNEFTGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by JSC ROSNEFTGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, JSC ROSNEFTGAS'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 ROSNEFTGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). In December 2016 JSC ROSNEFTGAS signed an agreement to sell 19.5% of Rosneft shares to a consortium of foreign investors. As of December 31, 2018 JSC ROSNEFTGAS'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 February 5, 2019.

Subsequent events have been evaluated through February 5, 2019, 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) impairment of 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 other 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. Determination of the level of control or influence in the entities where the Company holds a share is carried out taking into account the powers established by the agreement in respect of the investment and the existing rights that provide the Company with the opportunity to manage significant activities at the present time.

### 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. financial assets at fair value through other comprehensive income, or
3. financial assets at amortised cost.

The Company classifies financial assets on the basis of both: the Company's business model for managing the financial assets, as well as the contractual cash flow characteristics of the financial assets.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. However the Company may make an irrevocable election at initial recognition for particular instruments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income.

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 Financial Reporting Standard ("IFRS") 9 Financial Instruments 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.

A financial asset shall be measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Examples of financial assets that may fall into this category are loans given, accounts receivable, bonds and notes issued by 3rd parties, which are not quoted at active market – if they fulfill the requirements set above.

A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In particular, this category includes shares of other companies, which are not included in the category of measured at fair value through profit or loss.

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. Upon de-recognition of debt financial assets (bonds, notes etc.) classified as financial instruments at fair value through other comprehensive income, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss. In case of equity financial assets (shares, stocks etc.), classified as financial instruments at fair value through other comprehensive income, such cumulative gain or loss shall never be subsequently transferred to profit or loss.

Interest income as a component of finance income is disclosed in the notes to financial statements separately for each category of financial assets.

Regular way purchases and sales of financial assets are accounted for at trade date.

## 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.

## Treasury shares

Treasury shares are outstanding Treasury shares purchased from the shareholders. The Company acquires shares of Rosneft in accordance with the program of acquisition of shares in the open market (Note 36). Treasury shares are presented in the consolidated balance sheet as a deduction from equity at cost of repurchase.

## 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 recognizes a loss allowance for expected credit losses on a financial asset measured at amortised cost, and at fair value through other comprehensive income, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply. Requirements of IFRS 9 concerning impairment do not apply to equity instruments of any category as well as to the instruments at fair value through profit or loss.

The loss allowance for financial asset at amortised cost is recognized in profit or loss in correspondence with a balance sheet account reducing the carrying amount of the financial asset. The loss allowance for financial assets at fair value through other comprehensive income shall be recognized in other comprehensive income and shall not reduce the carrying amount of the financial asset in the statement of financial position.

Expected credit losses for significant counterparties, including banks, are determined based on credit rating of particular counterparty and relevant probability of default.

### 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 changes 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 (or as) the Company satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset, which usually occurs when the title is passed, 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. 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 ordinary 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 IFRS 9 Financial Instruments.

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 received 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, interpretations and amendments to standards effective as of January 1, 2018.

The following standards were applied for the first time in 2018:

- **IFRS 9 Financial Instruments.** The final version of IFRS 9 issued in 2014 replaces IAS 39 Financial Instruments: Recognition and Measurement, as well as 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. According to the new standard, expected credit losses for significant debt balances were estimated based on the credit risk of the debtors.

Also due to the new requirements, certain of the financial instruments of the Company were measured to their fair value as a consequence of the change in classification category from measured at amortized cost to measured at fair value through profit or loss.

Together with IFRS 9 the Company early adopted amendments to IAS 28 Investments in Associates and Joint Ventures effective for annual periods beginning on or after January 1, 2019. These amendments clarify that the companies should apply IFRS 9, 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.

- **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. As a result of the analysis performed by the Company, the conclusion was made that the standard has no significant impact on the consolidated financial statements.
- **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 did not have a material impact on the consolidated financial statements.
- **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 amendments did not have a material impact on the consolidated financial statements.
- **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 did not have a material impact on the consolidated financial statements.
- **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 de-recognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The interpretation did not have a material impact on the consolidated financial statements as its requirements were already previously incorporated in the accounting policy of the Company.

#### Effect of the first application of IFRS 9 Financial Instruments

Financial assets by categories	Carrying amount as of December 31, 2017	Remeasurement due to reclassification	Total as of January 1, 2018	Loss allowance per IAS 39 as at January 1, 2018	Increase in allowance	Loss allowance per IFRS 9 as at January 1, 2018
<b>I. CASH AND CASH EQUIVALENTS</b>						
Cash on hand and in bank accounts in RUB	44	-	44	-	(1)	(1)
Cash on hand and in bank accounts in foreign currencies	124	-	124	-	-	-
Deposits and other cash equivalents in RUB	142	-	142	-	-	-
Other	12	-	12	-	-	-
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>322</b>	<b>-</b>	<b>322</b>	<b>-</b>	<b>(1)</b>	<b>(1)</b>
<b>II. OTHER SHORT-TERM FINANCIAL ASSETS</b>						
<b>Financial assets at fair value through other comprehensive income</b>						
Notes from Loans and receivables	66	-	66	-	(2)	(2)
Notes from Available for Sale	19	-	19	-	-	-
Bonds from Available for Sale	116	-	116	-	-	-
Government bonds from Held to Maturity	1	-	1	-	-	-
Stocks and shares from Available for Sale	44	-	44	-	-	-
<b>Financial assets at amortized cost</b>						
Loans given from Loans and receivables	13	-	13	-	-	-
Loans given to associates from Loans and receivables	32	-	32	-	(6)	(6)
Deposits and certificates of deposit from Loans and receivables	43	-	43	-	-	-
Bonds from Held to Maturity	1	-	1	-	-	-
<b>Financial assets at fair value through profit or loss</b>						
Deposits and certificates of deposit from Loans and receivables	1	-	1	-	-	-
<b>TOTAL OTHER SHORT-TERM FINANCIAL ASSETS</b>	<b>336</b>	<b>-</b>	<b>336</b>	<b>-</b>	<b>(8)</b>	<b>(8)</b>
<b>III. ACCOUNTS RECEIVABLE</b>						
Trade receivables	658	-	658	(26)	(9)	(35)
Bank loans to customers	108	-	108	-	-	-
Other accounts receivable	116	-	116	(13)	(2)	(15)
<b>TOTAL ACCOUNTS RECEIVABLE</b>	<b>882</b>	<b>-</b>	<b>882</b>	<b>(39)</b>	<b>(11)</b>	<b>(50)</b>
<b>IV. OTHER LONG-TERM FINANCIAL ASSETS</b>						
<b>Financial assets at fair value through profit or loss</b>						
Bank deposits from Held to Maturity	493	(5)	488	-	-	-
<b>Financial assets at amortized cost</b>						
Bonds from Held to Maturity	13	-	13	-	-	-
Bank deposits from Held to Maturity	49	-	49	-	-	-

Financial assets by categories	Carrying amount as of December 31, 2017	Remeasurement due to reclassification	Total as of January 1, 2018	Loss allowance per IAS 39 as at January 1, 2018	Increase in allowance	Loss allowance per IFRS 9 as at January 1, 2018
Loans given to associates and joint ventures from Loans and receivables	26	-	26	-	(8)	(8)
Long-term loans given from Loans and receivables	4	-	4	-	-	-
Other accounts receivable	3	-	3	-	-	-
<b>Financial assets at fair value through other comprehensive income</b>						
Shares of PJSC INTER RAO UES	4	-	4	-	-	-
Shares of PJSC Russian Grids	1	-	1	-	-	-
Shares of JSC Modern Shipbuilding Technology	11	-	11	-	-	-
Other shares	2	-	2	-	-	-
<b>TOTAL OTHER LONG-TERM FINANCIAL ASSETS</b>	<b>606</b>	<b>(5)</b>	<b>601</b>	<b>-</b>	<b>(8)</b>	<b>(8)</b>
<b>SUBTOTAL</b>	<b>2,146</b>	<b>(5)</b>	<b>2,141</b>	<b>(39)</b>	<b>(28)</b>	<b>(67)</b>
<b>PRE-TAX EFFECT ON RETAINED EARNINGS</b>					<b>(33)</b>	
<b>AFTER-TAX EFFECT ON RETAINED EARNINGS</b>					<b>(28)</b>	

#### 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 and fixed assets (Note 25 "Intangible assets and goodwill" and Note 24 "Property, plant and equipment and construction in progress");
- estimated credit losses for accounts receivable (Note 21 "Accounts receivable");
- 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 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 right-of-use 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. The Company will apply the Standard using modified retrospective approach which presumes recognition of cumulative effect of initial application at the date of the initial application i.e. January 1, 2019. According to preliminary estimates made by the Company, one-off recognition of non-current assets and financial liabilities will total 220 300 bln RUR as of January 1, 2019.

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 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 interpretation to have a material impact on the consolidated financial statements.

In October 2017, the IASB issued amendments to IFRS 9 Financial instruments named Prepayment Features with Negative Compensation. The amendments relate to financial assets with an option of early prepayment, the conditions of which allow early prepayment in a variable amount, which in turn may exceed as well as may be lower than remaining outstanding cash flows. The amendments allow to measure such prepayable financial assets with so-called negative compensation at amortized cost or at fair value through other comprehensive income if a specified condition is met – instead of at fair value through profit or loss. The amendments are effective for annual periods beginning on or after January, 2019. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In February 2018, the IASB issued amendments to IAS 19 Employee benefits named Plan Amendment, Curtailment or Settlement. The amendments specifies how companies determine pension expenses when changes to a defined benefit pension plan occur. The amendments are effective for annual periods beginning on or after January, 2019. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In March 2018, the IASB issued a revised version of Conceptual Framework for Financial Reporting. In particular, the revised version introduces new definitions of assets and liabilities, as well as amended definitions of income and expenses. The new version is effective for annual periods beginning on or after January, 2020. The Company is currently assessing the impact of the revised version of Conceptual Framework on the consolidated financial statements.

In October 2018, the IASB issued amendments to IFRS 3 Business Combinations. The amendments enhance definition of a business set out by the standard. The amendments are effective for acquisitions to occur on or after January 1, 2020; earlier application is permitted. Possible impact of the amendments on the consolidated financial statements as well as the necessity of early adoption will be assessed in course of accounting support for future significant transactions.

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting policies, Changes in Accounting Estimates and Errors. The amendments to IAS 1 and IAS 8 introduce new definition of material. The amendments are effective on or after January 1, 2020; earlier application is permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

## 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 measures.

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, 2018	As of December 31, 2017 [restated]
Financial liabilities less liquid financial assets to capital employed ratio, %	37.9%	40.8%

### 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 As of December 31,		Liabilities As of December 31,	
	2018	2017	2018	2017
US\$	864	903	(1,969)	(1,885)
EUR	684	425	(340)	(67)
<b>Total</b>	<b>1,548</b>	<b>1,328</b>	<b>(2,309)</b>	<b>(1,952)</b>

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 IFRS 9 Financial Instruments.

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 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 2018 are presented in the table below:

	US\$ million	The equivalent amount at the CBR exchange rate as of December 31, 2018, RUB billion
<b>Nominal amount as of December 31, 2017</b>	<b>873</b>	<b>61</b>
Hedging instruments designated	-	-
Realized cash flow foreign exchange hedges	(55)	(4)
Hedging instruments de-designated	(818)	(57)
<b>Nominal amount as of December 31, 2018</b>	<b>-</b>	<b>-</b>



The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	2018			2017		
	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	(290)	58	(232)	(435)	87	(348)
Foreign exchange effects recognized during the year	-	-	-	(1)	-	(1)
Foreign exchange effects reclassified to profit or loss	146	(29)	117	146	(29)	117
Total recognized in other comprehensive (loss)/income for the year	146	(29)	117	145	(29)	116
Total recognized in other comprehensive (loss)/income as of the end of the year	(144)	29	(115)	(290)	58	(232)

The schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of December 31, 2018, is presented below:

Year	2019	2020	2021	Total
Reclassification	(146)	2	-	(144)
Income tax	29	-	-	29
Total, net of tax	(117)	2	-	(115)

### Analysis of sensitivity of financial instruments to foreign exchange risk

The level of currency risk is assessed on a monthly basis using mathematical modeling methods (Monte Carlo method), as well as 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	
	2018	2017	2018	2017
Currency rate change in %	13.97%	10.09%	13.64%	11.34%
Gain/(loss)	85/(85)	72/(72)	42/(42)	19/(19)
Equity	(112)/112	(91)/91	(3)/3	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 of December 31, 2018, the Company's variable rate liabilities totaled RUB 2.656 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 the management estimates of potential interest rate movements.

	Increase/decrease in interest rate	Effect on income before income tax
	basis points	RUB billion
2018	+5	(1)
	-5	1
2017	+6	(1)
	-6	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. As of December 31, 2018, management assessed the impact of credit risk (if materialized) on the Company's financial indicators as low. The Company's exposure to credit risk is limited to the carrying value of financial assets recognized on the consolidated balance sheet, taking into consideration the information disclosed in Note 40 "Contingencies. Guarantees and indemnities issued".

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.

### 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 December 31, 2018	On demand	< 1 year	1 to 5 years	> 5 years	Total
Loans and borrowings and other financial liabilities	-	1,169	3,379	752	5,300
Finance lease liabilities	-	9	19	18	46
Accounts payable to suppliers and contractors	-	452	-	-	452
Salary and other benefits payable	-	88	-	-	88
Current operating liabilities of subsidiary banks	77	376	17	-	470
Dividends payable	-	1	-	-	1
Other accounts payable	-	63	-	-	63
Derivative financial liabilities	-	33	-	-	33

Year ended December 31, 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

## 7. ACQUISITIONS OF SUBSIDIARIES AND SHARES IN JOINT OPERATIONS

### Acquisitions of 2018

#### Acquisition of a share in a joint venture

In the third quarter of 2018, the Company completed acquisition of a share in a joint venture engaged in exploration and evaluation activities.

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
<b>Current assets</b>	
Cash and cash equivalents	1
Accounts receivable	2
Inventories	1
<b>Total current assets</b>	<b>4</b>
<b>Total assets</b>	<b>4</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	1
Other current liabilities	1
<b>Total current liabilities</b>	<b>2</b>
<b>Total liabilities</b>	<b>2</b>
<b>Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition</b>	<b>2</b>
Fair value of cash consideration transferred	-
Fair value of the Company's investment in the joint venture	1
Intercompany liabilities existing prior to the acquisition	(5)
<b>Total gain on bargain purchase</b>	<b>6</b>

The gain on re-measurement of the Company's investment in the joint venture to the fair value at acquisition date amounted to RUB 1 billion and is included in Other income.

#### Acquisition of interests in joint ventures with ExxonMobil

During the second quarter of 2018, following ExxonMobil withdrawal from several joint projects, the Company completed acquisition of interests in the joint ventures with ExxonMobil and obtained control.

As of June 30, 2018 the Company prepared preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed. The purchase price allocation was finalized in December 2018.

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	1
Restricted cash	4
Other current assets	2
<b>Total current assets</b>	<b>7</b>
Non-current assets	
Property, plant and equipment	2
<b>Total non-current assets</b>	<b>2</b>
<b>Total assets</b>	<b>9</b>
<b>Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition</b>	<b>9</b>
Fair value of cash consideration transferred	-
Fair value of the Company's investments in joint ventures	6
Changes in the Company's liabilities as a result of acquisition of control	(11)
<b>Total gain on bargain purchase</b>	<b>14</b>

The gain on re-measurement of the Company's investments in joint ventures to the fair value at acquisition date amounted to RUB 5 billion and is included in Other income.

#### Acquisition of shares in research and development institutions

In June 2018 the Company acquired controlling interests in a number of institutions engaged in research, development and engineering services in oil and gas industry in line with the program of the federal and municipal property privatization. The cost of acquisition amounted to RUB 2 billion.

#### 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 allows the Company to substantially increase its gas production abroad within a short timeframe 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\$ 1.2 billion.

The acquired interest in the concession agreement was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company's interests in accordance with IFRS 11, Joint Arrangements. Allocation of purchase price to the fair value of assets acquired and liabilities assumed is finalized. Fair value of assets acquired was property, plant and equipment in amount of US\$ 2.3 billion.

##### Finalization of the purchase price allocation of JSCB Peresvet acquisition

In June 2017, the Company acquired a 99.9% share in JSCB Peresvet, a financial institution engaged in banking services. As of December 31, 2017, the purchase price allocation of the acquisition to the fair value of assets acquired and liabilities assumed was preliminary and was finalized in the third quarter of 2018.

The following table summarizes the Company's finalized allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

<b>ASSETS</b>	
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	19
Investment property	3
Current profit tax assets	2
<b>Total assets</b>	<b>87</b>
<b>LIABILITIES</b>	
Amounts due to credit institutions	18
Amounts due to customers	15
Debt securities issued	7
Other borrowings	32
Other liabilities	15
Other provisions	2
<b>Total liabilities</b>	<b>89</b>
<b>Total identifiable net assets at fair value</b>	<b>(2)</b>
JSCB Peresvet's liabilities to the Company existing prior to the acquisition	16
<b>Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition</b>	<b>14</b>
Fair value of cash consideration transferred	-
Intercompany liabilities and claims existing prior to the acquisition	16
<b>Consideration transferred to be included for the purpose of goodwill</b>	<b>16</b>
Excluding identifiable net assets of JSCB Peresvet	(14)
<b>Goodwill</b>	<b>2</b>

As of December 31, 2017, the Company recognized impairment of goodwill arising from the JSCB Peresvet acquisition. The loss of RUB 2 billion is recognized in Other expenses of the Company's consolidated statement of profit or loss for the year ended December 31, 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 from the JSCB Peresvet acquisition:

Cash acquired as a result of the JSCB Peresvet acquisition	1
Cash paid	-
<b>Net cash inflow</b>	<b>1</b>

The carrying value of the loans to customers approximates the fair value as of the date of the acquisition.

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 December 31, 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, engaged in the 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, engaged 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	
<b>Current assets</b>	
Cash and cash equivalents	5
Other current assets	5
<b>Total current assets</b>	<b>10</b>
<b>Non-current assets</b>	
Property, plant and equipment	101
Deferred tax assets	2
<b>Total non-current assets</b>	<b>103</b>
<b>Total assets</b>	<b>113</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Other current liabilities	9
<b>Total current liabilities</b>	<b>9</b>
<b>Non-current liabilities</b>	
Deferred tax liabilities	15
Loans and borrowings	44
<b>Total non-current liabilities</b>	<b>59</b>
<b>Total liabilities</b>	<b>68</b>
<b>Total identifiable net assets at fair value</b>	<b>45</b>
Goodwill	9
<b>Total consideration transferred</b>	<b>54</b>

#### Acquisition of TNK Trading International S.A.

In December 2017, the Company obtained control over TNK Trading International S.A. ('TTI') through concluding a number of agreements. Until December 2017 the Company considered its interest in TTI to be a part of investments in joint operations and accounted for it using the equity method.

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
<b>Current assets</b>	
Cash and cash equivalents	11
Prepayments and other current assets	130
Accounts receivable	13
Other current financial assets	9
<b>Total current assets</b>	<b>163</b>
<b>Non-current assets</b>	
Intangible assets	11
<b>Total non-current assets</b>	<b>11</b>
<b>Total assets</b>	<b>174</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	12
Profit tax payable	2
<b>Total current liabilities</b>	<b>14</b>
<b>Non-current liabilities</b>	



<b>ASSETS</b>	
Loans and borrowings and other financial liabilities	130
Deferred tax liabilities	1
<b>Total non-current liabilities</b>	<b>131</b>
<b>Total liabilities</b>	<b>145</b>
<b>Total identifiable net assets at fair value</b>	<b>29</b>
Intercompany liabilities and claims existing prior to the acquisition (net payable from TTI )	120
<b>Identifiable net assets excluding intercompany liabilities and claims existing prior to the acquisition</b>	<b>149</b>
Fair value of cash consideration transferred	-
Fair value of the Company's investment in joint operations	14
Intercompany liabilities and claims existing prior to the acquisition	120
<b>Consideration transferred to be included for the purpose of goodwill</b>	<b>134</b>
<b>Finance liability to the bank</b>	<b>19</b>
Excluding identifiable net assets of TTI	[149]
<b>Goodwill</b>	<b>4</b>

No cash consideration was paid.

As of December 31, 2017, the Company recognized an impairment of goodwill arising on TTI acquisition due to the existence of significant impairment indicators. Net effect recognized from the loss on impairment of goodwill arising on the acquisition and the gain on re-measurement of the Company's investments in joint ventures to the fair value at acquisition date amounted to RUB 1 billion and is included in Other income of the Consolidated Statement of profit or loss.

The identifiable intangible asset amounting to RUB 11 billion represents an estimate of the future benefits arising from the oil trading agreements between TTI and its major oil supplier.

#### Cash flows arising from the TTI acquisition:

Cash acquired as a result of the TTI acquisition	11
Cash paid	-
<b>Net cash inflow</b>	<b>11</b>

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 December 31, 2017.

In 2017 the Company completed several acquisitions, including a 99.9% share in JSCB Peresvet, a 30% stake in the Zohr field and obtained control over TNK Trading International S.A. At the date of the issuance of the consolidated financial statements for the year ended December 31, 2017 the Company made a preliminary allocation of the purchase price of these acquisitions. The allocation of the purchase prices of these acquisitions was finalized during 2018.

#### The following table summarizes the effect from the finalized purchase price allocations on the consolidated balance sheet as of December 31, 2017:

	Preliminary allocation	Effects from final allocation			Final allocation
		JSCB Peresvet	TTI	Other acquisitions	
<b>ASSETS</b>					
<b>Total current assets</b>	<b>2,292</b>	-	-	-	<b>2,292</b>
<b>Non-current assets</b>					
Property, plant and equipment	7,923	-	-	-	7,923
Intangible assets	71	2	2	-	75
Other long-term financial assets	606	-	-	-	606
Investments in associates and joint ventures	638	-	-	[3]	635
Bank loans granted	121	-	-	-	121
Deferred tax assets	26	-	-	-	26
Goodwill	265	-	-	-	265
Other non-current non-financial assets	285	-	-	-	285
<b>Total non-current assets</b>	<b>9,935</b>	<b>2</b>	<b>2</b>	<b>[3]</b>	<b>9,936</b>
<b>TOTAL ASSETS</b>	<b>12,227</b>	<b>2</b>	<b>2</b>	<b>[3]</b>	<b>12,228</b>
<b>LIABILITIES AND EQUITY</b>					
<b>Total current liabilities</b>	<b>3,836</b>	-	-	-	<b>3,836</b>
<b>Total non-current liabilities</b>	<b>4,208</b>	-	<b>1</b>	-	<b>4,209</b>
<b>Equity</b>					
Share capital	1	-	-	-	1
Additional paid-in capital	627	-	-	-	627
Other funds and reserves	[322]	-	-	-	[322]
Retained earnings	3,313	2	1	[3]	3,313
<b>Rosneft shareholders' equity</b>	<b>3,619</b>	<b>2</b>	<b>1</b>	<b>[3]</b>	<b>3,619</b>
Non-controlling interests	564	-	-	-	564
<b>Total equity</b>	<b>4,183</b>	<b>2</b>	<b>1</b>	<b>[3]</b>	<b>4,183</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>12,227</b>	<b>2</b>	<b>2</b>	<b>[3]</b>	<b>12,228</b>

The following table summarizes the effect from the finalized estimations on the consolidated statement of profit or loss for the year ended December 31, 2017:

	Before finalized estimation	Effect from finalized estimation			After finalized estimation
		SCB Peresvet	TTI	Other acquisitions	
<b>Revenues and equity share in profits of associates and joint ventures</b>					
Oil, gas, petroleum products and petrochemicals sales	5,877	-	-	-	5,877
Support services and other revenues	77	-	-	-	77
Equity share in profits of associates and joint ventures	60	-	-	(3)	57
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>6,014</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>6,011</b>
<b>Total costs and expenses</b>					
<b>Operating income</b>	<b>624</b>	<b>-</b>	<b>-</b>	<b>(3)</b>	<b>621</b>
Finance income	107	-	-	-	107
Finance expenses	(225)	-	-	-	(225)
Other income	109	-	1	-	110
Other expenses	(77)	2	-	-	(75)
Foreign exchange differences	3	-	-	-	3
Cash flow hedges reclassified to profit or loss	(146)	-	-	-	(146)
<b>Income before income tax</b>	<b>395</b>	<b>2</b>	<b>1</b>	<b>(3)</b>	<b>395</b>
Income tax expense	(98)	-	-	-	(98)
<b>Net income</b>	<b>297</b>	<b>2</b>	<b>1</b>	<b>(3)</b>	<b>297</b>
<b>Net income attributable to:</b>					
Rosneft shareholders	222	2	1	(3)	222
non-controlling interests	75	-	-	-	75
<b>Net income attributable to Rosneft per common share (in RUB) – basic and diluted</b>	<b>20.95</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20.95</b>
<b>Weighted average number of shares outstanding (millions)</b>	<b>10,598</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,598</b>

## 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 any 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.

The performance of the operating segments in 2018 is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>4,679</b>	<b>8,255</b>	<b>136</b>	<b>(4,832)</b>	<b>8,238</b>
Including: equity share in profits of associates and joint ventures	76	5	1	-	82
<b>Costs and expenses</b>					
Costs and expenses other than depreciation, depletion and amortization	2,863	8,092	196	(4,832)	6,319
Depreciation, depletion and amortization	504	123	8	-	635
<b>Total costs and expenses</b>	<b>3,367</b>	<b>8,215</b>	<b>204</b>	<b>(4,832)</b>	<b>6,954</b>
<b>Operating income</b>	<b>1,312</b>	<b>40</b>	<b>(68)</b>	<b>-</b>	<b>1,284</b>
Finance income	-	-	122	-	122
Finance expenses	-	-	(290)	-	(290)
<b>Total finance expenses</b>	<b>-</b>	<b>-</b>	<b>(168)</b>	<b>-</b>	<b>(168)</b>
Other income	-	-	49	-	49
Other expenses	-	-	(294)	-	(294)
Foreign exchange differences	-	-	107	-	107
Cash flow hedges reclassified to profit or loss	-	-	(146)	-	(146)
<b>Income before income tax</b>	<b>1,312</b>	<b>40</b>	<b>(520)</b>	<b>-</b>	<b>832</b>
Income tax expense	(246)	(8)	71	-	(183)
<b>Net income</b>	<b>1,066</b>	<b>32</b>	<b>(449)</b>	<b>-</b>	<b>649</b>

The performance of the operating segments in 2017 (restated) is shown below:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>3,180</b>	<b>6,096</b>	<b>123</b>	<b>(3,388)</b>	<b>6,011</b>
Including: equity share in profits of associates and joint ventures	42	13	2	-	57
<b>Costs and expenses</b>					
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
<b>Total costs and expenses</b>	<b>2,538</b>	<b>6,035</b>	<b>205</b>	<b>(3,388)</b>	<b>5,390</b>
<b>Operating income</b>	<b>642</b>	<b>61</b>	<b>(82)</b>	<b>-</b>	<b>621</b>
Finance income	-	-	107	-	107
Finance expenses	-	-	(225)	-	(225)
<b>Total finance expenses</b>	<b>-</b>	<b>-</b>	<b>(118)</b>	<b>-</b>	<b>(118)</b>
Other income	-	-	110	-	110
Other expenses	-	-	(75)	-	(75)
Foreign exchange differences	-	-	3	-	3
Cash flow hedges reclassified to profit or loss	-	-	(146)	-	(146)
<b>Income before income tax</b>	<b>642</b>	<b>61</b>	<b>(308)</b>	<b>-</b>	<b>395</b>
Income tax expense	(120)	(10)	32	-	(98)
<b>Net income</b>	<b>522</b>	<b>51</b>	<b>(276)</b>	<b>-</b>	<b>297</b>

Oil, gas, petroleum products and petrochemicals sales comprise the following (based on the country indicated in the bill of lading):

	2018	2017
International sales of crude oil, petroleum products and petrochemicals	5,791	3,986
International sales of crude oil, petroleum products and petrochemicals – CIS, other than Russia	357	262
Domestic sales of crude oil, petroleum products and petrochemicals	1,694	1,414
Sales of gas	234	215
<b>Total oil, gas, petroleum products and petrochemicals sales</b>	<b>8,076</b>	<b>5,877</b>

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.

## 9. TAXES OTHER THAN INCOME TAX

Taxes other than income tax for the years ended December 31 comprise the following:

	2018	2017
Mineral extraction tax	2,258	1,488
Excise tax	327	326
Property tax	42	38
Social charges	67	61
Other	7	6
<b>Total taxes</b>	<b>2,701</b>	<b>1,919</b>

## 10. EXPORT CUSTOMS DUTY

Export customs duty for the years ended December 31 comprises the following:

	2018	2017
Export customs duty on oil sales	777	480
Export customs duty on petroleum products and petrochemicals sales	284	178
<b>Total export customs duty</b>	<b>1,061</b>	<b>658</b>

## 11. FINANCE INCOME

Finance income for the years ended December 31 comprises the following:

	2018	2017
<b>Interest income on</b>		
Financial assets <sup>1</sup> measured:		
at amortized cost	46	44
at fair value through other comprehensive income	14	13
at fair value through profit or loss	9	8
Long-term advances issued (Note 28)	41	29
<b>Total interest income</b>	<b>110</b>	<b>94</b>
Decrease in loss allowance for expected credit losses on debt financial assets at amortized cost	1	-
Change in fair value of financial assets measured at fair value through profit or loss	2	-
Net gain from operations with derivative financial instruments	1	10
Gain from disposal of financial assets	3	3
Other finance income	5	-
<b>Total finance income</b>	<b>122</b>	<b>107</b>

## 12. FINANCE EXPENSES

Finance expenses for the years ended December 31 comprise the following:

	2018	2017
<b>Interest expenses on</b>		
Loans and borrowings	(133)	(113)
Prepayment on long-term oil and petroleum products supply agreements (Note 33)	(91)	(81)
Other interest expenses	(10)	(5)
<b>Total interest expenses</b>	<b>(234)</b>	<b>(199)</b>
Increase in provision due to the unwinding of a discount	(19)	(17)
Increase in loss allowance for expected credit losses on debt financial assets:		
at fair value through other comprehensive income	(4)	-
at amortized cost	(3)	-
Change in fair value of financial assets measured at fair value through profit or loss	(12)	-
Net loss from operations with derivative financial instruments	(17)	-
Loss from disposal of financial assets	-	(8)
Other finance expenses	(1)	(1)
<b>Total finance expenses</b>	<b>(290)</b>	<b>(225)</b>

## 13. OTHER INCOME AND EXPENSES

Other income for the years ended December 31 comprises the following:

	2018	2017 (restated)
Compensation payment for licenses from joint venture parties	1	1
Insurance indemnity	3	-
Gain on re-measurement of fair value of the Company's investments in joint ventures	6	-
Gain on bargain purchase	20	1
Gain on out-of-court settlement	13	100
Other	6	8
<b>Total other income</b>	<b>49</b>	<b>110</b>

<sup>1</sup> Comparative information is presented in accordance with the classification of financial assets according to IFRS 9 Financial Instruments, applied from January 1, 2018, for similar types of financial assets.



**Other expenses for the years ended December 31 comprise the following:**

	2018	2017 (restated)
Sale and disposal of property, plant and equipment and intangible assets	(14)	(13)
Impairment of assets	(219)	(24)
Disposal of non-production assets	(1)	(3)
Provision for legal claims	(13)	-
Social payments, charity, financial aid	(23)	(20)
Other	(24)	(15)
<b>Total other expenses</b>	<b>(294)</b>	<b>(75)</b>

**14. PERSONNEL EXPENSES****Personnel expenses for the years ended December 31 comprise the following:**

	2018	2017
Salary	271	249
Statutory insurance contributions	68	62
Expenses on non-statutory defined contribution plan	12	7
Other employee benefits	15	13
<b>Total personnel expenses</b>	<b>366</b>	<b>331</b>

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 December 31, 2018 and 2017 amounted to RUB 29 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 the above operating lease agreements as of December 31 are as follows:**

	2018	2017
Less than 1 year	35	29
From 1 to 5 years	78	82
Over 5 years	199	198
<b>Total future minimum lease payments</b>	<b>312</b>	<b>309</b>

**16. INCOME TAX****Income tax expenses for the years ended December 31 comprise the following:**

	2018	2017
Current income tax expense	175	120
Deferred tax expense / (benefit) due to the origination and reversal of temporary differences	8	(22)
<b>Total income tax expense</b>	<b>183</b>	<b>98</b>

In 2018 and 2017, 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 foreign jurisdictions are based on local regulations and vary from 0% to 34%.

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,	
	2018	2017 (restated)	2018	2017
Short-term accounts receivable	9	7	-	-
Property, plant and equipment	14	14	-	4
Short-term accounts payable and accrued liabilities	15	13	2	4
Loans and borrowings and other financial liabilities	9	20	(11)	(5)
Provisions	13	9	4	(1)
Tax loss carry forward	51	58	(7)	28

	Consolidated balance sheet as of December 31,		Consolidated statement of profit or loss for the years, ended December 31,	
	2018	2017 (restated)	2018	2017
Other	23	11	11	(1)
Less: deferred tax liabilities offset	(106)	(106)	-	-
<b>Deferred tax assets</b>	<b>28</b>	<b>26</b>	<b>(1)</b>	<b>29</b>
Inventories	(13)	(13)	-	(3)
Property, plant and equipment	(637)	(615)	(11)	(15)
Mineral rights	(264)	(267)	3	7
Intangible assets	(9)	(5)	(4)	1
Investments in associates and joint ventures	(8)	(12)	-	(2)
Other	(12)	(8)	5	5
Less: deferred tax assets offset	106	106	-	-
<b>Deferred tax liabilities</b>	<b>(837)</b>	<b>(814)</b>	<b>(7)</b>	<b>(7)</b>
<b>Deferred income tax (expense)/benefit</b>			<b>(8)</b>	<b>22</b>
<b>Net deferred tax liabilities</b>	<b>(809)</b>	<b>(788)</b>		
<b>Recognized in the consolidated balance sheet as following</b>				
Deferred tax assets	28	26		
Deferred tax liabilities	(837)	(814)		
<b>Net deferred tax liabilities</b>	<b>(809)</b>	<b>(788)</b>		

**The reconciliation of net deferred tax liabilities is as follows:**

	2018	2017 (restated)
<b>As of January 1</b>	<b>(788)</b>	<b>(791)</b>
Adjustment on initial application of IFRS 9	5	-
Deferred income tax (expense)/benefit, recognized in the consolidated statement of profit or loss	(8)	22
Acquisition of subsidiaries and shares in joint operations (Note 7)	(9)	(14)
Deferred tax expenses recognized in other comprehensive income	(9)	(5)
<b>As of December 31</b>	<b>(809)</b>	<b>(788)</b>

The reconciliation between actual income tax expense and theoretical income tax expense calculated as accounting profit multiplied by the 20% tax rate for the years ended December 31 is as follows:

	2018	2017 (restated)
<b>Income before income tax</b>	<b>832</b>	<b>395</b>
<b>Income tax at statutory rate of 20%</b>	<b>166</b>	<b>79</b>
<b>Increase/(decrease) resulting from:</b>		
Effect of change in unrecognized deferred tax assets	13	4
Effect of income tax rates in other jurisdictions	-	2
Effect of special tax treatments	3	2
Effect of income tax relief	(24)	(12)
Effect of equity share in profits of associates and joint ventures	(14)	(8)
Effect of tax on intercompany dividends	6	1
Effect of tax on controlled investments in foreign subsidiaries	(3)	2
Effect from goodwill write-off	36	2
Effect from acquisition of interests in joint ventures	(8)	-
Effect from obtaining control over a subsidiary	-	(1)
Effect from disposal of subsidiaries	-	(1)
Effect from sale of shares in subsidiaries	1	-
Effect of prior period adjustments	(10)	1
Effect of non-taxable income and non-deductible expenses	17	27
<b>Income tax</b>	<b>183</b>	<b>98</b>

Unrecognized deferred tax assets in the consolidated balance sheet for the years ended December 31, 2018 and 2017 amounted to RUB 72 billion and RUB 55 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 to RUB 849 billion as of December 31, 2018. According to Russian tax legislation 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 2018 profits of controlled foreign companies are included in the Company's tax base as of December 31, 2019 and recorded in the tax declaration. The consequences of taxation of controlled foreign companies are considered in the determination of current and deferred tax liabilities.

## 17. NON-CONTROLLING INTERESTS

Non-controlling interests include:

	As of December 31, 2018		2018		As of December 31, 2017		2017	
	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	240	30	39.67	221	40		
JSC Vankorneft	49.90	143	38	49.90	140	28		
LLC Taas-Yuriakh Neftegazodobycha	49.90	119	24	49.90	104	3		
JSC Verkhnechonskneftegaz	20.05	48	10	20.05	43	3		
LLC Kharampurneftegaz	49.00	24	-	-	-	-		
LLC Sorovskneft	39.67	21	1	39.67	20	1		
PJSC Ufaorgsintez	42.66	18	-	42.66	19	1		
LLC Bashneft-Dobycha	39.67	7	1	39.67	7	1		
Non-controlling interests in other entities	various	4	(4)	various	10	(2)		
<b>Total non-controlling interests</b>		<b>624</b>	<b>100</b>		<b>564</b>	<b>75</b>		

In December 2017, the Company and BP have entered into an agreement to develop certain subsoil resources. In accordance with the agreement the parties have commenced project activities in LLC Kharampurneftegaz, subsidiary of the Company (BP share - 49%), in the second quarter of 2018.

On June 29, 2017 the Company completed the sale of a 20% share in JSC Verkhnechonskneftegaz, a subsidiary, to Beijing Gas Singapore Private Limited, a subsidiary of Beijing Gas Group Co., Ltd. for a consideration of US\$ 11 billion (RUB 65 billion at the CBR official exchange rate at the transaction closing date).

The summarized financial information of subsidiaries that have material non-controlling interests is provided below. This information is presented before intercompany eliminations.

Summarized statement of profit or loss for 2018	PJSC Bashneft Oil Company	JSC Vankorneft	LLC Taas-Yuriakh Neftegazodobycha
Revenues	803	426	99
Costs and other income and expenses	(707)	(335)	(41)
<b>Income before income tax</b>	<b>96</b>	<b>91</b>	<b>58</b>
Income tax expense	(19)	(15)	(10)
<b>Net income</b>	<b>77</b>	<b>76</b>	<b>48</b>
incl. attributable to non-controlling interests	30	38	24
Revenues	614	330	29
Costs and other income and expenses	(486)	(260)	(21)
<b>Income before income tax</b>	<b>128</b>	<b>70</b>	<b>8</b>
Income tax expense	(27)	(12)	(2)
<b>Net income</b>	<b>101</b>	<b>58</b>	<b>6</b>
incl. attributable to non-controlling interests	40	28	3

Summarized balance sheet as at December 31, 2018	PJSC Bashneft Oil Company	JSC Vankorneft	LLC Taas-Yuriakh Neftegazodobycha
Current assets	849	70	33
Non-current assets	768	302	223
<b>Total assets</b>	<b>1,617</b>	<b>372</b>	<b>256</b>
Current liabilities	698	43	8
Non-current liabilities	222	32	27
Equity	697	297	221
<b>Total equity and liabilities</b>	<b>1,617</b>	<b>372</b>	<b>256</b>
incl. non-controlling interests	240	143	119

Summarized balance sheet as at December 31, 2017	PJSC Bashneft Oil Company	JSC Vankorneft	LLC Taas-Yuriakh Neftegazodobycha
Current assets	324	71	11
Non-current assets	792	292	215
<b>Total assets</b>	<b>1,116</b>	<b>363</b>	<b>226</b>
Current liabilities	234	36	7
Non-current liabilities	234	35	28
Equity	648	292	191
<b>Total equity and liabilities</b>	<b>1,116</b>	<b>363</b>	<b>226</b>
incl. non-controlling interests	221	140	104

## 18. EARNINGS PER SHARE

For the years ended December 31 basic and diluted earnings per share comprise the following:

	2018	2017
Net income attributable to shareholders of Rosneft	549	222
Weighted average number of issued common shares outstanding (millions)	10,598	10,598
<b>Total basic and diluted earnings per share (RUB)</b>	<b>51.80</b>	<b>20.95</b>

## 19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	As of December 31, 2018	As of December 31, 2017
Cash on hand and in bank accounts in RUB	30	44
Cash on hand and in bank accounts in foreign currencies	572	124
Deposits	221	142
Other	9	12
<b>Total cash and cash equivalents</b>	<b>832</b>	<b>322</b>

Cash accounts denominated in foreign currencies primarily comprise cash in euro and U.S. dollars.

Deposits are interest bearing and denominated in U.S. dollars, RUB, and euro.

Restricted cash includes the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 6 billion and RUB 4 billion as of December 31, 2018 and 2017, respectively.

## 20. OTHER SHORT-TERM FINANCIAL ASSETS

Other short-term financial assets comprise the following:

	As of December 31, 2018	As of December 31, 2017
<b>Financial assets at fair value through other comprehensive income</b>		
Bonds	162	117
Promissory notes	151	85
Stocks and shares	42	44
Loans granted under reverse repurchase agreements	56	-
<b>Financial assets at amortized cost</b>		
Bonds	1	1
Loans granted	-	13
Loans issued to associates	2	32
Deposits and certificates of deposit	218	43
<b>Financial assets at fair value through profit or loss</b>		
Deposits	1	1
<b>Total other short-term financial assets</b>	<b>633</b>	<b>336</b>



As of December 31, 2018 and 2017 bonds and notes at fair value through other comprehensive income comprise the following:

Type of security	2018			2017		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State and municipal bonds	18	2.5-14.15%	May 2019 – March 2033	34	5.0-14.15%	January 2018 – March 2033
Corporate bonds	144	2.95-14.25%	January 2019 – September 2032	79	3.08-14.25%	January 2018 – September 2032
Bank of Russia bonds	-			4	7.75%	January 2018
Promissory notes	151	3.8-9.0%	January 2019 – December 2023	85	3.8-4.5%	February 2018 – January 2022
<b>Total</b>	<b>313</b>			<b>202</b>		

As of December 31, 2018, deposits and certificates of deposit are denominated mainly in U.S. dollars and earn interest from 3.7% to 6.05% p.a.

Financial assets at amortized cost are presented net of allowance for expected credit losses in the amount of RUB 3 billion as of December 31, 2018. The allowance for expected credit losses on financial assets at fair value through other comprehensive income in the amount of RUB 7 billion as of December 31, 2018 is recognized in other comprehensive income.

Set out below is the movement in the loss allowance for expected credit losses on other short-term financial assets:

	As of January 1, 2018	Increase in allowance	Decrease in allowance	Reclassification	As of December 31, 2018
<b>Loss allowance at an amount equal to 12-month expected credit losses:</b>					
- on financial assets at fair value through other comprehensive income	2	5	-	-	7
- on financial assets at amortized cost	1	-	-	-	1
<b>Loss allowance at an amount equal to lifetime expected credit losses:</b>					
- on financial assets at amortized cost	5	1	-	(4)	2

As of December 31, 2018 the Company has no financial assets, which were credit-impaired at initial recognition.

## 21. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	As of December 31, 2018	As of December 31, 2017
Trade receivables	523	658
Bank loans to customers	124	108
Other accounts receivable	51	116
<b>Total</b>	<b>698</b>	<b>882</b>
Allowance for expected credit losses	(56)	(39) <sup>1</sup>
<b>Total accounts receivable, net of allowance</b>	<b>642</b>	<b>843</b>

Reconciliation of allowance balances from IAS 39 to IFRS 9 at January 1, 2018 is presented in Note 3 "Significant accounting policies"

As of December 31, 2018 and 2017 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

Set out below is the movement in the loss allowance for expected credit losses on accounts receivable:

	As of January 1, 2018	Increase in allowance	Decrease in allowance	As of December 31, 2018
Loss allowance at an amount equal to 12-month expected credit losses on trade receivables	35	13	(11)	37
Allowance for expected credit losses on other accounts receivable	15	7	(3)	19
<b>Total</b>	<b>50</b>	<b>20</b>	<b>(14)</b>	<b>56</b>

Due to the high credit quality and short term-nature of trade receivables, the loss allowance for expected credit losses for significant counterparties is determined based on 12-month expected credit losses. The Company has no trade receivables assets of buyers and customers that are credit impaired upon initial recognition.

<sup>1</sup> In accordance with the requirements of IAS 39

## 22. INVENTORIES

Inventories comprise the following:

	As of December 31, 2018	As of December 31, 2017
Crude oil and gas	91	88
Petroleum products and petrochemicals	205	158
Materials and supplies	97	78
<b>Total inventories</b>	<b>393</b>	<b>324</b>

Petroleum products and petrochemicals include those designated both for sale and for own use.

For the years ended December 31:

	2018	2017
Cost of inventories recognized as an expense during the period	1,306	977

The cost of inventories recognized as 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 and other current assets comprise the following:

	As of December 31, 2018	As of December 31, 2017
Value added tax and excise receivable	221	180
Prepayments to suppliers:	217	210
Current portion of long-term prepayments issued	148	154
Settlements with customs	41	37
Profit and other tax payments	20	19
Other	11	8
<b>Total prepayments and other current assets</b>	<b>510</b>	<b>454</b>

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
<b>Cost as of January 1, 2017</b>	<b>7,513</b>	<b>2,052</b>	<b>119</b>	<b>9,684</b>
Depreciation, depletion and impairment losses as of January 1, 2017	(2,174)	(371)	(30)	(2,575)
<b>Net book value as of January 1, 2017</b>	<b>5,339</b>	<b>1,681</b>	<b>89</b>	<b>7,109</b>
Prepayments for property, plant and equipment as of January 1, 2017	21	16	5	42
<b>Total as of January 1, 2017</b>	<b>5,360</b>	<b>1,697</b>	<b>94</b>	<b>7,151</b>
<b>Cost</b>				
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
<b>As of December 31, 2017</b>	<b>8,719</b>	<b>2,172</b>	<b>139</b>	<b>11,030</b>
<b>Depreciation, depletion and impairment losses</b>				
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
<b>As of December 31, 2017</b>	<b>(2,628)</b>	<b>(478)</b>	<b>(44)</b>	<b>(3,150)</b>
<b>Net book value as of December 31, 2017</b>	<b>6,091</b>	<b>1,694</b>	<b>95</b>	<b>7,880</b>
Prepayments for property, plant and equipment as of December 31, 2017	9	7	27	43
<b>Total as of December 31, 2017</b>	<b>6,100</b>	<b>1,701</b>	<b>122</b>	<b>7,923</b>

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
<b>Cost</b>				
Acquisitions of subsidiaries and shares in joint operations (Note 7)	2	-	2	4
Additions	995	130	5	1,130
Including capitalized expenses on loans and borrowings	143	48	-	191
Disposals and other movements	(61)	14	(8)	(55)
Foreign exchange differences	129	31	3	163
Cost of asset retirement (decommissioning) obligations	(27)	-	-	(27)
<b>As of December 31, 2018</b>	<b>9,757</b>	<b>2,347</b>	<b>141</b>	<b>12,245</b>
<b>Depreciation, depletion and impairment losses</b>				
Depreciation and depletion charge	(519)	(113)	(8)	(640)
Disposals and other movements	40	(14)	3	29
Impairment of assets	(17)	(12)	-	(29)
Foreign exchange differences	(59)	(3)	(1)	(63)
<b>As of December 31, 2018</b>	<b>(3,183)</b>	<b>(620)</b>	<b>(50)</b>	<b>(3,853)</b>
<b>Net book value as of December 31, 2018</b>	<b>6,574</b>	<b>1,727</b>	<b>91</b>	<b>8,392</b>
Prepayments for property, plant and equipment as of December 31, 2018	9	15	29	53
<b>Total as of December 31, 2018</b>	<b>6,583</b>	<b>1,742</b>	<b>120</b>	<b>8,445</b>

The cost of construction in progress included in property, plant and equipment was RUB 2.351 billion and RUB 2.013 billion as of December 31, 2018 and 2017, respectively.

The depreciation charge 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 18 billion and RUB 15 billion for the years ended December 31, 2018 and 2017, respectively.

The Company capitalized RUB 191 billion (including RUB 147 billion in capitalized interest expense) and RUB 144 billion (including RUB 117 billion in capitalized interest expense) of expenses on loans and borrowings in 2018 and 2017, respectively.

During 2018 and 2017 the Company received government grants for capital expenditures in the amount of RUB 10 billion and RUB 8 billion, respectively. Grants are accounted for as a reduction of additions in the Exploration and production segment.

The weighted average rates used to determine the amount of borrowing costs eligible for capitalization are 11.63% and 8.31% p.a. in 2018 and 2017, respectively.

Due to the factors and circumstances leading to the impairment of goodwill in the Refining and distribution segment (Note 25), the Company performed an impairment test of its refining assets by individual refinery (groups of refineries) which resulted in the impairment of the segment's property, plant and equipment in the amount of RUB 12 billion, recognized in Other expenses (Note 13). The key assumptions used in calculating the value in use of property, plant and equipment largely coincide with those presented in Note 25, but take into consideration the more favorable macroeconomic indicators and forecasts for this segment, as well as the clarification of the regulatory parameters of taxation in the oil refining industry in the fourth quarter of 2018.

## Exploration and evaluation assets

Exploration and evaluation assets included in the Exploration and production segment, including mineral rights to unproved properties, comprise the following:

	2018	2017
<b>Cost as of January 1</b>	<b>386</b>	<b>243</b>
Impairment losses as of January 1	-	-
<b>Net book value as of January 1</b>	<b>386</b>	<b>243</b>
<b>Cost</b>		
Acquisition of subsidiaries (Note 7)	-	47
Acquisition of interest in joint arrangements	-	37
Capitalized expenditures	42	71
Reclassified to development assets	(43)	(8)
Expensed	(1)	(2)
Utilization of impairment reserve	-	-
Foreign exchange differences	13	(2)
<b>As of December 31</b>	<b>397</b>	<b>386</b>
<b>Impairment losses</b>		
Accrual of impairment reserve	(17)	-
<b>As of December 31</b>	<b>(17)</b>	<b>-</b>
<b>Net book value as of December 31</b>	<b>380</b>	<b>386</b>

## Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 80 billion and RUB 98 billion as of December 31, 2018 and 2017, 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, 2017	34	48	82	256
Amortization as of January 1, 2017	(13)	(10)	(23)	-
Net book value as of January 1, 2017	21	38	59	256
<b>Cost</b>				
Additions	-	10	10	-
Acquisition of subsidiaries (Note 7)	-	30	30	15
Disposals	-	(18)	(18)	(6)
Foreign exchange differences	-	-	-	-
<b>As of December 31, 2017 (restated)</b>	<b>34</b>	<b>70</b>	<b>104</b>	<b>265</b>
<b>Amortization</b>				
Amortization charge	(2)	(5)	(7)	-
Disposal of amortization	-	1	1	-
Foreign exchange differences	-	-	-	-
<b>As of December 31, 2017 (restated)</b>	<b>(15)</b>	<b>(14)</b>	<b>(29)</b>	<b>-</b>
<b>Net book value as of December 31, 2017 (restated)</b>	<b>19</b>	<b>56</b>	<b>75</b>	<b>265</b>
<b>Cost</b>				
Additions	-	15	15	-
Acquisition of subsidiaries (Note 7)	-	-	-	-
Disposals	-	(4)	(4)	(180)
Foreign exchange differences	1	3	4	-
<b>As of December 31, 2018</b>	<b>35</b>	<b>84</b>	<b>119</b>	<b>85</b>
<b>Amortization</b>				
Amortization charge	(1)	(14)	(15)	-
Disposal of amortization	-	2	2	-
Foreign exchange differences	(1)	(1)	(2)	-
<b>As of December 31, 2018</b>	<b>(17)</b>	<b>(27)</b>	<b>(44)</b>	<b>-</b>
<b>Net book value as of December 31, 2018</b>	<b>18</b>	<b>57</b>	<b>75</b>	<b>85</b>

	December 31, 2018	December 31, 2017
<b>Goodwill</b>		
Exploration and production	85	85
Refining and distribution	-	180
<b>Total</b>	<b>85</b>	<b>265</b>

Goodwill acquired through business combinations is allocated to the relevant groups of cash generating units that are operating segments – the Exploration and production segment and the Refining and distribution segment. In assessing whether goodwill has been impaired, the current value of the operating segments (including goodwill) is compared with their estimated value in use. The Company estimates the value in use of the operating segments using a discounted cash flow model. Future cash flows are 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 concerning oil prices, natural gas prices, refining margins, petroleum product margins and cost inflation rates, are set. These assumptions take into account the current 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 are 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. For the calculation of the terminal value of the Company's segments in the post-forecast period the Gordon model is used.

The Company performs its annual goodwill impairment test as of October 1 of each year. The impairment test was performed at the beginning of the fourth quarter of each year using the most actual information available at the date of the impairment test. As a result of the annual test, no impairment of goodwill was identified in 2017.

In the beginning of August 2018, the laws on the completion of the tax maneuver in the Russian oil industry were adopted, involving a significant change in the parameters of the fiscal regime. These laws, in a number of scenarios, combined with the current macroeconomic environment and taking into account the measures on stabilizing the prices for petroleum products in the domestic market could create conditions in which the value in use of the oil refining, marketing and logistics business of the Company would be exposed to additional risks.

Considering that for the six months of 2018 Refining and distribution segment demonstrated an operating loss, the Company decided to revise the key assumptions used for determining the estimated value in use of the Refining and distribution segment. As a result the carrying amount exceeded its value in use, and RUB 47 billion of impairment loss was recognized in the Interim condensed consolidated financial statements for six months ended June 30, 2018.

In the third quarter of 2018 the impairment test was updated following further ruble depreciation and oil prices growth along with the corresponding change of the long-term macroeconomic forecast, as well as an uncertainty about the changes to the calculation and administration procedures in respect of the reverse excise for refineries and its price-shocks reducing component. As a result of the update, the excess of carrying amount over its value in use was identified for the Refining and distribution segment and the impairment of the full amount of goodwill was recognized. The lag in the growth rate of market prices for petroleum products compared to the growth rate of crude oil prices is the main factor that led to the impairment of goodwill of the Refining and distribution segment. The impairment loss of RUB 133 billion was recognized in Other expenses of the Interim consolidated statement of profit or loss for three months ended September 30, 2018. The total amount of goodwill impairment loss recognized in Other expenses of the Consolidated statement of profit or loss for twelve months ended December 31, 2018 is RUB 180 billion. Due to the recognized impairment of the Refining and distribution segment goodwill the Company also performed impairment test of its refining property, plant and equipment, as a result of which the impairment loss was identified and recognized in Property, plant and equipment (Note 24).

As a result of the annual goodwill impairment test, no impairment of goodwill was identified in 2018 for the Exploration and production segment due to the substantial headroom in the esteemed value in use over identified net assets for the segment.



## 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 the discount rate was 10.3% p.a. in 2018 (12.4% p.a. in 2017).
- The estimated average annual RUB / U.S. dollar exchange rate**  
 The average annual RUB / U.S. dollar exchange rate was forecasted as follows: RUB 63.9 for 2019, RUB 63.8 for 2020, RUB 64.0 for 2021, RUB 64.7 for 2022, RUB 66.3 for 2023 and RUB 68.0 from 2024 onwards.
- Oil and petroleum products prices**  
 The Urals oil price was forecasted as follows: RUB 4.051 per barrel for 2019, RUB 3.811 per barrel for 2020, RUB 3.703 per barrel for 2021, RUB 3.647 per barrel for 2022, RUB 3.651 per barrel for 2023 and RUB 3.636 per barrel from 2024 onwards. These prices, in turn, form the basis of the forecasted purchase prices for oil consumed in refining and export sales prices for Company's petroleum products. Oil purchases of the Refining and distribution segment are based on "netback" (export market prices for oil and gas condensate, minus transportation costs, export duties, storage costs, selling expenses and other sales related expenses). The weighted average price of petroleum products (excluding petrochemicals) was forecasted as follows: RUB 34.5 thousand per tonne, RUB 33.3 thousand per tonne and RUB 33.0 – 34.0 thousand per tonne for 2019, 2020 and from 2021 onwards, respectively.
- Production volumes**  
 Estimated production volumes were based on detailed data for the fields and refineries and the field development plans and refineries utilization rates approved by management through the long-term planning process were taken into account.

As of December 31, 2018 and 2017 the Company did not have any intangible assets with indefinite useful lives. As of December 31, 2018 and 2017 no intangible assets have been pledged as collateral.

## 26. OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets net of future credit losses comprise the following:

	As of December 31, 2018	As of December 31, 2017
<b>Financial assets at fair value through other comprehensive income</b>		
Stocks and shares	18	18
<b>Financial assets at amortized cost</b>		
Bonds	28	13
Loans granted	18	4
Loans issued to associates	31	26
Deposits and certificates of deposit	23	49
Other accounts receivable	11	3
<b>Financial assets at fair value through profit or loss</b>		
Deposits	110	493
<b>Total other long-term financial assets</b>	<b>239</b>	<b>606</b>

Bank deposits of the Company are placed in rubles, US dollars and euros at interest rates ranging from 1.5% to 8.75% p.a.

Bonds mainly include federal loan bonds owned by JSCB Peresvet and JSC Russian Regional Development Bank (VBRR).

No long-term financial assets were pledged as collateral as of December 31, 2018 and 2017.

As of December 31, 2018 and 2017, no long-term financial assets were received by the Company as collateral.

Set out below is the movement in the loss allowance for expected credit losses on other long-term financial assets:

	As of January 1, 2018	Increase in allowance	Decrease in allowance	Reclassification	As of December 31, 2018
<b>Loss allowance at an amount equal to 12-month expected credit losses:</b>					
- on financial assets at amortized cost	1	-	-	-	1
<b>Loss allowance at an amount equal to lifetime expected credit losses:</b>					
- on financial assets at amortized cost	7	3	-	4	14

As of December 31, 2018 the Company has no financial assets, which were credit-impaired at initial recognition.

## 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, 2018, %	As of December 31, 2018	As of December 31, 2017 (restated)
<b>Joint ventures</b>				
PJSC NGK Slavneft	Russia	49.94	167	156
Petromonagas S.A.	Venezuela	40.00	77	46
Taihu Ltd (OJSC Udmurtneft)	Cyprus	51.00	58	47
Messoyahaneftgaz JSC	Russia	50.00	37	15
Petrovictoria S.A.	Venezuela	40.00	31	25
National Oil Consortium LLC	Russia	80.00	30	24
Fuel-filling complex of Vnukovo	Russia	50.00	17	18

Name of investee	Country	Company's share as of December 31, 2018, %	As of December 31, 2018	As of December 31, 2017 (restated)
SIA ITERA Latvija	Latvia	66.00	3	4
Arktikshelfneftegaz JSC	Russia	50.00	2	2
RN Pechora LLC	Russia	1.00	-	8
<b>Associates</b>				
Nayara Energy Limited	India	49.13	251	224
Purgaz CJSC	Russia	49.00	34	39
Petrocas Energy International Ltd	Cyprus	49.00	11	9
Nizhnevartovskaya TPP JSC	Russia	25.01	4	4
Other associates	various	various	13	14
<b>Total associates and joint ventures</b>			<b>735</b>	<b>635</b>

**The equity share in profits/(losses) of associates and joint ventures comprises the following:**

	Company's share as of December 31, 2018, %	Share in income/(loss) of equity investees	
		2018	2017 (restated)
Messoyahaneftgaz JSC	50.00	31	11
Petromonagas S.A.	40.00	19	8
PJSC NGK Slavneft	49.94	11	7
TNK Trading International S.A.	59.95	-	10
Other	various	21	21
<b>Total equity share in profits of associates and joint ventures</b>		<b>82</b>	<b>57</b>

**The unrecognized share of losses of associates and joint ventures comprises the following:**

	As of December 31, 2018	As of December 31, 2017
LLC Veninest	2	2
LLP Adai Petroleum Company	8	7
Boqueron S.A.	6	6
Petroperija S.A.	4	3
<b>Total unrecognized share of losses of associates and joint ventures</b>	<b>20</b>	<b>18</b>

**Financial information of significant associates and joint ventures as of December 31, 2018 and 2017 is presented below:**

	As of December 31, 2018	As of December 31, 2017
Current assets	162	264
Non-current assets	396	359
<b>Total assets</b>	<b>558</b>	<b>623</b>
Current liabilities	(242)	(415)
Non-current liabilities	(284)	(187)
<b>Total liabilities</b>	<b>(526)</b>	<b>(602)</b>
<b>Net assets</b>	<b>32</b>	<b>21</b>
<b>The Company's share, %</b>	<b>49.13</b>	<b>49.13</b>
<b>The Company's total share in net assets</b>	<b>16</b>	<b>10</b>
<b>Goodwill</b>	<b>235</b>	<b>214</b>
<b>Total</b>	<b>251</b>	<b>224</b>
Revenues	912	282
Finance expenses	(27)	(15)
Depreciation, depletion and amortization	(16)	(6)
Other expenses	(860)	(257)
<b>Income before tax</b>	<b>9</b>	<b>4</b>
Income tax	(4)	(1)
<b>Net income</b>	<b>5</b>	<b>3</b>
<b>The Company's share, %</b>	<b>49.13</b>	<b>49.13</b>
<b>The Company's total share in net income</b>	<b>2</b>	<b>2</b>

The Company's share of the currency translation effect amounted to an income of RUB 25 billion and a loss of RUB 8 billion for the years ended December 31, 2018 and 2017, respectively, which was included in foreign exchange differences in the translation of foreign operations in the consolidated statement of other comprehensive income for 2018 and 2017.

	As of December 31, 2018	As of December 31, 2017
Current assets	93	60
Non-current assets	473	447
<b>Total assets</b>	<b>566</b>	<b>507</b>
Current liabilities	(63)	(66)
Non-current liabilities	(168)	(129)
<b>Total liabilities</b>	<b>(231)</b>	<b>(195)</b>
<b>Net assets</b>	<b>335</b>	<b>312</b>
<b>The Company's share, %</b>	<b>49.94</b>	<b>49.94</b>
<b>The Company's total share in net assets</b>	<b>167</b>	<b>156</b>
Revenues	314	241
Finance income	-	1
Finance expenses	(9)	(7)
Depreciation, depletion and amortization	(47)	(47)
Other expenses	(228)	(171)
<b>Income before tax</b>	<b>30</b>	<b>17</b>
Income tax	(8)	(4)
<b>Net income</b>	<b>22</b>	<b>13</b>
<b>The Company's share, %</b>	<b>49.94</b>	<b>49.94</b>
<b>The Company's total share in net income</b>	<b>11</b>	<b>7</b>

	As of December 31, 2018	As of December 31, 2017
Current assets	24	17
Non-current assets	180	145
<b>Total assets</b>	<b>204</b>	<b>162</b>
Current liabilities	(19)	(25)
Other non-current liabilities	(110)	(120)
<b>Total liabilities</b>	<b>(129)</b>	<b>(145)</b>
<b>Net assets</b>	<b>75</b>	<b>17</b>
<b>The Company's share, %</b>	<b>50.00</b>	<b>50.00</b>
<b>The Company's total share in net assets</b>	<b>37</b>	<b>9</b>
Revenues	126	61
Finance income	-	-
Finance expenses	(6)	(7)
Depreciation, depletion and amortization	(12)	(8)
Other expenses	(2)	(1)
<b>Income before tax</b>	<b>75</b>	<b>28</b>
Income tax	(13)	(6)
<b>Net income</b>	<b>62</b>	<b>22</b>
<b>The Company's share, %</b>	<b>50.00</b>	<b>50.00</b>
<b>The Company's total share in net income</b>	<b>31</b>	<b>11</b>

	As of December 31, 2018	As of December 31, 2017
Current assets	67	42
Non-current assets	80	89
<b>Total assets</b>	<b>147</b>	<b>131</b>
Current liabilities	(19)	(17)
Other non-current liabilities	(15)	(15)
<b>Total liabilities</b>	<b>(34)</b>	<b>(32)</b>
<b>Net assets</b>	<b>113</b>	<b>99</b>
<b>One-off adjustment in accordance with the joint-stock agreement</b>	<b>-</b>	<b>(6)</b>
<b>The Company's share, %</b>	<b>51.00</b>	<b>51.00</b>
<b>The Company's total share in net assets</b>	<b>58</b>	<b>47</b>

## 28. OTHER NON-CURRENT NON-FINANCIAL ASSETS

Other non-current non-financial assets comprise the following:

	As of December 31, 2018	As of December 31, 2017
Long-term advances issued	293	282
Other	2	3
<b>Total other non-current non-financial assets</b>	<b>295</b>	<b>285</b>

Long-term advances issued include RUB 125 billion (US\$ 1.8 billion) of the prepayment for the Company's contribution to the newly created Joint Venture – an operator of the infrastructure project for the operation of the oil pipeline in Kurdish Autonomous Region of Iraq.

## 29. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

	As of December 31, 2018	As of December 31, 2017
<b>Financial liabilities</b>		
Accounts payable to suppliers and contractors	452	451
Current operating liabilities of subsidiary banks	451	333
Salary and other benefits payable	88	81
Dividends payable	1	5
Other accounts payable	63	46
<b>Total financial liabilities</b>	<b>1,055</b>	<b>916</b>
<b>Non-financial liabilities</b>		
Short-term advances received	75	55
<b>Total accounts payable and accrued liabilities</b>	<b>1,130</b>	<b>971</b>

Trade and other payables are non-interest bearing.

## 30. LOANS AND BORROWINGS AND OTHER FINANCIAL LIABILITIES

Loans and borrowings and other financial liabilities comprise the following:

	Currency	As of December 31, 2018	As of December 31, 2017
<b>Long-term</b>			
Bank loans	RUB	423	326
Bank loans	US\$, euro	921	878
Bonds	RUB	461	427
Eurobonds	US\$	177	213
Borrowings	RUB	77	71
Other borrowings	RUB	704	16
Other borrowings	US\$	691	224
Less: current portion of long-term loans and borrowings		(202)	(545)
<b>Total long-term loans and borrowings</b>		<b>3,252</b>	<b>1,610</b>
Finance lease liabilities		27	32
Other long-term financial liabilities		139	146
Less: current portion of long-term finance lease liabilities		(5)	(5)
<b>Total long-term loans and borrowings and other financial liabilities</b>		<b>3,413</b>	<b>1,783</b>
<b>Short-term</b>			
Bank loans	RUB	326	237
Bank loans	US\$, euro	16	10
Other borrowings	RUB	209	919
Other borrowings	US\$	25	346
Current portion of long-term loans and borrowings		202	545
<b>Total short-term loans and borrowings and current portion of long-term loans and borrowings</b>		<b>778</b>	<b>2,057</b>
Current portion of long-term finance lease liabilities		5	5
Other short-term financial liabilities		162	93
Short-term liabilities related to derivative financial instruments		33	74
<b>Total short-term loans and borrowings and other financial liabilities</b>		<b>978</b>	<b>2,229</b>
<b>Total loans and borrowings and other financial liabilities</b>		<b>4,391</b>	<b>4,012</b>



## Long-term loans and borrowings

Long-term bank loans comprise the following:

Currency	Interest rate p.a.	Maturity date	As of December 31, 2018	As of December 31, 2017
US\$	3.23% - LIBOR + 3.50%	2020-2029	915	869
EUR	EURIBOR + 0.35% - EURIBOR + 2.00%	2019-2020	6	10
RUB	8.25% - 9.75%	2020-2024	423	326
<b>Total</b>			<b>1,344</b>	<b>1,205</b>
Debt issue costs			-	(1)
<b>Total long-term bank loans</b>			<b>1,344</b>	<b>1,204</b>

Long-term bank loans from a foreign bank to finance special-purpose business activities denominated in U.S. dollars 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 28 billion and RUB 22 billion as of December 31, 2018 and 2017, 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. Three out of four were fully repaid in previous years. In February 2018 the Company repaid the fourth one for a total amount of US\$ 0.2 billion (RUB 114 billion at the CBR official exchange rate on the date of transaction). For the year ended December 31, 2018, the Company drew down long-term funds from Russian banks under a floating and fixed rate loans.

In the first quarter of 2018 the Company raised funds through the placement of three series of documentary non-convertible fixed interest-bearing long-term bonds with a nominal amount of RUB 75 billion and maturity periods of 3 and 10 years: the first one with nominal amount of RUB 5 billion, coupon 7.8% and maturity period of 3 years; the second one with nominal amount of RUB 50 billion, coupon 7.5% and maturity period of 10 years; the third one with nominal amount of RUB 20 billion, coupon 7.3% and maturity period of 10 years. Coupon payments will be made on a semi-annual basis. Bonds with maturity periods of 10 years allow early repurchase at the request of the bond holder, as set out in the respective offering documents. Such purchase/repayment of the bonds does not constitute early redemption. The funds received are used for general corporate purposes.

In March 2018, the Company fully repaid Eurobonds (Series 6) of US\$ 1.1 billion (RUB 62.3 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

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, 2018	As of December 31, 2017
Bonds	04,05	10.2012	10.2022 <sup>1</sup>	20	7.90%	20	20
Bonds	07,08	03.2013	03.2023 <sup>1</sup>	30	7.30%	31	31
Bonds	06 <sup>9</sup> , 09 <sup>9</sup> , 10 <sup>6</sup>	06.2013	05.2023 <sup>1</sup>	40	7.00%	1	40
SE Bonds	50-05 <sup>9</sup> , 50-06 <sup>6</sup>	12.2013	12.2023	40	8.50% <sup>9</sup>	10	11
SE Bonds	50-01, 50-07	02.2014	02.2024	35	8.90%	36	36
SE Bonds	50-02, 50-03, 50-04						
	50-09 <sup>4</sup>	12.2014	11.2024 <sup>4</sup>	65	9.40%	55	55
SE Bonds <sup>4</sup>	50-08, 50-10						
	50-11, 50-12, 50-13						
	50-14	12.2014	11.2024 <sup>4</sup>	160	9.40% <sup>6</sup>	-	-
SE Bonds <sup>4</sup>	50-15, 50-16						
	50-17, 50-24	12.2014 <sup>2</sup>	12.2020 <sup>1</sup>	400	7.85% <sup>5</sup>	-	-
SE Bonds <sup>4</sup>	50-18, 50-19, 50-20						
	50-21, 50-22, 50-23						
	50-25, 50-26	01.2015 <sup>2</sup>	01.2021	400	7.60% <sup>5</sup>	-	-
SE Bonds <sup>4</sup>	001P-01	12.2016 <sup>2</sup>	11.2026	600	7.60% <sup>5</sup>	-	-
SE Bonds	001P-02	12.2016	12.2026	30	9.39% <sup>5</sup>	30	30
SE Bonds	001P-03	12.2016	12.2026 <sup>1</sup>	20	9.50% <sup>5</sup>	20	20
SE Bonds	001P-04	05.2017	04.2027	40	8.65% <sup>5</sup>	41	41
SE Bonds	001P-05	05.2017 <sup>2</sup>	05.2025 <sup>1</sup>	15	8.60% <sup>5</sup>	15	15
SE Bonds <sup>4</sup>	001P-06, 001P-07	07.2017	07.2027	266	8.50% <sup>5</sup>	-	-
SE Bonds <sup>4</sup>	001P-08	10.2017	09.2027	100	7.60% <sup>5</sup>	-	-
SE Bonds <sup>4</sup>	002P-01, 002P-02	12.2017	11.2027	600	7.60% <sup>5</sup>	-	-
SE Bonds	002P-03	12.2017	12.2027	30	7.75% <sup>5</sup>	30	30
SE Bonds	002P-04	02.2018	02.2028	50	7.50% <sup>5</sup>	51	-
SE Bonds	002P-05	03.2018	02.2028	20	7.30% <sup>5</sup>	21	-
Bonds of subsidiary banks:							
SE Bonds	001P-01	10.2017	10.2020 <sup>1</sup>	10	8.50% <sup>5</sup>	10	10
SE Bonds	001P-02	02.2018	07.2021 <sup>1</sup>	5	7.80% <sup>5</sup>	5	-
SE Bonds	50-02	08.2014 <sup>3</sup>	08.2034 <sup>4</sup>	3	0.51% <sup>5</sup>	-	-
SE Bonds	50-03	07.2015 <sup>3</sup>	06.2035 <sup>1</sup>	4	0.51% <sup>5</sup>	-	-
SE Bonds	50-04	04.2015 <sup>2</sup>	04.2018 <sup>1</sup>	3	13.25%	-	3
SE Bonds	50-П01	09.2015 <sup>3</sup>	08.2035 <sup>1</sup>	5	0.51% <sup>5</sup>	-	-
SE Bonds	50-П02	10.2015 <sup>3</sup>	09.2035 <sup>1</sup>	4	0.51% <sup>5</sup>	1	1
SE Bonds	50-П03	11.2015 <sup>3</sup>	10.2035 <sup>1</sup>	1	0.51% <sup>5</sup>	-	-

	Security ID	Date of issue	Date of maturity	Total volume in RUB billions	Coupon	As of December 31, 2018	As of December 31, 2017
SE Bonds	50-П05	06.2016 <sup>3</sup>	06.20361	5	0.51% <sup>5</sup>	-	-
Convertible Bonds	C-01	02.2017 <sup>3</sup>	02.2032 <sup>1</sup>	69	0.51% <sup>5</sup>	2	2
Bashneft SE Bonds:							
Bonds	04 <sup>6</sup>	02.2012	02.2022	10	7.00% <sup>5</sup>	-	-
Bonds	06, 08	02.2013	01.2023 <sup>1</sup>	15	7.70% <sup>5</sup>	15	15
Bonds	07, 09	02.2013	01.2023	15	8.85% <sup>5</sup>	16	16
SE Bonds	50-06, 50-08	05.2016	04.2026	15	10.90% <sup>5</sup>	16	16
SE Bonds	50-09	10.2016	10.2026	5	9.30% <sup>5</sup>	5	5
SE Bonds	50-10	12.2016	12.2026	5	9.50% <sup>5</sup>	5	5
SE Bonds	001P-01R	12.2016	12.2024 <sup>1</sup>	10	9.50% <sup>5</sup>	10	10
SE Bonds	001P-02R	12.2016	12.2023 <sup>1</sup>	10	9.50% <sup>5</sup>	10	10
SE Bonds	001P-03R	01.2017	01.2024 <sup>1</sup>	5	9.40% <sup>5</sup>	5	5
<b>Total long-term RUB bonds</b>						<b>461</b>	<b>427</b>

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, 2018	As of December 31, 2017
Eurobonds (Series 2)				141	117
Eurobonds (Series 6)	7.875%	US\$	2018	-	65
Eurobonds (Series 8)	7.250%	US\$	2020	36	31
<b>Total long-term Eurobonds</b>				<b>177</b>	<b>213</b>

In the fourth quarter of 2018 the Company continued to settle other long-term borrowings under repurchasing agreement operations and entered into new transactions. As of December 31, 2018, the liabilities of the Company under those transactions amounted to the equivalent of RUB 1,395 billion at the CBR official exchange rate as of December 31, 2018. 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 of December 31, 2018 and December 31, 2017 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

#### Short-term loans and borrowings

In 2018 the Company drew down funds under short-term fixed and float rates loans from Russian and foreign banks.

In 2018 the Company continued to meet its obligations in relation to other short-term floating and fixed rate borrowings under repurchasing agreement operations and had entered into new long-term and short-term transactions. As of December 31, 2018 the liabilities of the Company under those transactions amounted to the equivalent of RUB 234 billion (at the CBR official exchange rate as of December 31, 2018). Own corporate bonds were used as an instrument for those transactions.

In 2018 the Company was current on all payments under loan agreements and interest payments.

#### Finance leases

##### Repayments of finance lease obligations comprise the following:

	As of December 31, 2018		
	Minimum lease payments	Finance expenses	Present value of minimum lease payments
Less than 1 year	9	(4)	5
From 1 to 5 years	19	(9)	10
Over 5 years	18	(6)	12
<b>Total</b>	<b>46</b>	<b>(19)</b>	<b>27</b>

<sup>1</sup> Early repurchase at the request of the bond holder is not allowed.

<sup>2</sup> Coupon payments every three months.

<sup>3</sup> Coupon payments at the maturity day.

<sup>4</sup> On the reporting date these issues are fully or partially used as an instrument for other borrowings under repurchasing agreement operations.

<sup>5</sup> For the coupon period effective as of December 31, 2018.

<sup>6</sup> As of December 31, 2018 part of issue early repurchased.

As of December 31, 2017

	Minimum lease payments	Finance expenses	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
<b>Total</b>	<b>54</b>	<b>(22)</b>	<b>32</b>

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, 2018	As of December 31, 2017
Buildings	4	4
Plant and machinery	27	27
Vehicles	16	16
<b>Total cost</b>	<b>47</b>	<b>47</b>
Less: accumulated depreciation	(24)	(18)
<b>Total net book value of leased property</b>	<b>23</b>	<b>29</b>

**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	Expiry date	Nominal amount as of December 31, 2018			Fair value of the liabilities as of December 31,	
			US\$ million	RUB billion <sup>1</sup>	Interest rate type	2018	2017
Swaps	2013	2018	-	-	floating	-	52
Swaps	2014	2019	1,010	70	floating	33	22
<b>Total</b>			<b>1,010</b>	<b>70</b>		<b>33</b>	<b>74</b>

**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
<b>As of January 1, 2017, including</b>	<b>1,889</b>	<b>1,475</b>	<b>22</b>	<b>4</b>	<b>4</b>	<b>98</b>	<b>3,492</b>
<b>Financing activities (cash flow)</b>							
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)
<b>Operating and investing activities (non-cash flow)</b>							
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)
Others	-	(6)	-	-	1	-	(5)
Reclassification	165	(165)	-	-	-	-	-

<sup>1</sup> The equivalent nominal amount at the CBR official exchange rate as of December 31, 2018.

	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
<b>As of December 31, 2017</b>	1,610	2,057	32	146	93	74	4,012
<b>Financing activities (cash flow)</b>							
Proceeds/repayment of loans and borrowings	1,022	(933)	-	246	87	-	422
Interest paid	(189)	(78)	(4)	-	-	-	(271)
Repayment of other financial liabilities	-	-	(6)	-	-	(57)	(63)
Repurchase of bonds	(40)	-	-	-	-	-	(40)
<b>Operating and investing activities (non-cash flow)</b>							
Foreign exchange gain/loss	310	16	-	15	(1)	-	340
Offset of other financial liabilities	-	-	-	(126)	(164)	-	(290)
Finance expenses	198	58	4	4	1	15	280
Finance income	-	-	-	-	-	1	1
Reclassification	341	(342)	1	(146)	146	-	-
<b>As of December 31, 2018</b>	3,252	778	27	139	162	33	4,391

### 31. OTHER CURRENT TAX LIABILITIES

Other short-term tax liabilities comprise the following:

	As of December 31, 2018	As of December 31, 2017
Mineral extraction tax	163	160
VAT	121	78
Excise duties	27	26
Property tax	10	10
Personal income tax	3	2
Other	3	2
<b>Total other tax liabilities</b>	<b>327</b>	<b>278</b>

### 32. PROVISIONS

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
<b>As of January 1, 2017, including</b>	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)
Change in the discount rate	28	-	-	28
Foreign exchange differences	(1)	-	-	(1)
Unwinding of discount	14	3	-	17
Acquisition of subsidiaries (Note 7)	-	-	2	2
Utilization	(2)	(7)	(7)	(16)
<b>As of December 31, 2017, including</b>	218	41	15	274
Non-current	213	27	5	245
Current	5	14	10	29
Provisions charged during the year (Note 40)	9	7	10	26
Increase/(decrease) in the liability resulting from:				
Changes in estimates	(24)	-	9	(15)
Changes in the discount rate	(12)	-	-	(12)
Foreign exchange differences	8	-	2	10
Unwinding of discount	17	2	-	19



	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
Utilization	(3)	(6)	(6)	(15)
<b>As of December 31, 2018, including</b>	<b>213</b>	<b>44</b>	<b>30</b>	<b>287</b>
Non-current	207	29	8	244
Current	6	15	22	43

Asset retirement (decommissioning) obligations and Environmental remediation provision represent an estimate of the costs of liquidating oil and gas assets, 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 Company'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 require the buyer to make a prepayment. The total minimum delivery volume under those contracts at inception approximated 400 million tonnes. The crude oil and petroleum product prices are based on current market prices. The prepayments are settled through physical deliveries of crude oil and petroleum products.

Deliveries of oil and petroleum products that reduce the prepayment amounts commenced in 2015. The Company considers these contracts to be regular-way contracts.

	2018	2017
<b>As of January 1</b>	<b>1,586</b>	<b>1,841</b>
Received	123	-
Reimbursed	(283)	(255)
<b>Total prepayment on long-term oil and petroleum products supply agreements</b>	<b>1,426</b>	<b>1,586</b>
Less current portion	(354)	(264)
<b>Long-term prepayment as of December 31</b>	<b>1,072</b>	<b>1,322</b>

The off-set amounts under these contracts were RUB 283 billion and RUB 255 billion (US\$ 7.03 billion and US\$ 7.59 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date) for 2018 and 2017, respectively.

### 34. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprise the following:

	As of December 31, 2018	As of December 31, 2017
Joint project liabilities	1	23
Liabilities for investing activities	2	4
Liabilities for joint operation contracts in Germany	21	14
Operating liabilities of subsidiary banks	17	1
Other	5	3
<b>Total other non-current liabilities</b>	<b>46</b>	<b>45</b>

### 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.

	2018	2017
State Pension Fund	52	53
NPF Neftegarant	12	7
<b>Total pension contributions</b>	<b>64</b>	<b>60</b>

### 36. SHAREHOLDERS' EQUITY

#### Common shares

As of December 31, 2018 and 2017:

<b>Authorized common shares</b>	
quantity, millions	10,598
amount, billions of RUB	0.6
<b>Issued and fully paid shares</b>	
quantity, millions	10,598
amount, billions of RUB	0.6
<b>Nominal value of 1 common share, RUB</b>	<b>0.01</b>

On June 22, 2017 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2016 in the amount of RUB 5.98 per share, which comprised RUB 63.4 billion. 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 3.83 per share, which comprised RUB 40.6 billion.

On June 21, 2018 the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2017 in the amount of RUB 6.65 per share, which comprised RUB 70.5 billion. On September 28, 2018 the Extraordinary Shareholders' Meeting approved interim dividends on the Company's common shares for the first half of 2018 in the amount of 14.58 per share, which comprised RUB 154.5 billion.

The dividends are distributed from the net profit of PJSC Rosneft Oil Company calculated in compliance with the current legislation of the Russian Federation.

### Program for the acquisition of own shares

In accordance with the Program for the acquisition of shares on the market, including in the form of global depository receipts certifying the rights to such shares, approved by the Board of Directors in August 2018 (hereinafter – the Program) ordinary shares of PJSC Rosneft Oil Company can be purchased up to a maximum amount of US\$ 2 billion. The Program will run from the date of approval by the Board of Directors to December 31, 2020 inclusive. The maximum volume of shares and global depository receipts that can be purchased under the Program is set to be no more than 340,000,000. The Program aims to sustain high returns to shareholders in case of significant market volatility.

During 2018 there were no such share purchase transactions.

## 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 of December 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<b>Current assets</b>				
Financial assets at fair value through other comprehensive income	39	372	–	411
Financial assets at fair value recognized in profit or loss	–	1	–	1
<b>Non-current assets</b>				
Financial assets at fair value through other comprehensive income	–	18	–	18
Financial assets at fair value recognized in profit or loss	–	110	–	110
<b>Total assets measured at fair value</b>	<b>39</b>	<b>501</b>	<b>–</b>	<b>540</b>
<b>Liabilities</b>				
Derivative financial instruments	–	(33)	–	(33)
<b>Total liabilities measured at fair value</b>	<b>–</b>	<b>(33)</b>	<b>–</b>	<b>(33)</b>

The fair value of financial assets at fair value through other comprehensive income, 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 and accounts payable, loans issued, other financial assets and other financial liabilities recognized in these consolidated financial statements approximates their fair value.

	Carrying value As of December 31,		Fair value (Level 2) As of December 31,	
	2018	2017	2018	2017
<b>Financial liabilities</b>				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,669)	(1,549)	(2,614)	(1,467)
Loans and borrowings with a fixed interest rate	(1,361)	(2,118)	(1,316)	(2,038)
Finance lease liabilities	(27)	(32)	(50)	(36)

## 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 2018 and 2017 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

	2018	2017
Oil, gas, petroleum products and petrochemicals sales	888	784
Support services and other revenues	9	6
Finance income	19	26
	916	816

### Costs and expenses

	2018	2017
Production and operating expenses	8	14
Cost of purchased oil, gas, petroleum products and refining costs	97	73
Pipeline tariffs and transportation costs	500	473
Other expenses	21	15
Financial expenses	26	8
	652	583

### Other operations

	2018	2017
Acquisition of subsidiaries and interest in associates	(3)	-
Loans received	266	297
Loans repaid	(111)	(58)
Loans and borrowings issued	(9)	-
Repayment of loans and borrowings issued	2	1
Deposits placed	(69)	(7)
Deposits repaid	463	2

### Settlement balances

	As of December 31, 2018	As of December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	498	57
Accounts receivable	77	68
Prepayments and other current assets	65	61
Other financial assets	325	636
	965	822
<b>Liabilities</b>		
Accounts payable and accrued liabilities	47	32
Loans and borrowings and other financial liabilities	904	655
	951	687

## Transactions with joint ventures

Crude oil is purchased from joint ventures at Russian domestic market prices.

### Revenues and income

	2018	2017
Oil, gas, petroleum products and petrochemicals sales	13	11
Support services and other revenues	3	10
Finance income	5	26
	21	47

### Costs and expenses

	2018	2017
Production and operating expenses	3	5
Cost of purchased oil, gas, petroleum products and refining costs	297	285
Pipeline tariffs and transportation costs	12	9
Other expenses	3	4
Finance expenses	1	1
	316	304

**Other operations**

	2018	2017
Acquisition of interest in associates and joint ventures	-	(8)
Loans and borrowing issued	(6)	(2)
Repayment of loans and borrowings issued	29	127

**Settlement balances**

	As of December 31, 2018	As of December 31, 2017
<b>Assets</b>		
Accounts receivable	3	6
Other financial assets	17	52
	20	58
<b>Liabilities</b>		
Accounts payable and accrued liabilities	141	85
Loans and borrowings and other financial liabilities	30	15
	171	100

**Transactions with associates****Revenues and income**

	2018	2017
Oil, gas, petroleum products and petrochemicals sales	364	222
Support services and other revenues	1	5
Finance income	4	-
	369	227

**Costs and expenses**

	2018	2017
Production and operating expenses	13	11
Cost of purchased oil, gas, petroleum products and refining costs	42	14
Pipeline tariffs and transportation costs	1	1
Other expenses	17	13
Finance expenses	2	-
	75	39

**Other operations**

	2018	2017
Loans and borrowing issued	(31)	(32)
Repayment of loans and borrowings issued	17	-

**Settlement balances**

	As of December 31, 2018	As of December 31, 2017
<b>Assets</b>		
Accounts receivable	26	33
Prepayments and other current assets	13	1
Other financial assets	57	41
	96	75
<b>Liabilities</b>		
Accounts payable and accrued liabilities	16	8
Loans and borrowings and other financial liabilities	239	124
	255	132



## Transactions with non-state pension funds

### Costs and expenses

	2018	2017
Other expenses	12	7

	As of December 31, 2018	As of December 31, 2017
Loans received	7	-
Loans repaid	(4)	-

### Settlement balances

	As of December 31, 2018	As of December 31, 2017
<b>Liabilities</b>		
Accounts payable and accrued liabilities	4	1
Loans and borrowings and other financial liabilities	3	-
	7	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, bonuses and compensation payments totaled RUB 3.854 million and RUB 3.927 million in 2018 and 2017, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 567 million and RUB 579 million, respectively). Short-term gross benefits for 2018 are disclosed in accordance with the Russian securities law on information disclosure.

On June 21, 2018, 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. Gerhard Schröder – US\$ 600.000 (RUB 38.2 million at the CBR official exchange rate on June 21, 2018); Mr. Faisal Alsuwaidi – US\$ 530.000 (RUB 33.7 million at the CBR official exchange rate on June 21, 2018); Mr. Matthias Warnig – US\$ 580.000 (RUB 36.9 million at the CBR official exchange rate on June 21, 2018); Mr. Oleg Viyugin – US\$ 565.000 (RUB 35.9 million at the CBR official exchange rate on June 21, 2018); Mr. Ivan Glasenberg – US\$ 530.000 (RUB 33.7 million at the CBR official exchange rate on June 21, 2018); Mr. Donald Humphreys – US\$ 580.000 (RUB 36.9 million at the CBR official exchange rate on June 21, 2018). 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 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.

## 39. KEY SUBSIDIARIES

Name	Country of incorporation	Core activity	2018		2017		
			Preferred and common shares, %	Voting shares, %	Preferred and common shares, %	Voting shares, %	
<b>Exploration and production</b>							
JSC 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 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	60.33	70.93	
<b>Refining, marketing and distribution</b>							
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	
LLC RN-Tuapse Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00	
LLC RN-Bunker	Russia	Marketing and distribution	100.00	100.00	100.00	100.00	
LLC RN-Aero	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	

Name	Country of incorporation	Core activity	2018		2017	
			Preferred and common shares, %	Voting shares, %	Preferred and common shares, %	Voting shares, %
LLC RN-Trade	Russia	Investing activity	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 Deutschland GmbH	Germany	Marketing and distribution	100.00	100.00	100.00	100.00
<b>Other</b>						
JSC RN Holding	Russia	Holding company	100.00	100.00	100.00	100.00
JSC Russian Regional Development Bank (VBRR)	Russia	Banking	98.34	98.34	98.34	98.34
LLC RN-GAZ	Russia	Holding company	100.00	100.00	100.00	100.00
Rosneft Singapore Pte. Ltd.	Singapore	Holding company	100.00	100.00	100.00	100.00
LLC RN-Foreign Projects	Russia	Holding company	100.00	100.00	100.00	100.00
Rosneft Holdings LTD S.A.	Luxemburg	Holding company	100.00	100.00	100.00	100.00
TOC Investments Corporation Limited	Cyprus	Other services	100.00	100.00	100.00	100.00

## 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 sanctions imposed on Russia by a number of countries. Ruble interest rates remained 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 foreign 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.

The Company continuously monitors projects in Venezuela realized with its participation. Commercial relations with the Venezuelan state oil company PDVSA are carried out on the basis of existing contracts and in accordance with applicable international and local legislation.

### Guarantees and indemnities issued

An unconditional unlimited guarantee issued in 2013 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 Equinor (until July 2018 - Statoil ASA).

The Company's agreements with Eni S.p.A, Equinor (until July 2018 r. - 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.

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. In the fourth quarter of 2015 in accordance with the cooperation agreement on difficult to extract oil reserves with Equinor (until July 2018 r. - 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.

During 2018, as part of the operating activities of Rosneft, an unconditional irrevocable guarantees were issued in favor of the Government of the Republic of Mozambique providing the coverage of potential liabilities for geological exploration on the Mozambique continental shelf (4 years).

In the course of its investing activities, the Company issued guarantees and sureties to third parties up to the RUB 57 billion. As of the period-end the Company assesses the probability of settlement as remote.

### Legal claims

Rosneft and its subsidiaries are involved in litigations which arise from time to time in the course of their business activities. Management believes that the ultimate results of these litigations 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.

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for 2014-2017. 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.

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 2012-2018 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 2012-2015 and these periods are now "closed" for tax control purposes. 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 transfer pricing risks in relation to intragroup transactions during the twelve months of 2018 and earlier will not have a material effect on its financial position or results of operations.

In 2012 the Company has created a consolidated group of taxpayers (hereinafter "CGT") which includes Rosneft and its 21 subsidiaries. Rosneft became the responsible taxpayer of the CGT. At present, under the terms of the agreement the number of members of the consolidated group of taxpayers has been 64.

The Company follows the rules of tax legislation on de-offshorization, including income tax rules for controlled foreign companies to calculate its current and deferred income tax estimates.

Overall, management believes that the Company has paid and accrued all taxes that are applicable. For taxes 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.

### 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 delivered goods and services related to the construction and acquisition of property, plant and equipment amounted to RUB 758 billion and RUB 716 billion as of December 31, 2018 and 2017, 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:

	2018	2017
Oil and gas properties related to proved reserves	9,377	8,333
Oil and gas properties related to unproved reserves	380	386
<b>Total capitalized costs</b>	<b>9,757</b>	<b>8,719</b>
Accumulated depreciation, depletion and impairment losses	(3,183)	(2,628)
<b>Net capitalized costs</b>	<b>6,574</b>	<b>6,091</b>

### 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:

	2018	2017
Acquisition of properties – proved oil and gas reserves	2	193
Acquisition of properties – unproved oil and gas reserves	12	123
Exploration costs	40	45
Development costs	951	876
<b>Total costs incurred</b>	<b>1,005</b>	<b>1,237</b>

### The results of operations relating to oil and gas production are presented below

#### Consolidated subsidiaries and joint operations

For the years ended December 31:

	2018	2017
<b>Revenue</b>	<b>4,603</b>	<b>3,138</b>
Production costs (excluding production taxes)	(407)	(379)
Selling, general and administrative expenses	(99)	(104)
Exploration expense	(16)	(15)
Depreciation, depletion and amortization, impairment and liquidation losses	(536)	(478)
Taxes other than income tax	(2,341)	(1,574)
Income tax	(246)	(120)
<b>Results of operations relating to oil and gas production</b>	<b>958</b>	<b>468</b>

## 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 of December 31, 2018 and 2017, 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 2022, 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 December 31, 2018 and 2017 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

	2018 million boe	2017 million boe
Beginning of year	43,781	43,217
Revisions of previous estimates	1,183	909
Extensions and discoveries	1,289	1,046
Improved recovery	1	1
Purchase of new reserves	-	470
Production	(1,896)	(1,862)
<b>End of year</b>	<b>44,358</b>	<b>43,781</b>
Proved developed reserves	20,838	20,436
Minority interest in total proved reserves	3,446	2,049
Minority interest in proved developed reserves	1,605	1,306

#### 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

	2018	2017
Future cash inflows	123,444	79,122
Future development costs	(6,575)	(6,105)
Future production costs	(75,728)	(42,748)
Future income tax expenses	(9,670)	(5,206)
<b>Future net cash flows</b>	<b>31,471</b>	<b>25,063</b>
Discount for estimated timing of cash flows	(20,495)	(15,996)
<b>Discounted value of future cash flows as of the end of year</b>	<b>10,976</b>	<b>9,067</b>



## Share of other (non-controlling) shareholders in discounted value of future cash flows

### Consolidated subsidiaries and joint operations

	UOM	2018	2017
Share of other (non-controlling) shareholders in discounted value of future cash flows	RUB billion	832	717

## Changes therein relating to proved oil and gas reserves

### Consolidated subsidiaries and joint operations










	2018	2017
Discounted value of future cash flows as of the beginning of year	9,067	10,344
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	(1,756)	(1,081)
Changes in price estimates, net	3,514	(1,689)
Changes in estimated future development costs	(969)	(1,185)
Development costs incurred during the period	951	876
Revisions of previous reserves estimates	466	188
Increase in reserves due to discoveries, less respective expenses	508	216
Net change in income taxes	(1,712)	252
Accretion of discount	907	1,034
Net changes due to purchases of oil and gas fields	-	112
<b>Discounted value of future cash flows as of the end of year</b>	<b>10,976</b>	<b>9,067</b>








## Company's share in costs, inventories and future cash flows of the joint ventures and associates

	UOM	2018 r.	2017 r.
Share in capitalized costs relating to oil and gas producing activities (total)	RUB billion	285	250
Share in results of operations for oil and gas producing activities (total)	RUB billion	74	42
Share in estimated proved oil and gas reserves	million boe	2,004	2,078
Share in estimated proved developed oil and gas reserves	million boe	1,122	1,119
Share in discounted value of future cash flows	RUB billion	673	483














Legend

Risk type	Focus area
 Industry-wide risks	 Upstream
 Country and regional risks	 Gas business
 Financial risk	 Downstream
 Legal risk	 Industrial safety
	 Corporate functions

Risk type	Focus area	Risk	Risk description	Risk Supervisor	Company's risk management practice
		On-the-job injury risk	The on-the-job injury risk is linked with the lost time injuries of the Company's employees or contractors	Vice President for HSE	<p>Rosneft has its own HSE management system, which combines resources and procedures needed for both the prevention of and response to harmful events. Key measures related to on-the-job injury risk management include, but are not limited to, the following:</p> <ul style="list-style-type: none"> <li>- training (including briefings) and knowledge checks (certification) in health and safety;</li> <li>- implementation of target programs aimed at the promotion of the industrial safety culture;</li> <li>- conducting occupational safety campaigns at Group Subsidiaries;</li> <li>- monitoring of observation of health and safety requirements and production discipline by the Company's employees and contractors;</li> <li>- inclusion of responsibility for industrial safety violation into contracts, development and approval of interaction procedures for counterparties</li> </ul>
	   	Market risk	<p>The market risks comprise price, currency and interest rate risks.</p> <p>The price risk is a possibility of adverse changes in the Company's financial indicators due to alteration of prices for purchased and sold crude oil, petroleum products, gas, gas processing products, and petrochemicals. (including alterations resulted from the measures aimed at restoring stability to oil market, with measures taken to suppress price level among them).</p> <p>The currency risk is a possibility of adverse changes in the Company's financial indicators due to exchange rate fluctuations.</p> <p>The interest rate risk is a possibility of adverse changes in the Company's financial indicators due to market interest rate variation.</p>	<p><b>Price risk:</b> Vice President for Refining, Petrochemical, Commerce, and Logistics</p> <p><b>Currency and interest rate risks:</b> First Vice President for Economics and Finance</p>	<p>Rosneft has reasonable opportunities for commodity flows redistribution in case of a noticeable price gap between the domestic and global markets. The Company can also promptly cut its capex and opex to meet its commitments and obligations if prices for oil, gas, and petroleum products should plummet.</p> <p>Taking into account the currency structure of the revenue and the obligations, the Company's operation is also exposed to foreign exchange risk. The currency risk management strategy provides for an integrated approach that considers a probable 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.</p> <p>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.</p>

Risk type	Focus area	Risk	Risk description	Risk Supervisor	Company's risk management practice
		Risk related to reducing the quality of crude hydrocarbons delivered for processing	Adverse changes in the Company's financial and operational indicators due to reducing the quality of feedstock delivered for processing	Vice President for Oil Refining	The Company's influence on the quality of the feedstock delivered to oil refineries via Transneft's trunk pipelines is limited. Rosneft responds by conducting the following risk management measures: <ul style="list-style-type: none"> <li>comparative analysis of actual feedstock quality with the planned one for timely changing the current production plan;</li> <li>offsetting the changed quality and feedstock composition with the range of the feedstock processed;</li> <li>correction of installation operation modes</li> </ul>
		Risk to receive tax claims and to lose the right to use tax incentives	The risk of financial losses resulting from the claims of the tax authorities or the Company's loss of the right to use tax incentives	First Vice President for Economics and Finance	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
		Credit risk related to the crude oil, petroleum products, gas, gas processing products, and petrochemicals supply agreements	Probable losses due to the counterpart's failure to meet, untimely or incomplete performance of its obligations to the Company relative to revenue and expenditure contracts of Rosneft and Group Subsidiaries	Vice President for Refining, Petrochemical, Commerce, and Logistics	For credit risk management, the Company among others undertakes the following measures: <ul style="list-style-type: none"> <li>use of injunctive measures to cover the contractual credit risks (bank guarantees, letters of credit, etc);</li> <li>more frequent financial assessments of the counterparties in major transactions involving the credit risks without contracts security;</li> <li>use of software to develop, unload and issue the primary documents with a possibility to establish the payment conditions for each counterparty in terms of each contract for limits monitoring</li> </ul>
		Risk of negative court orders on disputes participated by the Company	The risk of financial losses due to the adverse decisions taken by the courts on disputes participated by Company	State Secretary – Vice President	Rosneft continuously monitors changes in legislation, court rulings and legal precedents, actively use them during the settlement of legal issues occurring in the Company's operations, in particular, for protection of own rights and legal interests in courts. Rosneft is involved in a number of other legal proceedings that arise in the course of carrying out business. In case of changes in legal precedents and negative court orders on disputes participated by the Company, the impact of the resolution of such proceedings on the Company's financial and business operations is considered to be minor.
		Risk related to failure to achieve the oil and gas condensate production target	The risk is linked with a failure to achieve the oil and gas condensate production target specified in the approved business plan of the Company (including failures resulted from provision of the Russian Federation obligations under international agreements, with production cuts under OPEC Agreements among them)	First Vice President for Exploration and Production	Rosneft is a global leader in terms of oil reserves and has huge potential to increase its resources. Rosneft's SEC-proved reserve replacement ratio stays well above 100% for many years. Rosneft intends to replace at least 100% of its hydrocarbon production by increasing its SEC-proved reserves going forward. Key measures for such risk management include the following: <ul style="list-style-type: none"> <li>constant monitoring and timely correction of the production drilling program;</li> <li>monitoring of the well interventions program execution;</li> <li>regular monitoring of major projects implementation status and timely changing of their development plans</li> </ul>
		Risk related to failure to achieve the natural gas and gas condensate production target	The risk is linked with a failure to achieve the natural gas and gas condensate production targets specified in the approved business plan of the Company	Vice President for Gas Business	The basic measures for management of the risk related to failure to achieve the natural gas and gas condensate production target comprise the following: <ul style="list-style-type: none"> <li>provision of actual well operation conditions that do not exceed permissible ones;</li> <li>timely updating of the scheduled repair plans and budgets, monitoring of the turnaround maintenance execution;</li> <li>observation of the infrastructure construction and commissioning schedules</li> </ul>



Risk type	Focus area	Risk	Risk description	Risk Supervisor	Company's risk management practice
	 	Risk related to international projects	The Company handles projects in different regions of the world, some of which have noticeable risks linked with an unstable political, social and economic situation. Implementation of such risks can have a major impact on the successful performance of these projects	<b>As regards to exploration and production:</b> First Vice President for Exploration and Production <b>As regards to commerce and logistics:</b> Vice President for Commerce and Logistics	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 the authorities, opex reduction, optimization of the investment program, and provision of the employees' safety.
		Accident risk	The risk is related to the destruction of buildings and/or technical equipment used at hazardous production facilities, an uncontrolled explosion and/or a hazardous substances emission	Vice President for HSE	Rosneft has its own HSE management system, which combines resources and procedures needed for both the prevention of and response to harmful events. Among others, key measures for accident risk management include the following: <ul style="list-style-type: none"> <li>· monitoring of including the architectural, functional, technological, structural, and engineering solutions providing observation of HSE requirements into the design and operational documentation;</li> <li>· certification of the employees in industrial safety;</li> <li>· timely execution of necessary expert reviews, examinations, audits and diagnostics of the equipment, buildings and facilities being operated;</li> <li>· timely performance of the production facilities repair;</li> <li>· monitoring of observation of safety requirements and production discipline by the Company's employees and contractors;</li> <li>· inclusion of responsibility for industrial safety violation into contracts, development and approval of interaction procedures for counterparties</li> </ul>
		Risk related to failure to comply with the repair plan for the Oil Refining business	The risk is linked with a decline of the Company's financial and operational indexes due to a failure to comply with the repair schedules for the oil refining business production facilities	Vice President for Oil Refining	Key risk management measures comprise the following: <ul style="list-style-type: none"> <li>· monitoring the implementation of the contracts in relation to the supply terms;</li> <li>· keeping a register of responsible contractors;</li> <li>· filing the breach of contract claims</li> </ul>
	  	Risk related to rising electric power purchase prices	The risk is linked with the volatility of electric power purchase prices in the wholesale market pricing zones, indexation of electric power transmission tariffs, as well as with setting the price markups for power	Vice President for Energy, Localization and Innovations	Rosneft has a restrict influence on the power and electric power purchase prices, as well as that of electric power transmission. While planning own activities, the Company considers the impact of the electric power price variation on its operation and pays attention to forecasts on market and regulated prices fluctuations



This Corporate Governance Code Compliance Report (the Report) was discussed at the meeting of Rosneft's Board of Directors dated \_\_\_ April 2019 (Minutes No. \_\_\_ dated \_\_\_ April 2019) as part of the Annual Report for 2018.

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 2018.

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 \_\_\_\_ Corporate Governance of Rosneft's Annual Report for 2018.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status <sup>2</sup> of compliance with a corporate governance principle	Explanations <sup>3</sup> concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>1.1</b>	<b>The Company should treat all shareholders equally and fairly when they exercise their right to participate in the management of the Company.</b>			
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.	<ol style="list-style-type: none"> <li>An internal document of the Company adopted by the General Shareholders Meeting and establishing the procedures for conducting the General Shareholders Meeting is publicly available.</li> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	<p>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 efficient communication channels, as well as options for discussing agenda items at the meetings or through Rosneft's social networks, which are linked on Rosneft's official website.</p> <p>The pilot automated information system of corporate governance was launched. A full-scale implementation of this information system enhancing the Company's communication with shareholders is scheduled since 1 March 2019.</p>
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.	<ol style="list-style-type: none"> <li>The notification of the General Shareholders Meeting is posted on the Company's website at least thirty days before the date of the meeting.</li> <li>The notification of the General Shareholders Meeting specifies the venue for the meeting and contains the list of documents required for admission to the premises.</li> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
1.1.4	A shareholder's right to demand that the General Shareholders Meeting be convened, to nominate candidates to governing bodies and propose agenda items for the General Shareholders Meeting was exercised without unnecessary difficulties.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	

<sup>1</sup> The reporting year is specified. If the Corporate Governance Code Compliance Report contains data for the period since the end of the reporting year till the Report date, the date of this Report is specified.

<sup>2</sup> 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.

<sup>3</sup> 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 of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
1.15	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 certified by the Company's ballot committee before the end of the respective meeting.	✓ Complied with Complied with in part Not complied with	
1.16	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	
<b>1.2</b>	<b>The shareholders are given equal and equitable opportunities to receive a share of the Company's profits by receiving dividends.</b>			
1.21	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	
1.22	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	
1.23	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	
1.24	The Company aims to ensure that shareholders do not have any other ways to receive profit (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	
<b>1.3</b>	<b>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.</b>			
1.31	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 efficient, and the Board of Directors paid due attention to conflicts between the shareholders, if any.	✓ Complied with Complied with in part Not complied with	



No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
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	
<b>1.4</b>	<b>Shareholders are provided with reliable and effective methods of registering ownership of shares and an opportunity to freely and quickly dispose of their shares.</b>			
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	
<b>2.1</b>	<b>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.</b>			
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	
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	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>2.2</b>	<b>The Board of Directors is accountable to the Company's shareholders.</b>			
2.2.1	Information on the performance of the Board of Directors is disclosed and provided to shareholders.	<ol style="list-style-type: none"> <li>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.</li> <li>2. The Annual Report includes information on the main results of performance assessment of the Board of Directors carried out in the reporting period.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
2.2.2	The Chairman of the Board of Directors is available for communication with the Company's shareholders	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
<b>2.3</b>	<b>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.</b>			
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>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</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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 confidence of shareholders.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
<b>2.4</b>	<b>An adequate number of independent directors sit on the Board of Directors.</b>			
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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
2.4.3	Independent directors comprise at least one third of the elected members of the Board of Directors.	<ol style="list-style-type: none"> <li>1. Independent directors comprise at least one third of the membership of the Board of Directors.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
<b>2.5</b>	<b>The Chairman of the Board of Directors ensures that the functions assigned to the Board of Directors are performed as efficiently as possible.</b>			
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.	<ol style="list-style-type: none"> <li>1. The Chairman of the Board of Directors is an Independent Director or a Senior Independent Director has been selected from among Independent Directors.<sup>1</sup></li> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
<b>2.6</b>	<b>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.</b>			
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	

<sup>1</sup> It is specified, which of two alternative approaches provided for by the principle is used by the Company, and the explanations for the reasons to select this approach are given.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
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	
<b>2.7</b>	<b>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.</b>			
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	
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 notification 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 face-to-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 qualified 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 qualified 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 qualified 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. At the same time, the number of members of the Company's Board of Directors, its structure including four independent directors, the procedure of preparing, discussing and disclosing the information concerning the meeting guarantee the protection of rights of all shareholder groups and reflect the Company's shareholding structure. This approach is not planned to be changed in the medium term.



No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>2.8</b>	<b>The Board of Directors establishes committees for preliminary consideration of the most important issues related to the Company's business.</b>			
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 financial and business operations.	<ol style="list-style-type: none"> <li>1. The Board of Directors has formed the Audit Committee consisting of Independent Directors only.</li> <li>2. The Company's internal documents set out the duties of the Audit Committee, including those specified in Recommendation 172 of the Code.</li> <li>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 financial statements.</li> <li>4. Meetings of the Audit Committee were held at least once a quarter in the reporting period.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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 efficient and transparent remuneration practice.	<ol style="list-style-type: none"> <li>1. The Board of Directors has formed the Remuneration Committee consisting of Independent Directors only.</li> <li>2. The Chairman of the Remuneration Committee is an Independent Director who is not the Chairman of the Board of Directors.</li> <li>3. The Company's internal documents set out the duties of the Remuneration Committee, including those specified in Recommendation 180 of the Code.</li> </ol>	<p>Complied with</p> <p>✓ Complied with in part</p> <p>Not complied with</p>	<p>The principle is not complied with as not only independent directors are included in the HR and Remuneration Committee of the Board of Directors.</p> <p>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.</p> <p>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.</p> <p>Taking into account:</p> <ul style="list-style-type: none"> <li>• the fact that three committees have been formed (the Audit Committee, the HR and Remuneration Committee, the Strategic Planning Committee);</li> <li>• restrictions and recommendations of the Corporate Governance Code (on the size of committees - at least three members, the maximum number of committees per a member of the Board of Directors, the minimum number of independent directors on the Committee - two persons, and the need to establish committees based on the relevant expertise of members of the Board of Directors),</li> <li>• implementation of the Corporate Governance Code principle of independence of all members of the HR and Remuneration Committee is deemed impossible.</li> </ul> <p>It should be noted that the Company's internal documents, in particular, the Regulations on the Board of Directors, stipulate the procedures to prevent any conflicts of interest and eliminate the risk of influencing the Committee's recommendations by the controlling shareholder or executive bodies. This approach is not planned to be changed in the medium term.</p>
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.	<ol style="list-style-type: none"> <li>1. The Board of Directors has established the Nomination Committee (or another committee performs its duties specified in Recommendation 186 of the Code) consisting mostly of Independent Directors.</li> <li>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</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
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	Recommendations on independent directors appointment as the heads of the Committees are complied with in part. 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 Code (on the size of committees - at least three members, the maximum number of committees per a member of the Board of Directors, the minimum number of independent directors on the Audit Committee and the HR and Remuneration Committee, and 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 the Committees only from among independent directors. The Strategic Planning Committee is not headed by an independent director. At the same time, the organization of the Strategic Planning Committee's work involving the independent examination, including external experts, allows considering different points of view when discussing the Committee's recommendations by the Board of Directors. This approach is not planned to be changed in the medium term.
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	
<b>2.9</b>	<b>The Board of Directors arranges a performance assessment of the Board of Directors, its committees and members.</b>			
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	Recommendations on reviewing the self-assessment results at the in-person meeting of the Board of Directors are complied with in part. The results of the 2017/2018 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 that 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. This approach is not planned to be changed in the medium term.

<sup>1</sup> If the duties of the Nomination Committee are performed by another Committee, the Committee name is specified.

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
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	The Rosneft's Corporate Governance Code and the 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.
<b>3.1</b>	<b>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.</b>			
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	
<b>4.1</b>	<b>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.</b>			
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	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>4.2</b>	<b>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.</b>			
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 short-term 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	
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	
<b>4.3</b>	<b>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.</b>			
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 justified ratio of fixed 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 fixed 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 (financial 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 financial 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	Recommendations on implementing the long-term incentive program are not complied with. The Company is implementing a long-term incentive plan in the controlled entities as recommended by the HR and Remuneration Committee. A possible implementation of this program in the Company will be considered after processing the results of its testing in the controlled entities.
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 fixed 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 fixed component of annual remuneration in the reporting period.	✓ Complied with Complied with in part Not complied with	



No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>5.1</b>	<b>The Company has created an effective risk management and internal control system aimed at providing reasonable assurance that the Company will achieve its goals.</b>			
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 defined 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 efficient 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 efficiently.	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	
<b>5.2</b>	<b>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.</b>			
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	
<b>6.1</b>	<b>The Company and its operations are transparent to shareholders, investors and other stakeholders.</b>			
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	
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	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>6.2</b>	<b>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.</b>			
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.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p>✓</p> <p>Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>1. In the reporting period, the Company disclosed IFRS financial statements for the six months and for the full year. The Company's Annual Report for the reporting period includes IFRS annual financial statements and an auditor's report.</li> <li>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.</li> </ol>	<p>✓</p> <p>Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>1. The Company's Annual Report contains information on the key aspects of its operations and its financial results.</li> <li>2. The Company's Annual Report contains information on environmental and social aspects of its operations.</li> </ol>	<p>✓</p> <p>Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
<b>6.3</b>	<b>The Company provides equal and easy access to information and documents at the shareholders' request.</b>			
6.3.1	The Company provides equal and easy access to information and documents at the shareholders' request.	<ol style="list-style-type: none"> <li>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.</li> </ol>	<p>✓</p> <p>Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<ol style="list-style-type: none"> <li>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.</li> <li>2. In the cases stipulated by the Company's information policy, shareholders are informed that the information is confidential and undertake to keep it confidential.</li> </ol>	<p>✓</p> <p>Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	

No.	Corporate governance principles	Criteria for assessment of compliance with a corporate governance principle	Status of compliance with a corporate governance principle	Explanations concerning failure to meet the criteria for assessment of compliance with a corporate governance principle
<b>71</b>	<b>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.</b>			
71.1	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.	<ol style="list-style-type: none"> <li>1. The Company's Charter provides a list of transactions or other actions constituting significant corporate actions and establishes criteria for their definition. Making decisions about significant corporate actions is within the competence of the Board of Directors. In cases when the legislation specifically 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.</li> <li>2. The Company's Charter classifies 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.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
71.2	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.	<ol style="list-style-type: none"> <li>3. The Company has established a procedure whereby Independent Directors express their opinions on significant corporate actions before their approval.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
71.3	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 insufficiency 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.	<ol style="list-style-type: none"> <li>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.</li> <li>2. During the reporting period, all significant corporate actions were approved prior to their implementation.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
<b>72</b>	<b>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.</b>			
72.1	Information on significant corporate actions is disclosed, and an explanation of the reasons, conditions and consequences of such actions is provided.	<ol style="list-style-type: none"> <li>3. During the reporting period, the Company promptly and thoroughly disclosed information on its significant corporate actions, including the rationale and timing of such actions.</li> </ol>	<p>✓ Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
72.2	The rules and procedures for the implementation of significant corporate actions are set forth in the Company's internal documents.	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p>Complied with</p> <p>✓ Complied with in part</p> <p>Not complied with</p>	Recommendations on stating the additional grounds for being deemed a related party are 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 until appropriate changes are not introduced into the Russian Federation legislation.



### 1. Non-core/core asset divestment

Subparagraph j, paragraph 1 of the Instruction of the President of the Russian Federation No. Pr-3668 dated 6 December 2011  
 Subparagraph b, paragraph 1 of the Instruction of the President of the Russian Federation No. Pr-1092 dated 27 April 2012  
 Item 4, subparagraph c, paragraph 2 of the Decree of the President of the Russian Federation No 596 of 7 May 2012 On the Long-Term National Economic Policy  
 The Instruction of the First Deputy Prime Minister of the Russian Federation Igor Shuvalov No ISh-P13-6768 dated 13 November 2012  
 The Directives of the Government of the Russian Federation No 4863p-P13 dated 7 July 2016  
 The Resolution of the Government of the Russian Federation No 894 dated 10 May 2017  
 The 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 and the Standard for Management of Non-Core and Non-Performing Assets 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 September 2018, Rosneft's Board of Directors approved the updated Registers of the Company's non-core and non-performing assets scheduled to be divested in 2018-2022 (Minutes No. 9 dated 28 September 2018).

The Registers of the Rosneft's and Group Subsidiaries' non-core and non-performing assets are continuously maintained and updated in accordance with the Non-core and Non-Performing Assets Divestment Program.

In 2018, the Company:

1. approved the new updated version of the Standard for Management of Non-Core and Non-Performing Assets (Minutes No.11 of the Board of Directors dated 25 January 2018)
2. approved the updated Registers of non-core and non-performing assets and implemented the activities on assets preparation for divestment;
3. disposed the Company's and Group Subsidiaries' owned shares/interest of four legal entities and closed transactions for the sale of 85 assets / properties.

Corresponding materials are regularly posted on the Interagency website of State Property Management (hereafter referred to as Interagency Portal).

### Information on Disposal of Rosneft and Group Subsidiaries Non-Core/Non-Performing Assets in 2018

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	75 ordinary shares of PJSC Purnefteotdacha		1170	9101100100/9110100201	309.00	9,300.00	8,991.00	Negotiated selling price based on the market value assessment results
2	813 ordinary shares of PJSC Fortum		1170	911/91.2	18.09	71.91	53.82	Selling price based on tender results
3	100% of LLC Health Resort Izumrudny's charter capital		1170	9101100100/9110100201	45,838.47	85,303.22	39,464.75	Selling price based on tender results
4	49% of LLC Pursatcom's charter capital		1170	9101100200/9110100202	1,742.22	21,911.89	20,169.67	Selling price based on tender results
5	Building, pressure oil pipeline for oil transportation, 51,525 m long.	100122223, 100122230	1150	62.20; 91.01/91.10; 01.02	17,992.92	24,137.60	6,144.68	Selling price based on tender results
6	Single-staged brick building 6x2, Prirechensky settlement	100088672	1150	62.20; 91.01/91.10; 01.02	193.35	425.71	232.36	Selling price based on tender results
7	Building, pressure oil pipeline of booster pumping station, Sentyabrsky oil pumping station	100330149	1150	62.20; 91.01/91.10; 01.02	12,648.53	47,599.79	34,951.25	Selling price based on tender results
8	Garage	100121288	1150	62.20; 91.01/91.10; 01.02	0.00	4,112.18	4,112.18	Selling price based on tender results
9	Administrative building	100120857	1150	62.20; 91.01/91.10; 01.02	494.09	3,701.15	3,207.06	Selling price based on tender results
10	Apartment No.25	100101421	1150	62.20; 91.01/91.10; 01.02	0.00	3,383.00	3,383.00	Selling price based on tender results
11	Apartment No.21		1150	62.20; 91.01/91.10; 01.02	0.00	793.21	793.21	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
12	Guta retreat center	100119083, 100119093, 100119103, 100119112, 100119121, 100119130, 100121492, 100121506, 100121513, 100122239, 100119332, 100119497, 100119011, 100121500, 100122233	1150	62.20; 91.01/91.10; 01.02	906.97	10,058.33	9,151.36	Selling price based on tender results
13	Pressure oil pipeline, total length of 3,705 m	100075238	1150	62.20; 91.01/91.10; 01.02	783.38	799.18	15.81	Selling price based on tender results
14	Cluster 9 tie-in point oil pipeline, 1,444 m.	100021151	1150	62.20; 91.01/91.10; 01.02	1,376.70	746.37	-630.32	Selling price based on tender results
15	Production base	100071784, 100071781, 100071789, 100071806	1150	62.20; 91.01/91.10; 01.02	79.10	2,631.36	2,552.26	Selling price based on tender results
16	Ust Balykskoye field, area of oil production and transfer shop 1	100119133	1150	62.20; 91.01/91.10; 01.02	105.41	1,253.41	1,148.00	Selling price based on tender results
17	Poykovsky urban-type settlement, base of LLC Pravdinka +	100121802	1150	62.20; 91.01/91.10; 01.02	0.00	1,198.31	1,198.31	Selling price based on tender results
18	Rest and recreation center, special-purpose vehicle parking, Zolnoye village of Zhigulevsk urban district, the Samara Region	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.01/90.02.1; 41.01	83.74	330.65	246.90	Selling price based on tender results
19	Business center	419709, 419708	1150	62.01; 91.01/91.02; 01.09	3,187.89	4,030.24	842.35	Selling price based on tender results
20	Oil-gathering systems	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.01/90.02.1; 41.01	1,392.76	4,207.80	2,815.04	Selling price based on tender results
21	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.01/90.02.1; 41.01	159.39	501.12	341.73	Selling price based on tender results
22	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.01/90.02.1; 41.01	3,004.99	12,062.91	9,057.92	Selling price based on tender results
23	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.01/90.02.1; 41.01	37.61	134.49	96.87	Selling price based on tender results
24	Building Water pipeline	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.01/90.02.1; 41.01	314.47	1,223.25	908.77	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
25	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	2720	76.20	49.00	Selling price based on tender results
26	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	215.59	1,058.97	843.38	Selling price based on tender results
27	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	108.39	329.75	221.36	Selling price based on tender results
28	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	90.69	279.94	189.24	Selling price based on tender results
29	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	42.82	119.92	77.00	Selling price based on tender results
30	Pressure water pipeline	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	4,043.73	24,562.44	20,518.71	Selling price based on tender results
31	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	85.49	289.19	203.70	Selling price based on tender results
32	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	456.02	2,701.96	2,245.94	Selling price based on tender results
33	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	36.57	102.43	65.85	Selling price based on tender results
34	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	214.55	1,195.95	981.40	Selling price based on tender results
35	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	24.08	67.45	43.36	Selling price based on tender results
36	Building	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	85.49	256.35	170.86	Selling price based on tender results
37	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	34.49	96.59	62.10	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
38	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	75.08	210.26	135.18	Selling price based on tender results
39	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	179.16	3,223.11	3,043.94	Selling price based on tender results
40	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	46.98	131.57	84.59	Selling price based on tender results
41	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	118.80	332.67	213.87	Selling price based on tender results
42	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	52.18	146.14	93.96	Selling price based on tender results
43	Building	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	103.18	301.58	198.40	Selling price based on tender results
44	Oil-gathering systems	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	661.06	2,806.97	2,145.91	Selling price based on tender results
45	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	154.18	431.77	277.59	Selling price based on tender results
46	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	34.49	96.59	62.10	Selling price based on tender results
47	Water pipelines	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	1,477.74	6,869.94	5,452.20	Selling price based on tender results
48	Pressure oil pipeline	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	3,401.55	9,525.46	6,123.91	Selling price based on tender results
49	Building	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	556.98	1,559.74	1,002.75	Selling price based on tender results
50	Pressure oil pipeline	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	3,341.18	9,356.39	6,015.22	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
51	Building	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	70.92	198.61	127.69	Selling price based on tender results
52	Building	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	269.72	755.31	485.59	Selling price based on tender results
53	Building	Recorded in the accounting records on account 41.01 Current Inventory	1210	62.01; 90.011/90.021; 41.01	469.55	1,314.92	845.37	Selling price based on tender results
54	Building (heat insulated pavilion)	11936-5/1, 11936-5/2	1150	62.01; 90.011/90.021; 41.01	373.21	1,121.27	748.06	Selling price based on tender results
55	Garage building	Recorded in the accounting records on account 41.01 Current Inventory	1213	62.01; 90.011/90.021; 41.01	96.75	11441	17.66	Selling price based on tender results
56	Promservice production base	75000994, 114526343, 75000995	1210	62.01; 90.011/90.021; 41.01	12,784.18	25,276.35	12,492.17	Selling price based on tender results
57	Agat crew boat	INV-317, D-231	1213	62.01; 90.011/90.021; 41.01	607.08	607.08	0.00	Selling price based on tender results
58	Apartment	130000000004	1150	9101030100/ 9101030600, 9110030200, 9110030300	3,883.29	4,781.18	897.89	Selling price based on tender results
59	Apartment	130000000005	1150	9101030100/ 9101030600, 9110030200, 9110030300	3,810.01	4,759.16	949.15	Selling price based on tender results
60	Apartment	130000000008	1150	9101030100/ 9101030600, 9110030200, 9110030300	3,823.76	5,029.24	1,205.48	Selling price based on tender results
61	Apartment	130000000011	1150	9101030100/ 9101030600, 9110030200, 9110030300	3,817.63	4,796.77	979.14	Selling price based on tender results
62	Apartment	130000000015	1150	9101030100/ 9101030600, 9110030200, 9110030300	3,793.73	4,768.35	974.62	Selling price based on tender results
63	Apartment block	INV-1246	1150	9101030100, 9110040200, 9110030300	5,155.08	5,792.40	637.32	Selling price based on tender results
64	Production premise	004500353	1150	61.01; 91.01/91.02; 01.09	0.00	20,670.76	20,670.76	Selling price based on tender results
65	Plot of land	2601	1150	91.01/91.02	70.31	2,420.50	2,350.19	Selling price based on tender results
66	Part interest 4 140/7 696 of RRDB Bank (JSC) in non-residential building.	100003072	line 10	9137910000	16,179.66	17,199.95	1,020.29	Selling price based on tender results
67	Canteen	RMS-00001259	1150	91.01/91.02.11	1,465.30	1,385.33	-79.98	Selling price based on tender results
68	Apartment No.10		1210	91.01/91.02.11	1,558.93	1,774.21	215.28	Selling price based on tender results
69	Apartment No.11		1210	91.01/91.02.11	1,489.40	1,503.99	14.60	Selling price based on tender results
70	Apartment No.12		1210	91.01/91.02.11	1,556.54	1,572.11	15.57	Selling price based on tender results
71	Apartment No.46	RID-00008832	1150	91.01/91.02.11	403.55	874.91	471.36	Selling price based on tender results
72	Apartment. Purpose: Living quarters. Total area 112.8 sq. m.	5	1150	91.01/91.02	7,194.00	10,800.00	3,606.00	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
73	Dolce Vita Shopping Center	647, 646	1150	91.01/ 91.02	16,224.36	14,343.25	-1,881.11	Selling price based on tender results
74	Zodiac Mini Market	1496, 1496a	1150	91.01/91.02	9,440.31	8,507.88	-932.43	Selling price based on tender results
75	Na Troikh Grocery Store (integrated store of commercial purpose, total area 38.5 sq. m)	1134	1150	91.01/91.02	213.36	1,963.95	1,750.58	Selling price based on tender results
76	Parking area (Kosmonavtov street 1 e, Oryol, the Oryol Region)	2-477, 46-2	1150	91.01/91.02	1,287.13	5,227.44	3,940.31	Selling price based on tender results
77	Neftyanik Recreation Center, property complex	00928, 00929, 00203, 00204, 00205, 00409-1, 00408-1, 00410-2, 00892, 00890-1, 00891, 05504, 00180, 00181, 00182, 00183-1, 00184-1, 00185, 00188-1, 00189-1, 00186, 00187, 00190-1, 00191-1, 00192-1, 00193-1, 00194, 00195-1, 00196-1, 00197, 00200, 00201, 00202, 00208-2, 00198, 00199, 00206-1, 00207-2, 00001-3, 10070, 10178, 00209, 00407-1 08767, 08808-2, 08797-2, 00889, 00888-1, 00760, 10183, 10181, 00212-1, 00867, 00865, 00866, 00211-1, 00759, 00213-1, 00210, 10071, 00899, 00404-1, 10170, 08810, 08807-2, 10172-1, 08783, 08704, 08766, 00933, 00932-1, 00915-1, 00913, 907, 00918-1, 00925, 10171, 10180, 10179, 10174, 00920, 10175, 10173, 00901, 00902-1, 00903-1, 00927, 00893, 00926, 00900, 00922-1, 00924, 00921, 00935, 00923, 00906, 00905-1, 00904, 10182, 00919	1150	91010301/91020301	7,011.76	28,728.81	21,717.05	Selling price based on tender results
78	2-room apartment	102807	1150	911.03010101/91.2.03010101	1,777.00	1,210.00	-567.00	Negotiated selling price based on the market value assessment 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
79	2-room apartment	102804	1150	91.1.03010101/91.2.03010101	1,783.00	1,220.00	-563.00	Negotiated selling price based on the market value assessment results
80	2-room apartment	102812	1150	91.1.03010101/91.2.03010101	1,777.00	1,210.00	-567.00	Negotiated selling price based on the market value assessment results
81	Parking area of rotational service	45073	1150	91.01/91.02	1,498.51	12,003.21	10,504.70	Selling price based on tender results
82	Apartment	AR000699	1150	91.01/91.02	135.01	1,420.89	1,285.87	Selling price based on tender results
83	Plot of land	KR001810	1150	91.01/91.02	29749	731.65	434.16	Selling price based on tender results
84	Plot of land for dead-end track operation	TM-001580, TM000006	1150	91.01/91.02	156.06	4,552.42	4,396.36	Selling price based on tender results
85	Housing and public utilities (Property complex of boiler house for UTT base in the area of booster pumping station 24 at the Samotlor oil field)	100193, 451, 210647, 210647, 210647, 122	1150	62.01; 91.01/91.02; 01	73349	3,852.85	3,119.36	Selling price based on tender results
86	Non-residential building of warehouse	1349_2993	1160	91.01/91.02	558.19	5,313.56	4,755.37	Selling price based on tender results
87	Administrative building	000150, 000151, 000152	011 (Property, plant and equipment in organization)	91.01/91.02	69,264.11	74,572.50	5,308.39	Selling price based on tender results
88	4-room apartment	7767	1150	62.01; 91.01/91.02; 01.09	4,377.65	5,517.00	1,139.35	Selling price based on tender results
89	Building part occupied by wholesale and retail base and located on the first stage of the five-storied apartment block, total area 81.3 sq. m.	U10-URS 2/1	1150	62.01; 91.01/ 91.02; 01.09	901.00	2,040.29	1,139.29	Selling price based on tender results
TOTAL					292,584.80	595,978.86	303,394.06	

## 2. Procurement of goods, works, services

### 2.1. Approval of the Regulations on Procurement. Procurement Transparency Improvement

The Federal Law No. 223-FZ On Procurement of Goods, Works, and Services by Certain Types of Legal Entities

The Instruction of the Government of the Russian Federation No. ISh-P13-8685 dated 17 December 2012

Paragraph 2 of the List of Instructions of the Government of the Russian Federation No. DM-P9-8413 dated 12 December 2015.

The Instruction of the Government of the Russian Federation No. DM-P13-1100 dated 1 March 2016 (paragraph 89 of the Strategy of the Government of the Russian Federation focused on ensuring stable social and economic development of the Russian Federation in 2016)

The Directives of the Government of the Russian Federation No. 2793p-P13 dated 19 April 2016

The Directives of the Government of the Russian Federation No. 7704p-P13 dated 11 October 2016

On 30 November 2018, 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 (<http://zakupki.rosneft.ru/node/459132>) and in the Integrated Information System (<http://zakupki.gov.ru>)), which:

- set the Company's procurement principles: information openness and transparency, equality, fairness and nondiscrimination, 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.

In 2016, 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 (<http://zakupki.rosneft.ru>). In addition, the Company exercises control over compliance with applicable standards and annually monitors procurement results for compliance with the standards.

Pursuant to the 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 10.4.7.6) in procurement documents, which allows for the application of the factoring mechanism.

Corresponding materials are regularly posted on the Interagency Portal.

### 2.2. Ensuring Efficient Procurement from Small and Medium-Sized Enterprises, Including Procurement of Innovative and Hi-Tech Products

The Resolution of the Government of the Russian Federation No. 867-r dated 29 May 2013

The Instruction of the Government of the Russian Federation No. DM-P13-77 dated 13 January 2018 on Information Disclosure as per subparagraph "c", paragraph 1 of the Instruction of the President of the Russian Federation No. Pr-2763 dated 31 December 2017

The 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:

1. establishment and continuous operation of the Advisory Council; the information about its work is posted on Rosneft's website (<http://zakupki.rosneft.ru/consult>);
2. development and approval of internal documents:
  - the Company's Regulations on Procurement of Goods, Works, and Services (new revision);
  - 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
  - the Company's Regulations on the Procedure and Rules for Operating the One-Stop-Shop System for Introducing Innovation Products.
  - 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. 1026 dated 25 December 2015
  - the Company's Guidelines for Assessing Product Life Cycle establishing the procedure for applying the "product life cycle cost" assessment criterion
3. amendment of the Company's local procurement regulations as regards to setting out the specific aspects of SMEs' participation in the Company's procurement procedures;
4. acceptance of proposals containing innovative solutions coming from potential counterparties, including SMEs, through the One-Stop-Shop System on Rosneft's website ([https://www.rosneft.ru/Development/sci\\_and\\_innov/Upravlenie\\_innovacionnoj\\_dejatelnostju/Sistema\\_Odnogo\\_okna/](https://www.rosneft.ru/Development/sci_and_innov/Upravlenie_innovacionnoj_dejatelnostju/Sistema_Odnogo_okna/));
5. development and approval of the Innovative Product Procurement Plan for 2018–2022 (posted in the Integrated Information System (<http://zakupki.gov.ru>));
6. approval and adoption of KPIs for the managers of Procurement Service with "share of procurement from SMEs" indicator;
7. online procurements via the electronic trading platform of JSC TEK-Torg (Rosneft's section) for all SMEs in accordance with the requirements of the Law of the Russian Federation in the area of procurement.

In 2018:

- total value of contracts signed by Rosneft with the SMEs (including the contracts signed by the Group Subsidiaries on behalf of Rosneft), considering the payments received in 2018, amounted to RUB 34.8 bn (or 69.08%) to meet the indicator of 18%, and RUB 10.2 bn (or 20.30%) to meet the indicator of 15%;
- Rosneft signed the innovative products procurement contracts with a total value of RUB 2.2 bn (up 17% year-on-year by value) including contracts signed with SMEs with a total value of RUB 0.6 bn (up 19% year-on-year by value).

### 2.3. Increasing Procurements of Russian-Made Products

The Instructions of the President of the Russian Federation following the Meeting of the State Council Presidium of the Russian Federation dated 20 February 2009  
Paragraph 4 of the List of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014  
The Instructions of the Government of the Russian Federation No. AD-P9-9176 dated 8 December 2014 and No. ISh-P13-1419 dated 5 March 2015  
The Instruction of the Government of the Russian Federation No. ISh-P13-1872 dated 1 April 2016  
Paragraph 4, Section II of the Minutes of Meeting No. 1 of the Governmental Commission on the Use of Information Technology to Improve Living Standards and the Business Environment dated 9 February 2018  
The Directives of the Government of the Russian Federation No. 1346p-P13 dated 5 March 2015  
The Directives of the Government of the Russian Federation No. 3425p-P13 dated 1 June 2015  
The Directives of the Government of the Russian Federation No. 4972p-P13 dated 11 July 2016  
The Directives of the Government of the Russian Federation No. 6558p-P13 dated 5 September 2016  
The Directives of the Government of the Russian Federation No. 830p-P13 dated 6 February 2017  
The Directives of the Government of the Russian Federation No. 2602p-P7 dated 17 April 2017  
The Directives of the Government of the Russian Federation No. 10068p-P13 dated 6 December 2018  
The Directives of the Government of the Russian Federation No. 7923p-P13 dated 26 September 2018

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 Procurement of Goods, Works, and Services fully comply with the 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 Company's Regulations on the Procurement of Goods, Works, and Services contain Section 13.1 Priority of Domestically Produced Goods, Works Performed, and Services Rendered by Russian Entities, 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.  
As required by the 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.  
The action plan (list of initiatives) for import substitution and localization were updated in line with the Directives of the Government of the Russian Federation No. 830p-P13 dated 6 February 2017 to reflect the Guidelines approved by Order of the Russian Ministry of Economic Development No. 219R-AU dated 11 August 2016. Key provisions are included in the Rosneft's Long-Term Development Program (updated and approved by the resolution of the Board of Directors, Minutes No.12 dated 20 December 2018).  
Pursuant to Directives of the Government of the Russian Federation No. 2602p-P7 dated 17 April 2017 the Rosneft's Board of Directors made the corresponding decisions (Minutes No. 6 dated 24 August 2018).  
To comply with the Directives of the Government of the Russian Federation No. 7923-P13 dated 26 September 2018, the Board of Directors (Minutes No. 14 dated 25 January 2019) instructed the Company's Management Board to inform annually the dedicated federal executive bodies (the Ministry of Industry and Trade, the Ministry of Energy and the Ministry of Economic Development of the Russian Federation) and the Government of the Russian Federation about the scopes of the procurement contracts signed by Rosneft, its Group Subsidiaries and defense contractors for civilian industry products of Fuel Energy Complex (works performance, services rendering) not relating to state defense orders not later than 30 days before the Annual General Shareholders Meeting.  
Corresponding materials are regularly posted on the Interagency Portal.

### 3. Dividend amount determination

The Resolution of the Government of the Russian Federation No. 774-r dated 29 June 2006 (as amended by the 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.  
Dividend payment history is posted on Rosneft's official website (<https://www.rosneft.ru/Investors/dividends/>)

### 4. Annual report structure

The 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 the List of Instructions of the President of the Russian Federation No. Pr-3013 dated 27 December 2014  
The Directives of the Government of the Russian Federation No. 2007p-P13 dated 6 April 2015  
Paragraph 2 of the Minutes of Meeting convened by the First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-47pr dated 2 June 2015  
The Directives of the Government of the Russian Federation No. 5024p-P13 dated 31 July 2015

Rosneft's Annual Report 2018 was prepared in accordance with the annual reporting requirements of the Regulations of the Bank of Russia No. 454-P dated 30 December 2014 considering the template of an annual report for a joint-stock company in federal ownership approved by the 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 the Directives of the Government of the Russian Federation No. 2007p-P13 dated 6 April 2015 and No. 5024-P13 dated 31 July 2015. As to separate paragraphs of the template of an annual report for a joint-stock company in federal ownership, according to the Resolution of the Government of the Russian Federation No. 1214 dated 31 December 2010 (as amended by the Resolution of the Government No.851 dated 19 July 2017) the following should be mentioned:

- In 2018, Rosneft did not close any major transactions (paragraph 10 of the Resolution),
- In compliance with paragraph 70.3 of the Regulations of the Bank of Russia No. 454-P dated 30 December 2014, the list of related party transactions entered into by Rosneft in 2018 is posted on Rosneft's official website <https://www.rosneft.ru/Investors/information/transactions/> (paragraph 11 of the Resolution).
- In 2018, Rosneft received no subsidies from the federal budget (paragraph 13 of the Resolution).

## 5. Strategy Development and Update, Efficiency, Long-Term Planning

### 5.1. Innovative Development Program Development and Approval

Subparagraph b, paragraph 1 of the List of Instructions of the President of the Russian Federation No. Pr-307 dated 7 February 2011  
The Directives of the Government of the Russian Federation No. 1221p-P13 dated 24 March 2011  
The Presidential Address to the Federal Assembly dated 12 November 2010  
The Minutes of Meeting of the Governmental Commission for Advanced Technology and Innovation No. 1 dated 30 January 2012  
Subparagraphs 32, 33 and 34, paragraph 1 of the List of Instructions of the President of the Russian Federation No. Pr-3086 dated 27 December 2013  
The 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, section 2 of the Minutes of Meeting of the Presidential Council for Economic Modernization and Innovative Development No. 2 dated 17 April 2015  
The Instruction of the Government of the Russian Federation No. DM-P36-7563 dated 7 November 2015  
The Directives of the Government of the Russian Federation No. 1471p-P13 and No. 1472p-P13 dated 3 March 2016  
The Directives of the Government of the Russian Federation No. 3262p-P13 dated 27 April 2018

Under subparagraph b, paragraph 1 of the List of Instructions of the President of the Russian Federation No. Pr-307 dated 7 February 2011, and the Directives of the Government of the Russian Federation, by its resolution (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 Governmental 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 the resolution of Rosneft's Board of Directors (Minutes No. 12 dated 20 December 2018).  
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.  
In 2018, the technological (innovative) development level and the innovative activities KPIs were compared with the same KPIs of the leading foreign and Russian peer companies in accordance with the Guidelines approved by the Interagency Working Group (Minutes No. 2 dated 19 September 2017).  
The following was submitted to the Ministry of Energy and the Ministry of Economic Development of the Russian Federation:

- results of Rosneft's technological development level comparison;
- proposals on updating the Rosneft's Innovative Development Program with subsequent introduction of related changes into the Rosneft's Innovative Development Program;
- proposals on composition and values of the integrated KPI for 2019 innovative activities.

Corresponding materials are regularly posted on the Interagency Portal.

### 5.2. Managing Rights to Intellectual Property

The Instruction of the Government of the Russian Federation No. ISh-P8-5594 dated 25 August 2017  
The Directives of the Government of the Russian Federation No. 9177p-P13 dated 12 December 2017  
The Instruction of the Government of the Russian Federation No. ISh-P13-1925 dated 5 April 2018  
The Directives of the Government of the Russian Federation No. 7050p-P13 dated 30 August 2018

The 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 the Rosneft's Innovative Development Program for 2016–2020 approved by the Company's Board of Directors.  
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.

In 2018, the Rosneft's Board of Directors addressed the issues of managing rights to intellectual property under the Directives of the Government of the Russian Federation No. 9177p-P13 dated 12 December 2017 and No. 7050p-P13 dated 30 August 2018. Corresponding materials are regularly posted on the Interagency Portal.

### 5.3. Development and Approval of the Company's Strategy and Long-Term Development Program

The Recommendations for the Development of Innovative Development Programs approved by the Resolution of the Governmental Commission for Advanced Technology and Innovation, Minutes No. 4 dated 3 August 2010  
Item 2, paragraph 2 of the Minutes of Meeting convened by the 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 the Instruction of the President of the Russian Federation No. Pr-3086 dated 27 December 2013  
The Instruction of the Government of the Russian Federation No. DM-P13-9589 dated 30 December 2013  
The Directives of the Government of the Russian Federation No. 4955p-P13 dated 17 July 2014  
The 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  
The Directives of the Government of the Russian Federation No. 7389p-P13 dated 31 October 2014  
Paragraph 2.3, section 1 of the Minutes of Meeting of the Military and Industrial Commission under the Government of the Russian Federation No. 4 dated 25 April 2014  
The Directives of the Government of the Russian Federation No. 3666p-P13 dated 11 June 2015  
Subparagraph b, paragraph 2 of the List of Instructions of the President of the Russian Federation No. Pr-1627 dated 1 July 2014  
The Instructions of the Government of the Russian Federation No. ISH-P8-6196 dated 15 August 2014 and No. OGP8-5496 dated 22 July 2014

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, accelerating 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 section 1.1 of the Annual Report.  
In 2018, the Rosneft's Board of Directors approved additional initiatives for the Rosneft–2022 Strategy with regard to provisions of Address of President of the Russian Federation Vladimir Putin to the Federal Assembly (Minutes No. 17 dated 28 April 2018). In December 2018, the Rosneft's Board of Directors reviewed the results of Rosneft–2022 Strategy and noticed successful achievement of its objectives following the results of 2018.  
Rosneft's Long-Term Development Program was originally established in 2014 pursuant to the Instruction of the President of the Russian Federation Vladimir Putin No. Pr-3086 dated 27 December 2013 and the 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, the Rosneft's Standard on Auditing the Implementation of the Long-Term Development Program, and the 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 2018, the Long-Term Development Program was updated with regard to decisions made by the Rosneft Board of Directors as to Company's development plans, including the provisions of

The Directives of the Government of the Russian Federation No. 7439p-P13 dated 5 November 2014  
The Directives of the Government of the Russian Federation No. 4531p-P13 dated 28 June 2016

the Rosneft–2022 Strategy, and additional provisions of the Strategy, as well as detailed elaboration of specific measures to achieve long-term goals. The updated Long-Term Development Program was approved by the Rosneft's Board of Directors on 20 December 2018 (Minutes No. 12 dated 20 December 2018).

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 2018 implementation audit results see Section 1.2 of the Annual Report.

Corresponding materials are regularly posted on the Interagency Portal.

#### 5.4. Reduction of Operating Expenses

Subparagraph 5, paragraph 1 of the Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014  
The Directives of the Government of the Russian Federation No. 2303p-P13 dated 16 April 2015  
Paragraph 4, section 2 of the Minutes of the meeting convened by the Prime Minister of the Russian Federation No. DM-P13-2pr dated 18 January 2016  
The Instructions of the Government of the Russian Federation No. ISh-P13-2047 dated 11 April 2016  
The Directives of the Government of the Russian Federation No. 4750p-P13 dated 4 July 2016

Rosneft fully complies with the 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 into the Rosneft's Long-Term Development Program.

A relevant indicator was integrated into the KPI system for Rosneft's top managers.

Results of the relevant measures aimed at reducing operating expenses undergo annual independent check under the audit of the Long-Term Development Program implementation (report of LLC Ernst & Young independent auditor dated 25 April 2018) and are addressed by the Company's Board of Directors.

Implementing the programs focused on energy saving and loss reduction, upgrading the procurement procedures efficiency, optimizing the scopes of works and services procured, optimizing the number of employees, and saving general and administrative expenses in 2018 resulted in cost saving at least 4.3% compared to 2017.

Corresponding materials are posted on the Interagency Portal.

#### 5.5. Development of Internal Regulations

Paragraph 2 of the List of Instructions of the President of the Russian Federation No. Pr-3013 dated 27 December 2014  
The 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  
The Directives of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015  
Paragraph 2 of the Instruction of the President of the Russian Federation No. Pr-769 dated 26 April 2016  
Paragraph 6 of the Instruction of the Government of the Russian Federation No. AD-P36-4292 dated 20 July 2016  
The 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;
- 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 (CWRMS);
- the Company's Regulations on the Procedure for Developing (Updating) and Implementing the Rosneft's Innovative Development Program
- the Company's Regulations on the Procedure and Rules for Operating the One-Stop-Shop System for Introducing Innovation Products;
- the Company's Standard on Innovative Activities Efficiency Management;
- the Company's Regulations on Petroleum Product Quality Management System.

Rosneft has fully complied with the Directives.

Corresponding materials are regularly posted on the Interagency Portal.

Paragraph 2 of the Minutes of Meeting convened by the First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-47pr dated 2 June 2015  
The 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 the Directives of the Government of the Russian Federation No. 5024p-P13 dated 31 July 2015, in accordance with methodological guidelines approved by the Order of the Ministry of Economic Development No. 400R-AU dated 22 December 2015 pursuant to the 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 put into force:

- The Company's Regulations on the Procedure for Charitable Activities of Rosneft and Group Subsidiaries;
- The Company's Regulations on Sponsorship by Rosneft and Group Subsidiaries.

Corresponding materials are regularly posted on the Interagency Portal.

#### 5.6. Optimization of Integrated Entities Performance

Paragraph 4 of the Minutes of Meeting convened by Deputy Prime Minister of the Russian Federation Dmitry Rogozin No. RD-P13-45pr dated 15 June 2012  
Paragraph 1 of the List of Instructions of the President of the Russian Federation No. Pr-1032 dated 7 May 2014, the Instruction of the Government of the Russian Federation No. ISh-P13-3464 dated 13 May 2014, paragraph 4 of the List of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014  
The 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). 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.

Corresponding materials are regularly posted on the Interagency Portal.



### 5.7. Incorporation of the Recommendations of the Bank of Russia's Corporate Governance Code in the Company's Operati

<p>The Instruction of the Government of the Russian Federation No. DM-P36-46pr dated 28 August 2014</p> <p>The Instruction of the Government of the Russian Federation No. ISh-P13-5859 dated 31 July 2014</p> <p>The Directives of the Government of the Russian Federation No. 5667p-P13 dated 2 September 2014</p> <p>The Directives of the Government of the Russian Federation No. 989p-P13 dated 20 February 2015</p>	<p>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 2018, the Company took consistent steps to implement the Roadmap.</p> <p>The basic principles of the Rosneft's corporate management system are set out in the Rosneft's Corporate Governance Code and meet the highest global standards.</p> <p>On 20 December 2017 (Minutes No.9 dated 25 December 2017) and on 24 December 2018 (Minutes No.13 dated 24 December 2018) Rosneft's Board of Directors reviewed the status of the Road Map implementation and revised the deadline for the implementation of individual initiatives.</p> <p>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.</p>
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### 5.8. Inclusion of a Clause on the Possibility of Ruble Settlements in New Export Contracts

<p>Subparagraph 1, paragraph 1, section I of the Minutes of Meeting of the National Financial Stability Board No. 7 dated 10 April 2015</p> <p>The Directives of the Government of the Russian Federation No. 4807p-P13 dated 23 July 2015</p>	<p>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 the Directives of the Government of the Russian Federation was reviewed by the Company's Board of Directors on 23 July 2015 (Minutes No. 7 dated 3 October 2016).</p> <p>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.</p> <p>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 linked with Russian ruble devaluation, which may lead to a reduction in total revenue from petroleum product exports.</p>
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### 5.9. Remuneration of the Company's Management and Employees, KPI System Development

<p>The Instruction of the President of the Russian Federation No. Pr-825 dated 6 April 2009</p> <p>The Instructions of the Government of the Russian Federation No. VP-P13-1823 dated 6 April 2009, No. VP-P132099 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</p> <p>Item 3, paragraph 2 of the Minutes of Meeting convened by the First Deputy Prime Minister of the Russian Federation Igor Shuvalov No. ISh-P13-98pr dated 3 October 2013</p> <p>Paragraph 5 of the List of Instructions of the President of the Russian Federation No. Pr-1474 dated 5 July 2013</p> <p>The Directives of the Government of the Russian Federation No. 2579p-P13 dated 25 April 2014</p> <p>The Instruction of the Government of the Russian Federation No. ISh-P13-2043 dated 27 March 2014</p> <p>The Directives of the Government of the Russian Federation No. 3984p-P13 dated 24 June 2015</p> <p>Subparagraph 5, paragraph 1 of the List of Instructions of the President of the Russian Federation No. Pr-2821 dated 5 December 2014</p> <p>The Instruction of the Government of the Russian Federation No. DM-P13-9024 dated 4 December 2014</p> <p>The Directives of the Government of the Russian Federation No. 2303p-P13 dated 16 April 2015</p>	<p>The top management incentive system based on the achievement of KPI targets has been in place in the Company since 2009. The Regulations on Annual Bonus Payment to Rosneft's Top Managers and Heads of Independent Business Units were enacted. In addition, the Regulations on the Company's KPI System were approved by Rosneft's Board of Directors on 9 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:</p> <ul style="list-style-type: none"> <li>· financial and economic indicators (EBITDA, ROACE, TSR, financial leverage (Net Debt / EBITDA), cost reduction indicators);</li> <li>· industry-wide indicators (hydrocarbon production volume, reserve replacement, light product yield, an integrated KPI for innovation, etc.).</li> </ul> <p>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.</p> <p>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).</p> <p>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.</p> <p>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.</p> <p>Corresponding materials are regularly posted on the Interagency Portal.</p>
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### 5.10. On compliance with the Resolution of the Government of the Russian Federation No. 232 dated 6 March 2018 regarding approval of the procedure for agreement of planning and target-oriented documents by the Ministry of the Russian Federation for Development of the Russian Far East and validation of such documents by the mentioned Ministry

<p>The Directives of the Government of the Russian Federation No. 8860p-P13 dated 29 October 2018</p>	<p>Pursuant to the Directives of the Government of the Russian Federation No. 8860p-P13 dated 29 October 2018, the Board of Directors (Minutes No. 13 dated 24 December 2018) reviewed an issue concerning compliance with the Resolution of the Government of the Russian Federation dated No. 232 6 March 2018 regarding approval of procedure for agreement of planning and target-oriented documents with the Ministry of the Russian Federation for Development of the Russian Far East and validation of such documents by the mentioned Ministry, it was noted that the projects implemented by Rosneft at the Russian Far East in accordance with the Instructions of the President of the Russian Federation and the Government of the Russian Federation are ensured in coordination with the Ministry for Development of the Russian Far East.</p> <p>Corresponding materials are regularly posted on the Interagency Portal.</p>
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## 6. Sustainable Development

### 6.1. Implementation of Professional Standards

<p>Paragraph 3, Section I of the Minutes of Meeting of the Government of the Russian Federation No. 9 dsp dated 24 March 2016 with regard to provisions of the Federal Law No. 122-FZ On Amendments to Labor Code of the Russian Federation dated 2 May 2015 and Articles 11 and 73 of the Federal Law On Education in the Russian Federation</p> <p>The 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</p>	<p>In 2018, 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 25 December 2017, Minutes No. 9.</p> <p>Performance results of the Action Plan introducing professional standards into the business activities of Rosneft and Group Subsidiaries in 2018 (as of 1 May 2018 and 1 November 2018) were submitted twice for consideration of the Rosneft's Board of Directors (Minutes No. 21 dated 20 June 2018 and No. 13 dated 24 December 2018).</p> <p>Under the Resolution of Rosneft's Board of Directors, the Action Plan introducing professional standards into the business activities of Rosneft and Group Subsidiaries in 2019 was approved (Minutes No. 13 dated 24 December 2018).</p> <p>Corresponding materials are regularly posted on the Interagency Portal.</p>
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### 6.2. Creation of Professional and Amateur Sports Organizations

Subparagraph b, paragraph 2 of the List of Instructions of the President of the Russian Federation No. Pr-2179 dated 9 November 2016

Paragraph 1 of the Instruction of the Government of the Russian Federation No. ISh-P13-8690 dated 26 December 2017  
The Letter of the Federal Agency for State Property Management No. RB-11/1520dsp dated 22 January 2018

In accordance with paragraph 171, Article 65 of the 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.

Rosneft places a special emphasis on support and development of sports and considers these issues to be ones 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 traditionally provides 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 projects to support and develop hockey, football, biathlon, sambo, boxing, motor racing, and other kinds of sport.

### 6.3. Advertising contracting with the leading Russian athletes

The Instruction of the President of the Russian Federation No. Pr-223 dated 9 February 2018 and the Instruction of the Government of the Russian Federation No. VM-P12-1271 dated 7 March 2018

Rosneft supports sports development and, in pursuing these aims, it provides financing to support and develop the sports entities activities.

Rosneft is a title sponsor to the International Sambo Federation annually financing the events of official competition calendar for this sport.

The Company supports projects in the area of motor racing. Rosneft considers the significance of domestic teams and automotive manufacturer support and aims at ensuring maximum coverage of the regions of the Russian Federation by sports competitions.

Rosneft fully assumed obligations for financial support and development of CSKA Moscow Hockey Club.

In season 2017/2018 under the Russian Football Championship, Rosneft acted as a title sponsor of Arsenal Tula Football Club.



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 Officer) 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.





## INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of PJSC Rosneft Oil Company

### Opinion

We have audited the financial statements of PJSC Rosneft Oil Company (the "Company"), which comprise the balance sheet as at 31 December 2018, statement of income for 2018, and appendices thereto.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for 2018 in accordance with the rules on preparation of financial statements established in the Russian Federation.

### 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 responsibility 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) and 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For the 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 this matter. 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 matter below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matter	How our audit addressed the key audit matter
<b>Charter capital contributions related to restructuring</b>	
The Company made a number of investments of shares/units of entities, which the Company owned and held on its balance sheet, to charter capitals of its other subsidiaries in 2018 in order to create and spin-off management subholdings. In accordance with Accounting statement 19/02, where it is impossible to determine the cost of assets transferred or transferable by the organization, financial investments received by the organization under agreements providing for non-monetary compensation (settlement) is based on the price at which the organization normally purchases similar assets under comparable circumstances. As a result the cost of financial investments received shall be determined based on fair value of assets transferred as a charter capital contribution. This matter is one of the most significant in our audit as the affected transactions are significant for financial statements and the calculation of transferable financial investments value requires the management to make significant judgments for estimates. Information on the above-mentioned transaction is provided in Note 11 to the financial statements.	We have engaged our business valuation experts to review models prepared in order to determine the value of capital assets transferable to the charter capital. We have analyzed assumptions used in the models to verify the value of assets. We have compared discount rates and projected long-term growth rate with general market indicators and other available data. We have verified arithmetic accuracy of models and sensitivity analysis of models to changes of key assumptions. In addition, we have compared the amounts in accounting postings to the respective calculations of value and analyzed the approach to fair value accounting of financial investments.

### Other information included in the annual report

Other information consists of the information included in the Annual report for 2018, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual Report is expected to be provided to us after the date of this auditor's report.

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 financial reporting rules 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 misstatements, 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 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 misstatements, 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 aggregate, they could reasonably be expected to influence the economic decisions made by the users on the basis of these 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 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 the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or 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 D. E. Lobachev

D. E. Lobachev  
Partner, Ernst & Young LLC  
5 February 2019

### 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: Russia 115035, Moscow, Sofiyskaya naberezhnaya, 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 2018

Notes	Indicator	Line code	At 31 December 2018	At 31 December 2017	At 31 December 2016
	<b>ASSETS</b>				
	<b>I. Non-current assets</b>				
6	Intangible assets	110	44,599,532	23,468,759	23,214,357
8	Research and development results	1120	6,728,123	4,890,365	3,344,717
7	Intangible exploration assets	1130	99,214,115	111,303,011	78,528,809
7	Tangible exploration assets	1140	20,222,627	26,179,268	11,326,829
5	Fixed assets	1150	1,269,210,761	1,186,529,970	1,058,799,579
	Income-bearing investments in tangible assets	1160	-	-	-
3,11	Financial investments	1170	6,159,574,705	6,003,776,788	5,492,046,642
3,21	Deferred tax assets	1180	94,841,893	95,062,970	68,252,970
9	Other non-current assets	1190	31,951,119	32,318,324	33,202,633
	<b>Total for Section I</b>	<b>1100</b>	<b>7,726,342,875</b>	<b>7,483,529,455</b>	<b>6,768,716,536</b>
	<b>II. Current assets</b>				
10	Inventory	1210	151,426,199	142,388,555	113,017,735
10	Value-added-tax on purchased assets	1220	72,718,694	72,598,729	57,272,596
3,15,18	Accounts receivable	1230	2,653,803,215	2,531,306,562	1,523,299,152
	including:	1231	1,005,017,767	1,119,929,274	806,591,911
	accounts receivable expected to be settled within 12 months after the reporting date				
	accounts receivable expected to be settled in over 12 months after the reporting date	1232	1,648,785,448	1,411,377,288	716,707,241
3,11	Financial investments (other than cash equivalents)	1240	1,100,833,573	728,055,665	899,267,309
12	Short-term derivative financial instruments at fair value through profit or loss	1241	-	-	-
12	Long-term derivative financial instruments at fair value through profit or loss	1242	-	-	-
14	Cash and cash equivalents	1250	598,541,224	116,638,660	584,223,460
	Other current assets	1260	5,052,039	8,400,746	7,604,682
	including:	1261	-	-	-
	unbilled accrued revenue under construction contracts				
	<b>Total for Section II</b>	<b>1200</b>	<b>4,582,374,944</b>	<b>3,599,388,917</b>	<b>3,184,684,934</b>
	<b>BALANCE</b>	<b>1600</b>	<b>12,308,717,819</b>	<b>11,082,918,372</b>	<b>9,953,401,470</b>
	<b>LIABILITIES</b>				
	<b>III. Capital and reserves</b>				
1,19	Share capital (pooled capital, authorized capital, partners' contributions)	1310	105,982	105,982	105,982
19	Treasury shares	1320	-	-	-
19	Revaluation of non-current assets	1340	5	5	15
19	Additional capital (without revaluation)	1350	113,279,890	113,278,538	113,279,280
19	Reserve capital	1360	5,299	5,299	5,299
13	Other funds and reserves	1365	(115,062,581)	(231,748,689)	(348,012,103)
3,20	Retained earnings (loss)	1370	2,028,141,822	1,802,733,923	1,767,708,786
	<b>Total for Section III</b>	<b>1300</b>	<b>2,026,470,417</b>	<b>1,684,375,058</b>	<b>1,533,087,259</b>
	<b>IV. Liabilities Non-current</b>				
16	Loans and borrowings	1410	5,792,741,747	5,083,998,328	4,338,773,620
21	Deferred tax liabilities	1420	91,808,512	91,105,397	78,948,226
24	Provisions	1430	56,345,080	61,023,750	50,403,366
12	Long-term derivative financial instruments at fair value through profit or loss	1440	-	-	-
16	Other liabilities	1450	1,134,390,419	1,419,426,029	1,550,012,639
	<b>Total for Section IV</b>	<b>1400</b>	<b>7,075,285,758</b>	<b>6,655,553,504</b>	<b>6,018,137,851</b>
	<b>V. Short-term liabilities</b>				
16	Loans and borrowings	1510	817,935,056	860,270,860	525,561,253
15,18	Accounts payable	1520	2,333,146,921	1,785,522,679	1,753,787,381
	Deferred income	1530	2,740,157	2,651,115	1,874,814
24	Provisions	1540	19,582,179	20,059,244	22,943,218
12	Short-term derivative financial instruments at fair value through profit or loss	1545	33,058,044	74,073,303	97,633,864
	Other liabilities	1550	499,287	412,609	375,830
	<b>Total for section V</b>	<b>1500</b>	<b>3,206,961,644</b>	<b>2,742,989,810</b>	<b>2,402,176,360</b>
	<b>BALANCE</b>	<b>1700</b>	<b>12,308,717,819</b>	<b>11,082,918,372</b>	<b>9,953,401,470</b>

I.I. Sechin

Chief Executive Officer  
of Rosneft Oil Company

V.A. Surkov

General Director of  
LLC RN-Uchet (Contract

## STATEMENT OF INCOME FOR 2018:

Explanatory notes	Indicator	Line code	For January-December 2018	For January-December 2017
20,26	Revenue	2110	6,968,248,044	4,892,934,388
20	Cost of sales	2120	(4,815,224,782)	(3,459,587,329)
20	Oil and gas reserves exploration and estimation expenses	2130	(24,065,226)	(14,149,489)
	<b>Gross income (loss)</b>	<b>2100</b>	<b>2,128,958,036</b>	<b>1,419,197,570</b>
20	Selling expenses	2210	(1,422,676,475)	(990,299,266)
20	General and administrative expenses	2220	(80,583,478)	(68,941,225)
	<b>Operating income (loss)</b>	<b>2200</b>	<b>625,698,083</b>	<b>359,957,079</b>
20	Interest receivable	2320	186,773,202	179,953,353
16,20	Interest payable	2330	(451,851,788)	(396,184,404)
20	Gains from changes in the fair value of derivative financial instruments	2333	51,966,086	23,560,680
20	Losses from changes in the fair value of derivative financial instruments	2334	(10,950,827)	-
17,20	Other income	2340	328,328,022	329,387,442
13,17,20	Other expenses	2350	(296,124,690)	(413,567,272)
	<b>Income (loss) before tax</b>	<b>2300</b>	<b>433,838,088</b>	<b>83,106,878</b>
	Current income tax	2410	431,697	12,272,616
21	including permanent tax assets (liabilities)	2421	81,505,569	44,356,090
21	Change in deferred tax liabilities	2430	(703,115)	(12,157,171)
21	Change in deferred tax assets	2450	(2,835,837)	26,810,000
	Other	2460	30,053,176	28,936,657
	Tax on prior years income	2461	(204,996)	(1,338,586)
	Imputed income tax	2464	-	-
	Income tax re-distribution within consolidated taxpayer group	2465	1,086,645	1,209,389
13	Tax effect of the results of other operations not included in net income (loss) for the period	2466	29,171,527	29,065,854
<b>22</b>	<b>Net income (loss)</b>	<b>2400</b>	<b>460,784,009</b>	<b>138,968,980</b>
	<b>For reference</b>			
	Result of revaluation of non-current assets not included in net income (loss) for the period	2510	-	-
13,17,19	Result of other operations not included in net income (loss) for the period	2520	116,687,460	116,262,672
	Comprehensive financial result for the period	2500	577,471,469	255,231,652
22	Basic earnings (loss) per share, RUB per share	2900	43.48	13.11

## I.I. Sechin

Chief Executive Officer  
of Rosneft Oil Company \_\_\_\_\_

## V.A. Surkov

General Director of  
LLC RN-Uchet (Contract \_\_\_\_\_)

№ 100017/02711D dated 01.08.2017 «\_\_\_\_\_» \_\_\_\_\_ 2019

# Statement of changes in equity for 2018

## 1. CHANGES IN EQUITY

Indicator	Line code	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Other funds and reserves	Retained earnings (loss)	Total
<b>EQUITY AT 31 DECEMBER 2016</b>	<b>3100</b>	<b>105,982</b>	<b>-</b>	<b>113,279,295</b>	<b>5,299</b>	<b>(348,012,103)</b>	<b>1,767,708,786</b>	<b>1,533,087,259</b>
<b>For 2017</b>								
Increase in equity - total:	3210	-	-	2,642	-	116,263,414	138,993,251	255,259,307
including:	3211	x	x	x	x	x	138,968,980	138,968,980
net income								
revaluation of property	3212	x	x	-	x	-	x	-
income directly increasing equity	3213	x	x	2,642	x	116,263,414	24,271	116,290,327
additional issue of shares	3214	-	-	-	x	-	x	-
increase in the par value of shares	3215	-	x	-	x	-	-	x
legal entity reorganization	3216	-	-	-	-	-	-	-
Decrease in equity - total:	3220	-	-	(3,384)	-	-	(103,968,124)	(103,971,508)
including:	3221	x	x	x	x	x	-	-
loss								
revaluation of property	3222	x	x	-	x	-	x	-
expenses directly decreasing equity	3223	x	x	(3,384)	x	-	-	(3,384)
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	(103,968,124)	(103,968,124)
Change in additional capital	3230	x	x	(10)	x	-	10	x
Change in reserve capital	3240	x	x	x	-	x	-	x
<b>EQUITY AT 31 DECEMBER 2017</b>	<b>3200</b>	<b>105,982</b>	<b>-</b>	<b>113,278,543</b>	<b>5,299</b>	<b>(231,748,689)</b>	<b>1,802,733,923</b>	<b>1,684,375,058</b>
<b>For 2018</b>								
Increase in equity - total:	3310	-	-	5,921	-	116,686,108	460,866,255	577,558,284
including:	3311	x	x	x	x	x	460,784,009	460,784,009
net income								
revaluation of property	3312	x	x	-	x	-	x	-
income directly increasing equity	3313	x	x	5,921	x	116,686,108	82,246	116,774,275
additional issue of shares	3314	-	-	-	x	-	x	-
increase in the par value of shares	3315	-	x	-	x	-	-	x
legal entity reorganization	3316	-	-	-	-	-	-	-
Decrease in equity - total:	3320	-	-	(4,569)	-	-	(235,458,356)	(235,462,925)
including:	3321	x	x	x	x	x	-	-
loss								
revaluation of property	3322	x	x	-	x	-	x	-
expenses directly decreasing equity	3323	x	x	(4,569)	x	-	(10,459,041)	(10,463,610)
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	(224,999,315)	(224,999,315)
Change in additional capital	3330	x	x	-	x	-	-	x
Change in reserve capital	3340	x	x	x	-	x	-	x
<b>EQUITY AT 31 DECEMBER 2018</b>	<b>3300</b>	<b>105,982</b>	<b>-</b>	<b>113,279,895</b>	<b>5,299</b>	<b>(115,062,581)</b>	<b>2,028,141,822</b>	<b>2,026,470,417</b>



## 2. ADJUSTMENTS DUE TO CHANGES IN ACCOUNTING POLICY AND CORRECTION OF PRIOR YEAR ERRORS

Description	Line code	At 31 December 2016	Change in equity for 2017		At 31 December 2017
			through net income (loss)	through other factors	
<b>Total equity</b>					
<b>before adjustments</b>	<b>3400</b>	<b>1,533,087,259</b>	<b>138,968,980</b>	<b>12,318,819</b>	<b>1,684,375,058</b>
adjustment due to:					
changes in accounting policy	3410	-	-	-	-
correction of errors	3420	-	-	-	-
<b>after adjustments</b>	<b>3500</b>	<b>1,533,087,259</b>	<b>138,968,980</b>	<b>12,318,819</b>	<b>1,684,375,058</b>
including:					
Retained earnings (loss):					
<b>before adjustments</b>	<b>3401</b>	<b>1,767,708,786</b>	<b>138,968,980</b>	<b>(103,943,843)</b>	<b>1,802,733,923</b>
adjustment due to:					
changes in accounting policy	3411	-	-	-	-
Correction of errors	3421	-	-	-	-
<b>after adjustments</b>	<b>3501</b>	<b>1,767,708,786</b>	<b>138,968,980</b>	<b>(103,943,843)</b>	<b>1,802,733,923</b>
other equity items that have been adjusted (by item):					
<b>before adjustments</b>	<b>3402</b>	<b>(234,621,527)</b>	<b>-</b>	<b>116,262,662</b>	<b>(118,358,865)</b>
adjustment due to:					
changes in accounting policy	3412	-	-	-	-
correction of errors	3422	-	-	-	-
<b>after adjustments</b>	<b>3502</b>	<b>(234,621,527)</b>	<b>-</b>	<b>116,262,662</b>	<b>(118,358,865)</b>

## 3. NET ASSETS

Indicator	Line code	At 31 December 2018	At 31 December 2017	At 31 December 2016
Net assets	3600	2,026,470,417	1,684,375,058	1,533,087,259

I.I. Sechin

Chief Executive Officer  
of Rosneft Oil Company

V.A. Surkov

General Director of  
LLC RN-Uchet (Contract

№ 100017/02711D dated 01.08.2017 « \_\_\_\_ » \_\_\_\_\_ 2019

## Statement of cash flows for 2018

Indicator	Line code	For 2018	For 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash receipts - total:</b>	<b>4110</b>	<b>6,949,361,784</b>	<b>4,693,828,278</b>
including:	4111	5,962,431,089	3,764,022,033
from sales of products, goods, work and services			
from lease payments, license payments, royalties, commissions and other similar payments	4112	151,987,590	144,786,533
from resale of financial investments	4113	-	127,009,538
other proceeds	4119	834,943,105	658,010,174
<b>Cash disbursements - total:</b>	<b>4120</b>	<b>(6,762,778,931)</b>	<b>(5,172,970,012)</b>
including:	4121	(4,820,693,835)	(3,725,280,584)
payments to suppliers (contractors) for raw materials, work and services			
payroll-related payments	4122	(41,438,562)	(44,934,850)
payment of interest on loans and borrowings	4123	(347,701,977)	(280,927,199)
income tax payments	4124	(15,390,346)	(8,099,852)
payment of others taxes and levies	4125	(944,055,998)	(588,676,822)
exploration costs	4128	(15,091,557)	(13,448,788)
other payments	4129	(578,406,656)	(511,601,917)
<b>Net cash flows from operating activities</b>	<b>4100</b>	<b>186,582,853</b>	<b>(479,141,734)</b>

Indicator	Line code	For 2018	For 2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash receipts - total:</b>	<b>4210</b>	<b>2,877,879,280</b>	<b>2,475,022,201</b>
including:			
sale of non-current assets (except for financial investments)	4211	18,649,588	5,287,535
sale of shares (interest) in other entities	4212	28,723	78,063,092
repayment of loans issued and sale of debt securities (receivables from other parties)	4213	2,202,518,614	1,894,447,405
dividends, interest on debt financial investments and similar proceeds from equity participation in other entities	4214	580,793,533	466,837,703
other proceeds	4219	75,888,822	30,386,466
<b>Cash disbursements - total:</b>	<b>4220</b>	<b>(2,646,150,136)</b>	<b>(3,479,925,010)</b>
including:			
purchase, construction, modernization, reconstruction and preparation for use of non-current assets	4221	(203,655,854)	(212,862,768)
purchase of shares (interests) in other entities	4222	(148,272,795)	(571,923,338)
purchase of debt securities (receivables from other parties), granting loans to other parties	4223	(2,204,686,684)	(2,573,608,741)
interest on debt obligations included in the cost of the investment asset	4224	-	-
exploration assets	4228	(15,993,209)	(46,050,890)
other payments	4229	(73,541,594)	(75,479,273)
<b>Net cash flows from investing activities</b>	<b>4200</b>	<b>231,729,144</b>	<b>(1,004,902,809)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash receipts - total:</b>	<b>4310</b>	<b>3,401,044,264</b>	<b>4,064,309,309</b>
including:			
proceeds from loans and borrowings	4311	3,331,053,021	3,013,338,418
cash contributions of shareholders (participants)	4312	-	-
issuance of stock, increase of interest	4313	-	-
issuance of bonds, promissory notes and other debt securities, etc.	4314	69,991,243	1,050,970,891
other receipts	4319	-	-
<b>Cash disbursements - total:</b>	<b>4320</b>	<b>(3,338,428,524)</b>	<b>(3,017,533,992)</b>
including:			
to shareholders (participants) for buyout of shares (interest) of the entity or due to their withdrawal	4321	-	-
dividends or other distribution of earnings to shareholders (participants)	4322	(218,156,115)	(100,875,076)
redemption (buyout) of promissory notes and other debt securities, repayment of loans and borrowings	4323	(3,120,272,409)	(2,916,658,916)
other payments	4329	-	-
<b>Net cash flows from financing activities</b>	<b>4300</b>	<b>62,615,740</b>	<b>1,046,775,317</b>
<b>Net cash flows for the reporting period</b>	<b>4400</b>	<b>480,927,737</b>	<b>(437,269,226)</b>
<b>Balance of cash and cash equivalents at the beginning of the reporting period</b>	<b>4450</b>	<b>116,638,660</b>	<b>584,223,460</b>
<b>Balance of cash and cash equivalents at the end of the reporting period</b>	<b>4500</b>	<b>598,541,224</b>	<b>116,638,660</b>
<b>Effect of changes in the exchange rate of foreign currency to the ruble</b>	<b>4490</b>	<b>974,827</b>	<b>(30,315,574)</b>

I.I. Sechin

Chief Executive Officer  
of Rosneft Oil Company .....

V.A. Surkov

General Director of  
LLC RN-Uchet (Contract .....

№ 100017/02711D dated 01.08.2017 « \_\_\_\_ » ..... 2019

# Explanatory Notes to the balance sheet and the income statement of PJSC Rosneft Oil Company for the 2018 reporting year

These Explanatory Notes to the balance sheet and the statement of income constitute an integral part of the financial statements of PJSC Rosneft Oil Company for the 2018 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 2018.

## 1. ORGANIZATION 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.

The Company's registered office is located in Moscow, Russian Federation.

Address of the Company specified in the Unified State Register of Legal Entities:

26/1 Sofiyskaya Embankment, 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 2018 was formed by the decision of the General Shareholders' Meeting of the Company held on 21 June 2018.

#### As of 31 December 2018, the Board of Directors of Rosneft Oil Company comprised:

1. Faisal M.Alsuwaidi	Member of the Board of Directors of Rosneft Oil Company, representative of Qatar Investments Authority;
2. Andrey Removich Belousov	Member of the Board of Directors of Rosneft Oil Company, assistant to the President of the Russian Federation
3. Matthias Arthur 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)
4. Oleg Vyacheslavovich Viyugin	Member of the Board of Directors of Rosneft Oil Company, non-executive director, professor of the Finance School of the Economic Faculty of the Federal State Autonomous Educational Institution of Higher Professional Education National Research University Higher School of Economics
5. Aivan Glasenberg	Member of the Board of Directors of Rosneft Oil Company, Chief Executive Officer of Glencore International AG and Glencore plc
6. Robert Warren Dudley	Member of the Board of Directors of Rosneft Oil Company, Director and a member of the Board of Directors of BP p.l.c., CEO of BP Group
7. Guillermo Ordóñez Quintero	Member of the Board of Directors of Rosneft Oil Company, Director of GQO Consultants LTD
8. Alexander Valentinovich Novak	Member of the Board of Directors of Rosneft Oil Company, Minister of Energy of the Russian Federation
9. Hans-Joerg Rudloff	Member of the Board of Directors of Rosneft Oil Company, Independent Director, Chairman of the Management Board of Marcuard Holding, Executive Director of ABD Capital S.A., President of ABD Capital Eastern Europe S.A.;
10. Igor Ivanovich Sechin	Chief Executive Officer, Chairman of the Management Board, Deputy Chairman of the Board of Directors of Rosneft Oil Company
11. Gerhard Schroeder	Chairman of the Board of Directors of PJSC Rosneft Oil Company, non-executive director

In accordance with clause 2 of Article 64 of the Federal Law On Joint-stock Companies, 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.

In accordance with Regulation of PJSC Rosneft Oil Company On Remuneration and Compensations for Expenses to the Members of the Board of Directors of PJSC Rosneft Oil Company (approved by the Board of Directors of PJSC Rosneft Oil Company on 9 April 2015, Minutes of 10 April 2015 No.28, as amended and approved by the Decision of the Board of Directors of PJSC Rosneft Oil Company of 19 June 2017, Minutes of 22 June 2017 No.29), remuneration to the Members of the Board of Directors, who are Russian residents, is paid in rubles at the Central Bank exchange rate as of the date of payment.

In accordance with Decision of the annual (on results of 2017), General Shareholders' Meeting held 21 June 2018 (unnumbered minutes dated 26 June 2018), remuneration to the following members of the Board of Directors of the Company for the period during which they performed their duties is:

- Gerhard Schroeder - USD 600,000
- Faisal M.Alsuwaidi - USD 530,000
- Matthias Arthur Warnig - USD 580,000 [in rubles at the Central Bank exchange rate as of the date of payment]
- Oleg Vyacheslavovich Viyugin - USD 565,000 [in rubles at the Central Bank exchange rate as of the date of payment]
- Aivan Glasenberg - USD 530,000
- Donald Humphreys - USD 580,000

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 2018, 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 2018, 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, Chief Executive Officer, 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 2018, 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 2018, members of the Management Board of the Company included:

1. Igor Ivanovich Sechin	Chief Executive Officer, Chairman of the Management Board, Deputy Chairman of the Board of Directors 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. Zeljko Runje	Vice President for Offshore Projects at Rosneft Oil Company
9. Vlada Vilorikovna Rusakova	Vice President of Rosneft Oil Company
10. Andrey Nikolaevich Shishkin	Vice President for Energy, Localization and Innovation at Rosneft Oil Company
11. Zavaleeva Elena Vladimirovna	State secretary – Vice President of Rosneft Oil Company

#### 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 2018, the Audit Commission of the Company comprised:

#### Chairman of the Audit Commission:

1. Zakhar Borisovich Sabantsev	Head of the Finance Sector Monitoring, Organizational Support and Consolidation Unit of the Financial Policy Department of the Russian Ministry of Finance
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#### Audit Commission members:

2. Olga Anatolyevna Andrianova	Chief accountant- Head of finance and economic function of JSC ROSNEFTEGAZ, General Director of LLC Vostokgazinvest
3. Alexander Yevgenievich Bogashov	Director of the Department for Corporate Governance, Price Environment, Audit and Control Activities in Energy Sector of the Russian Ministry of Energy
4. Sergey Ivanovich Poma	Vice-President of Russian National Association of Securities Market Participants (NAUFOR);
5. Pavel Gennadyevich Shumov	Acting Deputy Director of the Department of the Ministry of Economic Development

On 21 June 2018, the annual General Shareholders' Meeting (unnumbered minutes dated 26 June 2018) approved remuneration to the members of the Audit Commission of the Company for the period during which they performed their duties:

- Olga Anatolyevna Andrianova - 220,000 rubles
- Sergey Ivanovich Poma - 220,000 rubles

As of 31 December 2018, the Company fulfilled its obligation and paid remuneration.

#### Structure of the Company's share capital<sup>1</sup>

#### The shareholders of Rosneft Oil Company as of 31 December 2018 were as follows:

JSC ROSNEFTEGAZ	5,299,088,910 common shares, representing 50.00000001% of the total number of common shares and the share capital of the Company
BP Russian Investments Limited	2,092,900,097 common shares, representing 19.75% of the total number of common shares and the share capital of the Company
QH Oil Investments LLC	2,006,045,126 common shares, representing 18.93% of the total number of common shares and the share capital of the Company
Non-banking Credit Organization Joint Stock Company National Settlement Depository (nominal holder central depository)	1,101,780,329 common shares, representing 10.4% of the total number of common shares and the share capital of the Company
Other legal entities	61,983,733 common shares, representing 0.58% of the total number of common shares and the share capital of the Company
Russian Federation as represented by the Federal Agency for State Property Management	1 common share, representing 0.000000009% of the total number of common shares and the share capital of the Company
Individuals	36,243,156 common shares, representing 0.34% of the total number of common shares and the share capital of the Company
Accounts of unidentified persons	136,465 common shares, representing less than 0.01% of the total number of common shares and the share capital of the Company

<sup>1</sup> Information is based on the data of Rosneft Oil Company shareholders' register».

## 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 2017 (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.

Based on results for 2018, the average headcount of the Company was 4,397 persons, up 234 persons year on year. The increase in the headcount was due to organizational and staff changes aimed at increase in the efficiency of business processes.

## 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 of Russian Ministry of Finance No. PZ-10/2012), as well as applicable Accounting Statements. The Company's financial statements for the 2018 reporting year were prepared in accordance with the Law, the Statute and the Accounting Statements.

## 3. CHANGES IN OPENING BALANCES IN THE FINANCIAL STATEMENTS FOR THE 2018 REPORTING YEAR

Starting from 2018, the Company applied certain regulations of IFRS 9, Financial instruments, as approved by Order No. 98n of the Russian Ministry of Finance of 27 June 2016. In particular, the Company transferred estimation of impairment provision for debt investments and receivables to the expected credit losses concept. In accordance with the new approach the reserves estimation for such financial assets shall be made based on expected credit losses determined based of credit rating of a counterparty and with regard to the expected maturity of a financial asset. The effect of the the new approach application is included in the opening balance of retained earnings of the current period (indicator Retained earnings (loss)) at 1 January 2018 without correcting the comparatives at 31 December 2017 and 31 December 2016 as stipulated by transitional provisions of IFRS 9 Financial instruments.

The effect of application of the new approach to reserves estimation comprised:

- in Accounts receivable line 1230 – kRUB [5,277,097];
- in Financial investments line 1170 – RUB kRUB [2,320,143];
- in Financial investments [excluding cash equivalents] line 1240 – kRUB [5,476,561];
- in Deferred tax assets line 1180 – kRUB 2,614,760

Total effect on line 1370 Retained earnings (loss) amounted to [10,459,041] kRUB.

Total effect on equity is included in line 3323 Expenses booked to capital in column Retained earnings (loss) of the Statement of changes in equity for 2018 in the same amount.

No adjustments of financial statements opening balances due to changes in accounting policies and correction of errors were made as these factors had no effect on financial statements amounts.

## 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 Order 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 2018 are reflected below in the respective Explanatory Notes to the balance sheet and the statement of income for the 2018 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 566,447 million at the end of the period
- RUB 555,073 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 is 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
- Assets put into operation after 1 January 2018: 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 as well as based on useful lives indicated in the technical documentation, manufacturers' recommendations, or based on other relevant information that determines the period, during which a fixed assets item is expected to generate economic benefits.

#### The main groups of fixed assets have the following useful lives:

Buildings	From 30 to 100 years
Structures	From 10 to 15 years
Machinery and equipment	From 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
- Objects of joint shared property or joint property

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 1. Information on fixed assets, (kRUB)**

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	Disposals		Depreciation charge	Historical cost	Accumulated depreciation
					Historical cost	Accumulated depreciation			
Fixed assets, total	2018	1,434,802,008	(819,931,051)	182,429,326	(47,953,372)	29,655,898	(141,185,287)	1,569,277,962	(931,460,440)
	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)
Buildings and structures	2018	1,253,588,915	(701,088,374)	171,128,379	(43,996,094)	26,649,133	(127,248,900)	1,380,721,200	(801,688,141)
	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)
Machinery, equipment, vehicles	2018	176,942,695	(117,144,438)	10,323,503	(3,919,307)	2,969,973	(13,842,121)	183,346,891	(128,016,586)
	2017	165,427,123	(103,518,993)	12,158,861	(643,289)	539,339	(14,164,784)	176,942,695	(117,144,438)
Other fixed assets	2018	4,270,398	(1,698,239)	977,444	(37,971)	36,792	(94,266)	5,209,871	(1,755,713)
	2017	4,208,796	(1,612,016)	1,833,886	(1,772,284)	20,465	(106,688)	4,270,398	(1,698,239)
Including fixed assets that are not depreciated	2018	2,349,824	x	860,970	(901)	x	x	3,209,893	x
	2017	2,328,199	x	1,773,439	(1,751,814)	x	x	2,349,824	x

**Table 2. Information on fixed assets requiring state registration, (kRUB)**

	At 31 December 2018	At 31 December 2017	At 31 December 2016
Fixed assets whose title has not yet been registered	216,700,282	242,504,069	273,619,549
Including fixed assets whose registration documents have not yet been accepted by the state authorities	208,464,386	232,630,158	259,762,811

**Table 3. Information on the use of fixed assets, (kRUB)**

Group of fixed assets	At 31 December 2018	At 31 December 2017	At 31 December 2016
Total assets leased out (historical cost), including	1,425,671,402	1,313,143,006	1,130,104,258
buildings	46,838,617	47,879,783	46,382,575
structures	1,207,948,158	1,098,760,374	929,580,685
Mothballed fixed assets (historical cost)	52,526,131	37,787,491	38,985,450
Total fixed assets leased (contract or cadastral value), including	84,246,854	74,235,887	65,320,361
Land plots	74,304,769	66,337,376	56,962,241
Other fixed assets	9,942,085	7,898,511	8,358,120
Change in the value of fixed assets as a result of supplementary construction, retrofitting, refurbishment, modernization or partial liquidation	22,425,172	23,019,002	18,380,733

**Table 4. Information on capital investments in progress, (kRUB)**

Capital investments in progress by type of asset	At 31 December 2018	At 31 December 2017	At 31 December 2016
Equipment for installation	15,431,560	17,828,175	16,143,044
Construction in progress, including	613,815,168	551,066,851	457,823,625
Advances issued for construction, acquisition, manufacturing of fixed assets (net of VAT)	45,491,528	46,294,428	30,617,797
Other	2,146,511	2,763,987	3,364,990
<b>TOTAL</b>	<b>631,393,239</b>	<b>571,659,013</b>	<b>477,331,659</b>

In 2018, the value of work performed under capital construction projects amounted to RUB 244,521.5 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 12,073 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 769,815
- Exclusive rights to an invention, utility model or industrial design with a historical cost of kRUB 10
- Digital forest management maps with a historical cost of kRUB 2,933
- Multimedia products, websites with a historical cost of kRUB 1,000

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	From 4.1 to 13.6 years
Exclusive rights to an invention, utility model or industrial design	From 2.6 to 15 years
Exclusive rights to computer software and databases	From 11 to 10 years
Oil and gas exploration and production licenses <sup>1</sup>	From 3 to 173 years
Geological survey, exploration and production licenses <sup>1</sup>	From 6 to 166 years
Other mineral licenses (for the abstraction of underground water, construction of underground gas storage facilities)	From 3 to 29 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 5. Information on intangible assets, (kRUB)**

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	Disposals		Amortization charge	Historical cost	Accumulated amortization
					Historical cost	Accumulated amortization			
<b>Total intangible assets:</b>	2018	25,688,938	(5,683,766)	22,253,141	(2,048)	789	(1,788,234)	47,940,031	(7,471,211)
	2017	24,751,731	(3,937,867)	947,109	(9,902)	9,900	1,755,799	25,688,938	(5,683,766)
Trade marks	2018	19,235	(9,128)	2,071	-	-	(2,246)	21,306	(11,374)
	2017	18,250	(6,858)	985	-	-	(2,270)	19,235	(9,128)
Exclusive rights to an invention, utility model or industrial design	2018	750,695	(211,358)	10	-	-	(140,925)	750,705	(352,283)
	2017	630,781	(96,436)	119,914	-	-	(114,922)	750,695	(211,358)
Exclusive rights to computer software and databases	2018	1,507,484	(1,163,715)	769,815	-	-	(118,127)	2,277,299	(1,281,842)
	2017	1,321,589	(1,078,222)	190,175	(4,280)	4,280	(89,773)	1,507,484	(1,163,715)
Oil and gas production licenses (including mixed exploration and production licenses issued after commercial viability is confirmed)	2018	22,311,222	(4,048,198)	20,462,364	(1,034)	636	(1,479,738)	42,772,552	(5,527,300)
	2017	22,282,152	(2,569,317)	29,152	(82)	82	(1,478,963)	22,311,222	(4,048,198)
Other licenses	2018	911	(597)	-	(97)	77	(43)	814	(563)
	2017	917	(553)	-	(6)	4	(48)	911	(597)

<sup>1</sup> Provided that the production of mineral resources in the license area is commercially viable

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	Disposals		Amortization charge	Historical cost	Accumulated amortization
					Historical cost	Accumulated amortization			
Information received as the result of drilling the offshore appraisal and exploration wells abandoned as successful due to technological reasons	2018	38,482	(2,732)	517,288	-	-	(3,931)	555,770	(6,663)
	2017	38,482	(1,364)	-	-	-	(1,368)	38,482	(2,732)
Results of 3D and 4D seismic surveys at sites after commercial viability is confirmed	2018	849,993	(65,026)	497,660	-	-	(34,006)	1,347,653	(99,032)
	2017	261,787	(23,940)	588,206	-	-	(41,086)	849,993	(65,026)
Other intangible assets	2018	210,916	(183,012)	3,933	(917)	76	(9,218)	213,932	(192,154)
	2017	197,773	(161,177)	18,677	(5,534)	5,534	(27,369)	210,916	(183,012)

Table 6. Information on intangible assets created by the Company, (kRUB)

Historical cost by group of intangible assets	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Total, including</b>	<b>3,235,544</b>	<b>2,462,703</b>	<b>2,143,751</b>
Exclusive rights to computer software and databases	2,277,299	1,507,484	1,321,589
Exclusive rights to an invention, utility model or industrial design	744,313	744,303	624,389
Other	213,932	210,916	197,773

Table 7. Information on investments in progress made to create intangible assets, (kRUB)

Investments in progress	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Investments in creation of individual intangible assets - total, including:</b>	<b>4,130,712</b>	<b>3,463,587</b>	<b>2,400,493</b>
Exclusive rights to computer software and databases	2,808,226	1,940,991	1,037,638
3D and 4D seismic surveys	1,304,261	1,507,340	1,286,118
Exclusive rights to an invention, utility model or industrial design	897	6,087	4,933
Trade marks	5,103	3,877	25,806
Other intangible assets	12,225	5,292	45,998

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 8. Information on intangible assets received by the Company for use, (kRUB)

Cost by group of intangible assets	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Total, including</b>	<b>8,870,210</b>	<b>7,417,358</b>	<b>6,348,270</b>
Non-exclusive rights to software programs, rights of access to information resources	8,870,210	7,417,358	6,348,270

Table 9. Information on fully amortized intangible assets, (kRUB)

Intangible assets	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Total, including</b>	<b>1,266,602</b>	<b>1,115,886</b>	<b>1,025,668</b>
Exclusive rights to computer software and databases	1,071,022	1,023,677	973,669
Exclusive rights to an invention, utility model or industrial design	13,715	10,012	243
Oil and gas production licenses	5,373	623	521
Trade marks	6,361	535	535
Other licenses	61	61	61
Other	170,070	80,978	50,639

## 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 successful abandoned 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 successful abandoned appraisal/exploration wells - intangible exploration assets

Expenses related to the construction of offshore appraisal/exploration wells abandoned as successful in the license areas that didn't 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 at 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 the 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 10. Information on exploration assets, (kRUB)**

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	At historical cost	Disposals Accumulated impairment losses	Historical cost	Accumulated impairment losses
Tangible exploration assets	2018	26,126,691	-	12,321,977	(18,277,911)	-	20,170,757	-
	2017	11,045,466	(4,632)	15,478,948	(397,723)	4,632	26,126,691	-
Intangible exploration assets, including	2018	111,303,164	(153)	8,387,854	(20,476,753)	3	99,214,265	(150)
	2017	78,529,035	(226)	32,790,087	(15,958)	73	111,303,164	(153)
License to use subsurface resources with the right of extraction	2018	76,083,997	-	994,151	(20,454,509)	-	56,623,639	-
	2017	43,332,325	(65)	32,751,738	(66)	65	76,083,997	-
License to use subsurface resources without the right of extraction	2018	2,409	(153)	15	(3)	3	2,421	(150)
	2017	276	(161)	2,171	(38)	8	2,409	(153)
Information on the results of drilling of successful abandoned appraisal/exploration wells	2018	35,193,583	-	7,355,056	-	-	42,548,639	-
	2017	35,174,757	-	18,826	-	-	35,193,583	-
Costs related to acquiring of subsoil use rights for oil and gas reserves	2018	23,175	-	38,632	(22,241)	-	39,566	-
	2017	21,677	-	17,352	(15,854)	-	23,175	-

Information on tangible exploration assets as of 31 December 2018 is disclosed in line 1140, Tangible exploration assets, including advances issued of RUB 1 million and materials of RUB 51 million intended for creating tangible exploration assets in the balance sheet.

The disposal of tangible exploration assets in 2018 was mainly due expensed costs related to the construction of appraisal/exploration wells which did not produce oil flow (dry wells) totaling RUB 9,253 million,

transfer of the cost of information obtained after drilling successful abandoned appraisal/exploration wells totaling RUB 7,355 million to intangible exploration assets, transfer of fixed assets totaling RUB 473 million after decision on commercial viability of production at license areas to capital construction in progress, due to putting into operation of fixed assets totaling RUB 838 million and write-off to other expenses in the amount of RUB 358 million.

The disposal of intangible exploration assets in 2018 was mainly due to reclassification of licenses from exploration assets to intangible assets as information on confirmation of commercial viability of oil and gas production at respective license areas in the amount of RUB 20,455 million was received.

## 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 positive result of R&D activities will create an opportunity for future economic benefits
- It is assumed that 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	2 years
Technology for development of tight Turonian gas deposits	5 years
Technology for development of extra-heavy crude oil fields	5 years

**Table 11. R&D results profile, (kRUB)**

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	Disposals	Part of the value written off to expenses	Historical cost	Part of the value written off to expenses
R&D	2018	523,335	(184,634)	27,512	–	(176,256)	550,847	(360,890)
	2017	264,753	(48,712)	377,614	(119,032)	(137,695)	523,335	(184,634)

Changes in R&D project value written-off in the amount of RUB 1.77 million in 2017 were made in the course of reclassifying R&D projects to intangible assets at net book value upon receipt of protection documents. No reclassification of R&D to intangible assets was made in 2018.

**Table 12. R&D in progress and pending registration (kRUB)**

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	2018	4,551,664	2,014,038	–	(27,536)	6,538,166
	2017	3,128,676	1,803,258	–	(380,270)	4,551,664

## 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, including non-exclusive rights to software, 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 monthly depreciated using the unit of production method based on proven developed reserves. 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 13. Information on other long-term assets, (kRUB)**

Other non-current assets by type	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Prepaid expenses with the write-off period exceeding 12 months - total</b>	<b>9,812,024</b>	<b>7,365,761</b>	<b>5,498,510</b>
including by types: Software	9,812,024	7,365,761	5,103,217
Catalysts	–	–	395,293
<b>ARO asset</b>	<b>21,814,156</b>	<b>24,160,025</b>	<b>27,513,978</b>
<b>Other types of other non-current assets</b>	<b>324,939</b>	<b>792,538</b>	<b>190,145</b>
<b>TOTAL</b>	<b>31,951,119</b>	<b>32,318,324</b>	<b>33,202,633</b>

## 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 14. Information on the VAT and excise duties, (kRUB)**

Tax	At 31 December 2018	At 31 December 2017
Input value added tax claimed	66,860,529	67,860,841
Excise duty assessed upon accounting for straight-run gasoline, benzene, orthoxylene, paraxylene	5,858,165	4,737,888

**Table 15. Information on inventories, (kRUB)**

Inventories by type	At 31 December 2018		At 31 December 2017		At 31 December 2016	
	Cost	Allowance for impairment	Cost	Allowance for impairment	Cost	Allowance for impairment
<b>Total inventories</b>	<b>151,463,844</b>	<b>(37,645)</b>	<b>142,439,261</b>	<b>(50,706)</b>	<b>113,063,448</b>	<b>(45,713)</b>
Raw and other materials	18,883,705	(37,426)	18,575,428	(27,811)	14,568,793	(28,754)
Costs related to work in progress	11,326,184	x	9,706,137	x	9,056,282	x
Finished products and goods	121,253,955	(219)	114,157,696	(22,895)	89,438,373	(16,959)

An increase in the amount of inventories was due to increased oil production and volume of oil refined.

In 2016-2018, inventories were not pledged.

**Table 16. Information on the movements in allowances for their impairment in the reporting period, (kRUB)**

Allowance balance at 31 December 2017	Movements in allowance over the reporting period		Allowance balance at 31 December 2018
	Accrued (accrued additionally), +	Reversed (adjusted), -	
50,706	19,142	(32,203)	37,645

## 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 of the last day of the quarter (last day of the reporting year). As of 31 December 2018, the allowance for impairment of financial investments amounted to RUB 48,629 million.

The valuation of financial investments whose market value can be determined is adjusted to the current market value on a quarterly basis. Long-term shares and short-term bonds include investments whose market value can be determined. The difference between current market value at the reporting date and previous assessment of financial investments whose market value can be determined as of 31 December 2018 is RUB 521 million (profit). The amount of adjustment was taken to the financial result and recorded as other income.

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 PJSC 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.

Where it is impossible to determine the cost of assets transferred or transferable by the organization, financial investments received by the organization under agreements providing for non-monetary compensation (settlement) is based on the price at which the organization normally purchases similar assets under comparable circumstances.

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 debt related to financial investments is reclassified to long-term debt in cases when the payment terms envisaged by the agreement are revised and increased to exceed 365 days after the reporting date.

Long-term debt related to financial investments is reclassified to short-term debt 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 17. Information on financial investments, (kRUB)**

Financial investments by type	At 31 December 2018	At 31 December 2017	At 31 December 2016
Total	7,260,408,278	6,731,832,453	6,391,313,951
Long-term investments - total	6,159,574,705	6,003,776,788	5,492,046,642
Units and shares (interest), including:	3,946,983,553	3,662,042,158	3,033,910,399
Shares (interest) of subsidiaries and associates	3,942,196,509	3,657,753,129	3,029,208,915
Long-term loans issued	1,954,261,188	1,712,770,543	1,836,738,528
Other long-term financial investments	258,329,964	628,964,087	621,397,715
Short-term investments - total	1,100,833,573	728,055,665	899,267,309
Short-term loans issued	655,165,832	572,777,685	575,449,953
Deposits	216,368,210	37,440,130	47,459,830
Promissory notes and bonds received	130,282,140	64,444,958	79,413,940
Accounts receivable acquired under the assignment agreements	456	1,056	27,557
Other short-term financial investments	99,016,935	53,391,836	196,916,029

The change in the value of long-term financial investments for 2018 from RUB 6,003,777 million to RUB 6,159,575 million was mainly due to the increase in interests and investments in share capitals of subsidiaries in the amount of RUB 284,443 million, including in the course of establishing an asset management sub-holding; the increase in loans issued in the amount of RUB 241,491 million, including due to issue and debt revaluation; the decrease in other financial investment in the amount of RUB 370,634 million, including due to withdrawal of long-term deposits.

When calculating the value of interests and investments of sub-holdings by adding up interests and shares of other subsidiaries, the value is based on the price at which the entity normally purchases similar assets under comparable circumstances. The market value of the transferred interests and shares calculated by an independent appraiser is deemed the indicator of such value. The difference between carrying amount and market value of transferred interests and shares is taken to other income (expenses).

The following investments increased during 2018

in LLC RN Exploration by RUB 90,396 million; in LLC RN-Kommerciya by RUB 77,516 million; in LLC RN-Razvedka i dobycha by RUB 57,399 million; in LLC RN-Inostranniy proekty by RUB 43,886 million; in LLC RN-Aktiv by RUB 7,557 million; in LLC RN-Gaz by RUB 5,859 million.

The change in short-term financial investments amount in 2018 from RUB 728,056 million to RUB 1,100,834 million was mainly due to placement and reclassification of short-term deposits, granting and reclassification of short-term loans, purchase and revaluation of short-term promissory notes and bonds, and increase of other short-term investments, including 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 of 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 18. Information on the deals with derivative financial instruments**

Financial instrument	Period		Nominal amount at 31 December 2018		Interest rate type	Fair value of a liability at 31 December (kRUB)	
	Issue	Repayment	USD, million	RUB, million <sup>1</sup>		2018	2017
Swaps	2013	2018	-	-	Floating	-	51,966,086
Swaps	2014	2019	1,010	70,165	Floating	33,058,044	22,107,217
<b>TOTAL</b>			<b>1,010</b>	<b>70,165</b>		<b>33,058,044</b>	<b>073,303</b>

In 2018, the Company completed transactions with derivative financial instruments entered into in 2013 in the nominal amount of USD 2,138 million (RUB 148,528 million at the CBR official exchange rate as of 31 December 2018).

<sup>1</sup> equivalent of the nominal amount at the CBR official exchange rate as of 31 December 2018.

## 13. INFORMATION ON HEDGING TRANSACTIONS

### Hedging of currency risk related to cash flows from future proceeds in foreign currency

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 currency risk related to cash flows from future proceeds in foreign currency 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 projected 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 strategy for managing foreign currency risk related to cash flows from future proceeds in foreign currency, 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 2018, there were no designated hedging instruments.

**Table 19. Information on amounts recognized in other funds and reserves on hedging transactions, (kRUB)**

Indicator	2018	2017	2016
<b>Recognized in other funds and reserves at the beginning of the year</b>	<b>(231,748,689)</b>	<b>(348,012,103)</b>	<b>(471,888,054)</b>
Foreign exchange difference on cash flow hedges before tax	333,196	(317,589)	7,751,412
Reclassified to profit or loss	145,524,439	145,646,857	147,093,527
The difference between the accounting profit (loss) and the taxable profit (loss) resulted from recognitions of hedging transactions.	(29,171,527)	(29,065,854)	(30,968,988)
<b>Recognized in other funds and reserves at the end of the year</b>	<b>(115,062,581)</b>	<b>(231,748,689)</b>	<b>(348,012,103)</b>

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 2018 is presented below:

**Table 20. Forecast of reclassification of revaluation amounted into profit or loss, (RUB, million)**

Year	2019	2020	2021	Total
Reclassifications	145,565	(1,900)	163	143,828
Income tax	(29,113)	380	(33)	(28,766)
<b>TOTAL NET OF INCOME TAX</b>	<b>116,452</b>	<b>(1,520)</b>	<b>130</b>	<b>115,062</b>

## 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 21. Information on cash and cash equivalents, (kRUB)**

Cash	At 31 December 2018	At 31 December 2017	At 31 December 2016
Cash	504,118,733	115,167,670	106,388,455
including restricted cash	3,366,005	8,269,529	10,475
Deposits with the maturity period not exceeding 91 days and other cash equivalents	94,422,491	1,470,990	477,835,005

## 15. ACCOUNTS RECEIVABLE AND ACCOUNTS PAYABLE

Accounts receivable and accounts payable are accounted for and recorded in financial statements in accordance with the respective 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 PJSC 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.

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.

\* Recognized in line 2466 of the income statement.

**Table 22. Information on accounts receivable, (kRUB)**

Accounts receivable by type	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Accounts receivable - total</b>	<b>2,653,803,215</b>	<b>2,531,306,562</b>	<b>1,523,299,152</b>
<b>Long-term accounts receivable</b>	<b>1,648,785,448</b>	<b>1,411,377,288</b>	<b>716,707,241</b>
Including: Buyers and customers	53,330	89,808	109,262
Advances paid	592,718	443,736	398,706
Other debtors, including	1,648,139,400	1,410,843,744	716,199,273
Loans issued to the companies within PJSC Rosneft Oil Company Group	1,330,769,489	1,164,327,102	488,106,822
Interest on long-term loans, promissory notes	288,968,440	226,058,312	209,946,805
<b>Short-term accounts receivable</b>	<b>1,005,017,767</b>	<b>1,119,929,274</b>	<b>806,591,911</b>
Including: Buyers and customers	490,499,629	548,535,766	329,312,013
Advances paid	37,565,998	38,208,836	36,203,998
Other debtors, including	476,952,140	533,184,672	441,075,900
Due from the budget and state non-budgetary funds	96,014,921	53,345,166	64,394,983
Loans and promissory notes issued to the companies within PJSC Rosneft Oil Company Group	109,168,244	139,691,819	60,493,379
Interest (discount) on deposits, loans, promissory notes	126,541,234	194,144,515	80,044,209
Settlements under commission agreements, other accounts receivable	80,463,919	79,157,929	85,276,864

As of 31 December 2017, the Company's accounts receivable amounted to RUB 2,531,307 million, including provision for doubtful debt in the amount of RUB 21,375 million. In 2018, accounts receivable increased by RUB 122,496 million and amounted to RUB 2,653,803 million as of 31 December 2018, including the provision for doubtful debt in the amount of RUB 30,518 million. The accounts receivable increased primarily due to the non-interest bearing long-term loans issued to the companies within Rosneft Oil Company Group, participants of the consolidated taxpayer group.

**Table 23. Information on accounts payable, (kRUB)**

Accounts payable by type	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Accounts payable</b>	<b>2,333,146,921</b>	<b>1,785,522,679</b>	<b>1,753,787,381</b>
Suppliers and contractors	1,526,096,089	1,120,734,835	1,064,165,761
Payables to the Company's employees	35,661	34,690	12,612
Payables to the budget and non-budgetary funds	72,371,917	71,118,709	52,200,917
Advances received	394,999,901	306,953,478	316,474,647
Settlements under commission agreements, other accounts payable	339,643,353	286,680,967	320,933,444

In 2018, accounts payable increased as compared to those at 31 December 2017 by RUB 547,624 million and as of 31 December 2018 amounted to RUB 2,333,147 million. 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 payables 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 2018, the Company raised loans from Russian banks at floating and fixed rates to replenish working capital. Loans were repaid under relevant agreement 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 143 million.

Total interest of RUB 86,535 million was accrued on the Company's loans for the reporting period. Interest payable increased by RUB 7,725 million year-on-year.

Interest capitalized in the cost of investment assets created (acquired) was RUB 17,458 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 17,263 million.



**Table 24. Information on long-term and short-term loans and borrowings, (kRUB)**

Loans and borrowings, by type	Balance at 31 December 2017	Change over the reporting period			Balance at 31 December 2018
		Received (accrued)	Repaid (paid)	Reclassified	
<b>Long-term loans and borrowings</b>	<b>5,083,998,328</b>	<b>1,743,219,910</b>	<b>(1,008,129,067)</b>	<b>(26,347,424)</b>	<b>5,792,741,747</b>
including					
Long-term loans	1,035,641,655	286,683,318	-	(78,543,805)	1,243,781,168
Long-term borrowings	1,173,409,127	1,354,033,998	999,537,601	78,071,520	1,605,977,044
Long-term interest accrued under loan and borrowing agreements	88,634,719	32,201,481	(8,376, 566)	(20,854,194)	91,605,440
Long-term promissory notes issued	3,567,226	-	(214,900)	(333,904)	3,018,422
Long-term interest accrued on promissory notes	1,745,601	301,113	-	(298,009)	1,748,705
Long-term bonds issued	2,781,000,000	70,000,000	-	(4,389,032)	2,846,610,968
<b>Short-term loans and borrowings</b>	<b>860,270,860</b>	<b>2,390,776,535</b>	<b>(2,459,459,763)</b>	<b>26,347,424</b>	<b>817,935,056</b>
including					
Short-term loans	234,500,000	860,803,620	(770,903,620)	-	324,400,000
Short-term borrowings	290,611,827	1,170,974,094	(1,147,546,010)	(78,071,520)	235,968,391
Current portion of long-term loans and borrowings	118,609,340	16,479,284	(127,239,911)	78,543,805	86,392,518
Current portion of long-term interest accrued under loan and borrowing agreements	956,329	74,864,185	(74,636,845)	-	1,183,669
Short-term interest accrued under loan and borrowing agreements	73,046,148	34,204,005	(37,047,963)	20,854,194	91,056,384
Short-term bonds issued	110,000,000	-	(69,152,213)	4,389,032	45,236,819
Interest accrued on bonds issued (coupon income)	32,547,216	233,444,975	(232,933,201)	-	33,058,990
Short-term promissory notes issued	-	-	-	333,904	333,904
Long-term interest accrued on promissory notes	-	6,372	-	298,009	304,381

Information on RUB-denominated interest-bearing non-convertible bearer bonds issued as of 31 December is provided below:

**Table 25. 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	
					2018	2017
Bonds	04, 05	October 2012	20,000	7.9%	20,000	20,000
Bonds	07, 08	March 2013	30,000	7.3%	30,000	30,000
Bonds	06 <sup>2</sup> , 09 <sup>1</sup> , 10 <sup>2</sup>	June 2013	40,000	7.0%	611	40,000
Exchange-traded bonds	BO-05 <sup>2</sup> , BO-06 <sup>2</sup>	December 2013	40,000	8.5% <sup>1</sup>	10,237	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%	225,000	225,000
Exchange-traded bonds	BO-15, BO-16, BO-17, BO-24	December 2014	400,000	7.85%	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	7.6% <sup>1</sup>	400,000	400,000
Exchange-traded bonds	001R-01	December 2016	600,000	7.6% <sup>1</sup>	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	40,000
Exchange-traded bonds	001R-05	May 2017	15,000	8.6%	15,000	15,000
Exchange-traded bonds	001R-06	July 2017	90,000	8.5%	90,000	90,000
Exchange-traded bonds	001R-07	July 2017	176,000	8.5%	176,000	176,000
Exchange-traded bonds	001R-08	October 2017	100,000	7.6% <sup>1</sup>	100,000	100,000
Exchange-traded bonds	002R-01	December 2017	300,000	7.6% <sup>1</sup>	300,000	300,000
Exchange-traded bonds	002R-02	December 2017	300,000	7.6% <sup>1</sup>	300,000	300,000
Exchange-traded bonds	002R-03	December 2017	30,000	7.75%	30,000	30,000
Exchange-traded bonds	002R-04	February 2018	50,000	7.5%	50,000	-
Exchange-traded bonds	002R-05	March 2018	20,000	7.3%	20,000	-
<b>TOTAL LONG-TERM RUB-DENOMINATED BONDS</b>					<b>2,891,848</b>	<b>2,891,000</b>

All these bond series have maturity of six, eight or ten years.

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 2018.

The repayment schedule of long-term promissory notes issued as of 31 December 2018 is as follows:

<sup>1</sup> For the coupon period valid as of 31 December 2018

<sup>2</sup> Part of the issue was repurchased by the issuer as of 31 December 2018

**Table 26. The repayment schedule of long-term promissory notes issued as of 31 December 2018, (RUB, million)**

2019	-
2020	1,098
2021	1,098
2022	822
2023 and after	-
<b>TOTAL LONG-TERM AMOUNT PAYABLE</b>	<b>3,018</b>

The repayment schedule of long-term loans and borrowings, and bonds issued as of 31 December 2018 is as follows:

**Table 27. The repayment schedule of long-term loans and borrowings, and bonds issued as of 31 December 2018, (RUB, million)**

2019	86,392
2020	936,887
2021	975,267
2022	437,008
2023 and after	3,392,445
<b>TOTAL LONG-TERM AMOUNT PAYABLE</b>	<b>5,827,999</b>

**Table 28. 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	
20,000	10,000	No

Loans are partially secured by crude oil export contracts.

As of 31 December 2018, guarantees and sureties issued by the Company totaled RUB 63,059 million and included collateral provided in foreign currency in the amount of USD 436 million and EUR 24 million at the CBR exchange rate ruling at the transaction date. Items pledged as collateral were as follows:

**Table 29. Information on items pledged as collateral by type of pledge**

Items pledged as collateral	Share in the total collateral amount, %
Revenue from sales of oil and oil products	37.80
Sureties	62.20

In the course of operating activities, Rosneft Oil Company follows the unconditional, unlimited and indefinite guarantee (surety) provided in 2013 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 ASA.

The cooperation between Rosneft Oil Company, Eni S.p.A, Equinor ASA (until June 2018 – Statoil ASA) and ExxonMobil Oil Corporation related to the projects on the Russian continental shelf is governed by mutual guarantees that are unlimited, unconditional and indefinite provided in 2013 and 2014.

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.

The cooperation between Rosneft Oil Company and Equinor ASA (until July 2018 – Statoil ASA) to develop tight oil and gas reserves in the fourth quarter of 2015 is governed by mutual guarantees to ensure execution of liabilities by their associates. The guarantees are unlimited, unconditional and indefinite.

**Table 30. Information on other long-term liabilities, (kRUB)**

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
<b>Other long-term liabilities, including:</b>	<b>1,419,426,029</b>	<b>75,104,404</b>	<b>360,140,014</b>	<b>1,134,390,419</b>
Long-term prepayment under crude oil and oil product supply contracts	1,418,250,120	-	(359,729,442)	1,058,520,678

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 2018, offset of prepayments under these contracts amounted to RUB 266 billion (USD 6.76 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 2018, liabilities totaling RUB 765.3 million 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 31. Information on changes in RUB/USD exchange rates**

At 31 December	Exchange rate
2018	69.47
2017	57.60
2016	60.66
2015	72.88
2014	56.26

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 97,724 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 5.9 million and foreign exchange losses of RUB 4.6 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 separately on a net basis in the income statement; financial result is recorded either in other income or other expenses depending on the balance of income (expenses) for each such transaction.

**Table 32. Income and expenses from dealing in foreign currency, (kRUB)**

Income and expenses	For the 2018 reporting year	For the 2017 reporting year
Income	14,849,072	6,839,523
Expenses	(64,297,345)	(22,268,125)

## 18. TAXES AND LEVIES, CUSTOMS DUTIES

The Company's tax liabilities are recorded in accounting using the periodicity convention.

In 2018, statutory rates of the main taxes were as follows:

- Income tax – 20%
- Value added tax – 18%

Since 1 January 2012, Rosneft Oil Company and its 21 subsidiaries were united in a consolidated taxpayer group. Rosneft Oil Company was appointed responsible participant of the consolidated taxpayer group.

Currently, in accordance with the provisions of the agreement, the number of participants of the consolidated taxpayer group increased to 64 entities.

The mineral extraction tax to be included in the cost of products, goods, work and services sold amounted to RUB 921,936 million in 2018; RUB 592,501 million in 2017.

In 2018, the accrued export duty amounted to RUB 993,501 million; in 2017: RUB 589,471 million.

Settlements with the budget and non-budgetary funds are presented in the table below:

**Table 33. Settlements with the budget and state non-budgetary funds, (kRUB)**

	At 31 December 2018	At 31 December 2017	At 31 December 2016
<b>Receivables from the budget and state non-budgetary funds – total</b>	<b>96,014,921</b>	<b>53,345,166</b>	<b>64,394,983</b>
Value added tax (VAT)	91,483,038	50,870,082	57,558,838
Income tax	4,433,051	-	4,674,516
Other taxes and levies receivable	78,556	2,440,020	2,125,224
Receivables from state non-budgetary funds	20,276	35,064	36,405
<b>Payables to the budget and state non-budgetary funds – total</b>	<b>72,371,917</b>	<b>71,118,709</b>	<b>52,200,917</b>
Mineral extraction tax	65,315,239	64,819,580	44,438,484
Income tax	-	206,319	121,336
Excise tax	4,115,943	2,860,598	5,325,782
Property tax	2,826,990	3,075,984	2,183,230
Other taxes and levies payable	112,463	155,013	131,122
Payable to state non-budgetary funds	1,282	1,215	963

Taxes and levies receivable increased by RUB 42,670 million from 31 December 2017 primarily due to an increase in the amount of VAT recoverable from the budget as of the end of the fourth quarter of 2018 year on year. In addition, income tax receivable increased by RUB 4,433 million since in November and December 2018, the consolidated tax base of the consolidated taxpayer group decreased resulting in a corresponding decrease of the amount of its income tax earlier paid to the budget (November 2018: by RUB 1,925 million; December 2018: RUB 2,508 million).

Taxes and levies payable increased by RUB 1,253 million as compared to 31 December 2017 primarily due to increase in production of excisable products (excise duty).

As of 31 December 2018, 2017 and 2016, the Company did not have any overdue taxes and levies payable.

According to provisions of the Russian Tax Code, desk-top and field tax audits 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 determined in accordance with requirements of the tax legislation.

## 19. EQUITY

### Share capital

As of 31 December 2018, 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 2018, the reserve capital is fully formed and amounts to RUB 5,299 million.

As of 31 December 2018, the Company's additional capital (without revaluation) amounts to RUB 113,279.9 million [31 December 2017: RUB 113,278.5 million].

### Treasury shares

According to the Program for purchasing shares on an open market, including those in the form of global depository receipts certifying title to these shares, approved by the Board of Directors in August 2018 (hereinafter, the "Program"), the ordinary shares of Rosneft Oil Company can be purchased for no more than USD 2 billion. The Program will be implemented from the date of the approval by the Board of Directors until 31 December 2020.

The maximum amount of the shares and global depository receipts that can be purchased under the Program is 340,000,000 units. The Program is aimed at securing high return for the shareholders in case of significant market volatility.

In 2018, there were no transactions to purchase treasury shares.

### Net assets

As of 31 December 2018, the Company's net assets amount to RUB 2,026 470 million. The net assets increased by RUB 342,095 million or 20.3% as compared to the prior balance sheet date (RUB 1,684,375 million). As of 31 December 2018, the Company's net assets exceed its share capital by RUB 2,026,364 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 reflection of business events, if necessary, the Company uses the accrual method 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 incomplete 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 goods) 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 2018, retained earning of prior years amounted to RUB 1,721,879 million. As of 31 December 2017, this amount was RUB 1,802,734 million.

Changes in the profit of prior years resulted mainly from:

- accrued dividends in the amount of RUB 70,478 million;
- changes in the accrual of provisions (disclosed in Section 3 «Changes in opening balances in the financial statements for the 2018 reporting year») in the amount of RUB 10,459 million.

The following income and expenses affected the retained earnings for the reporting year:

**Table 34. Company's income and expenses, (kRUB)**

Indicator	For the 2018 reporting year	For the 2017 reporting year
<b>Revenue (net) from the sale of goods, work, services (net of value added tax)</b>	<b>6,968,248,044</b>	<b>4,892,934,388</b>
Including: sales related to principal activities	4,721,264,040	3,387,455,369
Trading and procurement	1,866,340,138	1,158,898,792
Gains from shareholding in other entities	375,223,648	341,657,551
Intermediation	5,420,218	4,922,676
<b>Cost of the goods, products, work and services sold</b>	<b>(4,815,224,782)</b>	<b>(3,459,587,329)</b>
Including: principal activities	(3,364,749,974)	(2,552,733,441)
Trading and procurement	(1,450,474,808)	(906,853,888)
<b>Oil and gas reserves exploration and estimation expenses</b>	<b>(24,065,226)</b>	<b>(14,149,489)</b>
<b>Gross income</b>	<b>2,128,958,036</b>	<b>1,419,197,570</b>
<b>Selling expenses</b>	<b>(1,422,676,475)</b>	<b>(990,299,266)</b>
<b>General and administrative expenses</b>	<b>(80,583,478)</b>	<b>(68,941,225)</b>
<b>Income (loss) from the sale of goods, work, and services</b>	<b>625,698,083</b>	<b>359,957,079</b>
<b>Income (loss) from other income and expenses</b>	<b>(191,859,995)</b>	<b>(276,850,201)</b>
Including:		
Interest receivable	186,773,202	179,953,353
Interest payable	(451,851,788)	(396,184,404)
Including: Expenses on unwinding of the ARO asset discount	(4,122,532)	(3,709,919)
Gains from changes in the fair value of derivative financial instruments	51,966,086	23,560,680
Losses from changes in the fair value of derivative financial instruments	(10,950,827)	-
Gains from the sale and other disposal of other property	29,397,843	226,196,430
Including: Gains from the sale of short-term securities	-	154,096,834

Indicator	For the 2018 reporting year	For the 2017 reporting year
Gains from the sale of long-term securities	32,022	64,813,112
Gains from the sale of fixed assets	18,465,582	6,627,635
Gains from the sale of capital construction in progress	10,116,640	391,765
Losses from the sale and other disposal of other property	(30,025,792)	(175,050,494)
Including: Cost of disposed short-term securities	-	(160,265,787)
Losses from the sale of long-term securities	(6,635)	(5,787,808)
Losses from the sale of fixed assets	(17,413,277)	(3,504,214)
Losses from the sale of capital construction in progress	(9,669,663)	(428,375)
Other income	298,930,179	103,191,012
Including: Difference between the carrying value, financial investments of shares (interests) as a contribution to the share capital and their market value	145,759,461	70,256,042
Translation differences	97,724,202	-
Refund of the excise duty	6,786,182	6,671,740
Other expenses	(266,098,898)	(238,516,778)
Including: Recognition of the deferred effect of hedging as other expenses	(145,524,439)	(145,646,857)
Translation differences	-	(15,900,578)
Tax on income in the form of dividends	(5,384,349)	(704,282)

**Table 35. Allocation of the Company's expenses recognized in the income statement by type, (kRUB)**

Indicator	For the 2018 reporting year	For the 2017 reporting year
Material costs	5,186,702,859	3,720,656,091
Payroll	39,822,391	32,609,834
Social charges	6,477,812	6,308,733
Depreciation and amortization	131,827,944	141,504,417
Other expenses, including MET and oil and gas reserves exploration and estimation expenses	977,718,955	631,898,234
<b>TOTAL BY TYPE OF EXPENSES</b>	<b>6,342,549,961</b>	<b>4,532,977,309</b>
Changes in balances (increase [-], decrease [+]) of work in progress, finished goods, etc.	29,410,920	16,640,282
<b>TOTAL EXPENSES RELATED TO ORDINARY ACTIVITIES</b>	<b>6,342,549,961</b>	<b>4,532,977,309</b>

## 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 debt 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 36. Deferred and permanent tax assets and liabilities, (kRUB)**

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	95,062,970	52,330,419	(52,551,496)	94,841,893
Deferred tax liability	(91,105,397)	(12,055,007)	11,351,892	(91,808,512)
Permanent tax asset	x	128,128,492	x	x
Permanent tax liability	x	(46,622,923)	x	x

In 2018, contingent income tax expense amounted to RUB 86,768 million, and in 2017 - to RUB 16,621 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 37. Permanent and temporary differences that led to the adjustment of the contingent income tax expense, (kRUB)**

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	475,314,850	261,652,095	(262,757,480)	474,209,465
Taxable temporary differences	(455,526,985)	(60,275,035)	56,759,460	(459,042,560)
Negative permanent differences	x	640,642,460	x	x
Positive permanent differences	x	(233,114,615)	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 2018, the Company's net income amounted to RUB 460,784 million, and net earnings per share amounted to RUB 43.48.

In the first half of 2019, the Board of Directors will provide recommendations on the amount of dividends on the Company's shares for 2018.

Based on the Company's result for 2017, the annual general shareholders' meeting that took place on 21 June 2018 (meeting minutes w/o number of 26 June 2018) approved dividends on Rosneft Oil Company's ordinary shares in the amount of RUB 70,478 million or RUB 6.65 per share. As of 31 December 2018, the Company paid dividends in the amount of RUB 70,461 million. Dividends were paid to all of the issuer's registered shareholders except for shareholders 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 2018, the extraordinary general shareholders' meeting that took place on 28 September 2018 (meeting minutes w/o number of 3 October 2018) approved interim dividends on Rosneft Oil Company's ordinary shares in the amount of RUB 154,521 million or RUB 14.58 per share.

As of 31 December 2018, the Company paid dividends in the amount of RUB 154,485 million. Dividends were paid to all of the issuer's registered shareholders except for shareholders 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 2018 that have had or may have an effect on the financial position, cash flows or operating results of the Company.

## 24. CONTINGENCIES. PROVISIONS

### Contingent assets and liabilities

The Company is involved in litigations, which arise from time to time in the course of its business activities. Management of the Company believes that the ultimate result of those litigations will not materially affect the performance or financial position of Rosneft Oil Company.

### 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.

The information about the Company's provisions is presented in the table below.

Table 38. Information on fixed assets, (kRUB)

Description	Provision	Period	Balance at the beginning of the period	Recognized (accrued) for the reporting period	(repaid) against costs or accounts payable recognized	Written off as excessive or as recognition criteria are no longer met	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
<b>Provisions generated from expenses on regular activities - total, including types of provisions:</b>								
<b>Total</b>		<b>2018</b>	<b>22,648,964</b>	<b>17,403,103</b>	<b>(16,875,356)</b>	<b>(607,167)</b>	<b>(393,273)</b>	<b>22,176,271</b>
		<b>2017</b>	<b>25,970,538</b>	<b>17,060,149</b>	<b>(18,574,650)</b>	<b>(1,014,352)</b>	<b>(792,721)</b>	<b>22,648,964</b>
Provision for annual year-end bonuses	Planned amount of annual year-end bonuses to employees, with insurance contributions at the effective interest rate	2018	9,835,675	13,796,537	(13,037,760)	-	-	10,594,452
		2017	12,994,683	12,192,238	(15,351,246)	-	-	9,835,675
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	2018	3,412,562	2,427,965	(3,018,728)	(139)	-	2,821,660
		2017	2,911,004	2,865,383	(2,363,825)	-	-	3,412,562
Environmental provisions	Formed on all environmental obligations The estimation is made by place of occurrence. Recognized at present value.	2018	8,697,515	341,562	(460,694)	-	(393,273)	8,185,110
		2017	9,328,745	956,408	(794,917)	-	(792,721)	8,697,515
Provisions for legal claims	Provisions are recognized separately for each legal claim	2018	703,212	837,039	(358,174)	(607,028)	-	575,049
		2017	736,106	1,046,120	(64,662)	(1,014,352)	-	703,212
<b>Provisions formed from the increased cost of assets:</b>								
<b>Total</b>		<b>2018</b>	<b>58,434,030</b>	<b>5,975,705</b>	<b>(1,555,852)</b>	<b>(11,148)</b>	<b>(9,091,747)</b>	<b>53,750,988</b>
		<b>2017</b>	<b>47,376,046</b>	<b>5,744,026</b>	<b>(1,447,847)</b>	<b>-</b>	<b>6,761,805</b>	<b>58,434,030</b>
Provision for fixed asset liquidation	Formed on all immovable oil and gas assets The estimation is made by field. Recognized at present value.	2018	56,750,608	4,752,086	(1,168,407)	(11,148)	(8,228,499)	52,094,640
		2017	45,916,121	4,730,658	(640,317)	-	6,744,146	56,750,608
Environmental provisions	Obligations to be included in the value of assets (08*)	2018	1,683,422	1,223,619	(387,445)	-	(863,248)	1,656,348
		2017	1,459,925	1,013,368	(807,530)	-	17,659	1,683,422

The provision for fixed asset liquidation presented in the column Recognized (accrued) for the reporting period in Table 38 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 38.

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 38 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 by group of related parties (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 39. Transactions with subsidiaries, (kRUB)

Transactions	For the 2018 reporting year	For the 2017 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Oil and gas sales	1,054,417,117	760,172,013
Petroleum products and petrochemicals sales	1,527,326,855	1,092,930,743
Income from leasing out property	150,594,846	143,720,209
Gains from shareholding in other entities	159,247,612	341,029,692
Other income	187,852,911	85,329,878
	<b>3,079,439,341</b>	<b>2,423,182,535</b>
<b>COSTS AND EXPENSES</b>		
Oil and gas purchases	2,322,042,045	1,509,261,388
Petroleum products and petrochemicals purchases	4,920,810	15,291,335
Logistics and transportation	159,564,621	147,507,998
Oil and gas production services	342,257,716	331,384,565
Cost of processing	157,157,311	146,262,604
Leases of assets	510,392	357,750
Other expenses	73,466,823	61,666,346
	<b>3,059,919,718</b>	<b>2,211,731,986</b>
<b>OTHER TRANSACTIONS</b>		
Loans and borrowings issued	1,975,502,995	2,148,009,714
Repayment of loans and borrowings issued	1,737,331,936	1,469,797,056
Proceeds from short-term loans and borrowings	1,180,046,505	991,723,907
Repayment of short-term loans and borrowings	1,165,256,127	926,096,097
Proceeds from long-term loans and borrowings	1,176,457,487	881,711,168
Repayment of long-term loans and borrowings	992,263,560	929,811,806
Deposits placed	374,798,640	266,000,000
Deposits repaid	352,850,000	266,000,000
Interest receivable	159,618,232	151,626,578
Interest payable	45,983,108	44,921,811
<b>CASH FLOWS</b>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Proceeds from</b>		
Sale of products, goods, work and services	2,526,310,943	1,767,440,519
Lease payments, license payments, royalties, commissions and other similar payments	151,213,150	144,223,477
<b>Payments for/to</b>		
Suppliers (contractors) for raw materials, work and services	(2,810,471,452)	(2,297,638,093)
Exploration costs	(14,607,056)	(10,047,131)
Other payments	(104,939,017)	(11,811,808)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Proceeds from</b>		
Sale of non-current assets (except for financial investments)	18,527,152	4,920,023
Repayment of loans, receivables from other parties, etc.	1,737,647,384	1,470,040,394
Dividends, interest on debt financial investments and similar proceeds from equity participation in other entities	355,312,656	451,887,635
<b>Payments for/to</b>		
Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	(184,480,474)	(178,629,295)
Purchase of shares (interest) in other entities	(148,272,795)	(567,948,332)
Provision of loans to other parties	(1,975,502,995)	(2,148,009,714)
Exploration assets	(14,552,151)	(12,348,170)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Proceeds from</b>		
Loans and borrowings received	2,356,503,992	1,873,435,075
<b>Payments</b>		
Repayment of loans and borrowings, repayment (redemption) of promissory notes, etc.	(2,232,786,629)	(1,855,907,903)

Table 40. Assets and liabilities under transactions with subsidiaries, (kRUB)

Assets and liabilities	Balance at 31 December 2018	Balance at 31 December 2017
<b>ASSETS</b>		
Cash and cash equivalents	59,038,002	32,971,089
Accounts receivable, including	2,085,545,419	1,947,862,230
• Long-term accounts receivable	1,610,680,068	1,386,531,255
• Advances issued for capital construction and equipment for installation	14,910,443	16,082,146
• Short-term advances issued	7,568,489	4,300,545
• Provision for doubtful debts	2,999,318	3,417,386
Short-term and long-term financial investments	6,489,566,357	5,874,063,137
Including long-term	5,836,049,136	5,326,357,829
	<b>8,634,149,778</b>	<b>7,854,896,456</b>
<b>LIABILITIES</b>		
Accounts payable	1,560,159,472	1,209,818,719
Short-term and long-term loans and borrowings (including interest)	1,869,749,149	1,365,776,209
Including long-term	1,542,979,725	1,009,578,842
	<b>3,429,908,621</b>	<b>2,575,594,928</b>

## 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 41. Transactions with associates, (kRUB)

Transactions	For the 2018 reporting year	For the 2017 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Oil and gas sales	9,895,428	10,547,768
Petroleum products and petrochemicals sales	256,901,420	187,063,415
Income from leasing out property	267,982	141,380
Gains from shareholding in other entities	6,385	483,784
Other income	874,885	1,587,431
	<b>267,946,100</b>	<b>199,823,778</b>
<b>COSTS AND EXPENSES</b>		
Oil and gas purchases	370,758,918	259,006,657
Logistics and transportation	21,706,524	21,982,242
Leases of assets	227,202	221,105
Cost of processing	14,357,449	12,297,570
Other expenses	9,014,113	7,638,059
	<b>416,064,206</b>	<b>301,145,633</b>
<b>OTHER TRANSACTIONS</b>		
Loans and borrowings issued	3,806,525	5,475,724
Repayment of loans and borrowings issued	1,476,200	265,185
Proceeds from short-term loans and borrowings	13,570	3,800
Repayment of short-term loans and borrowings	64,830	34,580
Proceeds from long-term loans and borrowings	9,773,280	10,266,044
Repayment of long-term loans and borrowings	5,794,060	12,645,314
Interest receivable	2,141,534	2,193,041
Interest payable	1,114,412	5,287,894
<b>CASH FLOWS</b>		
<b>Cash flows from operating activities</b>		
<b>Proceeds</b>		
Other proceeds	294,284,172	204,963,702

**Table 42. Assets and liabilities under transactions with associates, (kRUB)**

Assets and liabilities	Balance at 31 December 2018	Balance at 31 December 2017
<b>ASSETS</b>		
Accounts receivable, including	33,863,180	37,783,751
• Long-term accounts receivable	4,148,305	1,957,642
• Advances issued for capital construction and equipment for installation	4,979	1,778,291
• Short-term advances issued	1,470,657	8,644,636
• Provision for doubtful debts	9,473,083	4,495,047
Short-term and long-term financial investments	48,984,585	56,150,901
Including long-term	47,338,161	41,080,830
	<b>82,847,765</b>	<b>93,934,652</b>
<b>LIABILITIES</b>		
Accounts payable	317,267,080	157,999,510
Short-term and long-term loans and borrowings (including interest)	15,405,438	110,948,027
Including long-term	15,394,669	105,770,671
	<b>332,672,518</b>	<b>268,947,537</b>

### 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 2018 and 2017, short-term compensation to members of the Management Board taking in account the rotation of the management staff, including salary, bonuses and compensatory payments, and considering personal income tax amounted to RUB 3,854 million and RUB 3,927 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 567 million and RUB 579 million, respectively). The amount of short-term compensation to members of the Management Board and members of the Board of Directors for 2018 is disclosed in accordance with the Russian legal requirements for disclosure of information by issuers of securities.

### Principal owners and entities controlled by principal owners

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 entities controlled by principal owners, including state-related entities.

**Table 43. Information on transactions with principal owners and entities controlled by principal owners, (kRUB)**

Transactions	For the 2018 reporting year	For the 2017 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Oil and gas sales	280,452,006	200,761,921
Petroleum products and petrochemicals sales	108,595,740	80,460,092
Gains on transactions involving term transaction financial instruments	402,203	484,776
Gains from shareholding in other entities	135,628	143,845
Other income	1,323,127	1,113,755
	<b>390,908,704</b>	<b>282,964,389</b>
<b>COSTS AND EXPENSES</b>		
Oil and gas purchases	139,160,281	87,781,422
Oil products purchases	2,910,840	3,418,660
Logistics and transportation	360,400,484	337,710,503
Customs duties	973,983,183	577,765,600
Leases of assets	122,474	601,252
Losses from transactions involving term transaction financial instruments	35,677,914	11,173,372
Other expenses	3,222,426	1,846,804
	<b>1,515,477,602</b>	<b>1,020,297,613</b>
<b>OTHER TRANSACTIONS</b>		
Proceeds from short-term loans and borrowings	374,600,000	430,950,000
Repayment of short-term loans and borrowings	319,600,000	393,450,000
Proceeds from long-term loans and borrowings	100,000,000	195,881,560
Deposits placed	4,304,803,257	2,211,925,386
Deposits repaid	4,669,493,457	2,220,704,740
Interest payable	38,047,139	27,931,120
Interest receivable	11,274,669	14,124,828
<b>CASH FLOWS</b>		
<b>Cash flows from operating activities</b>		
Payments for/to		
Interest on debt obligations	(37,467,323)	(27,872,268)
Other payments	(87,748,686)	(37,889,330)



Transactions	For the 2018 reporting year	For the 2017 reporting year
<b>Cash flows from investing activities</b>		
Proceeds from		
Sale of debt securities (receivables from other parties)	462,927,962	384,815,190
Other proceeds	49,897,794	20,261,178
<b>Cash flows from financing activities</b>		
Proceeds from		
Loans and borrowings received	474,600,000	626,831,560
Payments for/to		
Dividends and other distributions of income among shareholders (participants)	(193,330,982)	(89,723,808)
Repayment of loans and borrowings	(319,600,000)	(393,450,000)

**Table 44. Assets and liabilities under transactions with principal owners and entities controlled by principal owners, (kRUB)**

Assets and liabilities	Balance at 31 December 2018	Balance at 31 December 2017
<b>ASSETS</b>		
Cash and cash equivalents	475,694,965	18,511,957
Accounts receivable, including	97,499,791	80,572,803
• Long-term accounts receivable	5,132,184	876,315
• Advances issued for capital construction and equipment for installation	28,237,506	26,918,572
• Short-term advances issued	29,803,656	25,613,089
• Provision for doubtful debts	9,136	-
Short-term and long-term financial investments	165,693,636	484,574,214
Including long-term	96,324,663	474,574,214
	<b>738,888,392</b>	<b>583,658,974</b>
<b>LIABILITIES</b>		
Accounts payable	10,170,206	81,062,115
Short-term and long-term loans and borrowings (including interest)	605,153,497	436,507,994
Including long-term	408,917,660	295,860,220
	<b>615,323,703</b>	<b>517,570,109</b>

### Joint venture participants

There are no transactions with companies involved in joint activities with Rosneft Oil Company for the period of 2017-2018.

### Other related parties

Other related parties include a non-state pension fund operating in the interests of the Company's employees.

**Table 45. Information on transactions with other related parties, (kRUB)**

Transactions	For the 2018 reporting year	For the 2017 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Other income	345	331
	<b>345</b>	<b>331</b>
<b>COSTS AND EXPENSES</b>		
Expenses under non-state pension agreements	4,590,389	406,536
	<b>4,590,389</b>	<b>406,536</b>

**Table 46. Assets and liabilities under transactions with other related parties, (kRUB)**

Assets and liabilities	Balance at 31 December 2018	Balance at 31 December 2017
<b>LIABILITIES</b>		
Accounts payable	3,804,684	17
	<b>3,804,684</b>	<b>17</b>

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 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 47. Information on sales revenue by segment, (kRUB)**

Segment	Net revenue for the reporting year		
	Total	External market	Domestic market
Oil	3,584,321,705	2,944,466,386	639,855,319
Gas	178,249,590	-	178,249,590
Oil products and petrochemicals	2,670,741,304	1,399,195,332	1,271,545,972
Other sales	534,935,445	-	534,935,445
<b>TOTAL</b>	<b>6,968,248,044</b>	<b>4,343,661,718</b>	<b>2,624,586,326</b>

Oil includes sales of oil and gas condensate.

Gas includes sales of natural gas, APG, and DSG.

Oil products and petrochemicals include sales of oil and gas refinery products.

Other sales include the sales of other goods, public catering products, 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 2018 is given below.

**Table 48. Information on resources used, (kRUB)**

No.	Energy resource	Amount
1	Electric energy	33,805
2	Heat energy	4,704

### Risk management

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, higher cost of capital and increased uncertainty regarding economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects.

The Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

## 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

### Full Name:

Public Joint-Stock Company  
Rosneft Oil Company

### Abbreviated Name:

PJSC Rosneft Oil Company

### Location of the Company:

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### Post address:

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### GDR Depository:

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125047, Russia  
Telephone: +7 495 967-71-13

### London Office:

25 Bank Street, Canary Wharf, 17th Floor, London E14 5JP, UK  
Telephone: +44 207 134-55-18

### Website of the Company:

Russian Version: [www.rosneft.ru](http://www.rosneft.ru)  
English Version: [www.rosneft.com](http://www.rosneft.com)





