



ROSNEFT

FOR THE BENEFIT OF RUSSIA

ANNUAL REPORT
2016



Online version of the
Annual Report:
[https://www.rosneft.com/upload/site2/
document_file/a_report_2016_eng.pdf](https://www.rosneft.com/upload/site2/document_file/a_report_2016_eng.pdf)

The names "Rosneft" and "the Company" refer to either PJSC OC Rosneft or PJSC OC Rosneft and its subsidiaries and affiliates, depending on the context. The name "TNK-BP" refers to TNK-BP Group. The names "PJSOC Bashneft" and "Bashneft" refer to the group of companies of PJSOC Bashneft. This report contains forward-looking statements, which involve risks and uncertainty. Rosneft's actual operating results may differ materially from those presented in forward-looking statements due to the impact of various factors. Tons are converted into barrels using a conversion factor of 7.404, 1,000 cub. m of gas are converted into barrels of oil equivalent using an average conversion factor of 6.09. The volume of gas condensate produced by CJSC Rospan is converted into barrels of oil equivalent, using a conversion factor of 8.3.

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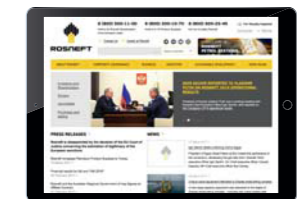
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ANNUAL REPORT CONTAINING INTEGRATED REPORTING ELEMENTS

Rosneft's Annual Report for 2016 contains elements of integrated reporting as defined in the International Integrated Reporting Standard published by the International Integrated Reporting Council (IIRC). It aims to present the Company's financial results and achievements in the area of sustainable development, highlight the existing relationships between the competitive environment, the Company's strategy and business model, its risk management structure and a clear corporate governance structure. Since 2012, Rosneft has been part of the IIRC pilot program intended to clearly define international standards of integrated reporting.

Visit our website: www.rosneft.com



The Annual Report was approved by the General Shareholders Meeting on June 22nd 2017 (unnumbered Minutes).

MESSAGE FROM THE CHAIRMAN OF ROSNEFT'S BOARD OF DIRECTORS



2016 will go down in the history of Rosneft as one of the most important and groundbreaking years. Despite the volatility of the hydrocarbon market, the Company's management exceeded the expectations of its shareholders in general and of the government as the controlling shareholder in particular. Rosneft became the most valuable company in Russia in terms of market capitalization, as its value increased by 60%. The Company successfully completed an integrated privatization deal, and, as a result, budget revenue exceeded RUB 1 trln, and the Company's shareholder structure was extended by two world class anchor investors. Moreover, the Board of Directors of Rosneft approved a strategic cooperation agreement with new shareholders providing for the development of joint projects

in the production, logistics and trading business and thus providing additional synergistic opportunities. In order to further increase the investment potential of Rosneft's shares, the Board of Directors approved the changes in the dividend policy according to which target dividend payouts will total not less than 35% of IFRS net income.

On instruction from the President of the Russian Federation Vladimir Putin, Rosneft is implementing a project in the Far East to build one of the most advanced dock yards in the world. In September 2016, in Bolshoy Kamen, an official ceremony took place marking the launch of the first stage of the Zvezda shipbuilding complex. The first stage includes a hull production workshop with spray booths and an outfitting slipway; construction works at

||

2016 WILL GO DOWN IN THE HISTORY OF ROSNEFT AS ONE OF THE MOST IMPORTANT AND GROUNDBREAKING YEARS. DESPITE THE VOLATILITY OF THE HYDROCARBON MARKET, THE COMPANY'S MANAGEMENT EXCEEDED THE EXPECTATIONS OF ITS SHAREHOLDERS IN GENERAL AND OF THE GOVERNMENT AS THE CONTROLLING SHAREHOLDER IN PARTICULAR.

the slipway are ahead of the approved schedule. The project has a major multiplicative effect; it stimulates development of related industries and is a key driver of the development of the region. In many respects, the new enterprise will outperform our main competitors in the world. Rosneft engaged in the project its partners from China, South Korea, the Netherlands, Germany, Italy, Singapore and Norway who have extensive experience in building dock yards. Moreover, the company announced the launch of the Eastern Mining and Metallurgical Company — a joint venture between Rosneft and the Ural Mining and Metallurgical Company (UMMC) that will be the anchor supplier of large-size steel sheets in order to meet the long-term requirements of the dock yard and the region.

Despite a decrease in the profitability of oil refining, Rosneft continues to modernize Russian refineries. In 2016, the total refinery throughput of the Company exceeded 100 mmt; the light product yield reached 56.6%, while the conversion rate increased to 72%. The Company increased its Euro 5 gasoline and diesel fuel production to 31.1 mmt, exceeding its level of 2015 by a factor of 1.6.

In 2016, Rosneft successfully implemented its strategy to engage the world's leading oil and gas companies in strategic partnerships in promising Russian projects. This strategy ensures effective hydrocarbon production and development and makes it possible to share geological and financial risks with partners. Moreover, as a result of the integrated approach of Rosneft, consuming countries are interested in receiving

guaranteed feedstock volumes, in the production of these volumes, their transportation and delivery to the end user. This approach minimizes the risks for participants and guarantees them their profit along the entire production chain.

A striking example of the successful implementation of the strategy is the engagement of Indian partners in the development of East Siberian fields. Rosneft swiftly implemented the project to create a unique international power hub on the basis of the Vankor field.

Indian state-owned companies engaged by Rosneft had a 49.9% stake in the project, while Rosneft retained a majority stake in the capital, the majority in the Board of Directors of JSC Vankorneft, control over the operating activity of the company and 100% control of common infrastructure.

In 2016, the Company strengthened its position on the global oil and gas market, including through effective M&A transactions.

For example, in the oil refining segment it finished the reorganization of the JV Ruhr Oel GmbH (ROG) in Germany. As a result, the Company gained direct control over more than 12% of refining capacities in Germany with the total refining volume of 12.5 mmt per year. Rosneft became the third largest company on the German oil and gas market and began to develop its own business in the country within a new subsidiary — Rosneft Deutschland.

Rosneft also expands its presence in attractive production projects outside

Russia. One of the key events for the Company was the agreement according to which the Company acquires from Eni up to 35% in the concession for the development of the Zohr field — the largest gas condensate field on the Egyptian shelf.

An effective strategy to increase the market share and several major victories against rival companies in the fight for customers make the Company a powerful player in the trading sector. A combination of spot contracts with long-term agreements will allow Rosneft to significantly increase its transaction efficiency in the future.

Major transactions in 2016, long-term investments attracted by the Company, a global strategic approach — all this makes Rosneft a leading player on the global oil and gas market.

Chairman of the Board of Directors
of Rosneft
Andrey Belousov

MESSAGE FROM ROSNEFT'S CHIEF EXECUTIVE OFFICER, CHAIRMAN OF THE MANAGEMENT BOARD



2016 was a turning point for Rosneft. It successfully completed an integrated transaction involving the privatization of 19.5% of the Company's shares and the controlling interest of Bashneft, and as a result RUB 1.04 trillion were transferred to the state budget of the Russian Federation. This is the largest privatization transaction in the history of Russia and the largest transaction in the oil and gas industry in 2016.

As a result of this deal and tax payments, with Rosneft consistently remaining one of the largest taxpayers, the Company was able to considerably support the Russian state budget: the total payment volume in 2016 exceeded RUB 3 trln.

Following the acquisition of Bashneft, the market expects the integration of its assets to make a significant synergistic impact, in particular, by optimizing mutual oil supply, transportation and logistics costs, reducing the cost of drilling services, sharing infrastructure for upstream operations, modern technologies and know-how. This effect will be quickly and effectively monetized as Rosneft has much experience in successful integration of major oil and gas assets. As a result of the transaction, the integrated Company's production of liquid hydrocarbons will increase by 10% and oil refining by 20%; this will strengthen the Company's leading position as the largest public oil and gas company in the world.

Rosneft showed an outstanding capital growth rate. In 2016 the Company's share value increased by 60%, more than twice as

much as the the MICEX index (+32%) and the Thomson Reuters Oil and Gas Russia index (+27%). In the first six months, Rosneft became the largest company in Russia by market capitalization for the first time in its history.

It is important that amid unprecedented volatility on the energy market, Rosneft was able to show strong operating results. In 2016, the Company achieved a new hydrocarbon production record — 265 mmtoe, and exceeded its production level of 2015 by 4.3%.

The main growth factors were the commissioning of the East Messoyakha field, comprehensive technological testing at the Suzunskoye field and an increase in production at RN-Yuganskneftegaz LLC, the Company's largest upstream asset. In 2016 the production drilling volume increased by 35%, and 2,600 new wells were commissioned is 43% more than in 2015. These results were possible in particular thanks to the development of an in-house drilling service. In the last year alone Rosneft increased its total number of drilling rigs by 26% to 280 units.

After the acquisition of JSC Targin, the share of Rosneft's in-house services, which consistently account for more than the half of the total footage drilled, increased to 60%. Thanks to the constant growth of oil-field work volume carried out in-house, Rosneft still has the lowest unit lifting costs in the industry, which amount to USD 2.5/boe.

In 2016 gas production amounted to 67.1 bcm, 7.3% more than in 2015. In Q4 the Company increased its production and thus was able to take the lead by average daily gas production among

Russian independent gas producers and outperform the largest private gas producer Novatek.

The investment volume increased in 2016 by more than 17% (including joint project financing). Rosneft plans to launch an investment program totaling RUB 1.1 trln next year.

Rosneft makes every effort in order to protect the interests of its shareholders by expanding its presence on the global markets. The Company successfully diversifies its supply between the Western and Eastern routes. In late 2016, one-year contracts were concluded for oil supply to Belarus with the total amount of 10.2 mmt and to Germany with the total amount of 7.3 mmt, which is a good example of Rosneft's successful strategies in the traditional markets. There are also considerable trading prospects in Asia. In total, supply to the East increased in 2016 by 8.6% to 41.3 mmt. As a result, Russia caught up with Saudi Arabia in terms of the volume of oil supplied to China, while only three years ago companies of Saudi Arabia supplied twice as much feedstock as Russian ones.

The fundamental principle underlying the Company's operations is to maintain a favorable environment in its regions of operation. To adopt best practices in the sphere of environmental protection, Rosneft is expanding its cooperation with leading manufacturers of specialized equipment, developing its human resources and engaging the best international specialists.

At a time of unique industry-wide challenges Rosneft was able to use existing opportunities in order to strengthen



IT IS IMPORTANT THAT AMID UNPRECEDENTED VOLATILITY ON THE ENERGY MARKET, ROSNEFT WAS ABLE TO SHOW STRONG OPERATING RESULTS. IN 2016 THE COMPANY ACHIEVED A NEW HYDROCARBON PRODUCTION RECORD — 265 MMTOE, AND EXCEEDED ITS PRODUCTION LEVEL OF 2015 BY 4.3%.

its position on the international markets by acquiring stakes in promising assets and engaging foreign partners in its own projects.

In 2016, Rosneft considerably strengthened its positions globally by implementing its integrated strategy. First-class upstream and downstream assets are complemented by a diversified portfolio of energy supply contracts, making it possible to increase added value of the Company's products along the entire value chain.

Thus, Rosneft affirmed its status of a supermajor and put pressure on other players on its traditional markets, including the Asia-Pacific Region. Despite the signs of crisis in the industry, the Company launched a number of key projects ahead of schedule and demonstrated outstanding operating performance. As a result, Rosneft became one of the most popular partners for new international investors and helped to shape the global oil and gas industry.

Chief Executive Officer,
Chairman of the Management Board
of Rosneft
Igor Sechin

01. ABOUT THE COMPANY

- 1.1. Assets and regions of operation in 2016
- 1.2. Company structure
- 1.3. Key events
- 1.4. Macroeconomic situation in 2016

- 1.5. Oil and gas industry overview for 2016
- 1.6. Competitive analysis

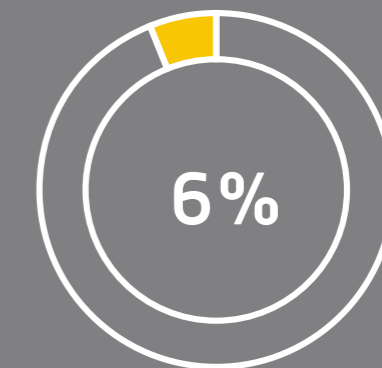


ROSNEFT IS A LEADER IN THE RUSSIAN OIL INDUSTRY AND THE WORLD'S LARGEST PUBLIC OIL COMPANY IN TERMS OF THE VOLUME OF RESERVES AND PRODUCTION.



1
PLACE IN THE WORLD
IN TERMS OF HYDROCARBON
RESERVES AMONG PUBLIC OIL
COMPANIES

SHARE IN GLOBAL OIL PRODUCTION



2.5 

USD /BOE
THE LOWEST UNIT LIFTING COSTS IN THE
WORLD AMONG PUBLIC OIL COMPANIES

1.1 ASSETS AND REGIONS OF OPERATION IN 2016

24

COUNTRIES OF OPERATION

74

REGIONS OF OPERATION IN RUSSIA

1

PLACE IN TERMS OF THE NUMBER OF FILLING STATIONS

1,097

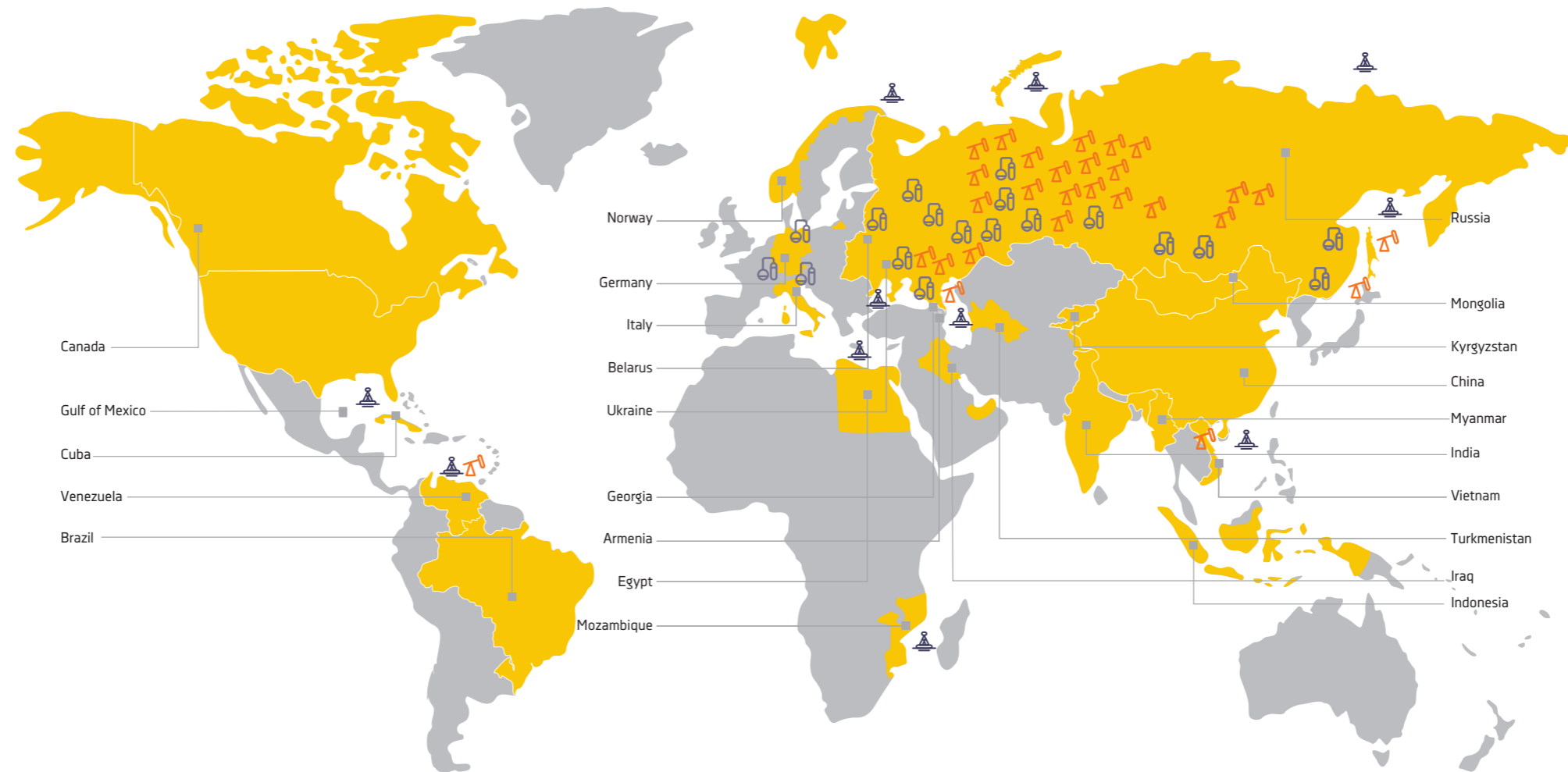
LICENSES for hydrocarbon production in Russia and abroad¹

18

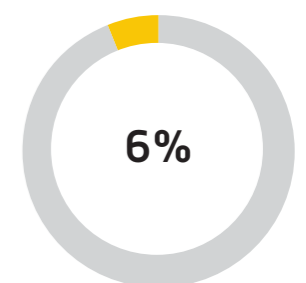
REFINERIES 13 refineries in Russia, stakes in 5 refineries abroad

2,897

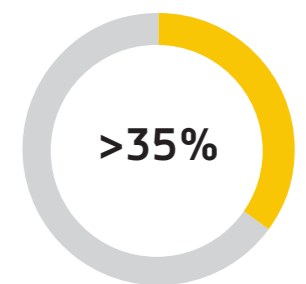
FILLING STATIONS² – the largest retail network in Russia



SHARE IN GLOBAL OIL PRODUCTION



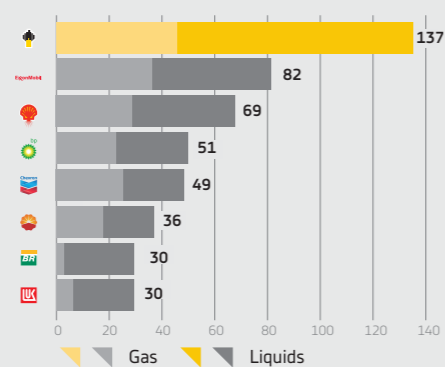
SHARE IN OIL REFINING IN RUSSIA



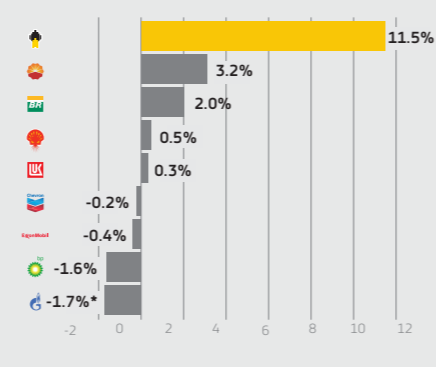
Rosneft's regions of operation in 2016

- Upstream assets
- Refineries
- Offshore

HYDROCARBON RESERVES, BLN BOE³

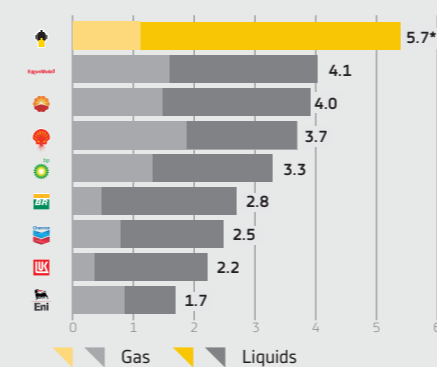


AVERAGE HYDROCARBON PRODUCTION GROWTH RATE IN 2016



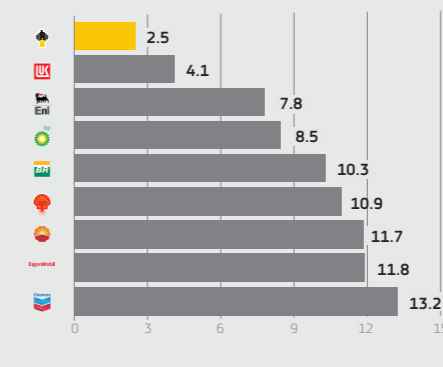
Source: Company reports, * Woodmac

HYDROCARBON PRODUCTION IN 2016, MMBOE/D



Source: Company reports, *pro forma data

LIFTING COSTS IN 2016, USD/BOE

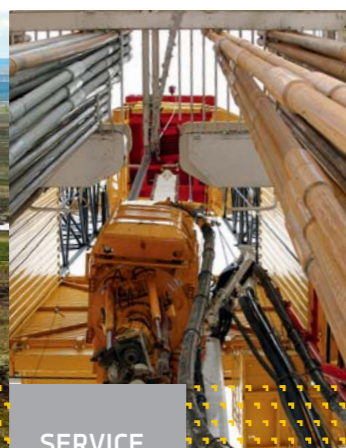


- As of December 31, 2016 (Rosneft + Bashneft)
- Operating filling stations as of December 31, 2016, including own and leased filling stations. Total number of retail sites as of December 31, 2016 including assets abroad amounted to 2,962 sites.
- For Rosneft, data are provided on AB1C1+B2C2 reserves as of January 1, 2017; data on reserves of other companies are based on reserve appraisal by Wood Mackenzie, including commercial and sub-commercial reserves

1.2 COMPANY STRUCTURE¹

EXPLORATION AND PRODUCTION

REFINING AND SALES



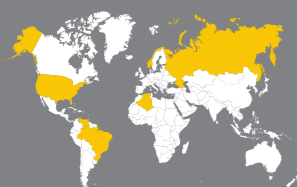
EXPLORATION

SERVICE

PRODUCTION

REFINING

SALES



RUSSIA
RN-Exploration LLC
RN-Shelf Arktika LLC
Priazovneft LLC

USA
Neftegas Holding America Limited

BRAZIL
Rosneft BRASIL E&P LTDA

NORWAY
RN Nordic Oil AS

ALGERIA
Gara Tisselit

VENEZUELA
PETROMIRANDA S.A
PETROVICTORIA S.A

IRAQ
Bashneft International B.V.

MYANMAR
Bashneft International B.V.

RN-Service LLC
RN-Burenie LLC
RN-GRP LLC
JSC Targin

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

TIMAN-PECHORA
RN-Severnaya Neft LLC
Bashneft-Polyus LLC

RUSSIAN FAR EAST (SHELF)
Sakhalin-1
JSC RN Shelf-Dalny-Vostok

WESTERN SIBERIA
RN-Yuganskneftegaz LLC
RN-Purneftegaz LLC
OJSC Tomskneft VNK
RN-Uvatneftegaz LLC
JSC Samotlorneftegaz
JSC Rospan International
JSC RN-Nyaganneftegaz
JSC Nizhnevartovsk Oil and Gas Producing Company
PJSC Sibneftegaz
Kynsko-Chaselskoye Neftegaz LLC
JSC Tyumenneftegaz
CJSC Messoyakhanneftegaz
PJSC Varyoganneftegaz
JSC Slavneft
Sarovskneft LLC
JSC Yugraneft Corporation
Severo-Varyeganskoye LLC

EASTERN SIBERIA AND THE FAR EAST (ONSHORE)
PJSC Verkhnechonskneftegaz
JSC Vankorneft
JSC Vostsibneftegaz

RN-Vankor LLC
RN-Sakhalinorneftegaz LLC
Taas-Yuriakh
Neftegazodobycha LLC
JSC Suzun
Tagulskoye LLC

CENTRAL RUSSIA
JSC Samaraneftegaz
OJSC Udmurtneft
PJSC Orenburgneft
Buguruslanneft LLC
Bashneft-Dobycha LLC

SOUTHERN RUSSIA
RN-Krasnodarneftegaz LLC
OJSC Grozneftegaz
OJSC RN Ingushneft
RN-Stavropolneftegaz LLC
PJSC OC Rosneft-Dagneft
JSC Dagneftegaz

VENEZUELA
PETROPERIJA S.A.
BOQUERON S.A.
PETROMONAGAS S.A.

VIETNAM
Rosneft Vietnam B.V.

CANADA
RN CARDIUM OIL Inc.

JSC Angarsk Petrochemica Company
JSC Achinsk Refinery VNK
RN-Komsomolsk Refinery LLC
JSC Novokuibyshev Refinery
JSC Kuibyshev Refinery
JSC Syzran Refinery
RN-Tuapse Refinery LLC
PJSC Saratov Refinery
JSC Ryazan Oil Refining Company
Nizhnevartovsk Oil Refining Association LLC
JSC Slavneft-YANOS Integrated refinery in Ufa (Bashneft-Ufaneftkhim, Bashneft-Novoil and Bashneft-UNPZ)

LUBRICANT PLANTS
Novokuibyshev Oil and Additives Plant LLC
PJSC Rosneft – MZ Nefteprodukt

PETROCHEMICALS AND CATALYSTS
JSC Angarsk Polymer Plant
JSC Angarsk Plant of Catalysts and Organic Synthesis
JSC Novokuibyshevsk Petrochemical Company
Novokuibyshevsk Catalysts Plant LLC
PJSC Ufaorgsintez

GAS REFINING
JSC Otradnensky Gas Refinery
JSC Neftegor'sky Gas Refinery
Tuimazinskoye GPP LLC
Shkapovskoye GPP LLC

GERMANY
Rosneft Deutschland GmbH
PCK Raffinerie GmbH

BELARUS
OJSC Mozyr Refinery

UKRAINE
JSC LINIK

RN-Nakhodkanefteprodukt LLC
RN-Vostoknefteprodukt LLC
RN-Arkhangelsknefteprodukt LLC
RN-Tuapsenefteprodukt LLC
RN-Krasnoyarsknefteprodukt LLC
RN-Novosibirsknefteprodukt LLC
RN-Chechennefteprodukt LLC
PJSC OC Rosneft-Altaineftprodukt
PJSC OC Rosneft-Kubannefteprodukt
PJSC OC Rosneft-Kurgannefteprodukt
PJSC OC Rosneft-Smolensknefteprodukt
PJSC Kabardino-Balkar Fuel Company
OJSC OC Rosneft-Artag
Bashneft-Retail Sales LLC
PJSC OC

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 OC Rosneft-Stavropolye
JSC Rosneft-Karachev-Cherkessnefteprodukt
RN-Ingushnefteprodukt LLC
PJSC OC Rosneft-Yamalnefteprodukt
Zapsibnefteprodukt LLC
RN-Trade LLC
JSC Belgorodnefteprodukt
JSC Irkutsknefteprodukt

JSC Orelnefteprodukt
JSC Penzanefteprodukt
JSC Tomsknefteprodukt VNK
RN-Volgograd LLC
RN-Aero LLC
PJSC Tulanefteprodukt
JSC Rostovnefteprodukt
RN-Bunker LLC
PJSC Kalugannefteprodukt
PJSC Ryazannefteprodukt
JSC Karelianefteprodukt
PJSC Saratovnefteprodukt
JSC RN-Yaroslavl
Kurskobnefteprodukt LLC
NGK Intera LLC
JSC Uralsevergaz

BELARUS
RN-West LLC

MONGOLIA
Rosneft-Mongolia LLC
Mergevan LLC

KYRGYZSTAN
CJSC RN-Kyrgyznefteprodukt

ARMENIA
PETROL MARKET LLC
CJSC Rosneft-Armenia

GEORGIA
Petrocas Energy International Limited

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

1.3 KEY EVENTS IN 2016

JANUARY

2.7

MMT –
an increase in supplies by 300,000 tons to 2.7 mmt of oil per year



Rosneft and Grupa Lotos S.A. agreed to renew the contract for oil supply to Poland dated December 20, 2013. The updated commercial terms provide for an extension of the contract for a year and an increase in supplies by 300,000 tons to 2.7 mmt of oil per year.

Rosneft and TMK, one of the world's largest producers of pipes for the oil and gas industry, signed a Memorandum of Partnership in the implementation of the import substitution program for pipe products for offshore projects.

MARCH



Rosneft started drilling the PLDD-1X exploration well at Block 06.1 on the Vietnamese shelf as a project operator. Drilling was completed in April. Commercial gas reserves were discovered.

MAY

15%

Rosneft sold 15% of shares in Vankorneft to an Indian company ONGC Videsh Limited at a base price of USD 1.27 bln

Rosneft, Keppel Offshore&Marine and MH Wirth signed a shareholder agreement on the establishment of a joint venture (Rosneft—45%, Keppel Offshore&Marine—45%, MH Wirth—10%) to establish a Center for the Design and Engineering of Offshore Drilling Rigs in the Russian Federation. The new center will help to expand the Company's capabilities in the field

of designing world-class offshore equipment.

Rosneft and Pertamina signed a framework agreement on cooperation providing for the establishment of a joint venture, carrying out a feasibility study for the construction of the Tuban oil refining and petrochemical complex in the eastern part of the island of Java, and examining the prospects for joint projects in the field of oil and petroleum product supply, logistics and infrastructure.

Rosneft delivered the first lot of LNG in its history under the contract with the Egyptian Natural Gas Holding Company. The products were supplied by the GOLAR ICE tanker to the port of Ain Sokhna under the contract concluded in August 2015.

JULY

Rosneft and Petróleos de Venezuela, S.A. signed an agreement on carrying out a feasibility study for the project to develop and operate the Patao, Mejillones and Rio Caribe blocks on the Venezuelan shelf and signed term sheets for contracts for reciprocal supplies of oil and oil petroleum products.

35%

of the Company's IFRS net profit for 2015 was paid out as dividends

FEBRUARY

23.3%

ROSNEFT AND PDVSA signed the Heads of Agreement on the acquisition of a 23.33% stake in the authorized capital of JV Petromonagas, which produces extra-heavy oil in Venezuela. As a result of the transaction, Rosneft's stake in the joint venture increased to 40%

Rosneft and PDVSA signed the Heads of Agreement on the establishment of a JV to implement a world-class natural gas production, preparation and monetization project at the Patao and Mejillones fields and potentially the Rio Caribe field on the shelf of Venezuela. Each party will have a 50% stake in the future joint venture. Rosneft will be the project operator.

Rosneft and General Electric signed a program for the long-term development of strategic cooperation, including a plan to establish joint ventures for the manufacture of marine, oil and gas and electrical equipment.

APRIL

124.5

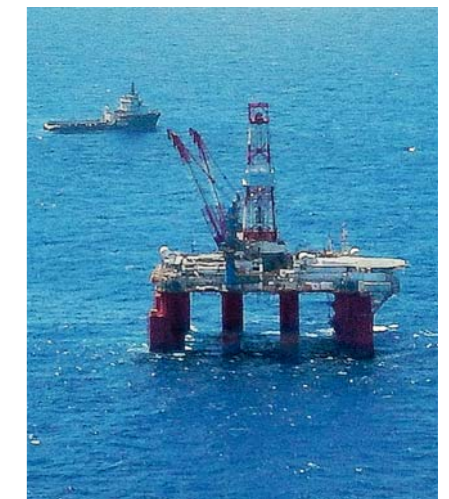
RUB BLN
Total dividend payments

Rosneft's Board of Directors recommended paying dividends of RUB 11.75 per share, which is equal to 35% of the Company's IFRS net profit. Payments totaled RUB 124.5 bln.

JUNE

Rosneft and China National Chemical Corporation signed the Heads of Agreement on cooperation in joint development of the Far Eastern Petrochemical Company (FEPCO) project. Under the agreement, ChemChina will acquire a 40% stake in the capital of FEPCO, with financing to be provided on a prorata basis.

At the 20th St. Petersburg International Economic Forum, Rosneft signed a number of landmark agreements covering the entire production chain: the upstream segment, crude oil sales, logistics, technological cooperation and cooperation with Russian regions.



AUGUST

A JV of Rosneft and Statoil ASA completed the drilling of two exploration wells, the Ulberikanskaya-1 well at the Lisiansky area and the Dukchinskaya-1 well at the Magadan-1 area in the Sea of Okhotsk. There were no accidents during the drilling of both wells; drilling at the Lisiansky area was completed a year earlier than stipulated in the license. Important geological information was obtained.

1st 

Rosneft supplied the first lot of gasoline to the Asia-Pacific Region under a contract with the Indonesian state-owned oil and gas company Pertamina. Despite strong competition on the petroleum product market, the Company is successfully moving to a new level in the international hydrocarbon trading.

SEPTEMBER



Rosneft signed a number of important agreements in the field of shipbuilding, localization of technologies and equipment, including contracts with OJSC FESRC for the supply of two unique multifunctional replenishment vessels of the enhanced Icebreaker 7 ice class in 2019 and 2020, thereby expanding the series of these vessels to 4; a contract with JSC Rosnefteflot and SSK ZVEZDA LLC for the supply of five new-generation Aframax tankers using natural gas fuel, as well as an agreement with General Electric on cooperation in localization of dynamic positioning systems for vessels.

Rosneft, BP and Schlumberger signed agreements on joint research and development of technologies for seismic surveys.

NOVEMBER

Rosneft and Beijing Gas Group Company Limited signed a Sale and Purchase Agreement and a Shareholder and Operating Agreement for the sale of a 20% stake in PJSC Verkhnechonskneftegaz to the Chinese company, an Agreement on the Area of Mutual Interest with regard to adjacent license areas and an Agreement on Cooperation in the Gas Business.

1.1

USD BLN
Approximate base price of the deal

DECEMBER

1.04

RUB TRLN
Payments to the budget of the Russian Federation in Q4 2016 following the completion of an integrated deal involving the privatization of a 19.5% stake in Rosneft and a controlling stake in Bashneft

Completion of an integrated deal involving the privatization of a 19.5% stake in Rosneft and a controlling stake in Bashneft.

Rosneft started supplying petroleum products to Turkey, having signed a contract with a company of the Demiroren Group Companies for the annual supply of up to 500,000 tons of diesel fuel produced at Rosneft's refineries.

Rosneft and a consortium of Japanese companies comprising Marubeni

Corporation, Japan Oil, Gas and Metals National Corporation and INPEX CORPORATION signed the Heads of Agreement on cooperation in joint exploration, development and production of hydrocarbons at a license area on the Russian shelf in the Sea of Japan.

Rosneft reached an agreement with the Italian concern ENI for acquiring up to 35% in the concession agreement for the development of the Zohr field. The value of the stake to be purchased by Rosneft from Eni totals USD 1.125 bln.

Rosneft and BP Plc announced the completion of a deal to dissolve the refining and petrochemical JV Ruhr Oel GmbH in Germany. As a result, Rosneft gained control over more than 12% of the refining capacity in Germany with a total refinery throughput of 12.5 mmt per year and became the third largest refining company on the German market.

Rosneft completed the acquisition of 100% of shares in the Targin drilling company from JSFC Sistema worth RUB 4.1 bln. As a result, Rosneft's drilling rig fleet increased by 19%, and the number

60%



the share of Rosneft's in-house well drilling services

to 40%



Increase in the share of Rosneft's in-house well workover services

of in-house well workover crews increased by 30%.

Rosneft and CUPET signed a Brownfield Cooperation Contract aimed at increasing oil production at the Varadero - East Central Block.

Rosneft and UMCC are establishing a joint venture that will become the anchor supplier of large-size steel sheets to meet long-term needs of the Zvezda shipbuilding complex.

OCTOBER

Rosneft completed the implementation of the project to create a unique international energy hub based on the Vankor cluster within a short time frame. The Company closed the sale of a 23.9% stake in JSC Vankorneft to a consortium of Indian companies comprising Oil India Limited, Indian Oil Corporation Limited and Bharat PetroResources Limited and the sale of an 11% stake in JSC Vankorneft to ONGC Videsh Limited.

Rosneft completed the formation of an international consortium based on Taas-Yuryakh Neftegazodobycha LLC by closing the sale of a 29.9% stake to the consortium of Indian companies comprising Oil India

Limited, Indian Oil Corporation Limited and Bharat PetroResources Limited. Rosneft's stake in Taas-Yuryakh Neftegazodobycha LLC will remain at 50.1%.

Rosneft acquired a 49% stake in an Indian company Essar Oil Limited, which includes one of the most modern refineries in the Asia-Pacific Region in the city of Vadinar, as well as a large network of filling stations in India, which comprises over 3,000 filling stations operating under the Essar brand.

Rosneft and BP announced the conclusion of the deal to establish a new joint venture Yermak Neftegaz LLC in order to conduct geological exploration in Western Siberia and the Yenisei-Khatanga basin.

>50%

In accordance with the Decree of the Government of the Russian Federation, Rosneft completed the acquisition of the government-owned stake in PJSOC Bashneft totaling 50.075% of the authorized capital and worth RUB 329.69 bln



EVENTS AFTER THE REPORTING DATE

JANUARY

Rosneft and China National Petroleum Corporation signed a supplementary agreement on an increase in oil supplies in transit via Kazakhstan and a renewal of the contract concluded in June 2013 until the end of 2023.

Rosneft JV Projects S.A. sold a 12% stake in the authorized capital of Saras S.p.A. to institutional investors. Following the sale of the remaining shareholding, Rosneft completely divested its stake in Saras S.p.A.

FEBRUARY

Rosneft Brasil started to drill the first exploration well in the Solimões River basin. This marked the start of a new stage of the exploration program in the Amazon basin with Rosneft Brasil acting as a project operator following the acquisition of the stake held by PetroRio in 2015.

Following the acquisition of the government-owned stake in PJSOC Bashneft in October 2016 and the minority stake under a mandatory offer, Rosneft became the holder of 102,432,459 ordinary shares of PJSOC Bashneft, accounting for about 69.3% of its voting shares.

MARCH

Rosneft started to drill the Central Olginskaya-1 well at the Khatangsky license area; this is the northernmost well on the Russian Arctic shelf.

Exploration drilling was launched by the Russian President Vladimir Putin during a teleconference with the CEO of Rosneft Igor Sechin.

COMPANY HISTORY

1995



Establishment of Rosneft

2001



Adoption of the Company's new strategy outlining the key areas of its long-term development



Offer of Eurobonds to major Western investors

2006

IPO

IPO (Initial Public Offering) on the London Stock Exchange

18th -19th centuries



1740s

THE FIRST

oil-producing enterprise in Russia was founded on the Ukhta River.



WESTERN SIBERIA, TIMAN-PECHORA

1920s - 1930s



1929

Start of prospecting for oil and gas in the Timan-Pechora province, which marked the start of formation of the oil and gas industry in the north of European Russia.

1930s - 1940s



1934-1943

Start of prospecting for oil and gas in Western Siberia.

1950s



1969

Start of production at the Samotlor oil field, the largest field in the USSR in terms of reserves.

1979

Discovery of the Kharampur gas field.

Early 18th century

The first oil seeps were found in the Volga-Urals region.

1864

THE FIRST

oil in modern Russia was produced in the Kudako River basin in Kuban.



CENTRAL RUSSIA AND SOUTHERN REGIONS

1929

Commissioning of the Tuapse Refinery.

1932

Discovery of the Ishimbayskoye field in Bashkortostan, which marked the start of oil production in the Volga-Urals region.

1937

Start of commercial oil production in the Orenburg Region.



1942

Commissioning of the Syzran Refinery.

1943

Establishment of Krasnodarneftegaz, an oil and gas production enterprise.

1945

Start of commercial operation of the Kuibyshev Refinery.

1951

Commissioning of the Novokuibyshev Refinery in the Samara Region and the Novo-Ufimsky Refinery (Novoil) in the Republic of Bashkortostan.

1955

Discovery of the largest field in the Volga-Urals Region: the Arlanskoye field with reserves totaling about 1 bln tons.

1956-1957

Start of operation of Ufaorgsintez and Ufaneftekhim in the Republic of Bashkortostan.

1960

Start of commercial operation of the Ryazan Refinery.



1889



Start of prospecting for oil and gas on Sakhalin.



EASTERN SIBERIA, FAR EAST

1923-1946

Start of development of fields in the north of Sakhalin: the Central Okha, Katangli, Ekhabi and East Ekhabi fields.



1942

Commissioning of the Komsomolsk Refinery.

1950

Start of prospecting for oil and gas in Eastern Siberia.

1955

Start of operation of the Angarsk Petrochemical Company.



1970

Discovery of the Srednebotuobinskoye oil and gas condensate field.

2007



Rosneft's annual production exceeded 100 mmt, making the Company the largest oil producer in Russia

2011—2012



Conclusion of unprecedented partnership agreements with ExxonMobil, ENI and Statoil on the development of the Russian shelf

2013
bp



Completion of the acquisition of TNK-BP Group. BP becomes a shareholder of Rosneft owning a 19.5% stake

2016

Pursuant to the Decree of the Government of the Russian Federation dated October 10, 2016, Rosneft completed the acquisition of the government-owned stake in PJSC Bashneft.

265

mln toe — production volume in 2016

On December 7, 2016, an agreement was signed on the sale of a 19.5% stake in Rosneft held by JSC ROSNEFTEGAZ to a consortium of international investors comprising Qatar Investment Authority and Glencore on a parity basis.

1980s – 1990s

1981

Cumulative oil production at the Samotlor field reached 1 bln tons.

1981-1982

Discovery of the oil giants of Western Siberia: the Priobskoye and Prirazlomnoye fields.

1986-1989

Discovery of the Roman Trebs and Anatoly Titov fields. Commissioning of the Priobskoye and Prirazlomnoye fields.

2000-2007

2001

Start of development of Uvat as a new oil- and gas-producing region.

2002

Start of oil production at a field forming part of the Val Gamburtseva group.

2007-2013

2013

Start of commercial production at the Roman Trebs and Anatoly Titov fields.



Cumulative oil production by RN-Yuganskneftegaz LLC since the start of field development in 1964 reached 2 bln tons

2014

2014

Rosneft completed the drilling of the world's northernmost Arctic well, Universitetskaya-1, in the Kara Sea.

Rosneft started experimental production of hard-to-recover gas reserves from the Turonian deposit at the Kharampur field in the Yamalo-Nenets Autonomous District.

2015

2015



bln tons — cumulative oil production at the Samotlor field.

2016

2016

Cumulative oil production by RN-Yuganskneftegaz LLC since the start of field development reached 2.2 bln tons.



mmt — cumulative oil production by RN-Severnaya Neft at the Labaganskoye field since the start of its development.

1980

1 BLN

Cumulative oil production at oil fields in Bashkortostan reached 1 bln tons.

1994

Cumulative oil production at the fields in the Samara Region reached 1 bln tons.



2011

350

mmt — cumulative oil production at Udmurteft

2012

Annual oil production at Orenburgneft reached 20 mmt.



2016

100

bcm — cumulative gas production at RN-Krasnodarneftegaz.

>1.2

bln t — cumulative oil production by JSC Samaraneftegaz since the start of its operation.



1982

Commissioning of the Achinsk Refinery.

2005

Start of commercial development of the Sakhalin-1 project.

2005-2007

Start of commercial production of hydrocarbons at the Chaivo offshore field and their subsequent export via the port of De-Kastri to Japan and South Korea.

2008-2009

Start of commercial production at the Verkhnechonskoye and Vankor fields.



2015

Start of oil production at the Arkutun-Dagi field.

13,500 m

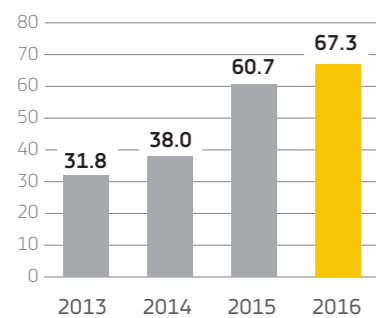
Completion of drilling of the world's longest horizontal well, at the Chaivo field.

2016

Completion of the project to create a unique international energy hub based on the Vankor cluster and an international consortium based on Taas-Yuryakh Neftegazodobycha LLC.

1.4. MACROECONOMIC SITUATION IN 2016

AVERAGE NOMINAL USD/RUB RATE, 2013-2016, RUB/USD



Source: Bank of Russia

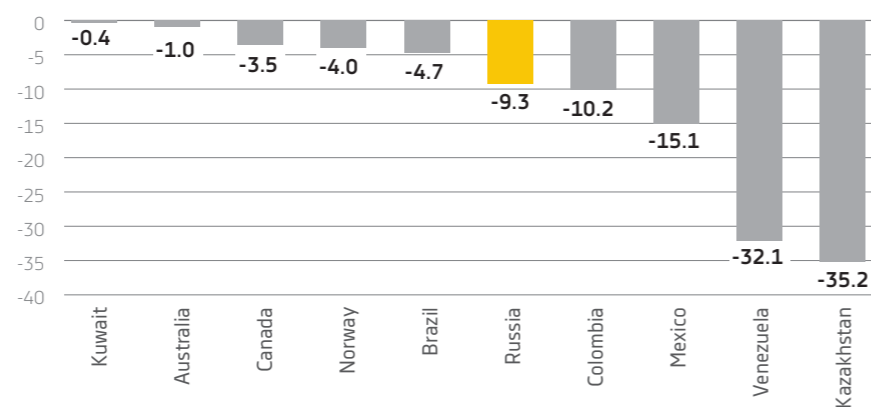
The Company's operations in 2016 were significantly impacted by the following key macroeconomic factors:

- Global and national economic growth rates;
- RUB/USD FX rate and inflation rates in Russia;
- Global oil and gas prices.

GLOBAL AND NATIONAL ECONOMIC GROWTH RATES

According to the estimates of the International Monetary Fund (IMF) as of January 2017, global economic growth slowed down to 3.1% YOY in 2016 (3.2% YOY in 2015) due to a slowdown in the economic growth on key developed and emerging markets. In 2016, economic growth slowed down to 1.6% YOY (2.6% YOY in 2015) in the USA; 1.7% YOY (1.8% YOY in 2015) in the euro-zone; 2.0% YOY (2.2% YOY in 2015) in the UK; 1.0% YOY (1.2% YOY in 2015) in Japan; 6.7% YOY (6.9% YOY in 2015) in

CHANGES IN NOMINAL FX RATES OF NATIONAL CURRENCIES IN OIL-EXPORTING COUNTRIES VS. USD IN 2016 (YOY CHANGE, ANNUAL AVERAGE)*, %



* "+" indicates the strengthening of a national currency against USD; "-" indicates the devaluation of a national currency against USD

Sources: International Monetary Fund and the Bank of Russia

China; and 7.0% YOY (7.6% YOY in 2015) in India.

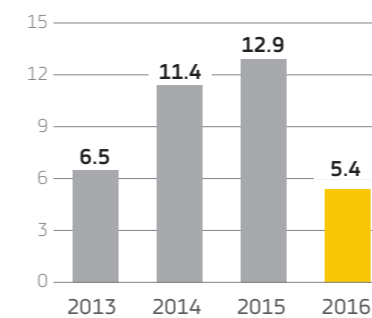
Global trade growth also slowed down significantly: to 1.9% YOY in 2016 from 2.7% YOY in 2015. The slowdown was due to lower growth in imports from developed markets, a growing tendency in the emerging markets towards reducing their dependence on exports and a decline in global commodity prices. Another factor negatively affecting international trade growth was the growing share of services in the global economy, as the international labor division is less developed in the services sector than in the manufacturing sector.

According to Rosstat, in 2016, the decrease in national GDP slowed down to 0.2% YOY (vs. a decrease of 2.8% YOY in 2015¹), despite continued economic sanctions imposed by the EU and the United States, declining energy prices and decelerating global economic and trade growth. The slowdown of the decline in the

national economy was largely due to growing industrial production in Russia (+1.3% YOY in 2016), including oil production (+2.5% YOY in 2016).

According to IMF forecasts (the World Economic Outlook Update as of January 16, 2017), global GDP growth is expected to pick up pace in the next few years, to 3.4% YOY in 2017 and 3.6% YOY in 2018. Growth rates in developed economies are projected at 1.9% in 2017 and 2.0% in 2018, while in developing countries economic growth is expected to be even higher, at 4.5% and 4.8% respectively. Global trade growth will accelerate to 3.8% YOY in 2017 and 4.1% YOY in 2018. According to the IMF forecast, the Russian economy is expected to grow 1.1% YOY in 2017 and 1.2% in 2018.

INFLATION IN RUSSIA, 2013-2016, YEAR ON YEAR AS OF DECEMBER, %



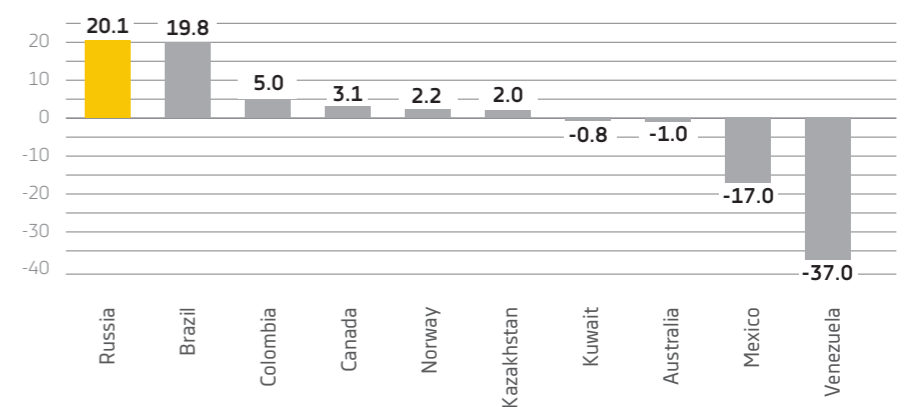
Source: Federal State Statistics Service (Rosstat)

ENERGY PRICES, RUB/USD FX RATE AND INFLATION RATES IN RUSSIA

In 2016, the global oil market remained unbalanced, with supply significantly exceeding demand despite a decline in the global oil production growth rates. The growing imbalance in the global oil market in 2015 and H1 2016 had a negative effect on global oil prices, which continued to decrease. On January 20, 2016, Brent crude prices hit a minimum since 2004 at USD 27.88/bbl.

A decrease in shale oil production in the USA¹, as well as in oil production in the North Sea and China, helped to reduce the supply-demand gap and gradually pushed up oil prices. Stabilization of Brent prices higher than USD 50/bbl in December 2016 was also supported by agreements between OPEC members and 11 non-OPEC oil-producing countries (including Russia) to reduce oil production starting from January 1, 2017. According to Bloomberg, in 2016, the annual

CHANGES IN NOMINAL FX RATES OF NATIONAL CURRENCIES IN OIL-EXPORTING COUNTRIES VS. USD IN 2016 (YOY CHANGE AT YEAR-END)*, %



* "+" indicates the strengthening of a national currency against USD; "-" indicates the devaluation of a national currency against USD

Sources: International Monetary Fund and the Bank of Russia

average Brent price stood at USD 44.0/bbl, down by 16.0% YOY vs. the 2015 annual average Brent price (USD 52.4/bbl).

In 2016, the annual average price of Russian oil (Urals) dropped by USD 9.3/bbl compared to 2015 (-18.2% YOY) to USD 41.9/bbl.

Falling global oil prices triggered the moderate devaluation of national currency in Russia. In 2016, the RUB/USD FX rate fell by 10% YOY to RUB 67.3/USD. By the end of 2016, the ruble strengthened by 20.1% YOY on the back of growing oil prices.

In 2016, inflation stood at 5.4% YOY, below the target level for 2016 (5.5-6.5%) set in the Guidelines for the Single State Monetary Policy in 2016 and for 2017 and 2018 published by the Bank of Russia. According to the Guidelines, in 2017-2018, inflation is projected at 4.0%.

The Federal State Statistics Service reported the 2016 producer price index at

7.4% year on year. The Ministry of Economic Development forecasts the producer price index at 3.3% in 2017.

Transportation costs of oil companies in Russia continued to grow in 2016. Transneft's tariff rates were indexed by 5.76% YOY for transportation of oil outside the customs borders of Russia and by 5.76% YOY for oil transportation to eastern regions via the ESPO pipeline.

Government-regulated indexation of tariffs, duties and charges for cargo transportation and infrastructure services for shipments by Russian Railways totaled 9.0% YOY in 2016.

1. Following a change in the GDP calculation methodology, the Federal State Statistics Service revised its estimates of Russian GDP growth in 2015 upward to -2.8% YOY from -3.7% YOY.

1. US oil production peaked to 9.63 mmb/d in April 2015, followed by a drop to 9.23 mmb/d in December 2015 and 8.90 mmb/d in December 2016.

1.5. OIL AND GAS INDUSTRY OVERVIEW FOR 2016

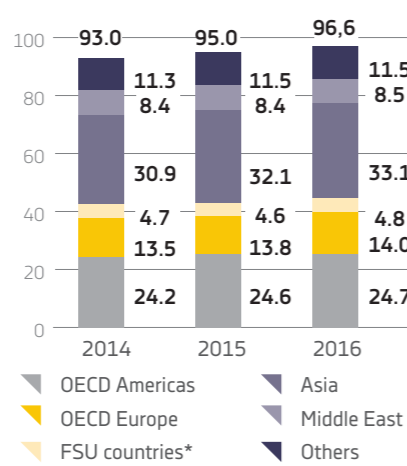
GLOBAL OIL INDUSTRY OVERVIEW

According to preliminary IEA estimates, in 2016, the global demand for hydrocarbon liquids (HL)¹ totaled 96.6 mmb/d, with more than 34% of global demand concentrated in Asia. In 2016, the growth in global HL demand slowed down² to 1.7% YOY as against 2.1% YOY in 2015. Demand was mainly supported by Asian countries, which accounted for 62% of the increase in the global HL supply in 2016.

According to preliminary IEA estimates, in 2016, global HL supply³ totaled 97.0 mmb/d. Oil prices remained low throughout 2016, which resulted in a significant slowdown in global hydrocarbon production growth: to 0.4% YOY as against 3.1% YOY in 2015.

In 2016, OPEC countries (13 member countries as of January 1, 2017) increased their oil production significantly. In 2016, total production of oil, gas condensate and other liquefied gases in OPEC countries grew by 3.1% YOY to 39.3 mmb/d, with crude oil production increasing by 3.1% YOY to 32.6 mmb/d. The increase in OPEC crude production was mainly driven by oil production growth in Iran after sanctions were lifted in early 2016. Iranian oil production grew by almost 25% YOY in 2016, to 3.6 mmb/d. Other significant contributors to the increase in OPEC oil production included Iraq (+10.3% YOY, to 4.4 mmb/d) and Saudi Arabia (+2.9% YOY, to 10.4 mmb/d). Meanwhile, Nigeria

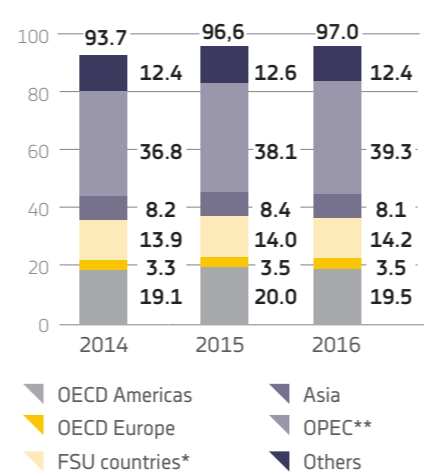
HL DEMAND BY REGION, MMB/D



reported a significant decrease in oil production in 2016 (-17.2% YOY, to 1.5 mmb/d).

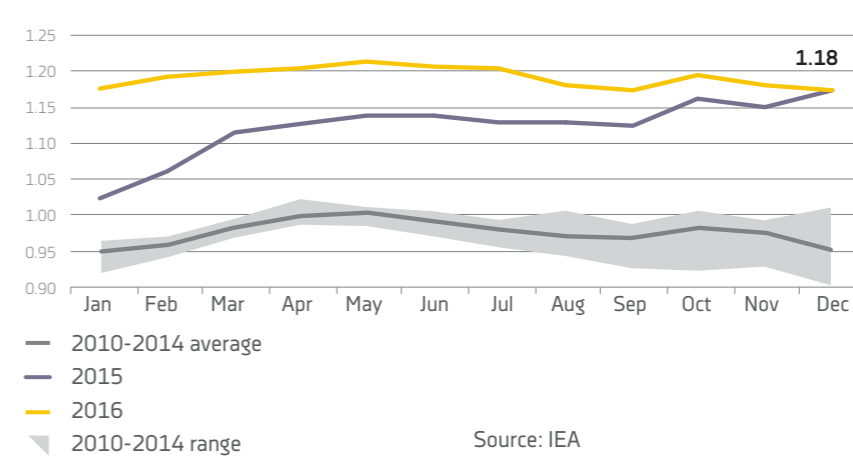
A decrease in HL production in Asian countries in 2016 (-3.8% YOY, to 8.1 mmb/d) was mainly due to a decline in production in China (-6.9% YOY, to 4.0 mmb/d). A significant decrease in HL production (-2.6% YOY, to 19.5 mmb/d) was also reported in OECD countries in the Americas (-2.6% YOY, to 19.5 mmb/d), mainly in the United States (-3.6% YOY, to 12.5 mmb/d, with crude oil production decreasing by 5.7% YOY to 8.9 mmb/d).

HL SUPPLY BY REGION, MMB/D



As a result, according to the International Energy Agency, the surplus on the global oil market decreased from 1.6 mmb/d in 2015 to 0.4 mmb/d in 2016 (according to the EIA, the surplus is slightly larger at 0.6 mmb/d). At the same time, crude oil inventories in OECD countries remained almost unchanged in 2016: as of December 2016⁴, inventories totaled about 1.18 bln bbl (-0.1% YOY). In 2016, about 50% of the global HL surplus (0.2 mmb/d) was due to an increase in the HL volume in floating storage and in transit. The remaining gap between the global HL supply and demand and between the official data on the increase in inventories published by the

CRUDE OIL INVENTORIES IN OECD COUNTRIES



OECD and the increase in global inventories in floating storage and in transit totaled 0.2 mmb/d. According to the IEA, this difference includes an increase in HL inventories in non-OECD countries and unrecorded growth of inventories in OECD countries.

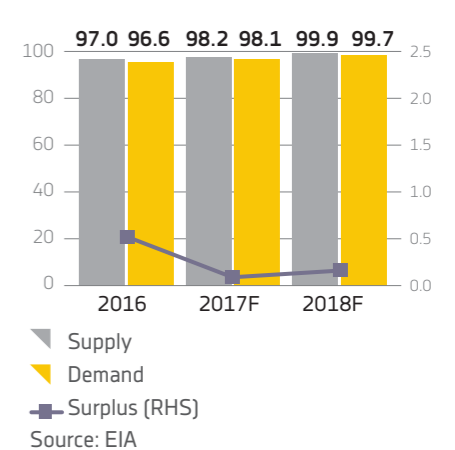
According to the International Energy Agency, the global HL demand will increase by 1.4% YOY to 98.0 mmb/d in 2017 and to 99.3 mmb/d in 2018. According to the U.S. Energy Information Administration (EIA)¹, the global HL demand² will grow to 98.1 mmb/d (+1.6% YOY) in 2017 and to 99.7 mmb/d (+1.6% YOY) in 2018. The global HL supply will increase to

98.2 mmb/d (+1.1% YOY) in 2017 and to 99.9 mmb/d (+1.7% YOY) in 2018.

According to the EIA, HL demand will grow faster than supply, which will contribute to a gradual reduction in supply surplus in 2017. At the same time, in 2018, the growth of the supply will accelerate; as a result, the global HL market will remain in surplus.

The base case IEA forecast predicts steady growth of global demand for oil and gas condensate until 2030, with average annual growth totaling about 0.5%. In 2030, the share of crude

EIA FORECASTS FOR GLOBAL HL SUPPLY AND DEMAND, MMB/D



oil and gas in the global energy consumption mix will total ~29% and 23% respectively.

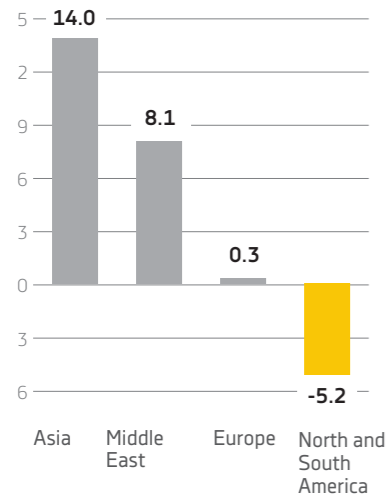
GLOBAL GAS INDUSTRY OVERVIEW

In 2016, the global gas demand grew 2.5% YOY³, to more than 3.5 tcm. The growth in demand for fuel was supported by low gas prices, the development of gas infrastructure and transportation technologies, including LNG transportation. The policy of tightening environmental standards, particularly those related to CO₂ emission control, in many countries also supports the market.

1. Hereinafter, HL demand means consumption of products manufactured from oil/gas condensate; oil consumption as fuel, and consumption of hydrocarbon components produced from non-conventional energy sources (biofuels, GTL, CTL, etc.).
 2. Any discrepancies between 2014-2015 global HL demand, supply and surplus data in this report and the 2015 annual report of the Company result from the revision and adjustment of IEA data in 2016.
 3. Hereinafter, HL supply means production of crude oil and gas condensate, as well as production of hydrocarbon components from non-conventional energy sources (biofuels, GTL, CTL, etc.).
 4. Official OECD data on inventories according to the IAE. Any discrepancies between 2010-2015 data on inventories in this report and the 2015 annual report of the Company result from the revision and adjustment of IEA data, including adjustments due to changes in the US crude oil inventory estimation methodology.

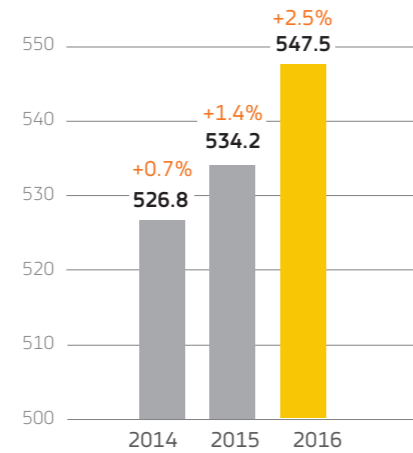
1. Forecast as of March 2017.
 2. EIA data were used for forecast global HL supply and demand in 2017-2018 as the IEA Oil Market Report provides global demand estimates for 2017 only. HL supply and demand data for 2016 provided by the EIA are slightly different from IEA data due to the use of different calculation methods.
 3. IHS Markit estimate based on data as of November 11, 2016

LNG IMPORT GROWTH IN 2016, BY REGION, MMT



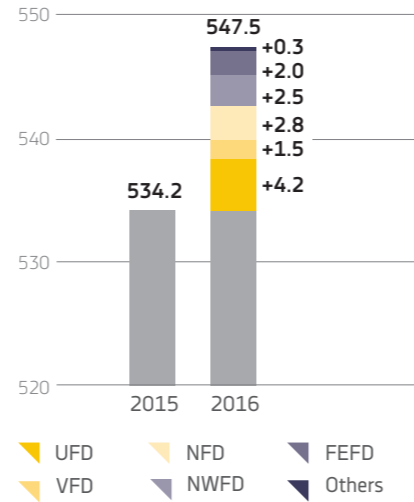
Source: IHS

OIL AND GAS CONDENSATE PRODUCTION IN RUSSIA, MMT



Source: CDU TEK

OIL AND GAS CONDENSATE PRODUCTION GROWTH BY FEDERAL DISTRICT, MMT



Source: CDU TEK

LNG MARKET

In 2016, 8 new LNG production lines with a total capacity of 35 mmt per year were put into operation in the USA, Australia and Malaysia.

In 2016, global LNG consumption grew 7% (17 mmt) to 265 mmt (approximately 364 bcm), demonstrating the highest annual growth rate since the commissioning of LNG plants in Qatar between 2009 and 2011. The growth of demand for LNG following a decline of 1.5% in 2015 was mainly driven by the Asian market, namely by an increase in demand in China (7.4 mmt) and India (4.6 mmt) (by contrast, in 2015 demand for LNG in the Asia-Pacific Region declined by 1.5%).

New LNG markets in the Middle East have also been expanding rapidly: in 2016, they grew by 8.1 mmt, mainly due to increased demand from Egypt, Jordan, Kuwait and the UAE.

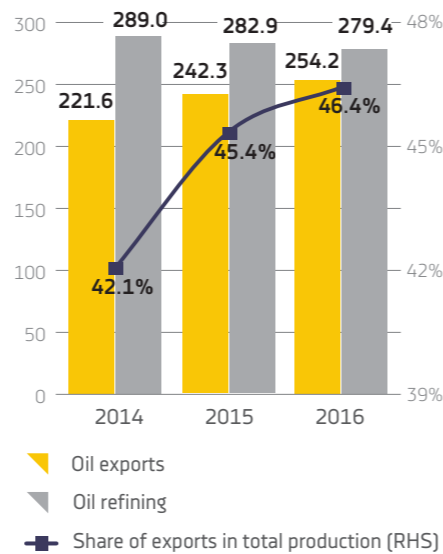
Meanwhile, demand for LNG in Latin America decreased significantly in 2016, (-4.0 mmt YOY to 8 mmt) primarily due to a reduction in imports into Brazil and

Argentina. LNG imports into Europe remained almost flat year on year (about 38 mmt).

OVERVIEW OF THE RUSSIAN OIL INDUSTRY

In 2016, oil and gas condensate production in Russia reached 547.5 mmt, up by 2.5% year on year. The Urals Federal District was the main contributor to production growth (+1.4% YOY, to 304.0 mmt; 55.5% of the total oil production in Russia), where a decline in production in the Khanty-Mansi Autonomous District (-1.6% YOY, to 239.2 mmt; 43.7% of the total production) was offset by higher production rates in the Tyumen Region (+3.8% YOY, to 12.3 mmt; 2.2% of the total production), and the Yamalo-Nenets Autonomous District (+16.8% YOY, to 52.5 mmt; 9.6% of the total production). The Siberian (+5.7% YOY, to 51.9 mmt; 9.5% of the total domestic production) and Northwestern (+8.1% YOY, to 33.7 mmt; 6.2% of the total production) Federal Districts also made an important contribution to the overall growth in oil production in Russia.

OIL AND GAS CONDENSATE EXPORT FROM AND REFINING IN RUSSIA, MMT



Source: CDU TEK



In 2016, Russian oil and gas condensate refining volumes decreased by 1.2% YOY to 279.4 mmt, while oil exports increased by 5.3% YOY to 254.2 mmt. Accordingly, in 2016, the share of export in the total oil and gas condensate production rose to 46.4%, reaching the highest level since 2011. The increase in oil and gas condensate exports was due to growing exports to countries outside the CIS (+7.1% YOY, to 236.1 mmt). Over 66% (~156.3 mmt) of export volumes outside the CIS were transported by sea, including 21% via Primorsk and 14% via the Kozmino oil port. Meanwhile, oil and gas condensate exports to CIS countries decreased by 16.9% YOY to 18.1 mmt in 2016.

The "big tax maneuver" in the Russian oil industry resulted in an increase in oil production by 3.9% in 2016 vs. 2014. Oil exports grew 14.7%, while oil refining volumes decreased by 3.3%.

OVERVIEW OF THE RUSSIAN GAS INDUSTRY

Primary gas consumers in Russia include power generation companies, households, utilities, and companies in the oil, metals and agrochemical industries. Together, they account for nearly 80% of total gas consumption in Russia.

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

The Government does not regulate gas prices charged by Rosneft and other independent gas producers which sell gas to end users; prices are based on agreements with customers. The common price benchmark is the wholesale price of gas produced by Gazprom and its affiliates and sold to domestic consumers. Wholesale prices are fixed by relevant orders of the Federal Anti-Monopoly Service of the Russian Federation (hereinafter referred to as regulated gas prices). Current wholesale gas prices for Russian consumers (excluding households) were set

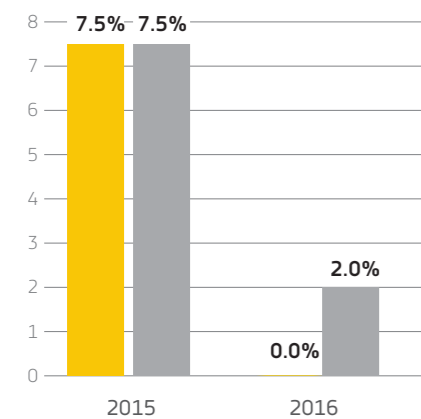
by Order No. 218-e/3 of the Federal Tariff Service (FTS of Russia) dated June 8, 2015 (the FTS was abolished by Presidential Decree No. 373 dated July 21, 2015, with the FAS of Russia appointed as its successor). In 2016, wholesale prices for domestic consumers (excluding households) were not indexed.

Current wholesale prices for gas produced by Gazprom and its affiliates and sold to Russian households were set by Order No. 554/16 of the Federal Anti-Monopoly Service dated March 28, 2016. Pursuant to the above Order, starting from July 1, 2016, regulated gas prices for household consumers were indexed by 2%.

Regulated gas prices differ by federal subject, with the price generally growing depending on the distance between the region in question and the main gas production area in the Yamalo-Nenets Autonomous District.

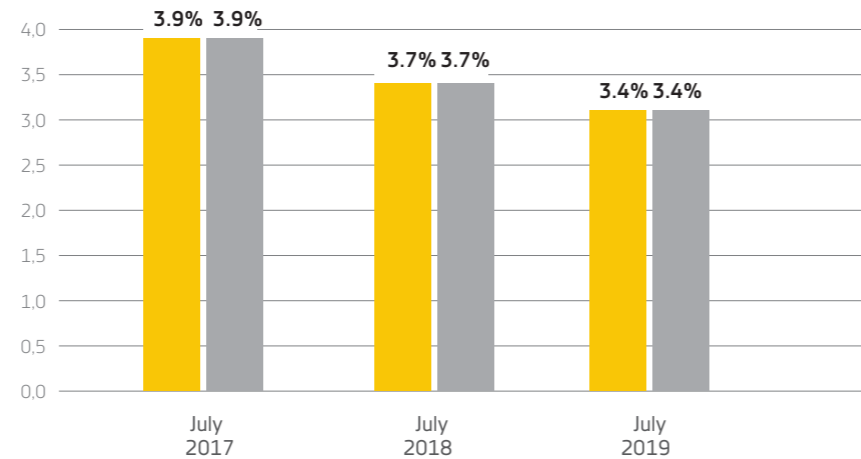
Gazprom, as the owner of trunk pipelines in the Unified Gas Supply System,

ACTUAL GROWTH IN REGULATED GAS PRICES IN RUSSIA



■ Price growth for industrial consumers
■ Price growth for households

PLANNED INDEXATION OF REGULATED GAS PRICES IN 2017-2019



■ Wholesale price indexation for all categories of consumers other than households
■ Price indexation for households

Source: Russian Social and Economic Development Forecast for 2017 and for the 2018-2019 Planning Period, approved by the meeting of the Government of the Russian Federation on October 13, 2016

provides gas transportation services to independent gas producers. Transportation charges are set by the FAS of Russia (previously by the FTS). Gas transportation services are priced based on a tariff consisting of two parts: the fee for the use of gas pipelines and the fee for gas pumping. The pipeline usage fee is set for the "inlet-outlet" pair and depends on the distance between these two points. The pumping fee depends on the handling and transportation costs associated with the transportation of gas by Gazprom.

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

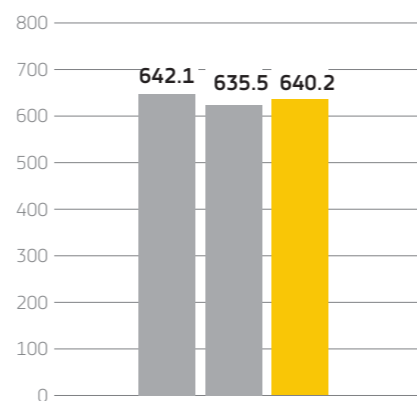
Gazprom also offers underground gas storage (UGS) services to independent gas producers. Currently, there are 25 underground gas storage facilities located in the main gas consumption regions. Fees for UGS usage are not regulated and are set by Gazprom on a case-by-case basis for each UGS facility for each new storage season (from April 1 to March 31 of the next year). Rosneft uses UGS facilities to offset the irregularity of gas consumption by end users.

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

In 2016, the St. Petersburg International Mercantile Exchange (SPIMEX) continued to develop organized trade in natural gas launched on October 24, 2014 in accordance with the order of the Presidential Commission for Strategic Development of the Fuel and Energy Sector and Environmental Safety. Organized trade in gas has been arranged from four national balancing points (the Nadym, Vyngapurovskaya, Parabel and Yuzhny Balyk Compressor Stations), with gas delivered in the following month. Starting from October 26, 2015, gas has also been traded with deliveries on a day-ahead basis.

In 2016, the total volume of trade amounted to 16.8 bcm. A total of almost 24 bcm of gas have been sold since the launch of the organized trade.

GAS PRODUCTION IN RUSSIA, BCM



Source: data from CDU TEK, including gas used for HL production

TYPES OF EXCISABLE GOODS	PREVIOUS TARGET EXCISE RATES FOR 2016 (FEDERAL LAW NO. 366-FZ DATED NOVEMBER 24, 2014)	RATES FOR THE PERIOD FROM JANUARY 1 THROUGH MARCH 31, 2016 (FEDERAL LAW NO. 323-FZ DATED NOVEMBER 23, 2015)	RATES FOR THE PERIOD FROM APRIL 1 THROUGH DECEMBER 31, 2016 (FEDERAL LAW NO. 34-FZ DATED FEBRUARY 29, 2016)
Motor gasoline			
• Non-compliant with Class 5	7,530	10,500	13,100
• Class 5	7,530	7,530	10,130
Diesel fuel	4,150	4,150	5,293
Motor oil	6,000	6,000	6,000
Straight run gasoline	10,500	10,500	13,100
Benzene, paraxylene, orthoxylene	3,000	3,000	3,000
Jet fuel	3,000	3,000	3,000
Middle distillates	3,000*	4,150	5,293

* Rate of excise on heating oil

OVERVIEW OF KEY CHANGES IN TAXATION IN THE RUSSIAN FEDERATION THAT HAD THE GREATEST IMPACT ON THE COMPANY'S FINANCIAL AND BUSINESS OPERATIONS

Continuation of the "big tax maneuver"

In 2016, the "big tax maneuver" continued in the oil industry (pursuant to Federal Law No. 366-FZ dated November 24, 2014), and some of its parameters were adjusted.

For instance, in accordance with the said Federal Law, the base rate of mineral extraction tax (MET) on crude oil was increased from RUB 766 per ton to RUB 857 per ton.

Following the adoption of Federal Law No. 324-FZ dated November 28, 2015, the formula used for calculating export duty rates for crude oil in 2015 remained in force for 2016: the K coefficient in the formula for calculating the total export duty rate for 2016 was set at 42% if the average Urals oil price (Coil) on global markets exceeds USD

182.5/t (Rate (total) = $K \times (\text{Coil} - 182.5) + 29.2$) (previously, it had been planned to reduce the coefficient to 36%)

Increase in the rates of excise on petroleum products

In addition, in 2016, the rates of excise on individual petroleum products were raised twice. As from April 1, 2017, the rate of excise on Euro 5 motor gasoline increased to RUB 10,130 per ton, while the rate on excise on diesel fuel increased to RUB 5,293 per ton.

Imposition of a "negative excise"

Starting from 2015, tax legislation provides for increased deductions (the so-called "negative excise") when straight run gasoline, benzene, orthoxylene and paraxylene are used in petrochemical production. In 2016, the total amount of excise tax refunds credited to the Company's current accounts through the "negative excise" mechanism totaled approximately RUB 2.5 bln.

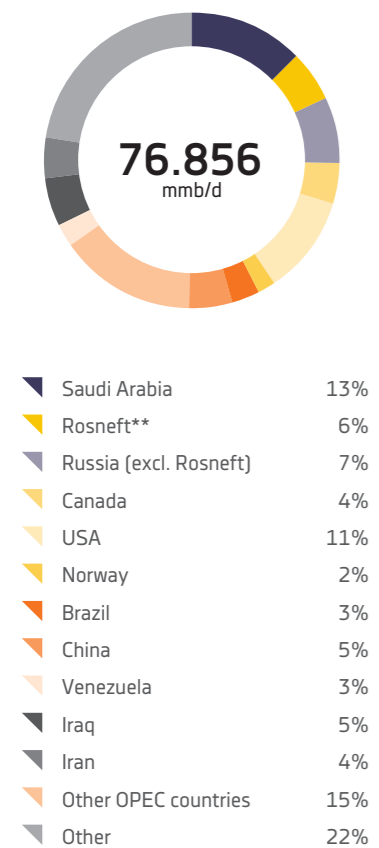
Further changes in tax legislation

As from January 1, 2017, the base MET rate was increased to RUB 919 per ton; the K coefficient in the formula for calculating the maximum export duty rate for oil was reduced to 30%; the export duty rate for fuel oil was set at 100% of the export duty rate for crude oil.

At the same time, pursuant to Federal Law No. 401-FZ dated November 30, 2016, an additional component (Kk) will be included in the MET rate for oil for the period from 2017 through 2019; it will be set at RUB 306 per ton in 2017, RUB 357 per ton in 2018 and RUB 428 per ton in 2019. In addition, pursuant to the said federal law, special rules will be introduced for recording losses for the purpose of corporate income tax, and part of income tax payments to the regional budget amounting to 1 percentage point of the tax rate will be redistributed to the federal budget during the period from 2017 through 2020.

1.6. COMPETITIVE ANALYSIS

SHARE IN GLOBAL OIL PRODUCTION*



UPSTREAM (HYDROCARBON EXPLORATION AND PRODUCTION)

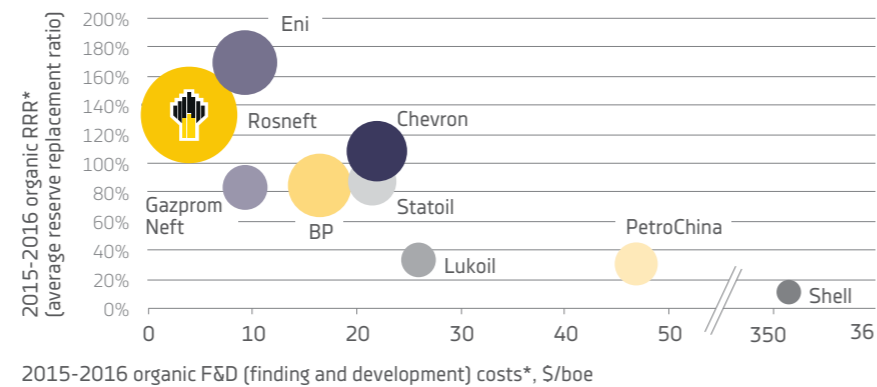
Rosneft is the largest oil and gas company in Russia and the world's largest holder of hydrocarbon reserves and producer of hydrocarbon liquids among public oil and gas companies. Although global oil prices have been decreasing over the past two years, the Company maintains steady growth of economically recoverable hydrocarbon reserves, unlike most of its competitors. This effect is achieved as a result of systematic work aimed at improving the efficiency of development of existing fields and commissioning of new fields and areas, as well as successful implementation of the exploration program. In addition, the integration of assets of PJSOC Bashneft also contributed to a further expansion of the resource base. Based on the findings of the audit conducted by DeGolyer & MacNaughton using the SEC (U.S. Securities and Exchange Commission)

classification providing for the evaluation through the end of the profitable field development, as of December 31, 2016, proved hydrocarbon reserves of Rosneft including the assets of PJSOC Bashneft amounted to 37,772 mmboe (5,111 mmtoe). Hydrocarbon reserves increased by 970 mmboe (131 mmtoe), or 3%*.

According to the PRMS (Petroleum Resources Management System) classification, as of December 31, 2016, 1P hydrocarbon reserves amounted to 46,075 mmboe (6,250 mmtoe); 2P reserves totaled 82,087 mmboe (11,092 mmtoe), while 3P reserves amounted to 116,758 mmboe (15,794 mmtoe). In 2016, 1P reserves grew by 2%; 2P reserves increased by 4%; total 3P reserves rose 3%¹.

As of the end of 2016, Rosneft was a leader among comparable international public oil and gas companies in terms of organic growth of reserves, the reserve replacement

RESERVE REPLACEMENT AND UPSTREAM COSTS*

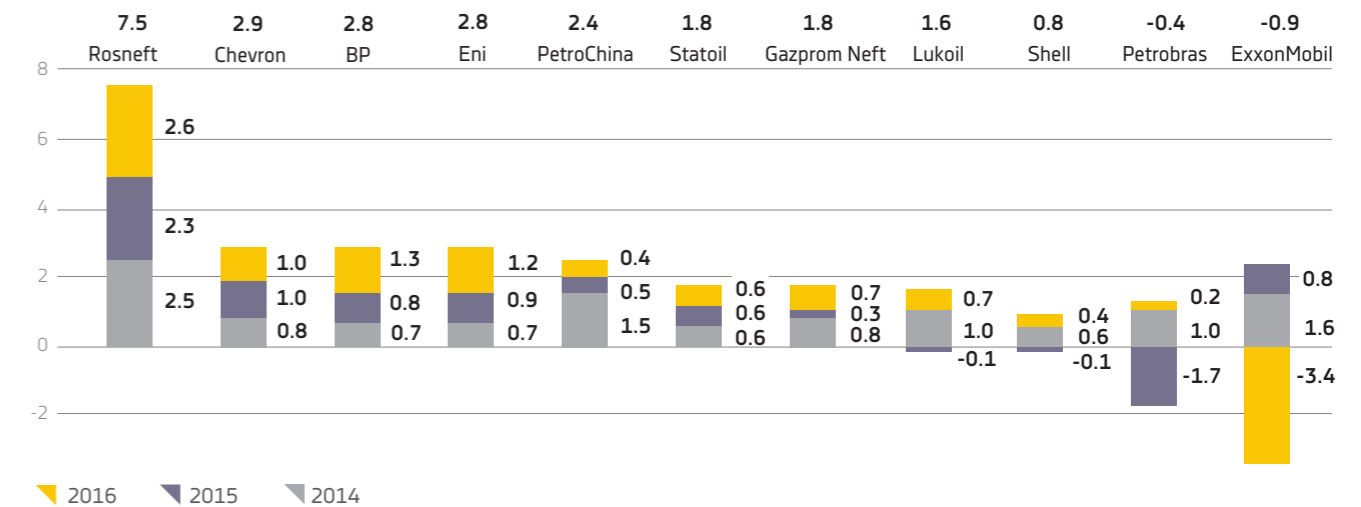


* Source: based on daily average HL production volumes in 2016 according to companies and Wood Mackenzie

** Source: IFRS reports

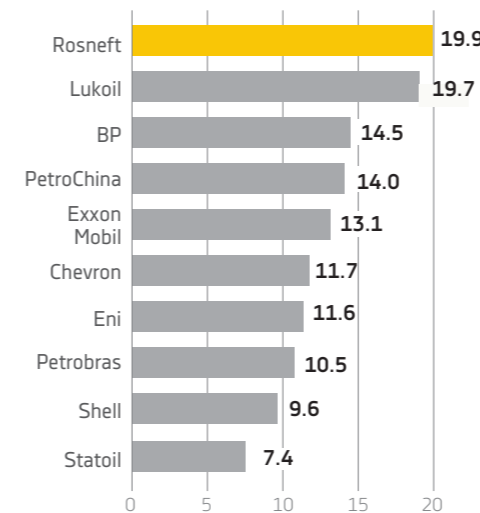
* Indicators include affiliates; indicators for PetroChina do not include affiliates. Data for ExxonMobil, Petrobras are not presented in the diagram due to negative growth of reserves.

ORGANIC GROWTH OF RESERVES IN 2014 - 2016 (SEC)*, BLN BOE



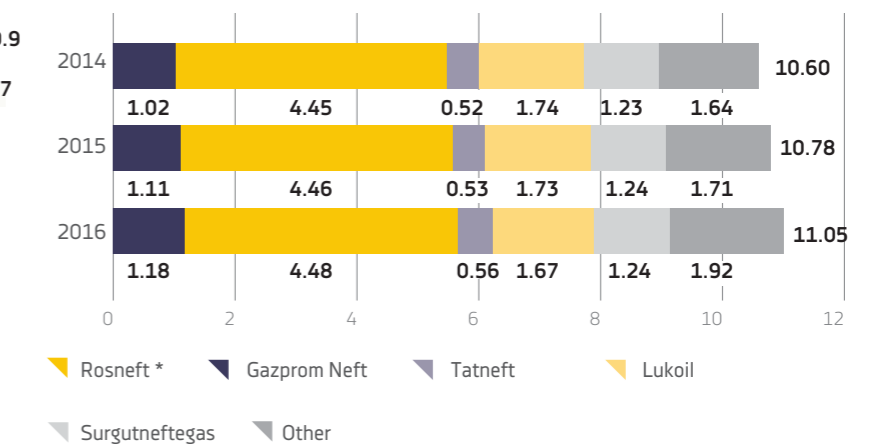
* Indicators include affiliates; indicators for PetroChina do not include affiliates.

RESERVE LIFE (SEC)*, YEARS



* - Indicators include affiliates; indicators for PetroChina do not include affiliates. Rosneft's production includes Bashneft since its acquisition.

OIL AND GAS CONDENSATE PRODUCTION IN THE RUSSIAN FEDERATION, MMBOE/DAY

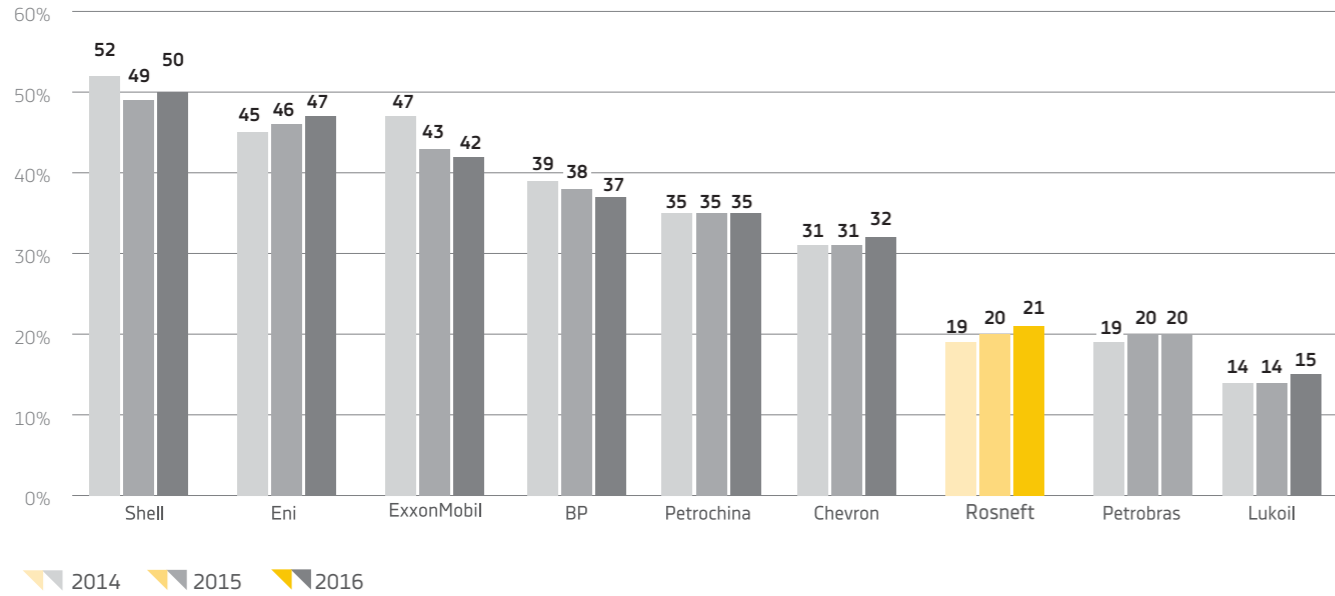


Data on competitors are provided according to CDU TEK in tons and converted using the companies' coefficients; other data are converted at the average ratio. Data for Rosneft are provided by the Central Dispatch Office of Rosneft.

* Pro forma data include the indicators of PJSOC Bashneft starting from January 1, 2014

1. The indicators are calculated on a pro forma basis, taking into account the assets of PJSOC Bashneft in 2015 and 2016

SHARE OF GAS IN HYDROCARBON PRODUCTION, %



ratio, including the organic reserve replacement ratio (excluding acquisition), and in terms of the reserve life. The proved hydrocarbon reserve replacement ratio according to the SEC classification stood at 148%*. The organic reserve replacement ratio amounted to 140%. In 2016, Rosneft's proved hydrocarbon reserves according to the SEC classification were sufficient for 19.9 years of production.

Rosneft is a leader in terms of volumes and cost of organic growth of reserves among public oil and gas companies in Russia and abroad due to the traditionally high efficiency of exploration.

The Company's share in oil production approximates 40% in the Russian Federation and 6% globally.

Effective management of the upstream asset portfolio and investments in the development of greenfields allows Rosneft to ensure a stable current and future growth in hydrocarbon production. In 2016, Rosneft's daily hydrocarbon production grew by 4.1% (on a pro forma basis including Bashneft's assets in 2015, growth totaled 2.3%), while the largest international oil and gas companies report an increase in daily hydrocarbon production ranging from -1.1% to +0.9% (ExxonMobil (-1.1%), Chevron (-1%), BP (+0.9%), Shell including BG assets in 2015 (+0.3%)).

Long-term production growth is ensured by the optimal set of new major upstream projects of the Company and the use of advanced production technologies at existing fields. In 2016, the Company started comprehensive testing of production, oil treatment and transportation facilities at the Suzunskoye field, and started production at the East Messoyakha field (developed jointly by Rosneft and PJSC Gazprom Neft). At the same time, Rosneft is taking active steps to start commercial production at other new large fields in Eastern and Western Siberia between 2017 and 2021, including the Tagulskoye, Lodochnoye, Urubcheno-Tokhomskeye, Russkoye, Kharampur fields (gas deposits) and the Kynsko-Chaselskaya group. During the development of these fields, the Company is using new drilling technologies (including drilling of horizontal wells) that have proved to be efficient at the Company's producing fields, enabling medium-term development of significant oil and gas reserves, including hard-to-recover reserves.

Against the backdrop of the global growth of production and use of gas as the greenest fossil fuel, Rosneft continues to expand the share of gas in its asset portfolio and in hydrocarbon production volumes (21%), gradually closing the gap between itself and major international companies (30-50%).

In Q4 2016, the Company increased gas production and became a leader among

6%

THE COMPANY'S SHARE in global oil production

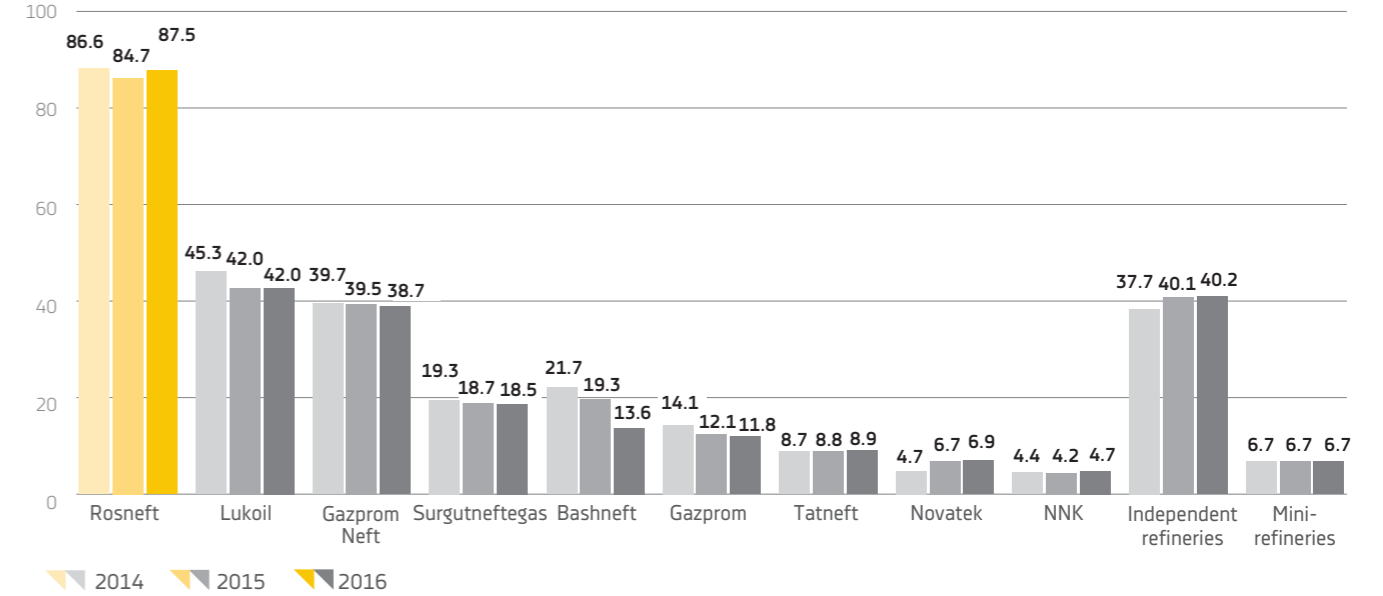
40%

THE COMPANY'S SHARE in oil production in Russia

21%

SHARE OF GAS in hydrocarbon production

CHANGES IN OIL REFINING IN THE RUSSIAN FEDERATION, MMT*



independent gas producers in Russia in terms of daily average gas production.

DOWNSTREAM (REFINING AND COMMERCE)

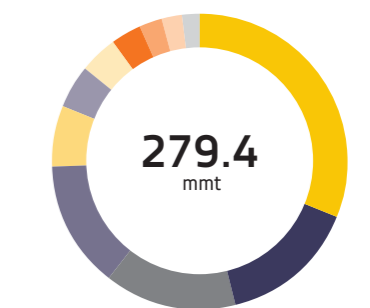
Rosneft is the largest oil and gas refining company in the Russian Federation. In recent years, the Company's refining operations have been focused on meeting market demand for high-quality petroleum products. For several years, Rosneft has been consistently implementing a refinery upgrade program, including renovation of the Komsomolsk Refinery, construction of the new Tuapse Refinery, renovation and modernization of the Achinsk Refinery, Angarsk Petrochemicals Company and the Samara group refineries. This has helped improve the quality of Rosneft's products and increased their competitiveness. This is the most ambitious refinery upgrade program in the Russian oil industry; one of its aims is to fulfill the Company's obligations under a quadripartite agreement. As part of this program, in 2015, the Company completed the transition to 100% production of Euro 5 motor fuels for the domestic market of the Russian Federation, in accordance with the requirements of the Technical Regulations. In 2016, the Company completed the construction and commissioned catalytic cracking and MTBE production facilities at the Kuibyshev Refinery; a catalyst

regeneration unit was put into operation at Novokuibyshevsk Catalyzers Plant LLC, and an RCPISA unit was commissioned at the Syzran Refinery. As part of the Company's import substitution program, in 2016, the Company switched over to using catalysts produced by JSC Angarsk Catalyzers and Organic Synthesis Plant at the kerosene hydro-treaters of the Achinsk Refinery and the catalytic reformers of JSC Ryazan Oil Refining Company.

The Company is an active player on the oil and petroleum product market in Russia and abroad. Rosneft is the largest oil exporter in the Russian Federation. Crude oil is exported to European, APR and CIS countries, sold on the international market and supplied for refining to the Company's own refineries in the Russian Federation and abroad.

The Company is expanding its footprint in the European market on the back of oil refining at refineries in Germany. In 2016, the Company had a 16.67% direct stake in the PCK refinery (Schwedt) and a 50% stake in Ruhr Oel GmbH (ROG) JV, whereas ROG had a stake in four refineries in Germany (Gelsenkirchen — 100%; Bayernoil — 25%, MiRO — 24%, PCK (Schwedt) — 37.5%). As from January 1, 2017, as a result of the restructuring of this joint venture with BP Plc, Rosneft's indirect interest increased respectively: the stake

STRUCTURE OF OIL REFINING IN THE RUSSIAN FEDERATION, MMT¹

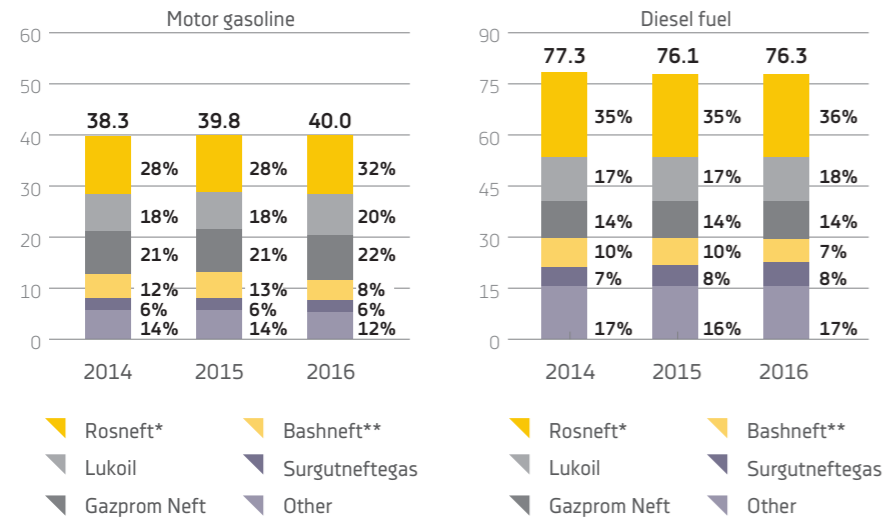


Rosneft	87.5
Lukoil	42.0
Independent refineries	40.2
Gazprom Neft	38.7
Surgutneftegas	18.5
Bashneft	13.6
Gazprom	11.8
Tatneft	8.9
Novatek	6.9
Mini-refineries	6.7
NNK	4.7

1. According to CDU TEK. Data Bashneft's refining volumes are provided until October 1, 2016. Starting from October 1, 2016, Bashneft's refining volumes are included in Rosneft's volumes.

* Pro forma data

MOTOR FUEL PRODUCTION IN THE RUSSIAN FEDERATION, MMT



According to CDU TEK

* IFRS data
** Data for Q1-Q3 2016, before the acquisition by Rosneft

in the Bayernoil Refinery increased to 25% (from 12.5%); the stake in the MiRO Refinery increased to 24% (from 12%); the stake in the PCK Refinery (Schwedt) increased to 54.17% (from 35.42%). The Gelsenkirchen Refinery is now totally controlled by BP Plc. At the same time, Rosneft is consistently implementing plans for diversification on the fastest growing markets of the Asia-Pacific Region. Rosneft signed an agreement on the sale and purchase of a 49% stake in Essar Oil Limited, which owns the 20 mmt Vadinar Refinery with integrated infrastructure and a large network of filling stations in India comprising over 3000 filling stations.

The establishment of strategic partnerships with oil and gas companies in the region, expansion of direct supplies of oil and petroleum products and implementation of new projects, including the construction of the Tuban refining and petrochemical complex (with a primary capacity of 15 mmt) in the eastern part of the island of Java (Indonesia) will help the Company to enter new growing markets in the APR. Rosneft and Pertamina signed an agreement on the establishment of a joint venture.

The Company is consistently expanding its export volumes under long-term

contracts, including oil supplies under contracts with CNPC and supplies to Europe under direct contracts. The Company is expanding the geography of direct deliveries of its oil and petroleum products. Rosneft and Hellenic Petroleum reached an agreement on the first direct supplies of 85,000 tons of CPC Blend crude oil and up to 90,000 tons of fuel oil produced by the Tuapse Refinery to Greek refineries between September and November 2016.

The Company's main competitors in Russian oil exports are Russian vertically integrated companies such as LUKOIL, Surgutneftegas and Gazprom Neft. There is no direct competition in the sphere of oil export since all Russian producers have their own export schedule for oil transport outside the Russian customs zone based on equal access to the main oil pipeline system and seaport terminals. The main competitors supplying other crude oil grades to the export market are international and national oil companies such as Shell, BP, ExxonMobil, Chevron, Total, Statoil, Saudi Aramco, NIOC, etc.

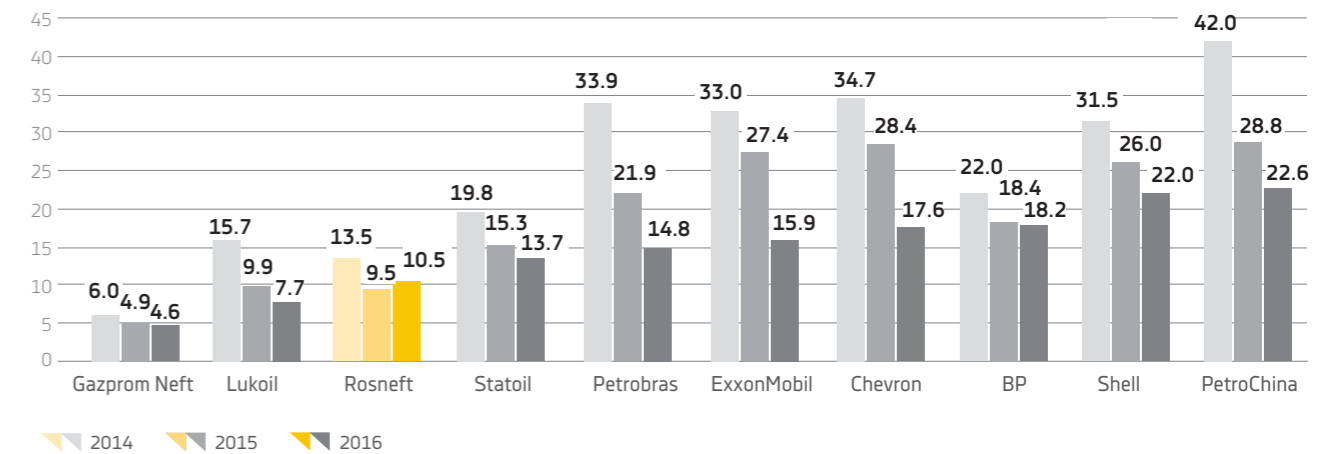
In 2016, Rosneft's share of the wholesale motor gasoline and diesel fuel market of the Russian Federation totaled 32% and 36% respectively.

2,897

FILLING STATIONS —
THE LARGEST RETAIL
NETWORK IN RUSSIA

Rosneft has the largest retail chain (2,897 filling stations) across Russia. Petroleum products are sold on the domestic market in all federal districts of the Russian Federation. The Company has sufficient own and engaged infrastructure for marketing and distribution of petroleum products (oil depots, filling stations) taking into account the capacity of regional markets and consumer demand. Rosneft's trademark is one of the most recognizable trademarks on the market in the regions where the Company operates, and it is associated with high quality of fuel sold at filling stations, which is highly important for remaining competitive. The Company's main competitors in the sphere of domestic sales of petroleum products are Russian vertically integrated companies such as LUKOIL, Surgutneftegas, Gazprom Neft, Tatneft, etc. The main competitors supplying petroleum products to the export market are the largest

CAPEX IN THE UPSTREAM AND DOWNSTREAM SEGMENTS (MAJORS), USD BLN



*2014 IFRS figures have been converted into US dollars at the average exchange rate for the year

international oil companies such as Shell, BP, Total, ExxonMobil, Chevron, etc.

OPERATIONAL AND FINANCIAL PERFORMANCE

Amid a continuing decline in oil prices, in 2016, Rosneft demonstrated strong operational, financial and investment management performance.

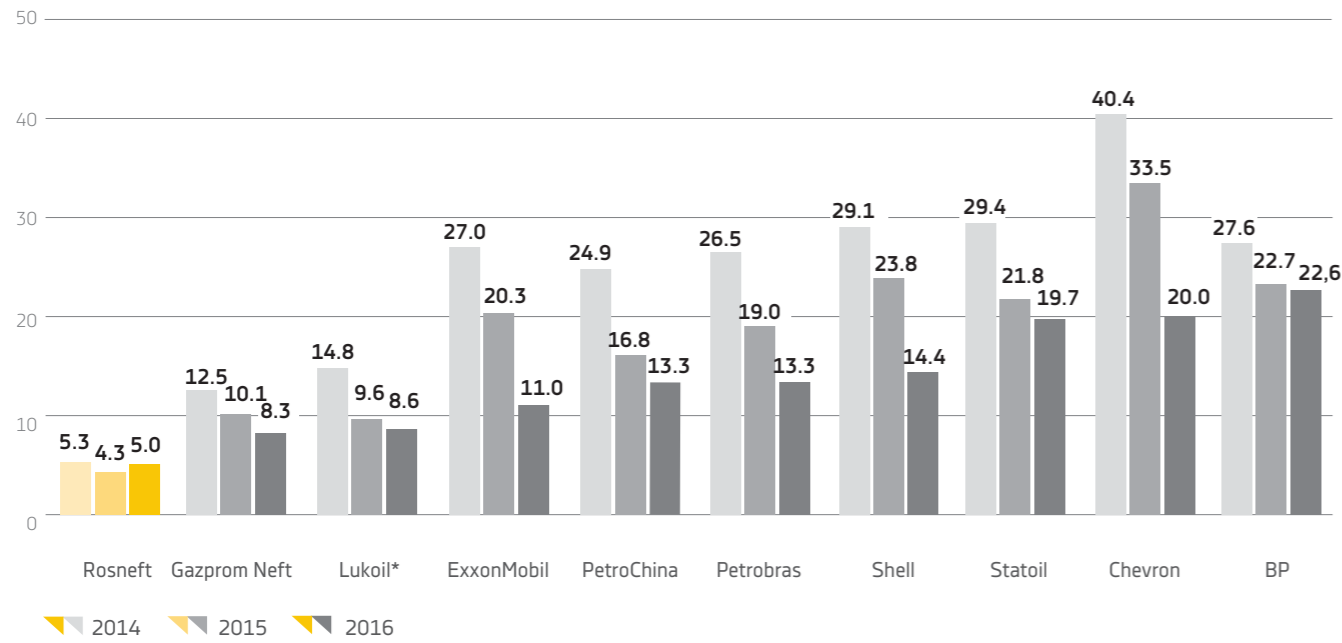
In 2016, despite an increase in capital expenditures in the upstream segment due to the start of the active phase of commissioning of new large-scale projects, Rosneft managed to maintain the lowest volume of capital investments compared to major international companies. Highly efficient investment in exploration and production helped the Company to maintain optimal production growth with the lowest unit CAPEX level in the industry. Rosneft has long been a leader in the oil industry in terms of lifting costs per barrel of oil equivalent. In 2016, the Company almost returned to the 2010 production cost level.

For many years, Rosneft has been consistently generating a positive free cash flow. Amid a continued decline in the average annual oil price and a substantial increase in the Company's capital expenditures in 2016, growth of operating income and efficient working capital management

allowed Rosneft to generate significant positive free cash flow, while most of its competitors reported negative results.

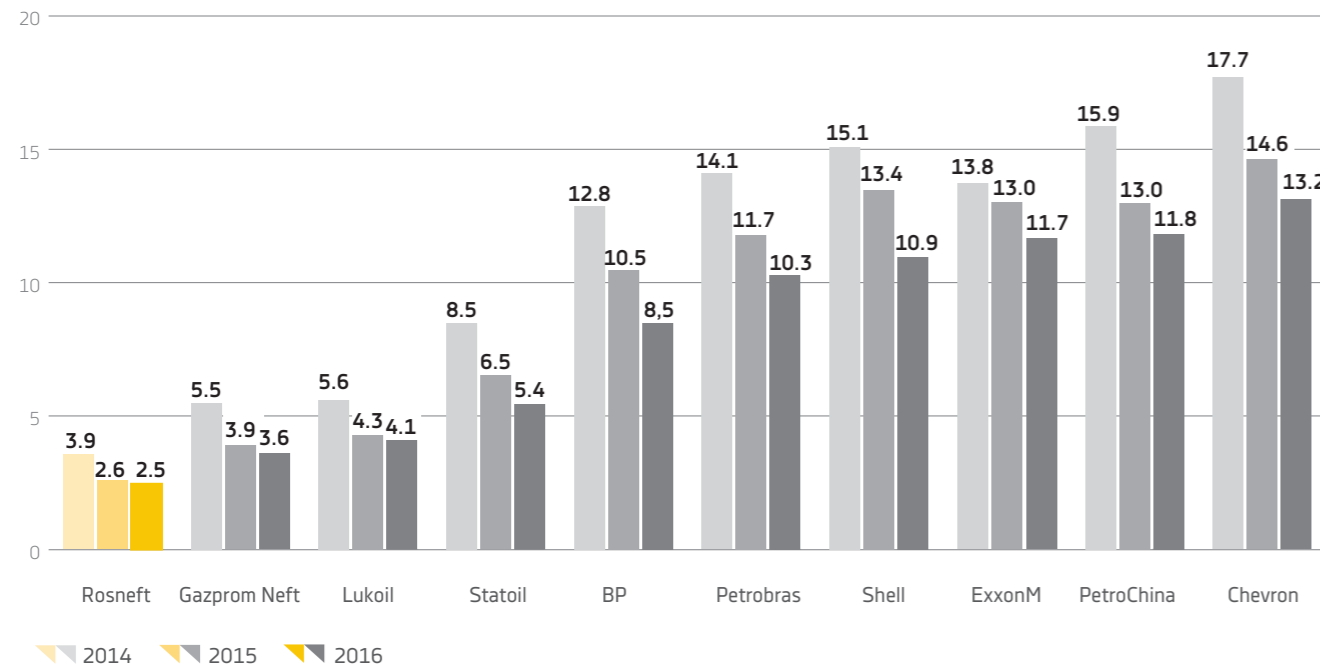
Rosneft effectively manages external debt. At the end of 2016, the Company reduced the financial leverage to 34% as against 37% at year-end 2015; in addition, it maintains the net debt to EBITDA ratio at a comfortable level of 1.5x in USD terms, taking into account the consolidation of Bashneft. By contrast, comparable foreign companies are increasing their volumes of external borrowings amid a decline in revenue.

UNIT CAPEX, UPSTREAM, \$/BOE

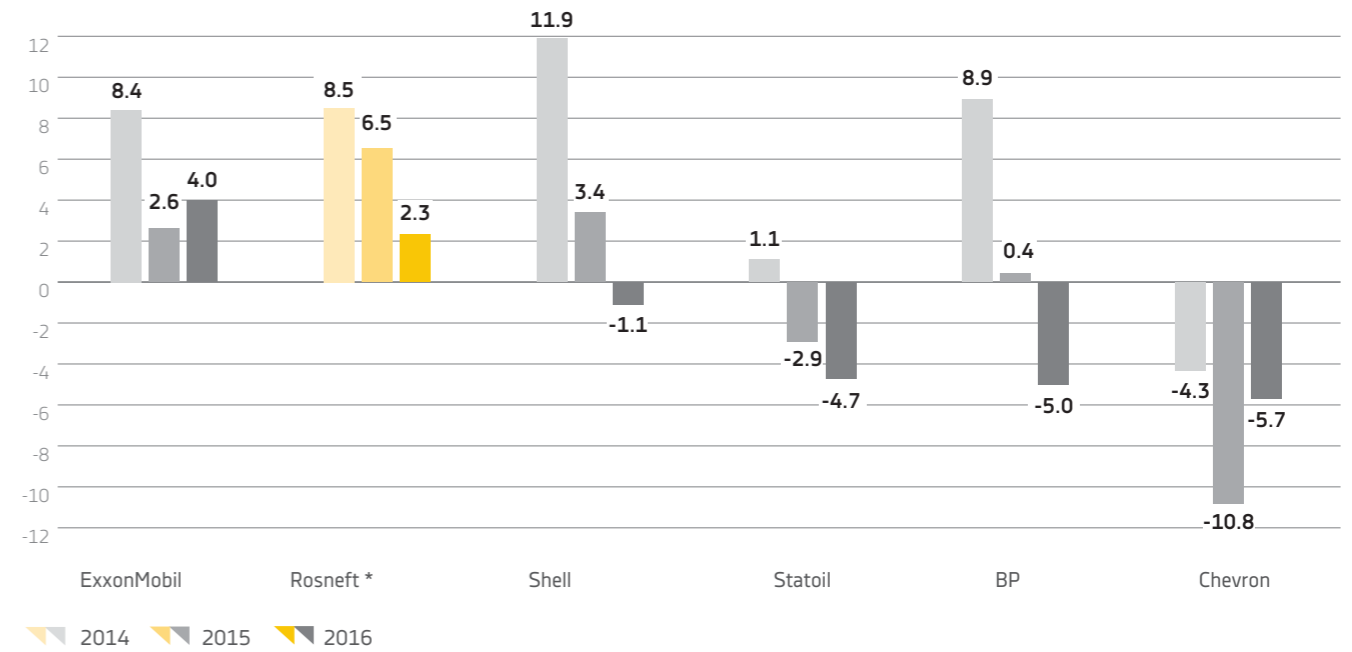


*Lukoil – 2014 IFRS figures have been converted into US dollars at the average exchange rate for the year

UNIT LIFTING COSTS, \$/BOE

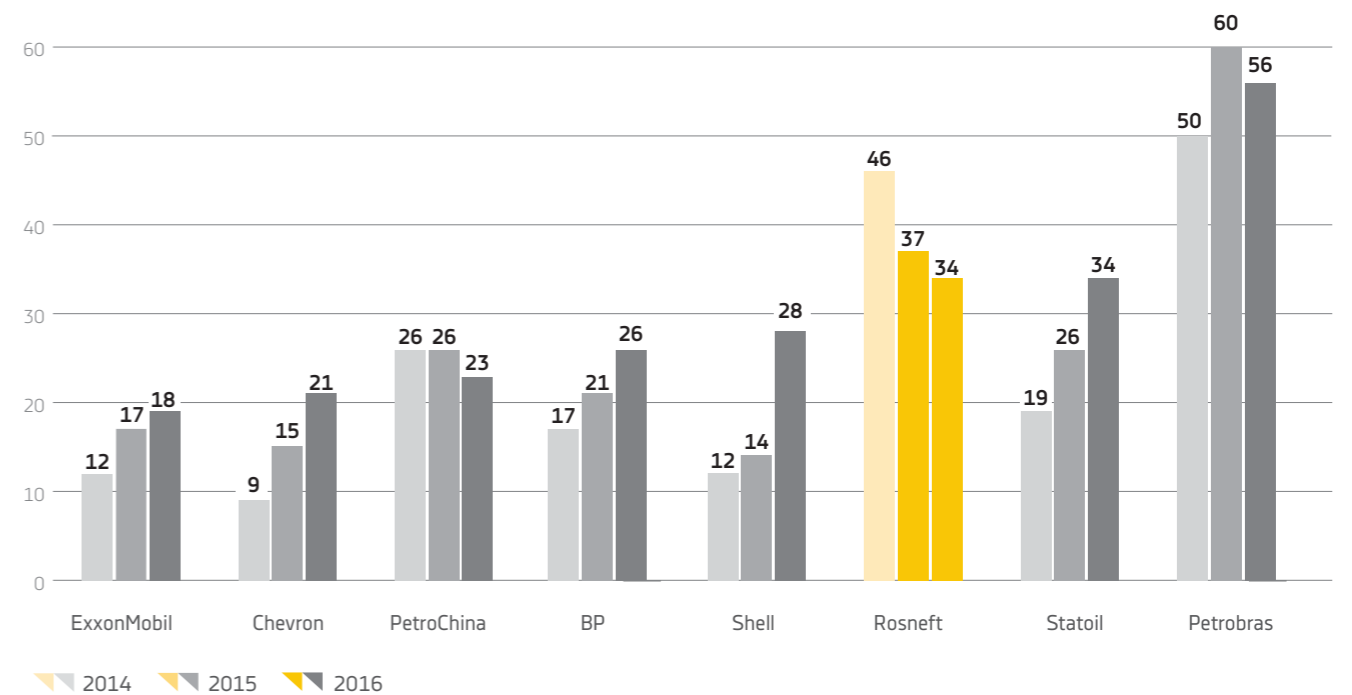


2016 FCF: COMPARATIVE ANALYSIS (MAJORS), USD/BOE



*Per boe of produced hydrocarbons, including subsidiaries

2014-2016 FINANCIAL LEVERAGE* (GEARING): COMPARATIVE ANALYSIS, %



* Financial leverage (gearing) = (total debt - cash and cash equivalents) / (total debt - cash and cash equivalents + share capital + minority interest)

02. MISSION AND STRATEGY OF THE COMPANY

- 2.1. Business model of the Company
- 2.2. The Company's strategic goals
- 2.3. Results of implementation of the development strategy and the long-term program in 2016
- 2.4. Long-term development program and report on its implementation

- 2.5. KPI system of the Company
- 2.6. Key operating and financial results
- 2.7. Implementation of the investment program in 2016



ROSNEFT'S MISSION IS TO EFFICIENTLY UNLOCK RUSSIA'S ENERGY POTENTIAL, ENSURE ENERGY SECURITY AND GOOD STEWARDSHIP TO NATURAL RESOURCES.

THE COMPANY'S LONG-TERM DEVELOPMENT PROGRAM PROVIDES FOR:



A RESERVE REPLACEMENT RATIO EQUAL TO OR EXCEEDING 100%



EFFICIENT PRODUCTION AT BROWN-FIELDS AND PRODUCTION GROWTH DRIVEN BY NEW PROJECTS IN EASTERN RUSSIA



DEVELOPMENT OF HARD-TO-RECOVER RESERVES AND EFFICIENT OFF-SHORE DEVELOPMENT



GAS PRODUCTION GROWTH



AN OPTIMAL REFINERY CONFIGURATION AND MAXIMIZATION OF PROFIT FROM SALES OF THE COMPANY'S PRODUCTS

2.1 BUSINESS MODEL OF THE COMPANY

SHAREHOLDER VALUE GROWTH DRIVEN BY STRONG PERFORMANCE ACROSS THE ENTIRE PRODUCTION CYCLE

KEY VALUE CREATION INDICATORS IN 2016



VALUE CREATION FACTORS AND COMPETITIVE ADVANTAGES

1. First-class resource base
2. Low reserve replacement costs
3. Long-term resource potential based on onshore and offshore exploration and hard-to-recover reserves

1. Commissioning of new upstream assets and production maintenance at brownfields
2. High business performance and resilience to changes in the environment
3. Developing and using advanced technology, developing in-house oilfield services, establishing strategic partnerships

1. Launch of new gas projects
2. Growth of the domestic market share driven by long-term contracts
3. Development of new monetization channels (new markets, customers, types of products)

1. Value creation through vertical integration
2. Extensive refinery upgrade program in Russia
3. Geographically diversified portfolio

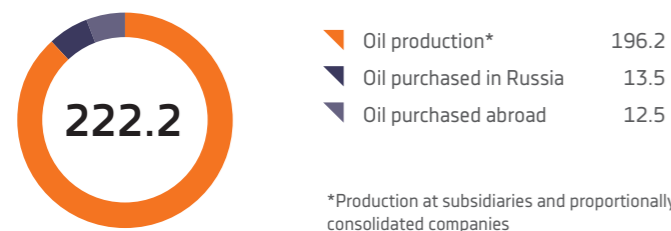
1. Improving the performance of existing assets
2. Strong brands and high service standards at filling stations
3. Development of trading competencies in order to effectively sell the Company's products, and gaining access to consumers

1. Pro forma data

1. Including Euro 5 motor gasoline and diesel fuel, and jet fuel

SHAREHOLDER VALUE GROWTH DRIVEN BY STRONG PERFORMANCE ACROSS THE ENTIRE PRODUCTION CYCLE

OIL RESOURCES, MMT

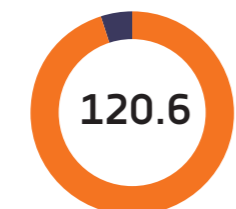


*Production at subsidiaries and proportionally consolidated companies

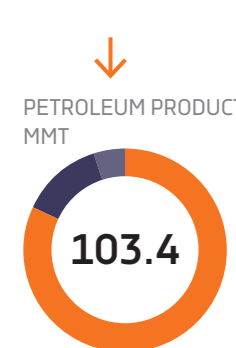
OIL REFINING, MMT



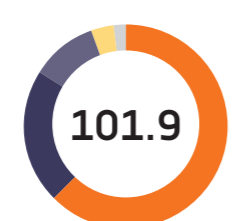
CRUDE OIL SALES**, MMT



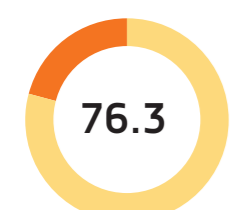
PETROLEUM PRODUCT RESOURCES, MMT



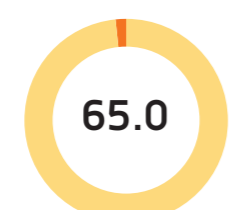
PETROLEUM PRODUCT SALES**, MMT



GAS RESOURCES, BCM



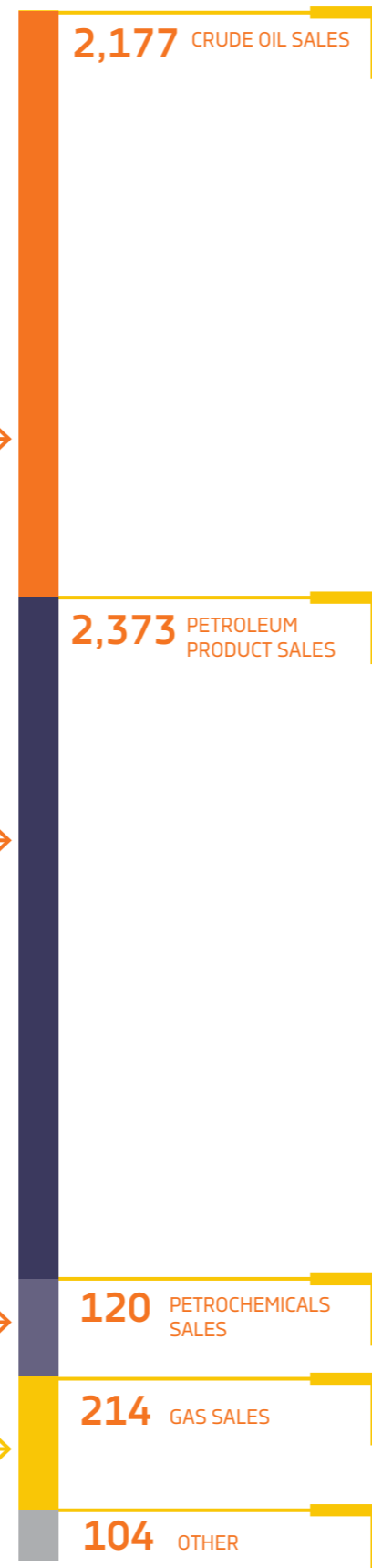
GAS SALES**, BCM



*Production at subsidiaries and proportionally consolidated companies

**Difference between oil, petroleum products and gas resources and sales volumes is due to utilization of the such resources for the own needs, in-group supplies as well as changes in reserves volumes and technological losses.

REVENUE STRUCTURE, RUB BLN



2.2 THE COMPANY'S STRATEGIC GOALS

ACHIEVING STRATEGIC GOALS ENABLES THE COMPANY TO IMPLEMENT ITS MISSION AND VISION



EXPLORATION



- Efficient growth of reserves
- Discovery of new oil and gas fields
- Preparation for commercialization of Russian offshore resources



OIL AND GAS PRODUCTION



- Stabilization of production and ensuring efficiency at existing fields; APG utilization
- Growth driven by new oil and gas production projects
- Acquisition of unique competencies and highly profitable investments in Russian and international projects
- Development of hard-to-recover reserves and complex reservoirs
- Development of technological and operator competencies



REFINING AND SALES



- Leadership in the Russian oil refining sector in terms of efficiency and safety
- Uninterrupted supply of petroleum products to the domestic market
- Strong brand, efficient sales channels
- International trading development in order to maximize sales value; development of efficient gas monetization channels

PRINCIPLES UNDERLYING THE COMPANY'S OPERATIONS

1. Health, safety and environment

- Compliance with the highest industrial and fire safety, health and environmental safety standards

2. Corporate governance

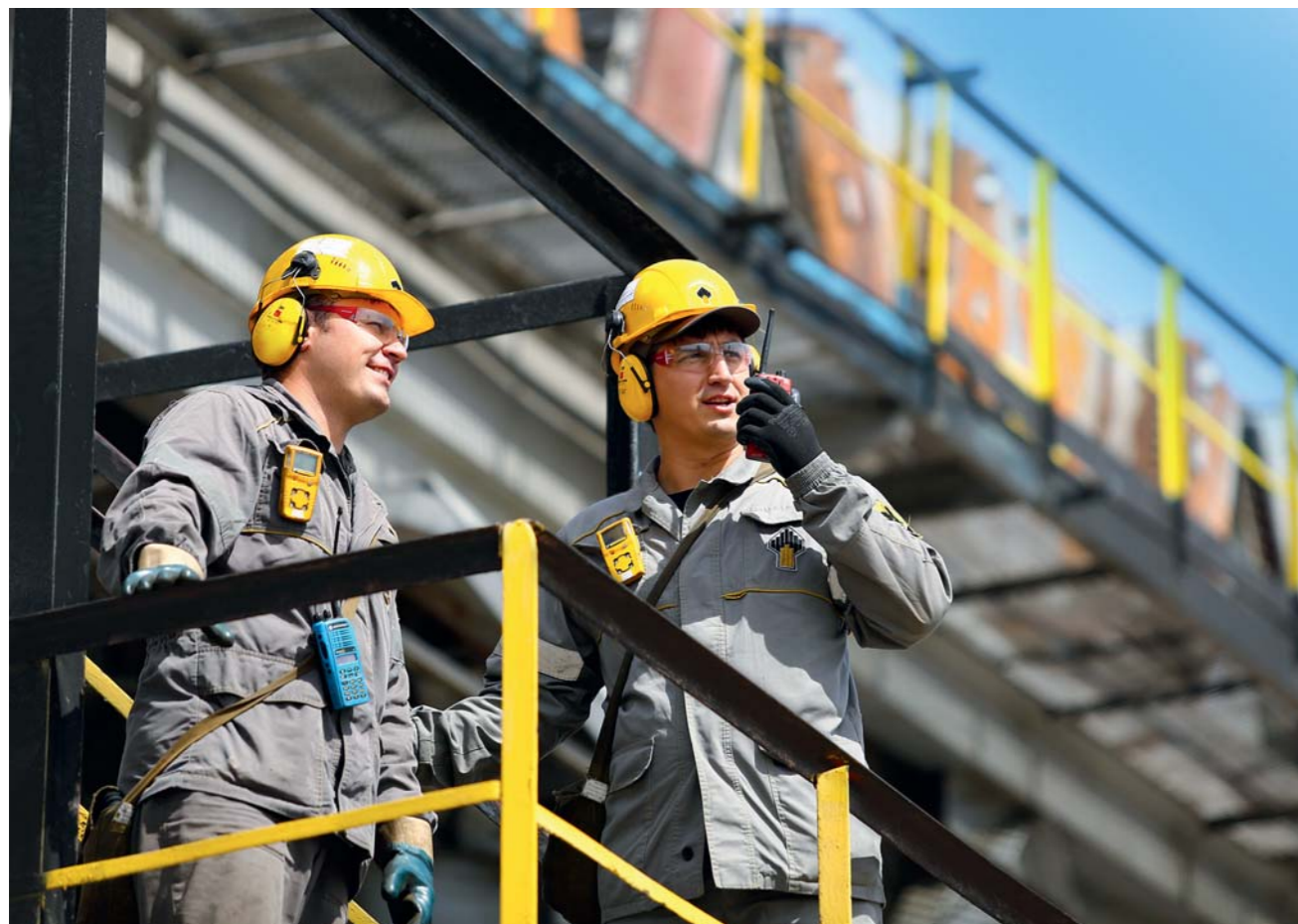
- Development of organizational competencies and human resources, high governance standards
- Commitment to high ethical standards of business conduct

3. Finance and investments

- Efficient capital and risk management
- Investment discipline and portfolio management

4. Technology development

- Development and implementation of advanced technologies including technologies for the development of hard-to-recover and offshore reserves
- Localization of manufacture of high-tech products and development of the service sector



COMPANY VALUE FOR VARIOUS STAKEHOLDERS

66

REGIONS OF RUSSIA covered by the retail business — a major reliable fuel supplier to consumers in Russia

~2

RUB TRLN taxes and customs duties paid by Rosneft in 2016 — one of the largest taxpayers in Russia

738

RUB BLN in investment — one of the largest investors

295.8

THSD EMPLOYEES total headcount — one of the largest employers in Russia

25

RUB BLN expenditure on social programs — a socially responsible business

35%

OF NET INCOME* allocated for dividend payments

STRATEGIC RISKS

- Fall in global energy prices
- Increase in taxes and tariffs
- Imposition of artificial restrictions on the Company's operations (including restrictions on financing and access to technologies)
- Stronger competition on Asian and European export markets
- Increase in energy efficiency and reduction of specific consumption of hydrocarbons in various sectors of the economy

* Under IFRS for 2015

2.3 RESULTS OF IMPLEMENTATION OF THE DEVELOPMENT STRATEGY AND THE LONG-TERM PROGRAM IN 2016

BUSINESS SEGMENT	RESULTS AND KEY ACHIEVEMENTS IN 2016	LONG-TERM STRATEGIC GOAL
------------------	--------------------------------------	--------------------------



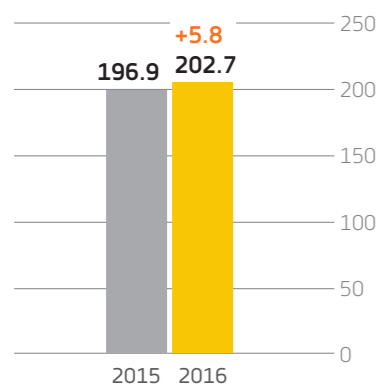
PRODUCTION OF HYDROCARBON LIQUIDS

PRODUCTION OF HYDROCARBONS TOTALING 300* MMTOE IN RUSSIA AND ABROAD ONSHORE AND OFFSHORE BY 2020

*Excluding acquired assets

ONSHORE PRODUCTION IN RUSSIA

HL production*, mmt



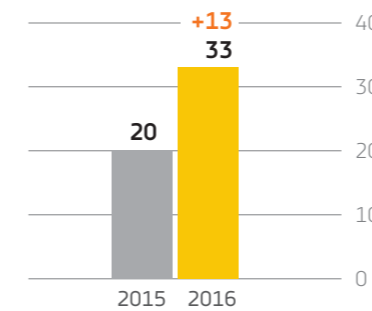
- Acquisition of PJSOC Bashneft's upstream assets
- 43% increase in commissioning of new wells; 35% increase in production drilling
- Commissioning of the East Messoyakha field; comprehensive technological testing of oil production, treatment and transportation facilities at the Suzunskoye field
- Increase in production at the brownfields of RN-Yuganskneftegaz LLC (+2.5% compared to Q4 2015), JSC Samaraneftgaz (+3.0% compared to Q4 2015)
- Oil supply from the Urubcheno-Tokhomskiye field to the Kuyumba-Taishet trunk pipeline

* Production of subsidiaries, proportionally consolidated entities, share in production of associates and joint ventures.

BUSINESS SEGMENT	RESULTS AND KEY ACHIEVEMENTS IN 2016	LONG-TERM STRATEGIC GOAL
------------------	--------------------------------------	--------------------------

RUSSIAN SHELF

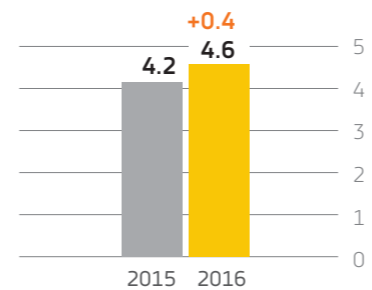
2D seismic, '000 km



- A large-scale offshore exploration program was implemented; fulfillment of license obligations exceeded the target by a factor of more than 2
- The Zvezda shipbuilding complex was put into operation in the Far East; its operations are focused on marine engineering and shipbuilding for the implementation of offshore projects
- Production increase as part of the Northern Chaivo and Sakhalin-1 projects

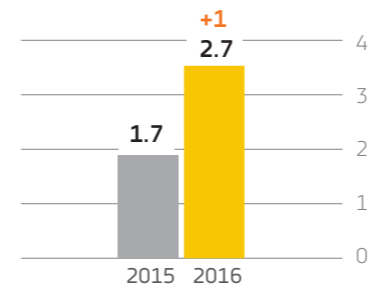
Stated on page 46

Oil production, mmt



INTERNATIONAL PROJECTS

Oil and gas condensate production, mmtoe



- Increase of the stake in JV Petromanagas to 40%
- Acquisition of up to 35% in a concession agreement on the development of the Zohr field (Egypt)

Stated on page 46

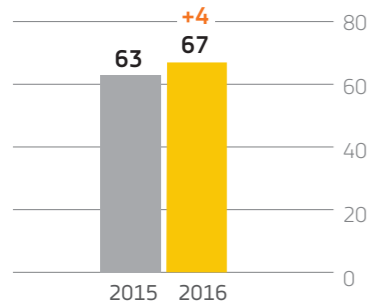
BUSINESS SEGMENT

RESULTS AND KEY ACHIEVEMENTS
IN 2016

LONG-TERM
STRATEGIC GOAL

GAS BUSINESS

Gas production, bcm



- 47% production increase as part of the Rosspan project
- Increase of APG utilization to 90%

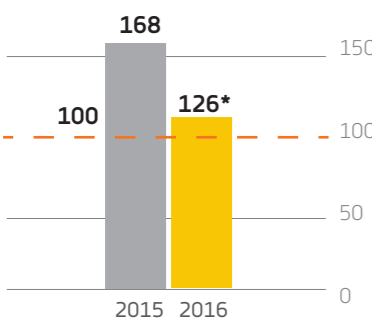
- GAS PRODUCTION TOTALING 100 BCM IN 2020
- ACHIEVEMENT OF A 95% ASSOCIATED GAS UTILIZATION RATE
- THE COMPANY'S SHARE ON THE DOMESTIC MARKET EXCEEDING 20%



EXPLORATION

EXPLORATION AND DEVELOPMENT OF THE RESOURCE BASE

AB1C1 reserve replacement, %



- 13 fields and 127 new deposits with AB1C1+B2C2 reserves exceeding 207* mmtoe were discovered
- Establishment of JV Ermak Neftegaz together with BP in order to carry out exploration in Western Siberia and the Yenisey-Khatanga basin
- In 2016, the reserve replacement ratio totaled 126%*.

*Pro forma data

RESERVE REPLACEMENT RATIO EXCEEDING 100%

BUSINESS SEGMENT

RESULTS AND KEY ACHIEVEMENTS
IN 2016

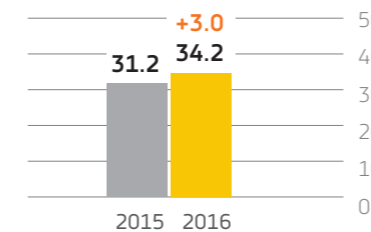
LONG-TERM
STRATEGIC GOAL



DOWNSTREAM

OIL REFINING AND PETROCHEMICALS

Output of motor and jet fuel complying with the Technical Regulations in Russia, mmt*



- Increase in production of high-quality* motor gasoline, diesel fuel and kerosene by 3.0 mmt
- Commissioning of new process units to increase the production of motor fuel:

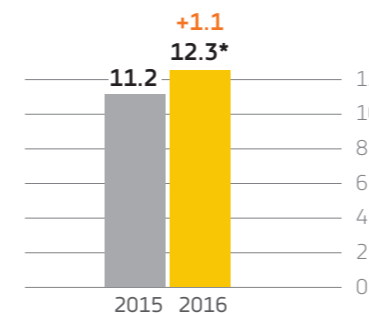
- A catalytic cracking unit
- A process unit producing MTBE (a high-octane component of motor gasoline)

*Including Euro 5 motor gasoline and diesel fuel (Euro 4 and 5 in 2015) and jet fuel

OUTPUT OF MOTOR AND JET FUEL COMPLYING WITH THE TECHNICAL REGULATIONS IN RUSSIA TOTALING 55 MMT

COMMERCE AND LOGISTICS

Retail sales, mmt



- Increase in fuel sales via high-margin stable sales channels
- New loyalty program in the filling station network
- Railway supplies to a new premium destination: China

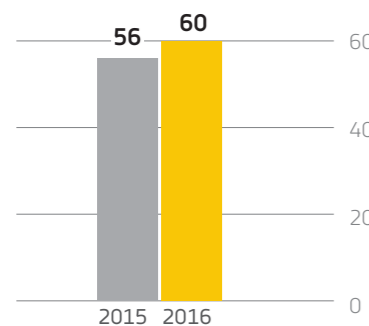
* Pro forma data

RELIABLE FUEL SUPPLY TO CONSUMERS

BUSINESS SEGMENT

RESULTS AND KEY ACHIEVEMENTS
IN 2016LONG-TERM
STRATEGIC GOALIN-HOUSE
SERVICES

IN-HOUSE SERVICES

Meeting the Company's demand for
drilling services, %

- 26% expansion of the drilling rig fleet and 30% increase in the number of in-house well servicing and workover crews
- Acquisition of an oilfield service company, Targin

ESTABLISHMENT OF A
HIGH-TECH OILFIELD SER-
VICE BUSINESS WITH THE
STRONGEST ECONOMIC AND
TECHNOLOGICAL PERFOR-
MANCE IN THE INDUSTRY

2.4. LONG-TERM DEVELOPMENT PROGRAM AND REPORT ON ITS IMPLEMENTATION



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

Pursuant to Directive No. 4955-P13 of the Russian Government dated July 17, 2014, the Long-Term Development Program of Rosneft should be updated every year. The program was updated in 2016. More specifically, certain measures aimed at achieving long-term goals were described in greater detail, and measures developed pursuant to the Directives of the Russian Government (No. 4955p-P13 dated July 17, 2014, No. 7758p-P13 dated November 12, 2014, No. 1346p-P13 dated March 5, 2015 and No. 2303p-P13 dated April 16, 2015, No. 7389p-P13

dated October 31, 2014, No. 1472p-P13 dated April 3, 2016, No. 4531p-P13 dated June 28, 2016, No. 4750p-P13 dated July 4, 2016) were updated. This included providing a description of measures aimed at the development in the Far East and measures to improve the quality of planning in a separate section.

At the same time, the long-term strategic goals and objectives of the Program remained unchanged and are consistent with the Company's Development Strategy. The updated Long-Term Development Program was approved by the Board of Directors (Minutes No. 10 dated October 17, 2016).

The Program specifies the areas of the Company's strategic development, targets and goals for all business areas and corporate functions; it includes a list of main initiatives aimed at the implementation of the Company's Strategy for the period up to 2030.

2.5. KPI SYSTEM OF THE COMPANY

STRUCTURE OF THE KPI SYSTEM



THE LONG-TERM DEVELOPMENT PROGRAM PROVIDES FOR

- a reserve replacement ratio equal to or exceeding 100%,
- efficient production at brownfields and production growth driven by new projects in Eastern Russia,
- development of hard-to-recover reserves,
- efficient offshore development,
- gas production growth driven by a highly efficient long-term sales portfolio,
- an optimal refinery configuration and maximization of profit from sales of the Company's products.

The main areas, key performance indicators and measures included in the current version of the Innovative Development Program (see section 6.9 "Research, design and innovations") the Program of import substitution and localization of equipment manufacturing (see section 4.7 "Localization and development of industrial clusters") and the Energy Conservation Program (see section 6.6 "Enhanced energy efficiency and energy conservation") have been developed taking into account the Long-Term Development Program of Rosneft and are fully integrated in the current version of the document. The list of key indicators of the program includes an integrated indicator for innovative activities. Rosneft's Investment Program is designed to ensure the accomplishment of the Company's strategic objectives specified in the Strategy and the Long-Term Development Program for key businesses (see section 2.7 "Implementation of the investment program in 2016").

When implementing its Program, the Company is guided by the principles of business efficiency and sets itself a goal of achieving performance targets in all key areas. All key measures specified in the Long-Term Development Program for 2016 for the key businesses and functional units were implemented. The results of implementation of the Long-Term Development Program for 2016 are described in section 3 "Operating results".

An audit of the implementation of Rosneft's Long-Term Development Program was carried out by an external auditor, Ernst & Young LLC. Following the

external audit, the auditor issued an opinion on the accuracy of information on the implementation of the 2016 Program by the Company provided in the Report on the Results of the Company's Long-Term Development Program Implementation and on the validity of explanations given in the report concerning the deviation of actual results from the Company's performance targets for 2016. *The auditor's opinion was received on April 27, 2017.*



The Company's KPI system includes both financial and economic indicators and industry-wide indicators.

Since 2009, a KPI-based employee incentive system has been functioning successfully in the Company.

The principles of and the procedure for annual bonus payment are the same for all manager categories in the Company's Administration and the Group Companies; they are formalized in the Regulations on Annual Bonus Payments (approved by the Board of Directors on December 28, 2011, Minutes No. 9) and the Company Regulations on the KPI System (approved by the Board of Directors on December 9, 2014, Minutes No. 12).

The introduction of the Company's KPI system is aimed primarily at translating the Company's Development Strategy and its Long-Term Development Program into specific day-to-day management indicators, evaluating progress in target achievement and creating a basis for efficient management decision-making.

The Company's KPI System ensures:

- A focus on implementing the Company's Strategy and meeting targets set in the Company's Long-Term Development Program;

- A focus on improving financial and operating (industry-wide) results of the Company;
- Compliance with directives and instructions of federal executive authorities, including annual cost reduction;
- Well-balanced integrated indicators motivating employees to achieve the Company's primary goals;
- Transparency, measurability, minimal sufficiency and consistency of KPIs;
- A top-down approach to cascading and decomposition of KPIs.

The Company's KPI System includes both financial and economic indicators, such as operating profit (EBITDA), return on average capital employed (ROACE), total shareholder return (TSR), financial leverage (Net Debt / EBITDA), cost reduction indicators, and industry-wide indicators (hydrocarbon production volume, reserve replacement, light product yield, an integrated performance indicator for innovative activities, etc.).

The KPI System includes the following:

- Collective KPIs; the list of these KPIs is based on key financial, economic and industry-wide indicators of the consolidated business plan of the Company and its business units;

- Individual KPIs; the list of these KPIs is based on strategic goals set individually for each manager of the Company.

KPI lists and targets for senior managers of the Company are established by the Board of Directors following a preliminary discussion by the relevant committees on a yearly basis.

KPIs for the Company's senior managers for 2016 were established by the Board of Directors on June 10, 2016, Minutes No. 20.

The list of collective KPIs of the Company and individual KPIs of the Chief Executive Officer of Rosneft for 2016 include the following indicators:

- Return on average capital employed (ROACE);
- Hydrocarbon production volume;
- EBITDA;
- Labor productivity;
- Ratio of Rosneft's total shareholder return (TSR) to the industry average total shareholder return of Russian companies;
- Cost reduction in the reporting period compared to the previous period in comparable conditions;
- Financial leverage (Net Debt / EBITDA);
- Integrated performance indicator for innovative activities.

ASSESSMENT OF KPI TARGET ACHIEVEMENT

For the purposes of annual bonus payments to managers and employees of the Company, achievement of KPI targets is analyzed following the Company's performance analysis based on audited consolidated management reports and financial statements.

The Company's Internal Audit Service conducts an annual audit of the achievement of targets for each collective and individual KPI set for the purpose of annual bonus payments to managers of the Company and Group Companies in the reporting period. The results of the audit of KPI target achievement by senior managers are presented to the relevant committees.

The performance of senior managers is evaluated by the HR and Remuneration

Committee of the Board of Directors. Annual bonus payments to senior managers and their size in the reporting period depend on the achievement of KPI targets and are approved by the Board of Directors of Rosneft.

The KPIs are normalized in accordance with the Company's Regulations on KPI Normalization in the Management Performance Analysis and Evaluation for the Reporting Period for the Purpose of Annual Bonus Payments (approved by the Board of Directors on April 6, 2016, Minutes No. 27) and the Company's Guidelines for KPI Normalization in the Business Plan Performance Analysis (approved pursuant to Order No. 218 of the Company dated May 18, 2015).

The normalized KPI targets for 2015-2016 were met.



The actual level of achievement of KPI targets is evaluated based on specific achievements of the managers; this encourages performance improvement regardless of external conditions.

Actual level of achievement of the Company's KPI targets

INDICATOR	2016	TARGET ACHIEVEMENT LEVEL IN 2016	2015	DEVIATION
	ACTUAL		ACTUAL	+/-
1. Hydrocarbon production, mmtoe	265.2	Target exceeded	254.2	+ 4.3 %
2. EBITDA, RUB bln	1,278	Target exceeded	1,245	+ 2.7 %
3. ROACE, %	14.0	Target exceeded	13.4	+ 0.6 p.p.
4. Net Debt / EBITDA ¹	1.5 ²	Target exceeded	1.1	
5. Ratio of the total shareholder return (TSR) to the industry average	1.67	Target exceeded	1.29	+ 29.5 %
6. Integrated performance indicator for innovative activities, %	100 ³	Target met	-	-

1. In US dollars

2. Target growth of the indicator was related to investments in development in 2016

3. Based on the Company's management reports

2.6. KEY OPERATING AND FINANCIAL RESULTS

Main operating results

INDICATOR	2016	2015	CHANGE	2014
Proved reserves of oil, gas, gas condensate and HL according to SEC classification (mmboe)	37,772	34,465	9.6%	33,977
Proved reserves of oil, gas, gas condensate and HL according to PRMS classification (mmboe)	46,075	42,917	7.4%	43,085
Proved reserves of marketable gas ¹ according to SEC classification (bcm)	1,714	1,609	6.5%	1,414
Proved reserves of marketable gas ¹ according to PRMS classification (bcm)	2,273	2,161	5.2%	2,018
Hydrocarbon reserve life according to PRMS classification (years)	24	23		24
Oil, gas condensate and HL production (mmt)	210.0	202.8	3.6%	204.9
Gas production (bcm)	67.1	62.5	7.3%	56.7
Oil sales abroad (mmt)	114.9	109.1	5.3%	102.4
Oil refining (mmt)	100.26	96.90	3.5%	99.83
Production of petroleum products and petrochemicals (mmt)	98.21	95.36	3.0%	97.1
Petroleum product sales abroad ¹ (mmt)	67.4	65.8	2.4%	62.7
Retail sales of petroleum products (mmt)	10.9	10.9	0.0%	11.2

Main financial indicators

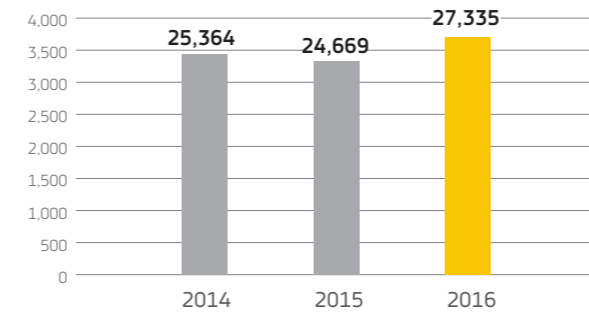
INDICATOR	2016	2015	CHANGE	2014
Sales revenue and income from affiliated companies (RUB bln)	4,988	5,150	-3.1%	5,503
EBITDA (RUB bln)	1,278	1,245	2.7%	1,057
EBITDA margin	25.0%	23.8%	+1.2 p.p.	19.2%
Taxes (RUB trln)	2.0	2.3	-13%	3.1
Net profit (RUB bln)	201	356	-43.5%	350
Net profit margin	4.0%	6.9%	-2.9 p.p.	6.4%
ROACE	14.0%	13.4%	+0.6 p.p.	10.0%
ROAE	5.4%	12.2%	-6.8 p.p.	11.5%
CAPEX (RUB bln)	709	595	19.2%	533
Unit Upstream CAPEX (USD/boe) ²	5.0	4.3	16.3%	5.3
Unit production OPEX per boe (USD/boe) ²	2.5	2.6	-3.8%	3.9
Free cash flow (RUB bln)	302	744	-59.4%	596
Dividends per share (RUB)	5.98	11.75	-49.1%	8.21
Total accrued dividends (RUB bln)	63.4	124.5	-49.1%	87

1. Including fuel gas

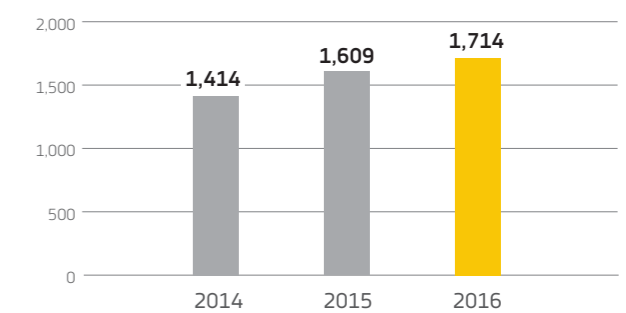
2. Calculated using the average monthly rate of the Bank of Russia

3. Dividends recommended by the Board of Directors for approval at the General Shareholders' Meeting in June 2017

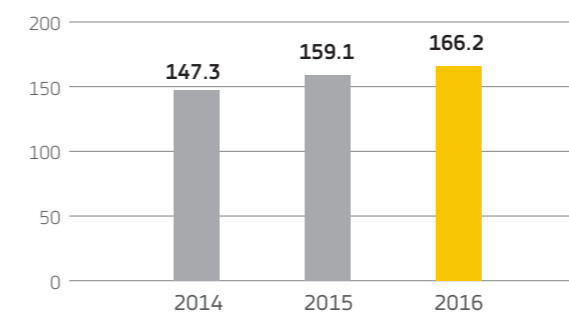
PROVED RESERVES OF HYDROCARBON LIQUIDS
ACCORDING TO SEC CLASSIFICATION, MMBBL



PROVED RESERVES OF MARKETABLE GAS ACCORDING
TO SEC CLASSIFICATION, BCM

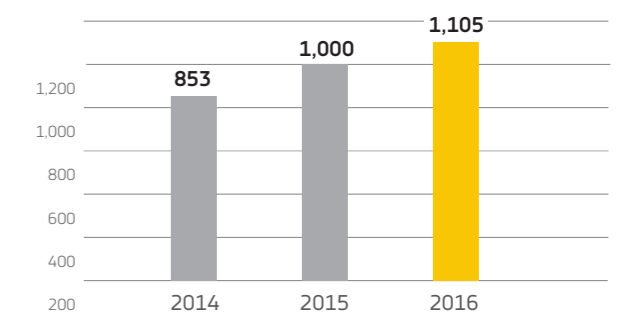


UPSTREAM OPEX, RUB/BOE



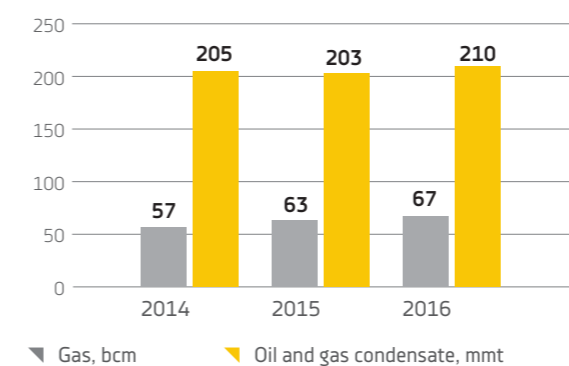
Excluding the acquisition of new assets, in 2016, Upstream OPEX increased by 4.8% and amounted to RUB 291.0 bln (RUB 163/boe or 2.5% per unit) as compared to RUB 277.6 bln (or RUB 159/boe) in 2015, which is mainly connected with the growth of electricity costs partly offset by the decrease of well work and expenses for repair of power equipment.

OPEX OF RUSSIAN REFINERIES PER TON
OF REFINED OIL, RUB/T

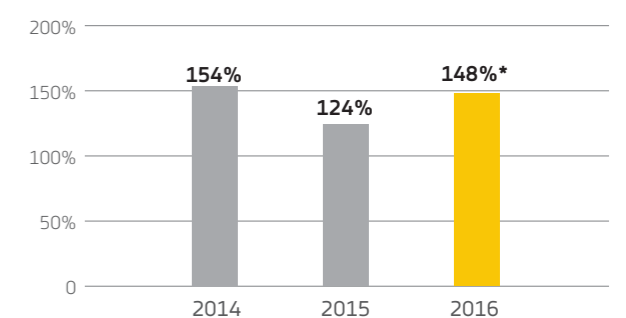


As compared to 2015, unit OPEX per ton of oil refined at refineries situated in Russia, excluding the impact of the acquisition of new assets, increased by 3.1%, which is mainly connected with the growth of tariffs set by natural monopolies and wage indexation.

PRODUCTION OF HYDROCARBON LIQUIDS AND GAS

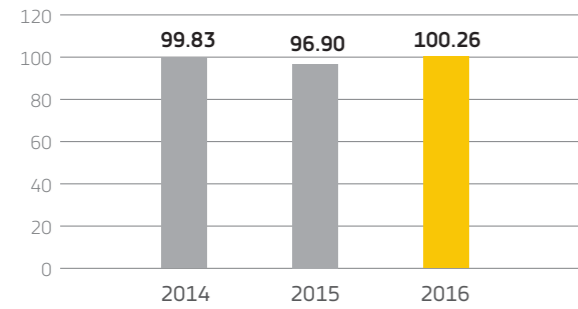


HYDROCARBON RESERVE REPLACEMENT RATIO, SEC



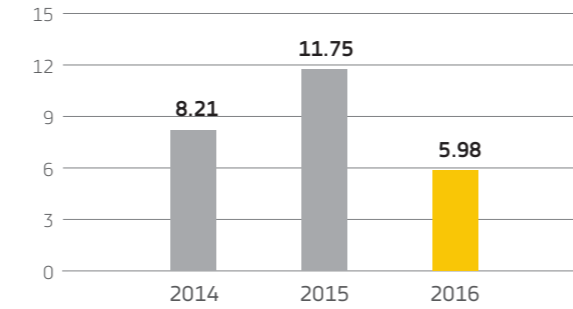
* Proforma data

REFINERY THROUGHPUT, MT



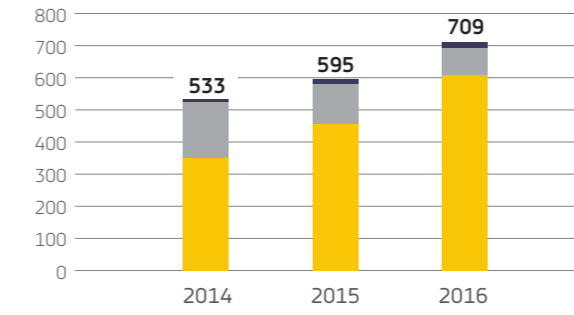
In 2016, refinery throughput, excluding the impact of the acquisition of new assets (4.82 mmt), decreased by 2.4% compared to the same period in 2015. Due to the negative price effect, in 2016, the refineries were loaded with a view to achieving the maximum efficiency of oil refining.

DIVIDENDS PER SHARE, RUB/SHARE



In December 2016, Rosneft's Board of Directors approved changes in Rosneft's Dividend Policy setting the new target level for dividend payments at no less than 35% of Rosneft's net profit in accordance with International Financial Reporting Standards.

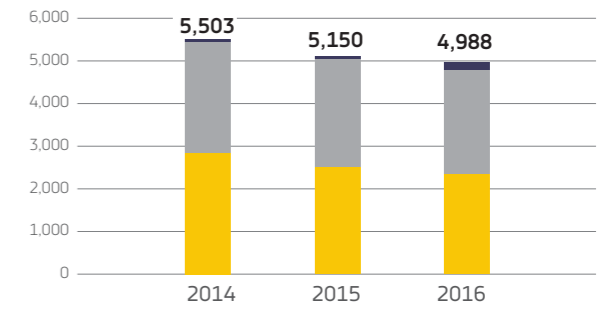
CAPEX, RUB BLN



- Upstream
- Downstream
- Other operations

The CAPEX growth during the 12 months of 2016 as compared to the 12 months of 2015 amounted to 19.2%. Investments in the upstream segment increased by 33.3%, which is mainly connected with development of new projects and with an increase in the scope of infrastructure development, including large-scale construction of the CPF at the Russkoye field, the oil treatment facility at the Suzunskoye field and the Suzun-Vankor oil pipeline.

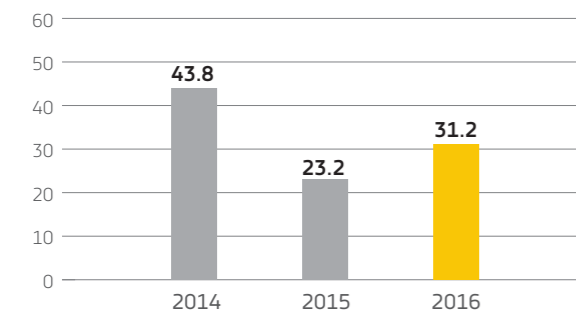
REVENUE, RUB BLN



- Sales of oil and gas
- Sales of petroleum products and petrochemicals
- Other and income from affiliated companies

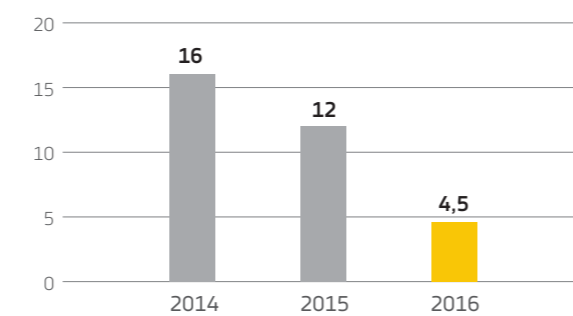
In 2016, amid a reduction of ruble oil prices by 10.0%, the revenue decreased only by 3.1%

NET DEBT AT YEAR END, USD BLN



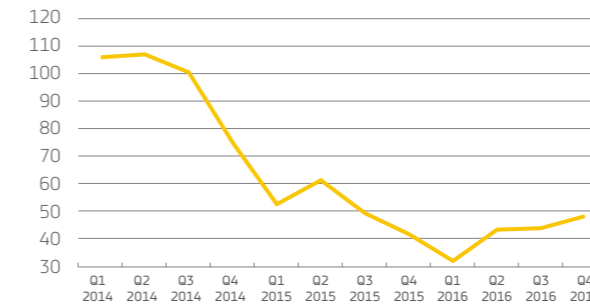
Increase in the absolute value is connected with the purchase of Bashneft's assets. The Company keeps its debt load at the comfortable level. An increase in operating efficiency and realization of synergetic potential from integration of new assets makes it possible to cover all the liabilities created as a result of strategic acquisitions.

ADJUSTED FREE CASH FLOW, USD BLN



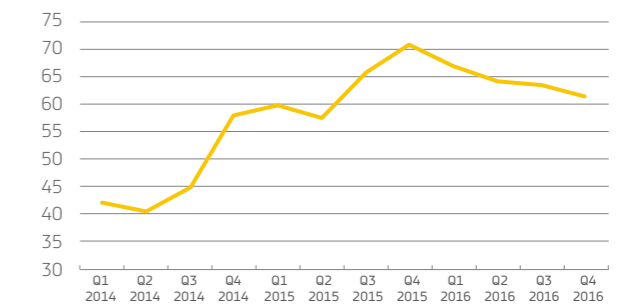
In spite of the considerable growth of CAPEX, the growth of operating profit and the efficient working capital management allowed the company generate a considerable free cash flow, which has been positive for 19 successive quarters.

AVERAGE QUARTERLY URALS OIL PRICE (AVERAGE MED AND NEW) IN 2013-2015, USD/BBL*

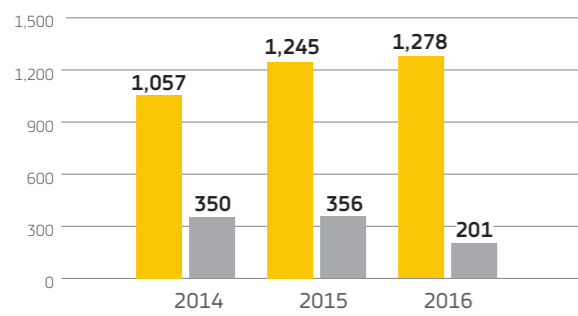


*Average prices are calculated on the basis of the data provided by Platts

OFFICIAL USD EXCHANGE RATE AT MONTH END PUBLISHED BY THE CENTRAL BANK OF THE RUSSIAN FEDERATION IN 2013-2015 (QUARTERLY), RUB/USD



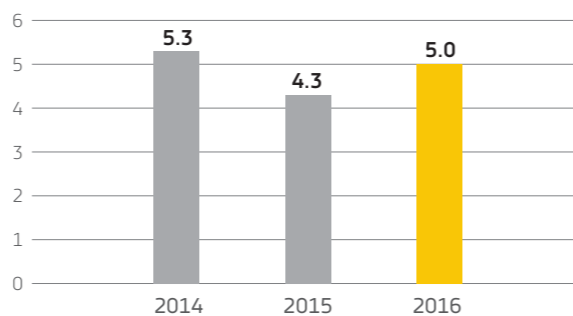
EBITDA AND NET PROFIT, RUB BLN



- EBITDA (RUB bln)
- Net profit (RUB bln)

In 2016, EBITDA amounted to RUB 1,278 bln (USD 19.3 bln), up by 2.7% compared to 2015. Excluding the impact of consolidation of Bashneft, EBITDA remained at the level of the previous year (+0.3%), in spite of a significant negative impact of external factors.

UPSTREAM CAPEX, USD/BOE



2.7. IMPLEMENTATION OF THE INVESTMENT PROGRAM IN 2016

ROSNEFT'S 2016+ INVESTMENT PROGRAM WAS APPROVED AS PART OF THE BUSINESS PLAN FOR 2016-2017 AT THE MEETING OF THE BOARD OF DIRECTORS ON DECEMBER 18, 2015 (MINUTES NO. 17 DATED DECEMBER 21, 2015)

Rosneft's 2017+ investment program was approved as part of the Business Plan for 2017-2018 at the meeting of the Board of Directors on December 23, 2016 (Minutes No. 27 dated December 26, 2016) and maintains continuity with the 2016-2017 business plan, strategic priorities and further increase in investment in key business segments.

The investment program is designed to support the implementation of the Company's long-term development program and ensure the achievement of Rosneft's strategic goals while maintaining a balanced financial structure and an optimal process for raising external financing due to the accelerated commissioning of new oil and gas fields.

To ensure the fulfillment of the investment program objectives, Rosneft uses the following criteria for selecting investment projects:

- Conservative macroeconomic planning;
- Ranking of projects based on their investment efficiency;
- The system for on-time, on-budget monitoring and monitoring of readiness for efficient implementation;

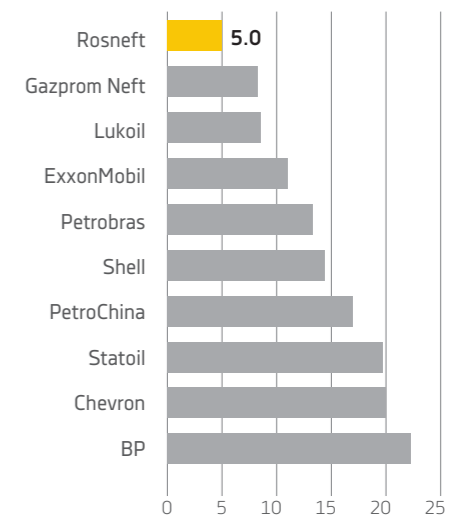
- Providing financing opportunities.

In 2016, the Company increased its investments by 17% year on year to RUB 738 bln, with capital investments totaling RUB 709 bln and financing of joint projects amounting to RUB 29 bln. The investment program was financed using both the Company's own funds and long-term financial loans.

The year-on-year investment growth in 2016, mainly in exploration and production (30%), was due to the fulfillment of strategic goals of increasing hydrocarbon production through increased drilling and field development rates, as well as the beginning of the active phase of development of new and large-scale oil and gas production projects (Suzunskoye, Russkoye, Taas-Yuryakh, Urubcheno-Tokhomskoye, Rospan).

In addition to expanding the scope of its investment program, in 2016, the Company remained an undisputed leader in terms of efficiency of capital investments in the upstream segment (USD 5/boe) compared to key Russian and international players, whose unit capital investments are in the range of USD 8-22/boe.

UNIT CAPITAL INVESTMENTS, USD/BOE



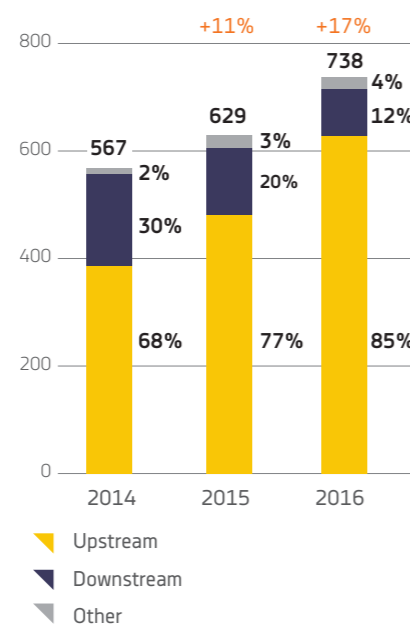
Data for PetroChina and BP are provided for 2015; data for other companies are provided for 2016



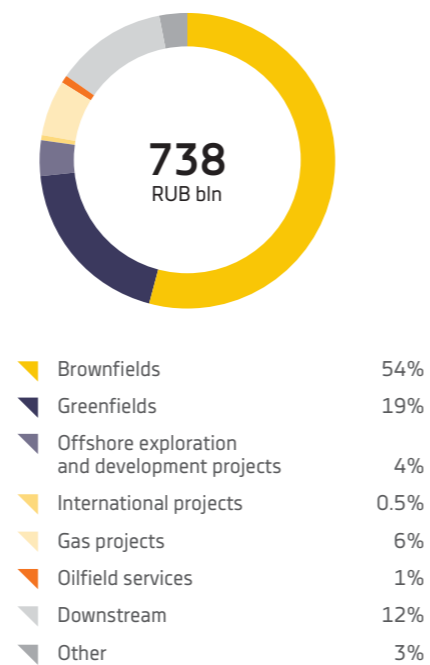
THE KEY OBJECTIVES OF THE INVESTMENT ACTIVITY INCLUDE THE FOLLOWING:

- To maintain high standards in the sphere of health, safety and environment through investment in maintenance;
- To maximize value across the entire investment portfolio;
- To achieve the targets for hydrocarbon production growth and maintain a 100% reserve replacement ratio;
- To maintain the presence in strategic regions through implementation of strategic projects with a precise quantification of their value.

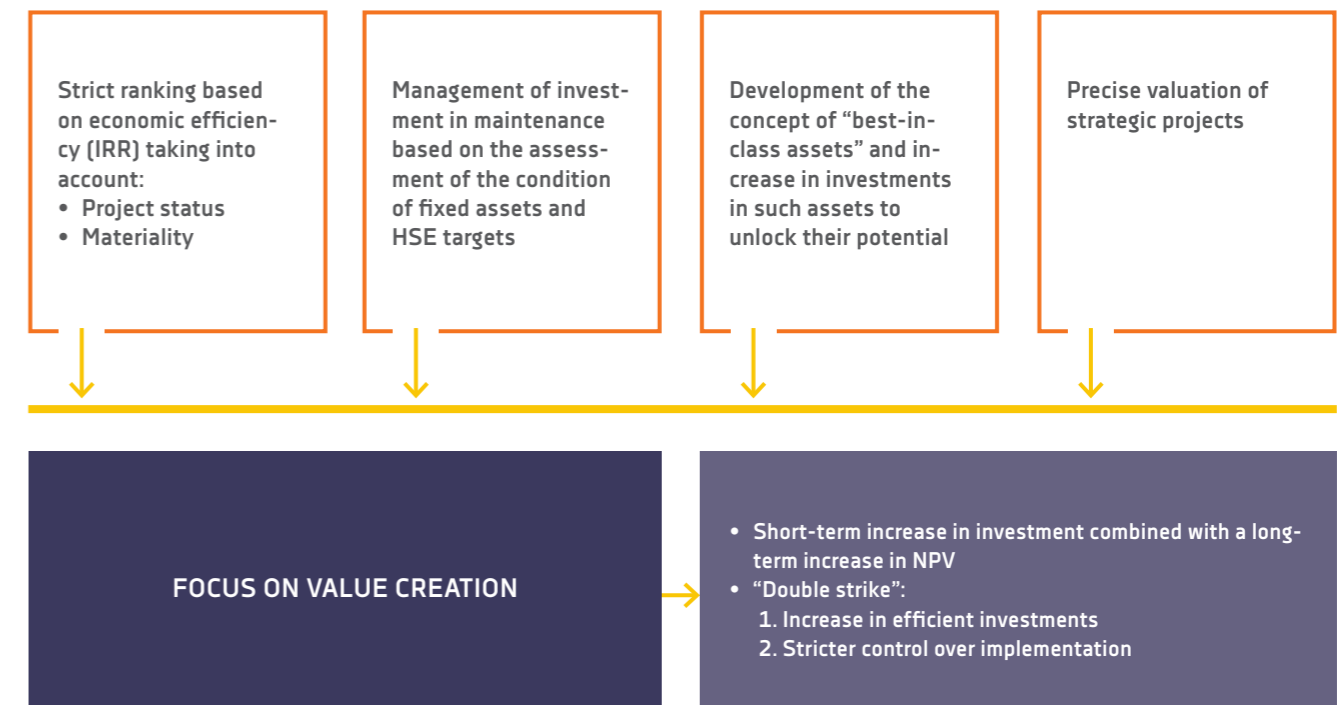
2014-2016 INVESTMENT PROGRAM RUB BLN



SHARE IN THE 2016 INVESTMENT PROGRAM



APPROACHES TO AND OBJECTIVES OF FORMING THE 2017-2021 INVESTMENT PORTFOLIO





Vankor field

The further growth of the investment program of 2017 is forecasted in the following areas:

- Increase in the volume of production drilling for fulfillment of strategic goals for increasing hydrocarbon production;
- continued development of new and large oil and gas production projects;
- accelerated implementation of highly effective refinery development projects.

The Company's investment program is a balanced portfolio of effective investment projects in the following key areas.

BROWNFIELDS

The Company's mature upstream assets are located primarily in Western Siberia and contain more than 3.5 bln tons of proved oil reserves according to the PRMS classification, which enables the Company to develop them for many years to come. These assets are the main source of the Company's hydrocarbon production accounting for over 90% of the total output. The Company's main objective at brownfields is to ensure

cost-effective operation in the long term and maintain a stable production level by increasing drilling volume while maintaining the efficiency of operations and introducing advanced technologies.

In 2016, Rosneft invested about RUB 400 bln in mature upstream assets, which makes up more than half of the Company's annual investment.

In the short and medium term, brownfields are highly competitive even amid low oil prices; they generate significant free cash flow, which will be used to finance the development of new fields, primarily in the east of Russia, where the Company plans to develop new oil and gas production clusters.

GREENFIELDS

Greenfields enable the Company to maintain steady growth of oil and gas production in the medium and long term, develop its resource base and replace production at brownfields with highly effective barrels to remain an industry leader in terms of production efficiency.

In 2016, the Company almost doubled the volume of investments in new projects compared to 2015: investments increased by about 70% and approximated RUB 140 bln, with about RUB 90 bln allocated for projects in Eastern Siberia and the Far East and RUB 40 bln invested in projects in Western Siberia.

In 2016, commercial production started at the East Messoyakha field, and comprehensive testing of oil production, treatment and transportation facilities at the Suzunskoye field was completed.

In the coming years, the Company plans to commission the Urubcheno-Tokhomskeye, Russkoye, Tagulskoye, Lodochnoye, Kuyumbinskoye fields and the Srednebotuobinskoye field (Stage 2).

Preliminary contracts were concluded for the delivery of oil to Transneft's pipeline system (Zapolyarye-Purpe, Kuyumba-Taishet) from the Russkoye, Kuyumbinskoye, Urubcheno-Tokhomskeye and East Messoyakha fields.

Given the phased commissioning of new fields, hydrocarbon production is expected to exceed 40 mmtoe by 2020.

EXPLORATION AND DEVELOPMENT PROJECTS ON THE RUSSIAN SHELF

In 2016, the Company invested RUB 31 bln in exploration and development projects on the Russian shelf in order to replenish and develop its resource base and ensure growth of hydrocarbon reserves exceeding 100% with a focus on fulfilling license obligations, continuing exploration of the resource base to confirm material resources, and implementing a large-scale seismic survey program on the shelf. During the 2016 field season, the amount of work performed by the Company on the Russian shelf exceeded its license obligations more than twice.

As part of the Sakhalin-1 project, a drilling program was carried out at all project sites; the work necessary to initiate the preliminary design as part of the development of Stage 2 of the Chaivo field was continued, and work was continued as part of Stage 2 of the Odoptu field development to start drilling from a new drilling rig in 2017.

In order to develop the shelf, Rosneft is actively working to create a unique marine engineering complex. One of the initiatives aimed at accomplishing this task will involve the creation of an industrial and shipbuilding cluster in the Russian Far East at JSC Far Eastern Shipbuilding and Ship Repair Center of Russia, with a new shipyard, the Zvezda shipbuilding complex

in the city of Bolshoy Kamen, serving as its core. The project is implemented in three stages, with the first stage of the shipbuilding complex commissioned in September 2016. Delivery of the pilot order is scheduled for 2019.

GAS PROJECTS

Gas production increased by 7% year on year and exceeded 67 bcm. In Q4 2016, Rosneft became the largest independent gas producer in Russia.

Given the Company's strategic goal of achieving production levels of 100 bcm of gas by 2020 with a growth rate of about 11% per year, the key goal is to implement the most commercially effective natural gas production projects taking into account access to markets and sales channels whose launch is scheduled for 2018-2020.

In the next few years, a number of large-scale gas projects will be commissioned, including the full-scale development of Novo-Urengovskiy and East Urengovskiy license areas of JSC Rospan International with a design capacity of 19 bcm of gas and 6 mmt of gas condensate and the Kharampur field with a design capacity of 11 bcm of gas.

IN-HOUSE SERVICE DEVELOPMENT

In 2016, Rosneft invested RUB 6 bln in the development of in-house oilfield services. The Company continues to

implement the strategy of developing its own oilfield services, which makes it possible to improve the performance of the upstream segment even in a challenging macroeconomic environment. As part of the strategy aimed at increasing the capacity of Rosneft's own oilfield service division, the Company acquired Targin.

OIL REFINING AND PETROCHEMICALS

In 2016, investments in refining and petrochemicals amounted to RUB 65 bln.

The Company completed the construction and put into operation catalytic cracking units and MTBE production facilities at the Kuibyshev Refinery, as well as catalyst regeneration facilities at the Novokuibyshevsk Catalysts Plant and RCPSA units at the Syzran Refinery. As part of import substitution efforts, the Company switched over to using catalysts produced by JSC Angarsk Catalysts and Organic Synthesis Plant at the kerosene hydrotreaters of the Achinsk Refinery and the catalytic reformers of JSC Ryazan Oil Refining Company.

The main development areas in the medium term include continuation of construction as part of the refinery upgrade program, implementation of highly effective "bottlenecking" projects and projects to develop bitumen production, as well as implementation of the import substitution program.



INVESTMENT PROCESS ORGANIZATION

The main objectives of the investment process are a steady improvement of performance in all areas of operations and ensuring a steady growth and profitability of the Company's business with a focus on:

- Careful assessment of investment needs and attracting investments in effective and competitive business projects;
- High-quality management, monitoring and control of business projects,

- Close attention paid in financial and management reports to the implementation of the investment program and the effectiveness of its implementation, both across the Company as a whole and in its core business segments;
- Stronger investment discipline due to thorough examination of business projects, improvement of the system for their identification and classification;

- Development of skills and competencies of employees involved in the investment management process;
- Compliance with the Company's principles of high social responsibility in the field of environmental and industrial safety, ensuring safe working conditions, health care, improving the quality of life of employees and their families, support for education, contribution to the social and economic development of regions.

INVESTMENT PROCESS

LIMITS OF AUTHORITY OF GOVERNING AND INVESTMENT BODIES

Limits of authority, USD mln

Hierarchy of investment bodies

>1,500

BOARD OF DIRECTORS

500-1,500

MANAGEMENT BOARD

200-500

INVESTMENT COMMITTEE,

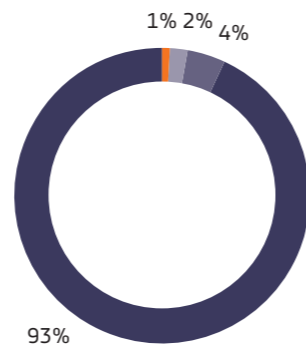
including provisional examination of business projects within the competence of the BoD and the Management Board

0-200

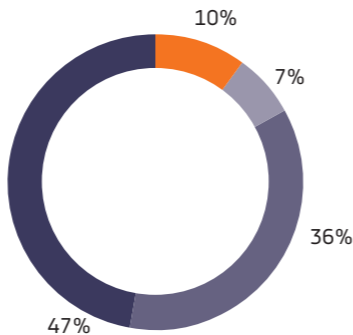
SPECIALIZED SUBCOMMITTEES

1. Upstream
2. Downstream
3. Gas
4. Corporate center

VOLUME OF APPLICATIONS



INVESTMENT SIZE



The Company has built an investment management system based on international best practices in investment management. In 2016, the Company continued to improve this system by developing a regulatory and methodological framework and enhancing the investment discipline:

- The Company has in place a well-established process of expert review and approval of investment projects through a system of levels of authority with respect to investment business projects ranging

from the level of the Board of Directors to businesses and involving the establishment of uniform value thresholds. Matters considered at the level of the Investment Committee or higher include primarily large-scale and strategically important projects, acquisition and sale of assets. Specialized committees consider mainly maintenance and development projects for existing assets and exploration programs.

- To increase the accuracy of planning, the area of competence of authorized investment bodies has been expanded in the sphere of step-by-step decision-making,

including allocation of funds for the preliminary examination of a business project for the subsequent adoption of the final investment decision on the implementation of the business project as a whole, and decision-making as part of the monitoring process to ensure a more flexible response when implementing business projects.

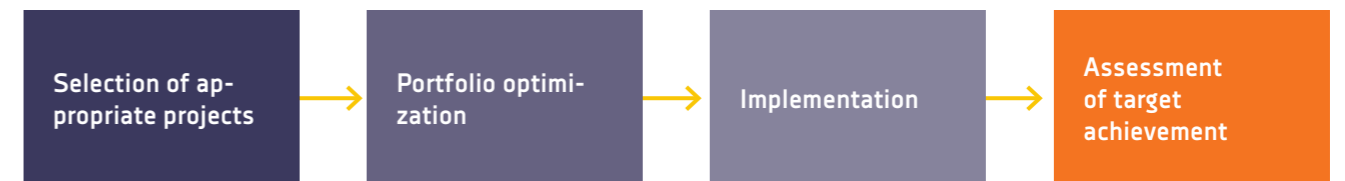
- Integration of the investment process with related strategic and ongoing business planning, performance management, financial discipline and corporate governance processes has been improved.

PROJECT PORTFOLIO MANAGEMENT

Project portfolio management is a strategic management tool enabling the Company to maximize business benefits by selecting, optimizing and implementing investment projects consistent with the Company's goals.



CONTINUOUS PROCESS



RANGING AND RATING, DECISION-MAKING, MONITORING



- The Company has introduced the concept of best-in-class assets and established the criteria for their identification. The Company continues to develop portfolio analysis tools using a strict ranking based on economic efficiency and a set of criteria, such as readiness and materiality, and a clear assessment of the value of strategic projects.
- In order to strengthen the investment discipline, the Company continues to implement the spending control system based on the "two-key" approach,

whereby spending is allowed only when the project has been included in the approved business plan of the Company and approved by authorized investment bodies.

- To ensure timely management decision-making and strengthen control over the effectiveness of project implementation, the Company has included approved investment projects in all business segments in the scope of regular monitoring.
- In order to automate the investment project accounting and control

process, the Company continues to develop the Investment Project Database; this involves automating the process of reconciliation and monitoring of investment projects since their initiation and increasing the degree of automation of investment planning and reporting.

- To improve the level of competencies and discipline in the sphere of investment management, regular training sessions are held for the Company's employees.

03. OPERATING RESULTS

- 3.1. Exploration and reserve replacement
- 3.2. Production of hydrocarbon liquids
- 3.3. Overview of production by region of operation
- 3.4. Development of greenfields
- 3.5. Development of high-tech in-house services
- 3.6. Development of offshore projects in Russia
- 3.7. Development of international projects in promising oil and gas regions
- 3.8. Gas business
- 3.9. Downstream



DESPITE A DECLINE IN BENCHMARK OIL PRICES OVER THE PAST TWO YEARS, ROSNEFT REPORTS A STEADY INCREASE IN ECONOMICALLY RECOVERABLE HYDROCARBON RESERVES AND HYDROCARBON PRODUCTION



126%

RESERVE REPLACEMENT RATIO IN 2016



265

MMTOE — PRODUCTION OF HYDROCARBONS IN 2016



67

BCM — GAS PRODUCTION IN 2016

ROSNEFT'S RESOURCE BASE AND PRODUCTION MAP

MAJOR SUBSIDIARIES AND FIELD DEVELOPMENT PROJECTS

LEGEND

- Oil assets, crude oil, gas condensate, hydrocarbon liquids production
- Gas projects, gas production
- Exploration assets
- Offshore
- AB1C1+B2C2 oil and gas condensate reserves by region, bln tons
- AB1C1+B2C2 gas reserves by region, tcm

12.2

BLN T – TOTAL OIL AND GAS CONDENSATE RESERVES IN RUSSIA

2.5

BLN T – ONSHORE OIL AND GAS CONDENSATE RESOURCES

23.0

BLN T¹ – OFFSHORE OIL AND GAS CONDENSATE RESOURCES



7.6

TCM
Total gas reserves in Russia

1.3

TCM
Onshore gas resources

22.7

TCM¹
Offshore gas resources

In 2016, Rosneft and its partners discovered 13 fields and 127 new deposits with total reserves of 207 mmtoe². Replacement of ABC1 commercial hydrocarbon reserves totaled 354 mmtoe, or 126% of production in Russia. The reserve replacement ratio has been considerably higher than 100% for more than 10 years.

1. Including foreign projects
2. Pro forma data

3.1 EXPLORATION AND RESERVE REPLACEMENT

IN 2016, ROSNEFT REMAINED A LEADER IN TERMS OF THE VOLUME OF THE RESOURCE BASE AND THE EFFICIENCY OF GEOLOGICAL EXPLORATION. THE COMPANY CONDUCTED EXPLORATION IN ALL MINING REGIONS OF THE RUSSIAN FEDERATION, INCLUDING THE FAR EAST, EASTERN AND WESTERN SIBERIA, CENTRAL RUSSIA, TIMAN-PECHORA AND SOUTHERN RUSSIA

1,097

LICENSES IN THE RUSSIAN FEDERATION
(including 55 offshore licenses)



STRATEGIC PRIORITIES IN EXPLORATION AND RESERVE REPLACEMENT:

- To carry out exploration in order to maintain effective production;
- To fulfil license agreements, improve the quality and increase the volumes of developed reserves for the implementation of the Company's strategic projects.

ONSHORE EXPLORATION

The Company's key priorities include development of the resource potential and efficient exploitation of mineral resources while strictly complying with environmental safety standards and widely implementing state-of-the-art technologies.

As a result of successful geological exploration, in 2016, 13 fields and 127 new deposits were discovered with total reserves of 207 mmtoe¹.

All operations under the program were performed to a high standard. 85 exploration wells were completed and tested, with drilling totaling 222 thsd m (incl. sidetracking volumes). The exploration drilling success rate amounted to 79%. 2D seismic surveys totaled 2.8 thsd linear km (+27% year on year), while 3D seismic surveys covered 7.9 thsd sq. km (+29% year on year).

Under agreements with the largest industry players (BP and WesternGeco), in 2016, Rosneft got the opportunity to start developing a new seismic data recording system, whose implementation is scheduled for 2019. Application of the Cheetah technology will enable the Company to conduct ultra-dense seismic observations at a price comparable to that of standard modern observation techniques. The high density of observations will significantly improve the quality of seismic data and seismic forecasting in challenging seismic conditions for both exploration and development. Using this technology, the Company will be able to perform seismic surveys in exclusive areas where standard seismic survey techniques cannot be applied (field sites with a challenging man-made environment, environmentally sensitive areas, etc.).



INCREASE IN RESERVES IN WESTERN SIBERIA

133
mmt of oil and
condensate

87
bcm of
gas

INCREASE IN RESERVES IN EASTERN SIBERIA AND THE FAR EAST

21.2
mmt of oil and
condensate

29
bcm of
gas

Western Siberia

In Western Siberia, reserves increased by 133 mmt of crude oil and condensate and 87 bcm of gas. 37 exploration wells were completed and tested, with a success rate of 89%. 45 new deposits were discovered with total AB1C1+B2C2 reserves of 59 mmtoe.

In order to assess the resource potential and the feasibility of free gas production from the Berezhovskaya suite at the Kharampur field, in 2016, the Company started implementing a program aimed at locating gas reserves, and selecting and developing the technologies for the development of low-permeability gas deposits. The tests were successfully performed at Well No. 293, with water-free gas influx amounting to 3.4 thsd cub. m per day, and hydraulic fracturing is scheduled for 2017. Following the implementation of these measures, a report will be prepared containing a preliminary assessment of located reserves, and a decision will be made on whether to proceed with the work program.

Eastern Siberia and the Far East

The total increase in reserves in Eastern Siberia and the Far East amounted to 21.2 mmt of crude oil and condensate and 29 bcm of gas. 11 exploration wells were completed with a success rate of 55%. 5 new deposits were discovered with reserves of 39 mmtoe.

Following the drilling and testing of prospecting and appraisal well 3P at the Verkhneichersky area (license areas in the Irkutsk Region), a field of the same name was discovered and recorded in the state register. C1+C2 reserves were assessed at 60.7 mmtoe. During tests at the main formation, the Nizhneustkutsky horizon, the oil flow rate totaled up to 278 cub. m per day.

Commercial oil flows were produced following testing of exploration wells 8R at the Preobrazhensky license area (the Lisovsky field) in the Irkutsk Region. The findings of well tests showed that the new type of

12.2

BLN TONS OF OIL
AND CONDENSATE
AB1C1+B2C2 recoverable reserves

7.6

TCM OF GAS
AB1C1+B2C2 recoverable reserves



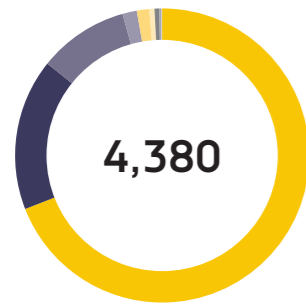
KEY ACHIEVEMENTS IN RESERVE REPLACEMENT:

- Replacement of AB1C1 commercial reserves totaled 354 mmtoe²;
- The reserve replacement ratio stood at 126%²;
- 85 exploration wells were completed and tested (with drilling totaling 222 thsd m)³;
- The exploration drilling success rate totaled 79%;
- 13 new fields and 127 new deposits were discovered as a result of geological exploration, with total AB1C1+BC2 reserves of 207 mmtoe² (large discovered fields: the Nertsetinskoye field in the Nenets Autonomous District with reserves of 21.4 mmtoe, and the Verkhneichersky field in the Irkutsk Region with reserves of over 60 mmtoe);
- 1,097 licenses in the Russian Federation (including 55 offshore licenses and 260 licenses of PJSOC Bashneft). In 2016, 41 subsoil areas were acquired out of open acreage; licenses were obtained for 32 subsoil areas.

1. Pro forma data

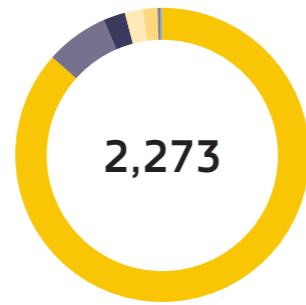
1. In accordance with the 2013 New Classification of Reserves
2. Pro forma data
3. Onshore

STRUCTURE OF PROVED RESERVES OF HYDROCARBON LIQUIDS (CRUDE OIL, CONDENSATE, HL) ACCORDING TO THE PRMS CLASSIFICATION, MMT



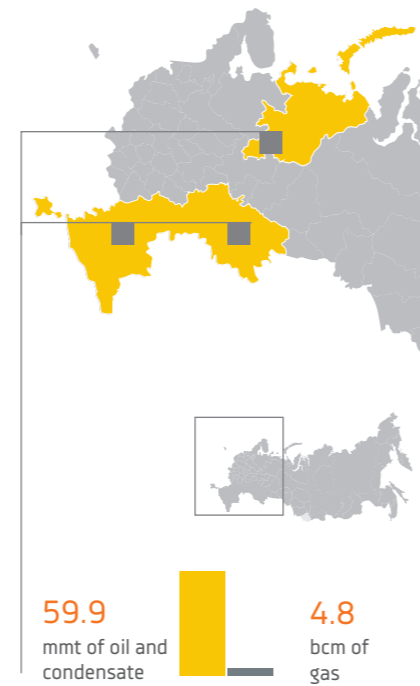
Western Siberia	3,025.8
Central Russia	730.2
Eastern Siberia	434.1
Timan-Pechora	69.1
Outside Russia	59.5
Southern Russia	25.4
Offshore (excluding the Arctic Region)	23.1
Far East	9.1
Arctic shelf	4.1

STRUCTURE OF PROVED RESERVES OF MARKETABLE GAS ACCORDING TO THE PRMS CLASSIFICATION, BCM



Western Siberia	1,967.8
Eastern Siberia	157.4
Central Russia	54.8
Southern Russia	45.7
Offshore (excluding the Arctic Region)	35.8
Outside Russia	8.1
Timan-Pechora	2.1
Far East	1.7

INCREASE IN RESERVES IN THE VOLGA-URALS REGION, TIMAN-PECHORA AND SOUTHERN RUSSIA



Central Russia, Timan-Pechora and Southern Russia

In 2016, reserves in Central Russia, Timan-Pechora and Southern Russia increased by a total of 59.9 mmt of crude oil and condensate and 4.8 bcm of gas. 37 wells were completed and tested, with a success rate of 76%. A large field was discovered in the Nenets Autonomous District, namely the Nertsetinskoye field with reserves of 21.4 mmtoe, as well as 11 fields in the Samara Region, the Orenburg Region and the Udmurt Republic (namely the Volostnovskoye, East Efimovskoye, Vasilievskoye, South Volostnovskoye, East Volostnovskoye, Central Kozhevskoye, Semykinskoye, Kostyukovskoye, Nemskoye, Vesennee and Pikhtovkinskoye fields) and 77 new deposits. Total reserves at all newly discovered fields (including the Nertsetinskoye field) amount to 48 mmtoe.

Exploration drilling confirmed the prospects of the Volostnovsky license area (Orenburg Region) with expected recoverable oil reserves within all discovered reefs of about

exploration targets contains commercial oil and gas reserves, which confirmed good prospects and the high potential for further geological exploration at the Preobrazhensky license area.

A well was drilled at the Mogdinsky license area in the Irkutsk Region. This helped to define the geological structure of the Savostyanov field more precisely. At present, materials are being prepared on the current estimation of reserves.

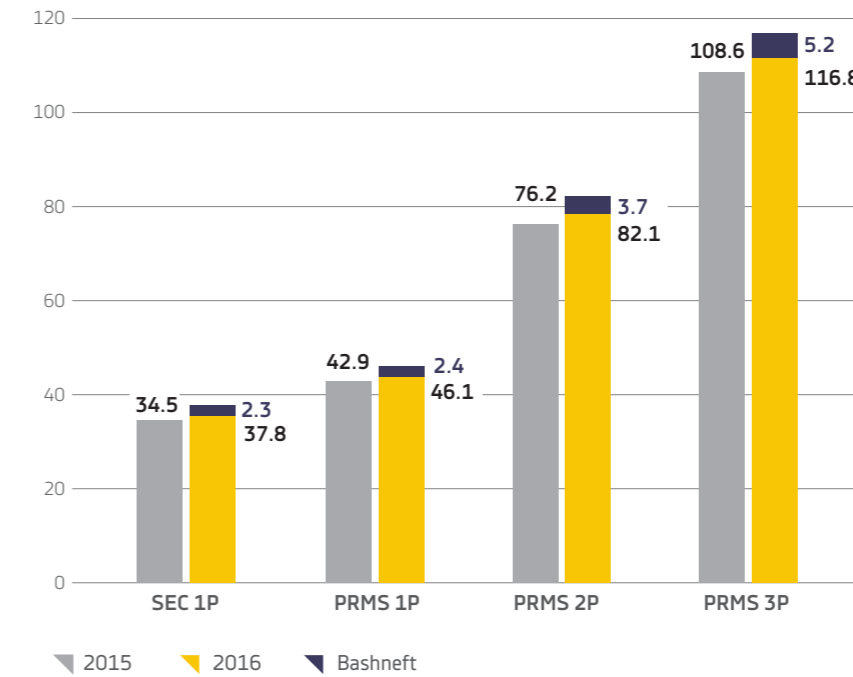
The Company continued exploration at the North Danilovskoye field in the Irkutsk Region in order to prepare the reserves for development. Well tests resulted in commercial oil inflow at a rate of up to 140 cub. m per day.

The Company plans to develop the new field using the infrastructure of the North Danilovskoye and Verkhnechonskoye oil and gas condensate fields operated by

PJSC Verkhnechonskneftegaz, which will produce a significant synergistic effect.

The use of advanced technologies during the exploration of the geological structure of fields in the Krasnoyarsk Territory and the use of modern 3D seismic techniques enabled the Company to provide evidence of oil deposits associated with the ancient Riphean carbonate reservoirs characterized by an extremely complex geological structure. Drilling of a horizontal exploration well at the Kuyumbinsky license area enabled the Company to accomplish two objectives: to upgrade reserves and assess the production potential of layer R (the Riphean formation). At Kuyumbinskaya well 255, natural flow of oil was produced at a rate of ~200 cub. m per day, and production was started at the well.

HYDROCARBON RESERVES ACCORDING TO INTERNATIONAL CLASSIFICATIONS, BLN BOE



30 mmt and an annual oil production potential of 1.5-2.0 mmt. Production was started at all wells, with the flow rate amounting to 200-300 tpd.

STABLE RESERVE REPLACEMENT

In 2016, residual recoverable AB1C1+B2C2 reserves of Rosneft totaled 12.2 bln tons of crude oil and condensate and 7.6 tcm of gas.

Replacement of commercial AB1C1 hydrocarbon reserves including acquisitions amounted to 354 mmtoe, or 126% of the production volume in Russia², with the reserve life at the current level of production amounting to 44 years.

In 2016, growth of AB1C1 reserves driven by exploration amounted to 322 mmtoe².

INDEPENDENT INTERNATIONAL AUDIT OF RESERVES

In 2016, Rosneft once again confirmed its leading positions among the world's public oil companies in terms of proved hydrocarbon reserves and hydrocarbon resources.

According to the findings of the audit conducted by DeGolyer & MacNaughton under the SEC (U.S. Securities and Exchange Commission) classification providing for evaluation through the end of profitable field development, as of December 31, 2016, proved

148%

RESERVE REPLACEMENT RATIO ACCORDING TO THE SEC CLASSIFICATION

116.8

BLN BOE 3P RESERVES AT YEAR-END 2016 (+3%) ACCORDING TO THE PRMS CLASSIFICATION

hydrocarbon reserves of Rosneft, including the assets of PJSOC Bashneft, amounted to 37,772 mmboe (5,111 mmtoe). Hydrocarbon reserves increased by 970 mmboe (131 mmtoe). The reserve replacement ratio according to the SEC classification amounted to 148%*, while the organic reserve replacement ratio stood at 140%. In 2016, Rosneft's reserve life under the SEC classification amounted to 19.9 years³.

According to the PRMS (Petroleum Resources Management System) classification, as of December 31, 2016, 1P hydrocarbon reserves amounted to 46,075 mmboe (6,250 mmtoe); 2P reserves totaled 82,087 mmboe (11,092 mmtoe), while 3P reserves totaled 116,758 mmboe (15,794 mmtoe). Total 3P reserves increased by 3% in 2016.

1. The ratio has been calculated using metric units of measurement of hydrocarbon reserves, on a pro forma basis, including the assets of PJSOC Bashneft in 2015 and 2016
 2. Pro forma data
 3. Rosneft's production including Bashneft starting from the date of its acquisition

3.2 PRODUCTION OF HYDROCARBON LIQUIDS (HL)



KEY ACHIEVEMENTS AT BROWNFIELDS

- Increase in commissioning of new wells by 43% to 2,625 wells, increase in commissioning of new horizontal wells (HW) by 52% compared to 2015;
- Increase in the number of newly commissioned horizontal wells with multistage fracturing (MSF HWs) by 56%; increase in the number of sidetracking operations by 5% with additional production totaling 2.9 mmt;
- The controlled pressure drilling technology was tested at the Urubcheno-Tokhomskoye field: three wells were drilled with a 30% reduction in the horizontal drilling cycle; the total production rate was 4.5 times higher than the average for a cluster of wells;
- The Company implemented a pilot project to drill a two-string MSF HW at Yuganskneftegaz: four wells were drilled with an average reduction in the drilling cycle by 44% compared to 2015;
- In 2016, additional production from well work excluding commissioning of newly drilled wells increased to 8.2 mmt, which enabled the Company to stabilize production at brownfields.



210

MMT
PRODUCTION OF OIL,
GAS CONDENSATE
AND HL IN 2016

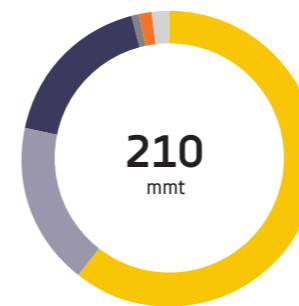
In 2016, hydrocarbon production amounted to 265.2 mtoe, up by 4.3% year on year.

In Q4 2016, average daily hydrocarbon production increased by 11.8% quarter on quarter to a new record high of 5.83 mmb/d. In 2016, the Company's average daily hydrocarbon production totaled 5.37 mmb/d (265.2 mtoe).

Average daily HL production reached 4.66 mmb/d in Q4 2016, up by 12.1% compared to Q3 2016 and by 13.3% to Q4 2015. The main growth drivers

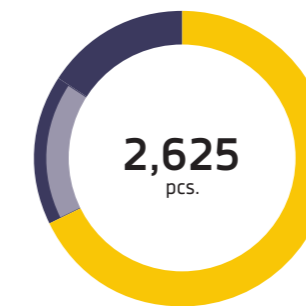
included the integration of Bashneft's assets in October, commissioning of production capacities at the East Messoyakha field, comprehensive technological testing of oil production, treatment and transportation facilities at the Suzunskoye oil field, and consistent improvements at Yuganskneftegaz (+2.5% compared to Q4 2015), Samaraneftgaz (+3.0% compared to Q4 2015) and Severnaya Neft (+ 8.8% compared to Q4 2015). Excluding the impact of acquisition of Bashneft, HL production increased by 0.9% YOY. Total HL production in 2016 increased by 3.6% to 210.0 mmt.

CRUDE OIL, GAS CONDENSATE AND HL PRODUCTION, MMT



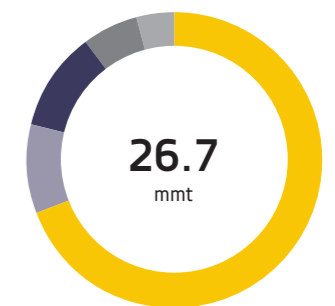
Western Siberia	127.6
Eastern Siberia and Far East	37.2
Central Russia	36.5
South (incl. Krasnodar Territory and Priazovneft)	2.1
Timan-Pechora	2.6
Other	4.0

COMMISSIONING OF NEW WELLS BY TYPE, PCS.



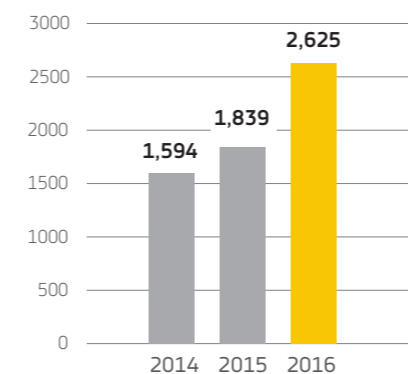
Directional	1,784
Horizontal	841
Including MSF	430

ADDITIONAL PRODUCTION FROM NEW WELLS AND WELL WORK, MMT

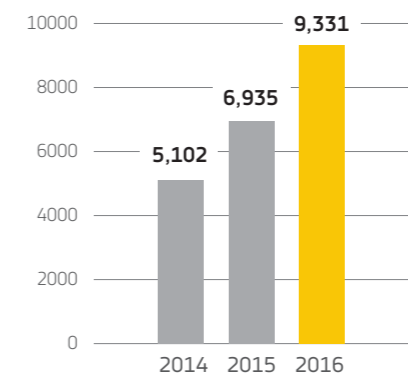


Production from new wells	18.5
HF at producing wells	2.6
Sidetracking	2.9
Transition to other horizons and layers	1.6
Other	1.1

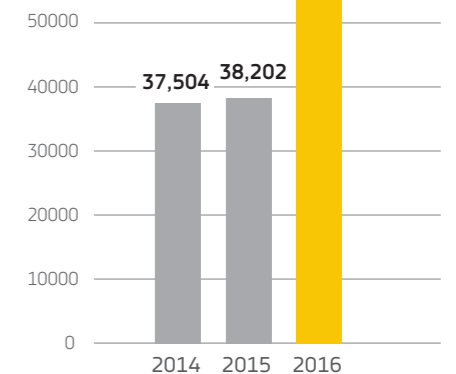
COMMISSIONING OF NEWLY DRILLED WELLS, PCS.



PRODUCTION DRILLING, '000 M



EXISTING WELL STOCK, PCS.





3.3 OVERVIEW OF PRODUCTION BY REGION OF OPERATIONS



STRATEGIC PRIORITIES:

- Further stabilization of production at brownfields through an increase in drilling and the use of new technologies;
- Maintaining the productivity of existing wells.



4.6

THSD
WELL WORK OPERATIONS
WERE CONDUCTED AT
WELLS OF ROSNEFT
GROUP COMPANIES



USE OF MODERN TECHNOLOGIES TO MAINTAIN PRODUCTION LEVEL

Well work aimed at additional oil production contributes significantly to maintaining target production levels. In 2016, more than 4.6 thsd wellwork operations aimed at additional production (excluding commissioning of new wells) were carried out at the wells of Rosneft's subsidiaries and affiliates; as a result, 8.2 mmt of oil were produced. Traditionally, the main types of well work aimed at additional production include sidetracking (ST), hydraulic fracturing (HF), transition to other horizons and layers. These types of well work alone enabled the Company to produce additional 7.1 mmt of oil. In 2016, Rosneft developed and implemented a program of additional

wellwork operations involving operations at more than 1,500 wells at six subsidiaries of the Company, which resulted in oil production totaling 0.82 mmt. Rosneft uses state-of-the-art down-hole technologies offered by such high-tech companies as Schlumberger, Halliburton, KVS, RN-GRP, KatKoneft and Newtech, which are leading providers of oilfield services in the Russian Federation. The Company is actively introducing multistage hydraulic fracturing (MSF) techniques. In 2016, 643 wells were commissioned at the Company's fields after carrying out MSF, which enabled the Company to produce 3.8 mmt of oil.

WESTERN SIBERIA

Western Siberia is the Company's main oil-producing region. In 2016, assets in Western Siberia accounted for 61% of the Company's total production. The Company's main upstream assets in Western Siberia include RN-Yuganskneftegaz LLC (30% of the Company's total production), JSC Samotlorneftegaz (10% of the total production) in the Khanty-Mansi Autonomous District and RN-Uvatneftegaz LLC (6% of the total production) in the south of the Tyumen Region.

In addition, Western Siberia is also a major gas-producing region. In 2016, the Company's gas production grew by 6.8% to 47.5 bcm.

RN-Yuganskneftegaz LLC

RN-Yuganskneftegaz LLC operates 33 license areas (with Rosneft as the sub-soil user). Most proved reserves (80%) are concentrated in the Priobskoye,

Mamontovskoye, Malobalykskoye and Prirazlomnoye fields.

In the middle of November, cumulative production at RN-Yuganskneftegaz LLC reached 2.2 bln tons of oil.

Despite the long history, the production trend of RN-Yuganskneftegaz is steadily positive: in 2016, average daily HL production increased by 1.7%, while annual hydrocarbon production increased by 1.9% to 67.5 mmtoe.

These results were achieved due to accelerated drilling, construction of new wells, including horizontal ones, implementation of a range of effective well work operations, as well as the use of cutting-edge technologies.

In 2016, production drilling reached an all-time high of more than 5.1 mln m (+46% year on year). The number of drilling crews almost doubled. The number of drilled wells grew by 51% and amounted to 1,545 wells.

For more effective production at the existing multi-well pads, the Company is successfully implementing an infill drilling program using mobile drilling rigs.

RN-Yuganskneftegaz has set several industry records in the field of well drilling.

At the Ombinskoye field, a daily drilling rate of 2,350 m/rig-month was reached at the well under construction, and the average penetration rate was 120.9 m/h.

A new industry benchmark was also set in terms of commercial drilling speed: 12,643 m/rig-month.

To strengthen the well walls and bring rock cuttings to the surface more efficiently, new methods of interval drilling mud treatment at the stage of preparation for well construction were developed.

The Company's strategic goal is to further stabilize its production with subsequent growth in the medium term.



JSC Samotlorneftegaz

JSC Samotlorneftegaz operates 11 license areas (being the subsoil user of 11 of them). In 2016, hydrocarbon production totaled about 25 mmtoe, with HL production exceeding 20 mmt (production data include Yugraneft Corporation).

Most proved reserves of JSC Samotlorneftegaz (over 98%) are concentrated at the Samotlor field, one of the world's largest fields. Commercial production at the Samotlor field started in 1969; in the 1980s, production at the field reached a peak of over 150 mmt per year.

Due to natural depletion of residual reserves and a high water cut, at present oil production at the field is accompanied by production of considerable amounts of water. About 24 tons of formation water is produced per ton of oil. In 2016, the average water cut amounted to 95.8%.

The main objectives related to maintaining production at the field are to use new technologies and to start the development of new undeveloped reserves.

Thus, at the end of January 2016, the Company carried out experimental work involving drilling a new horizontal well with 20 hydraulic fracturing stages at the Samotlor license area. The pilot well was drilled within 23 days; the length of its

horizontal section totaled 510 m, and the distance between the burst port collars totaled 24 m. The flow rate at the drilled well totaled about 100 tpd of oil. Multi-stage hydraulic fracturing was performed by a subsidiary, RN-GRP LLC.

The implementation of the project will provide an opportunity to drill out the formation edge zones where undeveloped oil reserves are concentrated. Until now, drilling and development of reserves had not been carried out in such zones due to low efficiency.

In April 2016, during the commissioning of two new horizontal wells at the Samotlor field, Samotlorneftegaz obtained an oil inflow with a total flow rate of 880 tpd from a deposit forming part of layer BV8 (1-3), with water cut not exceeding 5%. Both wells had been drilled without hydraulic fracturing. Such high flow rates were last recorded at the Samotlor field 8 years ago during drilling at the Ust-Vakhskaya area.

A promising deposit forming part of layer BV8 (1-3) was uncovered as a result of seismic and geophysical surveys and confirmed by sidetracking. Drilling at the deposit has been carried out since the beginning of 2016.

As part of a program to introduce new engineering solutions, 3 multilateral

wells with a total initial flow rate of 274 tpd were put into operation at the Samotlor field.

The project to construct multilateral wells is aimed at obtaining additional oil production and reducing the scope of infill drilling at the Samotlor field by increasing the coverage of the pay zone. This technology enables the development of reservoir edge zones and increases the economic benefit.

Multilateral wells are particularly effective in areas where multi-stage hydraulic fracturing (MSF) is impossible due to the geological structure of the reservoir, as well as in inaccessible areas. This opens up new horizons for evaluating reservoir productivity.

These engineering achievements will help to slow down the decline in production at the Samotlor field, but only partially. Given considerable expenditure on the maintenance of the existing well stock and infrastructure for treatment and pumping of products with a high water cut, additional fiscal incentives are required in order to maintain oil production at the current level.

In January 2017, Rosneft submitted proposals concerning incentives for large fields with a high water cut to the



Government of the Russian Federation; the proposed measures involve reducing the mineral extraction tax rate for such fields.

Additional measures will make it possible to make economically feasible decisions on an increase in production drilling at the field, which will help maintain the current level of production.

RN-Uvatneftegaz LLC

RN-Uvatneftegaz LLC operates 19 license areas in the Tyumen Region, the Omsk Region and the Khanty-Mansi Autonomous District; to date, it has discovered 37 fields.

Most proved reserves (about 70%) are currently concentrated in the Ust-Tegusskoye, West Epasskoye and Urnenskoye fields, which are being developed as part of the Eastern Development Center.

The Uvat project is developed on the basis of two development centers (the Eastern and Central ones), and further project development prospects are related to them.

In 2016, hydrocarbon production totaled 11.8 mmtoe, with HL production increasing by 5.1% to 11.6 mmt.

Since 2004, annual oil production at the fields forming part of the Uvat project has grown almost tenfold, from 1.2 mmt to 11.6 mmt.

The increase in production was driven, among other things, by accelerated commissioning of new wells, an increase in the drilling rate, implementation of a range of well work operations and commissioning of gas engine power plants to supply energy to oil production facilities.

Production growth was also driven by the commissioning of new fields in 2015, such as the South Gavrikovskoye, Protozanovskoye and Malyk fields, as well as the West Epasskoye field in 2016.

In 2016, a long horizontal well with the length of the horizontal section totaling 1 thsd m and a total drilled depth of 4.6 thsd m was drilled at the West Epasskoye field. It was at this well that the record oil flow rate for the Uvat project was achieved: 677 tpd.

2016 saw a series of record achievements reflecting continuous improvement of performance of RN-Uvatneftegaz through the use of new approaches to drilling and implementing of highly efficient drilling equipment.

In Q1 2016, the daily drilling rate at RN-Uvatneftegaz hit a new record high

2,156

M/D – A NEW RECORD IN DAILY DRILLING at RN-Uvatneftegaz, exceeding the previous achievement by 187 m

These new records were achieved by using a logging method (geophysical survey in real time) and making changes in the process flow design for drilling operations.

of 2,156 m/d, exceeding the previous achievement by 187 m.

A well with record results was drilled at the Malyk field, one of the fields of the Uvat project, where commercial production started in 2015.

In Q2 2016, RN-Uvatneftegaz set a new record in terms of commercial drilling speed on the mainland of Russia. During the construction of well No. 2267 at the Ust-Tegusskoye field, the commercial drilling speed amounted to 11,988 m/rig-month. The well with a depth of 2,639 m was drilled in 6.5 days.

As a result of adoption of new engineering solutions and step-by-step planning, the speed of well construction increased, while the cost of drilling and geophysical surveys of shallow directional wells at the Ust-Tegusskoye field decreased at the same time.

Sorovskneft LLC

Sorovskneft LLC operates 4 license areas in the Khanty-Mansi Autonomous District. Proved reserves are concentrated in the Sorovskoye and Tortasinskoye fields.

In 2016, HL production totaled 0.6 mmt (starting from October 1, 2016).



In 2016, hydrocarbon production in Eastern Siberia and the Far East (onshore) totaled 32.7 mmtoe, with HL production totaling 32.6 mmt, up by 1.1%.

>15

BCM OF GAS supplied to the unified gas supply system of Russia since the start of commercial production at the Vankor field

8.7

MMT HL production at PJSC Verkhnechonskneftegaz in 2016

EASTERN SIBERIA AND RUSSIAN FAR EAST (ONSHORE)

Eastern Siberia and the Russian Far East are home to the Company's large upstream assets. In 2016, production at the Vankor and Verkhnechonskoye fields hit a record high, with total output exceeding 29 mmt. These regions will support major production growth in the medium term driven by the development of new fields in the Vankor cluster, the Urubcheno-Tokhomskeye, Srednebotubinskoye and Kuyumbinskoye fields.

Vankor cluster

RN-Vankor LLC operates the development of the Vankor cluster comprising the Vankor (the largest field discovered over the last 20 years), Suzunskoye, Tagulskoye and Lodochnoye fields located in the Turukhansky and Taymyrsky municipal districts in the north of the Krasnoyarsk Territory.

Since the beginning of commercial operation of the Vankor field in August 2009, oil and condensate production has totaled almost 140 mmt. More than 15 bcm of gas have been supplied to the Unified Gas Supply System of Russia.

In 2016, HL production exceeded 22 mmt, up by 0.6% year on year. Production growth was mainly supported by comprehensive technological testing of oil production, treatment and transportation facilities at the Suzunskoye field, as well as effective well work at the existing well stock.

In 2016, Rosneft increased production drilling footage at the fields forming part of the Vankor cluster by 3% year on year to 305.2 thsd m.

Factors contributing to this increase included the growth in drilled footage at the Suzunskoye and Tagulskoye fields, as well as the growth of commercial drilling speed due to commissioning of additional drilling rigs and infill drilling. To improve the production efficiency, fields forming part of the Vankor cluster are developed using horizontal wells.

PJSC Verkhnechonskneftegaz

PJSC Verkhnechonskneftegaz explores and develops the Verkhnechonskoye oil and gas

condensate field, the second largest field in Eastern Siberia located in the Irkutsk Region. In addition, the Company operates 10 license areas of Rosneft in the Irkutsk Region and the Krasnoyarsk Territory.

In 2016, HL production increased by 0.6% to 8.7 mmt.

In early 2017, cumulative oil production at the Verkhnechonskoye oil and gas condensate field since its commissioning in October 2008 reached 50 mmt.

For several years, oil production at the field has been increasing faster than anywhere else.

During the development of the field, production growth was driven by commissioning of new wells, implementation of measures to optimize oil production, reservoir pressure maintenance, implementation of a range of well work operations, monitoring of the parameters of the pay zone operation, and optimizing the operation of infrastructure facilities.

The Verkhnechonskoye field is being developed using advanced technologies: hydraulic fracturing and multi-stage hydraulic fracturing (MSF). Successful completion of the drilling and well work program was facilitated by the development of Rosneft's in-house services: the Irkutsk branch of RN-Burenie LLC, a specialized subsidiary of Rosneft, actively participates in the development of fields in the region.

In order to expand the resource base, Verkhnechonskneftegaz operates the North Danilovskoye field, where average daily production at wells amounts to 440 tons. In addition, Verkhnechonskneftegaz conducts geological exploration at the Verkhneicherskoye field (which was discovered in 2016), with C1+C2 reserves of over 60 mmtoe.

JSC East Siberian Oil and Gas Company (Vostsibneftegaz)

JSC East Siberian Oil and Gas Company (Vostsibneftegaz) operates 6 license areas (including 2 license areas as the subsoil user) in the Krasnoyarsk Territory.

The company is implementing a project to develop an expanded high-priority area of the Urubcheno-Tokhomskeye field located in the Evenkiysky District of the Krasnoyarsk Territory.



In early 2017, cumulative production since the beginning of development of the Urubcheno-Tokhomskeye field, one of the largest fields in the Krasnoyarsk Territory, reached 1 mmt of oil. The field development plans provide for achieving a production plateau of about 5 mmt per year.

Oil delivery from the field to the Kuyumba-Taishet oil trunk pipeline system started ahead of schedule at the end of 2016. For this purpose, industrial infrastructure facilities were built, including a 14 km long high-pressure oil pipeline with a capacity of up to 5 mmt of oil per year connected to the Kuyumba-Taishet oil trunk pipeline. 77 industrial facilities, over 60 km of gathering oil pipelines, 56 km of power transmission lines, and about 78 km of roads have been constructed. In addition, feedstock is transported by oil tanker trucks by temporary winter roads to consumers in the villages of the Severo-Yeniseysky and Evenkiysky District.

Since the beginning of the project, 43 wells have been constructed, including 33 production wells. Taking into account the complex geological structure of the field, it is developed using non-standard solutions and advanced oil and gas production techniques. New technologies are designed to ensure high economic efficiency of the project, as well as process and environmental safety.

As part of pilot testing of a drilling technique involving bottomhole pressure monitoring, highly efficient wells were drilled at the field. This technology has made it possible to reduce the drilling time of a well by 30% and to prevent the loss of drilling mud. The total flow rate exceeded the average results for a well cluster by a factor of 4.5.

As part of its search for optimal solutions for efficient development of the Urubcheno-Tokhomskeye field, which has a complex geological structure, the company drilled the first multilateral well with initial oil flow

rates of about 200 tpd. The depth of the experimental multilateral well with three sidetracks exceeded 4 thsd m. The total footage drilling within the productive horizon exceeded 1.5 thsd m.

The start of commercial oil deliveries from the Urubcheno-Tokhomskeye field is scheduled for 2017, when the field will be put into operation.

Taas-Yuriakh Neftgazodobycha LLC

Taas-Yuriakh Neftgazodobycha LLC operates 7 license areas (including 2 licenses as the subsoil user) in the Sakha Republic (Yakutia).

At present, the company is developing the Central Block and the Kurungsky license area of the Srednebotubinskoye oil and gas condensate field. The Srednebotubinskoye oil and gas condensate field is one of the three largest assets of Rosneft in the East Siberian oil cluster.



Odoptu field

In 2016, Taas-Yuriakh Neftegazodobycha LLC boosted oil production by 18.9% year on year to 1.1 mmt.

Production growth was driven by the implementation of the horizontal drilling program with a record length of horizontal sections (up to 1,250 meters), commissioning of new wells, the implementation of a range of effective well work operations, the use of modern technologies, as well as by selecting the optimal mode of operation for ground infrastructure facilities.

In 2016, 32 new wells were commissioned at the Srednebotuobinskoye field, with drilling exceeding 136 thsd m. As part of the production drilling program, 4 additional Russian-built drilling rigs started operating at the field.

Taas-Yuriakh Neftegazodobycha continues to expand production capacity at the second stage of the company's development. The last joint of the linear section of the high-pressure pipeline with increased capacity for oil transportation from the

Srednebotuobinskoye field was welded. The 168 km long pipeline will connect the field with the East Siberia—Pacific Ocean trunk pipeline system, with a junction near the city of Lensk. The project also provides for annual oil production growth to 5 mmt, and expansion of the current central production facility and the delivery and acceptance point with a tank farm with a total capacity of 70 thsd cub. m.

RN-Sakhalinmorneftegaz LLC

RN-Sakhalinmorneftegaz LLC operates 28 onshore license areas (with Rosneft as the subsoil user) on Sakhalin Island and 3 offshore license areas (with Rosneft as the subsoil user) in the Sea of Okhotsk, where oil exploration and production started in the 19th century.

The main reserves (about 70%) of RN-Sakhalinmorneftegaz are concentrated in five fields: the Odoptu Sea, Katangli, Mongi, Mirzoev and Nabil fields.

In 2016, HL production exceeded 1.1 mmt.

17%

OF ROSNEFT'S TOTAL HL
PRODUCTION —
SHARE OF PRODUCTION
IN CENTRAL RUSSIA



Central Russia is one of Rosneft's historical production centers in the Russian Federation. At some fields, oil has been produced for about 80 years.

CENTRAL RUSSIA

In 2016, the Company's HL production in the region totaled 36.5 mmt, or 17% of Rosneft's total production.

In 2016, gas production in the region totaled about 3 bcm. Gas is produced mostly at the fields of PJSC Orenburgneft and JSC Samaraneftegaz.

JSC Samaraneftegaz

JSC Samaraneftegaz operates 166 license areas (including 165 license areas as the subsoil user) located in the Samara and Orenburg Regions. About half of all proved reserves is concentrated in 10 major fields, including the Mukhanovskoye, Kuleshovskoye, Barinovsko-Lebyazhinskoye, Mikhailovsko-Kokhanskoye and Neklyudovskoye fields, etc.

In 2016, hydrocarbon production totaled 12.9 mmt, with HL production increasing by 3.5% and exceeding 12.5 mmt.



The production growth was driven by the commissioning of new wells, the use of advanced technologies and effective implementation of a range of well work operations.

In 2016, production drilling exceeded 296 thsd m. The commercial drilling speed increased to 1,364 m/rig-month (1,310 m/rig-month in 2015).

The hydrocarbon production growth was also driven by the commissioning of new infrastructure facilities: about 300 km of pipelines, 124 km of power transmission lines, the Kozlovskaya, Sologaevsкая and Yablonskaya gas compression stations.

Since the start of the company's operations in 1936, cumulative oil production has exceeded 1.2 bln tons.

PJSC Orenburgneft

PJSC Orenburgneft operates 125 license areas (including 90 license areas as the subsoil user) in the Orenburg, Saratov and Samara Regions. More than half of all

proved reserves is concentrated in 10 major fields, including the Rostashinskoye, Sorochinskoye-Nikolskoye, Garshinskoye and Pokrovskoye fields, etc.

In 2016, hydrocarbon production totaled 18.5 mmt, with HL production exceeding 16.6 mmt (the production data include Buguruslanneft, Jupiter-A and Slobodskoye).

The main objectives related to maintaining hydrocarbon production are to use modern well work techniques, as well as to optimize well operation modes and the reservoir pressure maintenance system.

Bashneft-Dobycha LLC

Bashneft-Dobycha LLC operates 248 license areas (with Bashneft as the subsoil user) located in the Republics of Bashkortostan and Tatarstan, the Orenburg Region and the Khanty-Mansi Autonomous District. More than half of all proved reserves is concentrated in 6 major fields, including the Arlanskoye, etc.

248

NUMBER OF LICENSE
AREAS OPERATED BY
BASHNEFT-DOBYCHA LLC
(WITH PJSOC BASHNEFT
AS A SUBSOIL USER)

Yugomashevskoye and Tuimazinskoye fields.

In 2016, HL production amounted to 4.2 mmt (starting from October 1, 2016).

KRASNODAR TERRITORY

RN-Krasnodarneftegaz LLC

RN-Krasnodarneftegaz LLC operates 29 license areas (with Rosneft as the subsoil user) in the Krasnodar Territory, the oldest oil-producing region in European Russia.

The main proved reserves (80%) of RN-Krasnodarneftegaz LLC are concentrated in the Anastasievsko-Troitskoye field.

In 2016, hydrocarbon production increased by 3.3% compared to 2015 and amounted to 3.3 mmt, with HL production totaling 0.9 mmt.

TIMAN-PECHORA PROVINCE

RN-Severnaya Neft LLC

RN-Severnaya Neft LLC, the main upstream enterprise of Rosneft in Timan-Pechora, operates 18 license areas (with Rosneft as the subsoil user) located in the Komi Republic and the Nenets Autonomous District. The main proved reserves (over 70%) of RN-Severnaya Neft LLC are concentrated in 5 fields: the Labaganskoye, Naulskoye, Khasyreyskoye, Srednemakarihinskoye and Cherpayskoye fields.

In 2016, hydrocarbon production increased by 15.9% compared to 2015 and exceeded 3.5 mmt, with HL production exceeding 3.3 mmt.

In 2016, cumulative oil production since the start of operation of RN-Severnaya Neft in 1994 reached a 60 mmt milestone.

This achievement was made possible through the implementation of a number of projects, such as construction of well-developed oil and gas production infrastructure, application of modern technologies, and development of greenfields. The enterprise produces oil from over 400 production wells, half of which is located at the "southern block" of fields. At the same time, the number of production wells at the fields of the "northern block" (Val Gamburtseva, Osoveyskoye, Labaganskoye

and Naulskoye) is expanding as a result of drilling at new areas.

The company has created a system for gathering, transportation, registration and delivery of marketable oil. The modern communication system connects all fields and industrial sites of the enterprise. The company has developed extensive capabilities at the Val Gamburtseva group of fields for further development of northern areas in Timan-Pechora. The company develops its fields using modern efficient horizontal drilling techniques, which make it possible to increase the flow rates and the oil recovery factor.

Last year, the company started to produce oil at the Labaganskoye field. In 2016, production at the field amounted to 0.9 mmt in accordance with the basic targets.

As part of the program to develop the Labaganskoye field, a 106 km-long oil pipeline was constructed from the Labaganskaya oil treatment unit to the Nyadeiyuskaya booster station. In addition, the first separation stage, a pumping station, a tank farm for storing fuels and lubricants and a power center were constructed.

Bashneft-Polyus LLC

Bashneft-Polyus LLC implements the project to develop the Trebs and Titov fields located in the Nenets Autonomous District.

In 2016, HL production amounted to 0.6 mmt (starting from October 1, 2016).



90%

APG UTILIZATION RATE
REACHED AS A RESULT OF
IMPLEMENTATION OF THE
GAS PROGRAM IN 2016

IMPLEMENTATION OF A PROGRAM TO INCREASE THE APG UTILIZATION RATE

Implementation of the gas program in 2016 resulted in an increase in the APG utilization rate to 90.0% (+2.1 percentage points compared to 2015). In 2016, 20 APG utilization facilities were completed. The main projects of the 2016 program are projects to build and renovate the following ground infrastructure facilities:

- Compressor stations (CS): the FWKO-SOUTH low-pressure gas compression station of JSC Vankorneft, the compressor station at the oil treatment unit (OTU)

of the Yablonevskoye field and the compressor station at the FWKO unit of the Sologaevskoye field of JSC Samaraneftegaz.

- Gas transportation infrastructure: the OTU1-W6 gas pipeline of PJSC Vernechonskneftegaz; the gas pipeline between the tie-in point near BPS-2 of the Van-Eganskoye field and the tie-in point in the gas pipeline near the central production facility at the Van-Eganskoye field of PJSC Varyeganneftegaz; refitting of the high-pressure oil pipeline between the Rassvetskaya BPS and the Gorbatovskaya FWKO unit with the connection

of a high-pressure oil pipeline from the Garaevskaya BPS (conversion into a gas pipeline) of JSC Samaraneftegaz; the gas pipeline connecting the Khankovskaya BPS, the Troitskaya BPS and the Troitskaya CS of RN-Krasnodarneftegaz LLC; the Ponomarevka-Samodurovka gas pipeline of PJSC Orenburgneft.

- Power generation facilities: a 84 MW gas turbine power plant (GTPP) at the East Messoyakha field of JSC Messoyakhaneftegaz.
- Captive gas utilization facilities of JSC Samaraneftegaz and PJSC Orenburgneft.

Key APG production facilities in 2016

ASSET	APG PRODUCTION IN 2016, BCM	KEY 2016 ACHIEVEMENTS
Vankor cluster	8.1	Launch of a FWKO-SOUTH low-pressure gas compression station
Samotlorneftegaz	5.9	Maintaining the APG utilization rate above 95%
Yuganskneftegaz	4.6	Optimization of configuration of CS-1 at the Priobskoye field, which has helped reduce APG flaring during maintenance of the system
Purneftegaz	4.0	Growth of APG production from new wells at the Kharampur field and the North Komsomolskoye field targeting areas below a gas cap
Varyeganneftegaz	3.3	Commissioning of the first stage of the gas pipeline connecting the Van-Eganskoye field and the Tumenskaya compressor station with an increase in APG supply for processing
Nyaganneftegaz	1.6	Maintaining the APG utilization rate above 95%
Samaraneftegaz	0.6	Commissioning of gas compression stations at the oil treatment unit of the Yablonevskoye field and the FWKO unit at the Sologaevskoye field

3.4 DEVELOPMENT OF GREENFIELDS

1.4



MMT production volume at the Suzunskoye field in 2016

0.7



MMT production volume at the East Messoyakha field in 2016

SUZUNSKOYE FIELD

The start of production at the Suzunskoye field is planned in two stages:

Stage 1: in September 2016, the Company started comprehensive testing of hydrocarbon production, treatment and transportation facilities as planned.

In Q4 2016, the final construction, installation and pre-commissioning works were carried out at the main infrastructure facilities: the first start-up complex of the oil treatment unit with a design capacity of 4.5 mmt per year and the oil pipeline connecting the Suzun OTU and the Vankor OTU; 6 multi-well pads and related infrastructure are being developed. In 2016, production amounted to 1.4 mmt of oil.

Stage 2: main gas facilities (GCS, the Suzun-Vankor gas pipeline), as well as external power supply facilities and auxiliary facilities will be commissioned in 2018.

COMMISSIONING OF THE EAST MESSOYAKHA FIELD

On September 21, the East Messoyakha field was commissioned. The order to start oil shipment from the East Messoyakha field was given by the President of the Russian Federation Vladimir Putin via video conferencing. Application of modern technical and engineering solutions enabled Rosneft to build field facilities at the East Messoyakha field in less than three years.

By February 9, 2017, 94 production wells, 15 multi-well pads with related infrastructure, critical infrastructure facilities for field operation had been put into operation at the field; a 98 km-long oil pipeline connects the hydrocarbon production and

treatment facilities with the Zapolyarye-Purpe trunk pipeline; an 84 MW gas turbine power plant (GTPP) has been commissioned.

In 2016, the field produced 0.7 mmt of oil (100% of the design output).

URUBCHENO-TOKHOMSKOYE FIELD

In 2016, drilling of 13 wells was completed. Construction and installation works are underway at the main facilities: an OTU, captive power generation facilities, a gas compression station, a fuel gas treatment unit, a delivery and acceptance point (DAP), expansion of the OTU tank farm, an oil pipeline connecting the DAP and the junction of OPS-2 and other facilities that ensure timely commissioning of the field and creation of the necessary infrastructure.

In Q4 2016, an early oil delivery project was implemented to fill the Kuyumba-Taishet Trunk Oil Pipeline in accordance with the temporary accounting scheme until the commissioning of the Yurubchen DAP; 27.2 thsd tons of oil were delivered for comprehensive testing to Transneft-Vostok LLC. It was possible to start oil deliveries ahead of schedule due to the construction and commissioning of field facilities forming part of the first stage.

In 2016, the field produced more than 100 thsd tons of oil. In 2017, production is expected to total about 0.8 mmt.

TAAS-YURIAKH NEFTEGAZODOBYCHA LLC - SREDNEBOTUOBINSKOYE FIELD, STAGE 2

After a strategic partner, BP, joined the project of Taas-Yuryakh Neftegazodobycha LLC, this helped accelerate construction of facilities of the second stage of development of the

Srednebotuobinskoye field. At present, the main field facilities of the second stage are under construction at the field: a BPS (expansion), a DAP (expansion), a workers' camp. Construction of the linear part of the high-pressure pipeline (the second branch of the trunk oil pipeline connecting the field and the ESPO pipeline) was completed. Production wells are being drilled with six drilling rigs.

By the end of this year, 1.1 mmt of oil were produced as part of the first stage of development of the Srednebotuobinskoye field.

TAGULSKOYE FIELD

As part of preparations for commissioning, production drilling was started at the field; in 2016, drilling of 6 wells was completed, and the main boreholes of 6 wells were prepared for sidetracking (12 wells in total). Design of the main facilities continues. Preparatory works are being carried out (engineering preparation of the OTU, multi-well pads and roads). About 44.8 thsd tons of oil were produced.

RUSSKOYE FIELD

The existing well stock at the field increased to 29 wells by the end of 2016. Design of major facilities was completed. Preparatory works are being carried out (filling of multi-well pads and roads to the OTU and MWP). Construction of top-priority facilities is underway, including a BPS, a cluster pumping station, the Zapolyarnoye DAP, an oil pipeline connecting the Russkoye CPF and the Zapolyarnoye DAP.

In Q4 2016, construction of a central production facility (CPF) began ahead of schedule at the Russkoye field. The facility with a capacity of more than 6.3 mmt will be used for oil treatment to increase its quality to a marketable level and for its further transportation. The CPF construction project will be implemented in 3 stages.

The Company also began construction of a high-pressure pipeline to transport oil from the Russkoye field. The pipeline with a capacity of 7 mmt of oil per year and a length of 65 km will connect the field with the Zapolyarye-Purpe trunk oil pipeline system. During the

implementation of the infrastructure project in the Far North, the Company will use cutting-edge environmental technologies. The pipeline will be equipped with a multi-stage safety system. Launch of the high-pressure pipeline connecting the Russkoye CPF and the Zapolyarnoye DAP is scheduled for 2018, when field facilities forming part of the first stage of field development will be put into commercial operation.

PRODUCTION OF HIGH-VISCOSITY OIL FROM LAYER PK1 OF THE NORTH KOMSOMOLSKOYE FIELD

The North Komsomolskoye field is located in the Purovsky and Nadymy Districts of the Yamalo-Nenets Autonomous District. The license for the use of subsoil resources is held by Rosneft.

Under an agreement on cooperation in development of hard-to-recover reserves of the North Komsomolskoye field signed with Statoil ASA in 2013, between 2014 and 2016 a pilot program

was successfully implemented at a pilot area of the North Komsomolskoye field. As a result, horizontal production wells were drilled, and commercial oil flows were obtained.

In order to determine the potential of the North Komsomolskoye field, in 2017, the Company plans to begin preparatory work and complete the pilot program at the extended area of the field within 3 years. Following the completion of the program, design solutions for full-scale field development will be revised.



North Komsomolskoye field

3.5 DEVELOPMENT OF HIGH-TECH IN-HOUSE SERVICES



STRATEGIC PRIORITIES:

- To improve the efficiency of in-house services;
- To upgrade service equipment and improve its mobility;
- To maintain the share of in-house services above 50%.

DRILLING

In 2016, the Company completed the formation of a single drilling holding company, in which previously acquired drilling assets (OBC LLC, JSC OBN, JSC NvBN and NPRS-1 LLC) were fully integrated. As a result, the Nizhnevartovsk and Orenburg branches of the Company were established, and the Nefteyugansk, Usinsk and Irkutsk branches were enhanced.

The equipment upgrade program is underway: 15 drilling rigs produced by Uralmash NGO Holding were procured and delivered to the Company's facilities.

Implementation of the project to develop the Khatangsky license area (in the north of the Krasnoyarsk Territory) was started: services were purchased; a heavy drilling rig (with a load capacity of 450 tons) was prepared (winterized) for operation in extremely challenging climatic conditions; drilling equipment for the site was mobilized. The project is supervised by RN-Shelf Arktika LLC; drilling operations are performed by the East Siberian branch of RN-Burenie LLC.

In December 2016, the Company purchased an oilfield service company JSC Targin, which comprises the following segments: drilling, well servicing and workover, coiled tubing

operations, special transport and mechanical services. The drilling unit of Targin-Burenie LLC has 46 drilling rigs and 43 drilling crews; the total headcount of the company amounts to 2,894 employees. The drilling rig fleet comprises drilling rigs with a load capacity ranging from 80 to 320 tons, with heavy rigs making up more than 50% of the total number. The average age of the drilling rig fleet is 10 years. 7 drilling rigs were upgraded.

The total number of drilling rigs currently in operation in the in-house service division, including Targin-Burenie, amounts to 280 drilling rigs. The average age of the drilling rigs is 11 years. The number of drilling crews increased to 251.

In 2016, the in-house service division drilled 1,758 production wells (including 20 exploration wells), with drilling totaling 5,732 thsd m. The in-house service division accounted for 60% of the Company's total production drilling volume, including 69% at RN-Yuganskneftegaz.

WELL WORKOVER AND SERVICING, OTHER IN-HOUSE SERVICES

In 2016, the average number of active well workover and servicing crews in the in-house service division totaled 530. 13,452 well workover operations and 15,640 well servicing operations were performed.

The transport services unit provided process transport services totaling 13.3 mln machine-hours.

The Oilfield Equipment Repair Unit provided oilfield equipment maintenance services in the amount of 1,576,851 days and 441,353 items of equipment; 684,493 items of oilfield equipment and tubing were repaired; 292,318 spare parts and other products were manufactured.

As part of the initiative to develop the Company's effective in-house service division, the following key measures were implemented:

- RN-Service LLC divested non-core companies: PNG-ORS LLC, PNG-KS LLC and UKS LLC providing utility services; SDRSU LLC providing road construction services and YUNG-Neftekhimservis LLC providing services related to the preparation of chemical and process solutions;

- A specialized well workover and servicing enterprise with regional production branches was established through the merger of 10 well workover companies with RN-Service LLC;
- A drilling and oilfield equipment repair enterprise was established through the merger of 7 repair companies with RN-Remont NPO LLC.

As a result of the acquisition of JSC Targin's oilfield service assets, the number of well workover and completion crews increased by 30% to 694 crews; the number of vehicles increased by 110% and reached 8.7 thsd units. The Oktyabrsk and Neftekamsk oilfield equipment plants were included in the scope of the in-house service division.

Under the Strategic Partnership Agreement concluded between Rosneft and PJSC KAMAZ, 395 specialized vehicles were delivered to RN-Service LLC in 2016.

HYDRAULIC FRACTURING

In 2016, an action plan for the consolidation and integration of acquired assets of RN-GRP LLC into the Company's corporate structure was implemented, which enabled the Company to increase the share of in-house services on the market for HF services and coiled tubing operations to 32% and 12% respectively.

5,732 

THSD METERS OF ROCK drilled by the in-house service division in 2016

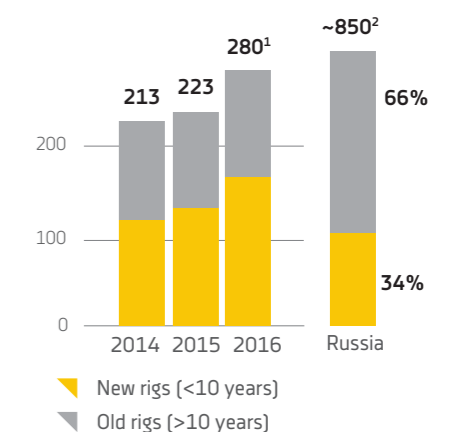
13.5 

THSD well workover operations performed in 2016

15.6 

THSD well servicing operations performed in 2016

NUMBER OF OWN DRILLING RIGS



1. Including the rigs of JSC Targin
2. RBK Research, Russian Oilfield Services Market in 2014

11 YEARS

AVERAGE AGE OF THE DRILLING RIG FLEET



3.6 DEVELOPMENT OF OFFSHORE PROJECTS IN RUSSIA

ONE OF ROSNEFT'S TOP STRATEGIC DEVELOPMENT PRIORITIES IN THE UPSTREAM SEGMENT IS TO DEVELOP HYDROCARBON RESOURCES ON THE RUSSIAN CONTINENTAL SHELF.



55
 LICENSES FOR OFFSHORE AREAS IN THE ARCTIC, THE RUSSIAN FAR EAST AND THE SOUTHERN SEAS OF RUSSIA ARE HELD BY THE COMPANY

STRATEGIC PRIORITIES

- Ranking of project portfolio
- Focus on high-priority projects – seismic surveys and prospecting drilling
- Planning of future full-scale projects



APPLICATION OF UNIQUE ENGINEERING SOLUTIONS

Rosneft is the discoverer of offshore fields near Sakhalin and a pioneer in the development of the Russian continental shelf. Most fields on the Sakhalin shelf have been discovered with assistance from the Company's specialists. Fields developed as part of internationally famous Russian offshore projects, Sakhalin-1 and Sakhalin-2, and the Kirinskoye field were discovered as a result of exploration conducted between 1975 and 1993. In 1998, Rosneft drilled Russia's first extended-reach horizontal well targeting the Odoptu Sea field (the Northern Dome) from the Sakhalin coast. This marked the start of oil production on the Russian continental shelf.

Oil production at the Odoptu Sea field (the Northern Dome) continues to this day. In 2016, 440 kt of oil and 140 mmcm of gas were produced at the field.

41.5

BLN TOE
The Company's recoverable oil and gas resources on the Russian continental shelf

33

THSD LINEAR KM
Seismic surveys on the Arctic shelf in 2016

Offshore 3D seismic surveys in the Black Sea



In 2016, the Company continued to expand the resource potential of its offshore projects by gaining access to new offshore areas. In 2016, the Company obtained three licenses: for the Gusinozemelsky area in the Barents Sea, the Bogatinsky area in the Sea of Okhotsk and the Central Tatarsky area in the Sea of Japan. As a result, as of December 31, 2016, Rosneft held 55 licenses for offshore areas in the Arctic, the Russian Far East and the southern seas of Russia.

As of the start of 2017, recoverable oil and gas reserves at the Company's license areas on the Russian continental shelf totaled 41.5 bln toe.

RESULTS OF OFFSHORE EXPLORATION IN RUSSIA¹

In 2016, Rosneft continued to fulfil its license obligations with regard to offshore exploration at license areas in the Arctic and the Far East and on the shelf of the Black Sea. During the 2016 field

season, ice conditions in Arctic seas were favorable, which enabled the Company to carry out a record amount of seismic surveys, considerably exceeding its license commitments.

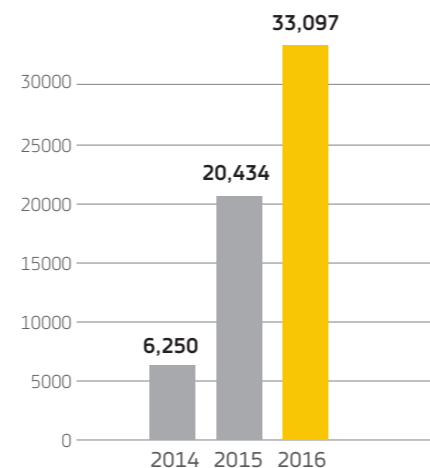
2D seismic surveys:

During the 2016 field season, the actual amount of 2D seismic surveys conducted at 10 offshore license areas in the Arctic totaled 33,097 linear km. As shown in the diagram, the Company systematically expands the scope of 2D seismic surveys year on year.

3D seismic surveys:

The actual amount of 3D seismic surveys conducted at three license areas totaled 4,056 sq. km, including 4,000 sq. km on the Arctic shelf (the East Prinovozemelsky 2 and 3 areas) and 56 sq. km in the Far East (overall, the GROSS amount of seismic surveys conducted at four license areas totaled 5,056 sq. km).

DYNAMICS OF 2D SEISMIC SURVEYS, LINEAR KM



1. Data on the scope of surveys are provided in accordance with IFRS (in some cases, the GROSS amount of surveys is specified in brackets)

4,056 sq. km

ACTUAL AMOUNT
of 3D seismic surveys

Airborne gravity and magnetic surveys:

The actual amount of surveys conducted at the East Sibirsky 1 and Khatangsky license areas totaled 87,000 linear km.

Geochemical surveys:

The Company conducted geochemical surveys at three license areas in the Barents Sea (the Albanovsky, Varneksky and West Prinovozemelsky areas). The surveys covered a total of 500 physical observation points.

Field geological expeditions:

In order to minimize geological risks related to certain elements of oil and gas reservoirs (oil- and gas-bearing parent rock and cap rock) at the Company's offshore license areas in the Black Sea, the Far East and the Arctic, the Company organized three field geological expeditions in the Caucasus, in the west of Sakhalin and on the island of New Siberia. Rock

samples were collected for laboratory analysis.

Geotechnical surveys:

The Company completed geotechnical surveys at three sites selected for the drilling of the first prospecting well at the South Chernomorsky license area in the Black Sea.

Environmental monitoring:

Environmental monitoring included examination of wellheads of previously drilled wells in the Pechora, Barents and Kara Seas and the Sea of Okhotsk.

SHARES OF PROJECT PARTICIPANTS, %



Participant	Share (%)
ROSNEFT (Russia)	20%
EXXONMOBIL (US)	30%
SODECO (Japan)	30%
ONGC VIDESH LTD (India)	20%

SAKHALIN-1 PROJECT

Sakhalin-1 is the first large-scale offshore project implemented in Russia under a PSA, which came into force in 1996.

The Sakhalin-1 project involves the development of three offshore fields: Chaivo, Odoptu and Arkutun-Dagi, which are situated on the north-eastern shelf of Sakhalin.

The Chaivo, Odoptu and Arkutun-Dagi fields are developed using state-of-the-art technologies and project management methods. At the Odoptu field, oil is produced from an onshore site using extended-reach horizontal wells; at the Chaivo field, oil is extracted from the onshore site and at the Orlan platform using wells with record-long boreholes, while the Arkutun-Dagi field is developed using the world's largest drilling platform, Berkut.

In 2016, the total volume of oil and condensate production as part of the Sakhalin-1 project exceeded 9.0 mmt, with Rosneft's share totaling approximately 1.8 mmt. Over 2.1 bcm of gas was supplied to consumers in the Russian Far East, with Rosneft's share amounting to 418 mmcm¹.

Oil produced at the fields developed as part of the project is delivered to the Chaivo onshore oil treatment facility on Sakhalin and then transported by pipeline to the De-Kastri oil terminal in the Khabarovsk Territory.

NORTHERN TIP OF THE CHAIVO FIELD

Under the license obtained by Rosneft, since September 2014, the Company has been developing the northern tip of the Chaivo field situated in a shallow area of the north-eastern part of the Sakhalin shelf.

In 2016, the Company commissioned the fourth and fifth oil wells, NC-4 (10,486 m deep) and NC-5 (11,163 m deep), ahead of schedule.

Oil is produced at the Chaivo field from five wells, with the total average output in 2016 amounting to 6.2 ktpd. Wells at the northern tip of the Chaivo field have a unique complex design and extended reach. The wells are equipped with high-tech completion systems comprising inflow control devices in order to minimize gas breakthrough and maximize cumulative oil production.

Like the Sakhalin-1 project, the field contains high-quality light SOKOL oil. SOKOL oil has a very low sulfur content (0.25%) and a density of 36.8 degrees API, which means that it can be sold at a premium to Dubai and Oman oil.

In 2016, actual oil production totaled 2.3 kt. In 2016, gas supplies to the Khabarovsk Territory totaled 311.373 mmcm.

The Northern tip of the Chaivo field license area is characterized by a high oil production rate. For instance, Rosneft's cumulative production at the license area reached 2 mmt on November 28, 2015, only fourteen months after the commissioning of the first well, while the 4 mmt mark was reached less than 11 months later, on October 12, 2016.

In 2016, the Company commissioned and put into operation permanent oil gathering and metering systems ahead of schedule.

LEBEDINSKOYE FIELD

As part of pilot development of the Lebedinskoye field (an offshore field in the Sea of Okhotsk operated by RN-Sakhalinmorneftegaz LLC), in 2016, the Company drilled and commissioned Wells No. 20 (in July) and No. 16 (in October) with initial flow rates of 428 tpd and 345 tpd respectively. In January 2017, Well No. 18 was drilled and started producing oil, with the flow rate amounting to 408.5 tpd. Well No. 18 has the longest horizontal section among wells drilled by RN-Burenie LLC (it is 1,962 m long). All these wells have a horizontal sidetrack, and their borehole length exceeds 5 thsd m.

3.7 DEVELOPMENT OF INTERNATIONAL PROJECTS IN PROMISING OIL AND GAS REGIONS

ROSNEFT PAYS CONSIDERABLE ATTENTION TO THE DEVELOPMENT OF ITS BUSINESS IN THE FIELD OF EXPLORATION AND HYDROCARBON PRODUCTION ABROAD



KEY ACHIEVEMENTS:

- Rosneft successfully acquired a 23.3% stake in JV Petromonagas, which enabled it to increase its stake in the joint venture to 40%.
- Production at Junin-6 (JV Petro-Miranda) increased by more than 57% in 2016 compared to 2015.



STRATEGIC PRIORITIES:

- Efficient implementation of current projects.
- Optimization of the current asset portfolio taking into account its investment potential.



1. Including royalties and the share of the government

VENEZUELA

Rosneft is one of the largest international investors in the Bolivarian Republic of Venezuela (BRV). The Company continues to consistently expand its cooperation in oil and gas production with Petróleos de Venezuela, S.A. (PDVSA), a Venezuelan national company. Rosneft is successfully implementing five joint exploration and production projects with PDVSA in Venezuela, including three projects at the production stage, namely Petromonagas (Rosneft's stake totals 40%), Petroperija (Rosneft's stake totals 40%) and Bokeron (Rosneft's stake totals 26.67%), one pilot development project, PetroMiranda (Rosneft's stake totals 32%), and one exploration project, Petrovictoria (Rosneft's stake totals 40%). Projects in Venezuela mainly involve heavy oil production. In 2016, oil production as part of the Company's projects in Venezuela amounted to 8.4 mmt, including Rosneft's share of 2.67 mmt, which is 60% more than in 2015. The increase in Rosneft's share of production is related to the growth of its stake in the Petromonagas project from 16.67% to 40%, as well as an increase in production of JV PetroMiranda.

In May 2016, Rosneft successfully acquired a 23.3% stake in JV Petromonagas, which enabled it to increase its stake in the joint venture to 40%. This will provide new impetus for the development of the enterprise. Synergy can be achieved between the two projects of JV Petromonagas and JV Petrovictoria; this will make it possible to optimize the time frame for the implementation of the Carabobo 2/4 project and the amount of capital investment, and improve its economic performance.

Rosneft takes active steps to ensure that drilling targets of the joint ventures are met. Rosneft has engaged its subsidiary Precision Drilling de Venezuela to provide drilling services during well construction (vertical, directional and horizontal wells), which has made it possible to increase the drilling rate and reduce costs. The time frame for well construction using drilling rigs of Precision Drilling de Venezuela is the shortest compared to the operation of other drilling rigs at the JV.

To improve the efficiency of projects, in 2016, Rosneft and PDVSA established a joint venture Perforosven providing oilfield services (with Rosneft and PDVSA having a 51% and 49% stake in the JV respectively).



Junin-6 and Carabobo 2/4 are the largest projects in terms of reserves. JV PetroMiranda was established in 2010 to implement the Junin-6 project located in the heavy oil belt in the Orinoco Basin. Phase 1 is currently in progress. It involves additional field development and infrastructure engineering. Pilot development of a priority area is being carried out to determine pay zone characteristics. JV Petrovictoria was incorporated in 2014 to implement the Carabobo 2/4 project. In 2016, well drilling continued in the early production area of the Carabobo 2/4 block.



Rosneft is considering expanding its business by participating in the project to develop the Rio Caribe, Mejillones and Patao gas and condensate fields on the Venezuelan shelf. In cooperation with PDVSA, the Company assessed the resource base of the project and is examining the options for field and infrastructure development and gas monetization.

The Company provides systematic employee training and education for Venezuelan students. Between 2014 and 2016, Rosneft, PDVSA and Gubkin Russian State University of Oil and Gas (National Research University) signed several documents in the sphere of education and research. In accordance with the agreements, 15 representatives of PDVSA are studying at Gubkin Russian State University of Oil and Gas under the Master's degree program in reservoir management.

BRAZIL

Rosneft (through its subsidiary Rosneft Brasil E&P Ltd. hereinafter referred to as RN-Brazil) is implementing the hydrocarbon exploration and development project at license areas in the Solimões River basin (State of Amazonas, Brazil) via its subsidiary Rosneft Brasil E&P Ltda. (RN-Brazil). It owns a 100% interest in these areas and is a project operator.

The exploration program for 2016-2018 includes seismic surveys and exploration drilling. Formations for priority drilling were prepared, and the construction of the first exploration well is to begin in 2017.

EGYPT

On December 10, 2016, Rosneft and ENI signed legally binding documents related to the acquisition of a stake of up to 35% (including an option for 5%) in the Shorouk Concession, which includes the Zohr gas field. The cost of joining the project totals USD 1.125 bln, plus reimbursement for the Seller's past costs incurred in 2016 and 2017 proportional to the Buyer's share at the time when the transaction was closed.

The Zohr gas field located in the Shorouk concession in the southern part of the Mediterranean Sea (the Egyptian sector of the Mediterranean Sea) 190 km away from the shore was discovered by ENI in August 2015. The area of the field totals 231 sq. km. The Zohr gas field is one of the largest offshore fields discovered in the Mediterranean Sea in recent years; geological gas reserves are estimated at more than 850 bcm.

MOZAMBIQUE

A consortium was formed with ExxonMobil in 2015 to develop international cooperation by participating in the 5th licensing round in the Republic of Mozambique. The consortium submitted a joint application in October 2015 and was awarded three offshore blocks (A5-B, Z5-C and Z5-D), with Rosneft's stake totaling 20%. Negotiations on signing concession agreements with the Mozambique Government are underway.

VIETNAM

Rosneft participates in a joint gas and condensate production project and in exploration projects at Block 06.1 in the Socialist Republic of Vietnam (with a 35% stake held by Rosneft Vietnam B.V., 45% held by ONGC and 20% held by PetroVietnam).

The Company signed a production sharing agreement for the development of Block 05.3/11 in 2013 (the project is at the exploration stage).

Rosneft also participates in the offshore Nam Con Son pipeline project, which involves transportation and treatment of gas and gas condensate produced at offshore blocks in the Nam Con Son Basin (with a 32.7% stake held by Rosneft Vietnam Pipelines B.V., 16.3% held by Perenco and 51% held by PetroVietnam).

Block 06.1: In 2016 the share of Rosneft in production amounted to 0.6 bcm of gas and 15.9 thsd tons of gas condensate.

In March 2016, an exploration well was drilled targeting the PLD formation at Block 06.1, and at the beginning of April it was tested; the well was completed on April 11, 2016. Drilling resulted in the discovery of commercial gas reserves amounting to 3.4 bcm (recoverable reserves). In November 2016, the reserve evaluation report was approved by the relevant authorities of Vietnam. Discovered reserves can be developed using the existing infrastructure of Block 06.1.

In June 2016, offshore 3D seismic surveys were completed; they were aimed at mapping deep promising geological formations to ensure further organic

growth. At present, data obtained during the surveys are being processed and interpreted.

The Ministry of Industry and Trade (MoIT) of Vietnam awarded Rosneft the title of the 2016 Operator of the Year.

In 2016, the Company continued successful exploration at Block 05.3/11.

The obligations regarding seismic surveys were fully met, and drilling of the first exploration well was completed on June 2, 2016.

In accordance with the existing licenses, the Company is required to drill the second exploration well. Drilling of the well is scheduled for the first half of 2018.

NORWAY

Rosneft actively participates in licensing rounds on the Norwegian shelf in the Barents Sea through its subsidiary RN Nordic Oil AS (RNNO).

Following the 22nd licensing round, RNNO obtained a 20% stake in license PL713 covering four adjacent blocks on the shelf of the Barents Sea. Statoil, which has a 40% stake in the project, has been appointed its operator. Other participants of the project include North Energy (20%) and Edison International (20%). In 2014, the first exploration well was drilled targeting the main formation in the area. The well uncovered a gas field with reserves of 7.8 bcm.

The Company plans to continue participating in the licensing of new exploration blocks and considers that the Norwegian shelf offers good prospects for development.



The Nam Con Son Pipeline: Capacity: 7.7 bcm per year; in 2016, about 7 bcm of gas was pumped through the pipeline (this includes gas produced from Block 06.1 and by other Operators in the Nam Con Son Basin). The economic benefit from the project calculated as the total additional revenue from gas transportation during the period from 2019 through 2026 is estimated at up to USD 26 mln.

3.8 GAS BUSINESS



STRATEGIC OBJECTIVE

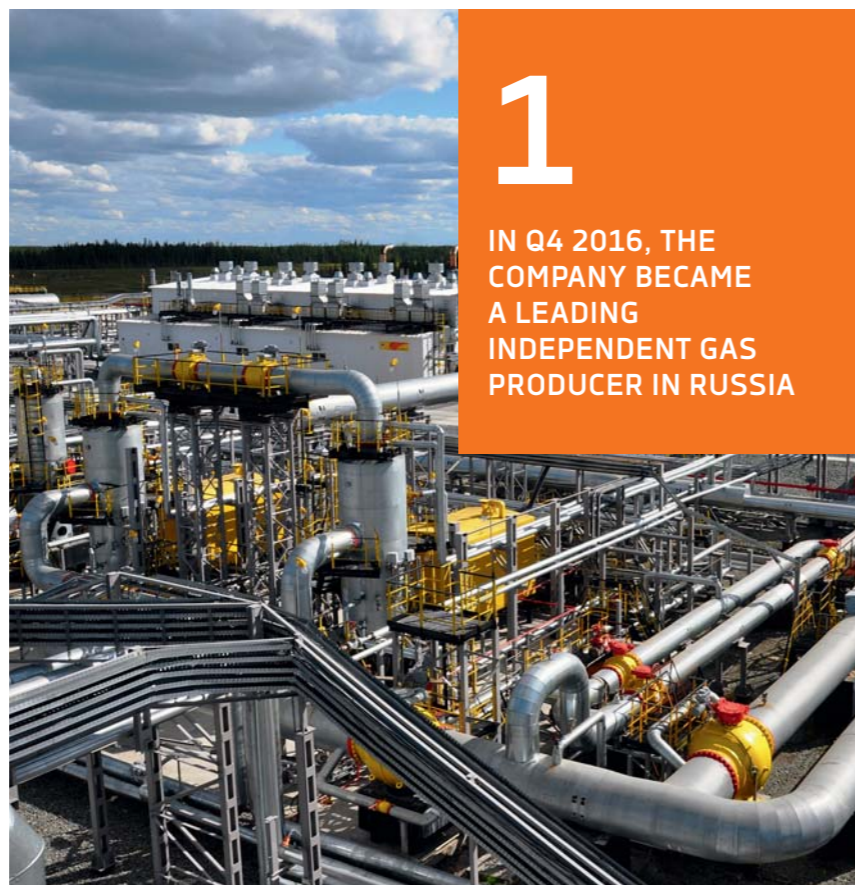
The strategic objective of Rosneft in terms of gas business development is a long-term increase in the Company's shareholder value through the growth of gas production driven by highly efficient long-term sales portfolio.

67.1

BCM¹
The Company's gas production in 2016

21%

SHARE OF GAS PRODUCTION
in the Company's total hydrocarbon
production in 2016



1

IN Q4 2016, THE
COMPANY BECAME
A LEADING
INDEPENDENT GAS
PRODUCER IN RUSSIA

The Company develops significant gas reserves in Western and Eastern Siberia and has a unique portfolio of licenses for the development of hydrocarbon resources on the Russian continental shelf. Gas is produced by over thirty subsidiaries and joint ventures of Rosneft in Western and Eastern Siberia, Central Russia, in the south of European Russia, in the Far East, as well as in Vietnam, Venezuela and Canada.

The largest absolute and percentage growth of gas reserves under the Russian classification was driven by the acquisition of PJSOC Bashneft, the discovery of the Verkhneicherskoye field, and exploration drilling at the Russkoye field. In 2016, the Company continued to take active steps to develop its gas business.

1. Gas production excluding flared gas and gas used for HL production

ACHIEVEMENTS IN THE GAS BUSINESS DEVELOPMENT

GAS PRODUCTION



- In 2016, gas production grew by 7.3%, reaching a record high of 67.1 bcm;
- The overall production growth rate over the past three years totaled 76%;
- In 2016, the main contributor to the production growth was the key gas asset — Rospan, which saw a 47% increase in gas production;
- In 2016, the APG utilization rate increased by 2 percentage points to 90%.

EXPLORATION AND DEVELOPMENT OF THE RESOURCE BASE



- Recoverable AB1C1+B2C2 gas reserves increased by 1.2% during the year to 7.6 tcm.

GAS SALES AND DEVELOPMENT OF MARKETS



- Gas sales revenues exceeded RUB 200 bln in 2016;
- The market share in 2016 totaled about 18%, which is 2% higher than in 2015;
- Starting from January 1, the Company started to supply gas to a major industrial consumer, Inter RAO Group, under a long-term contract;
- All obligations under existing gas supply contracts with consumers are met in full.

INTERNATIONAL COOPERATION



- In November 2016, the Company signed the binding documents for the sale of a 20% stake in Verkhnechonskneftegaz and an Agreement on Cooperation in the Gas Business with Beijing Gas Group Company Limited. These transactions will enable Rosneft to unlock the significant gas potential of the Verkhnechonskoye field and to strengthen the strategic partnership relations with one of the largest natural gas distributors in the People's Republic of China;
- In 2016, the Company entered into an agreement on the acquisition from ENI of a 30% stake in the concession agreement on the development of one of the largest gas fields, Zohr, located on the Mediterranean shelf in offshore Egypt, with the option to acquire another 5%.

STRATEGIC GOALS OF THE GAS BUSINESS

In order to achieve this objective, the Company has set the following strategic goals:

1. To develop the resource base and ensure its effective monetization, with a potential increase in the production volume to 100 bcm by 2020;
2. To increase gas production in Eastern Russia subject to liberalization of gas exports;
3. To improve the efficiency of monetization of associated gas and associated liquids by expanding the presence in the gas value chain, and developing gas processing and further processing of NGLs and LPG for sales of high value-added products;
4. To improve the efficiency of gas sales in Russia;
5. To improve the regulation of the gas industry;
6. To develop LNG production and enter the global LNG market. To develop the capabilities and acquire the necessary competencies for implementing Arctic LNG projects;
7. To introduce advanced technologies based on global experience in gas production, processing, transportation and sales.



ACHIEVEMENTS IN GAS PRODUCTION IN 2016

Gas production in Russia increased by 4.4 bcm, or 7.2%, compared to 2015; the growth was driven mainly by the following factors:

- An increase in natural gas production at the key developing gas asset, JSC Rospan International, by 1.98 bcm, or 47%, following the commissioning of the second stage of the Novo-Urengoyskaya gas treatment unit;
- An increase in associated gas production by 1.72 bcm due to the commissioning of three wells at the northern

tip of the Chaivo field on the Sakhalin shelf in late 2015 and in 2016;

- An increase in gas production at RN-Purneftegaz LLC by 0.58 bcm due to the commissioning of the gas dehydration plant and gas-gathering pipelines at the Barsukovskoye field in December 2015;
- An increase in natural gas production at PJSC Sibneftegaz by 0.38 bcm primarily due to the implementation of the gas production development project at the Khadyryakhinskoye field.

GAS PRODUCTION

Production figures for the current year:

In 2016, the Company's total gas production volume in Russia and abroad amounted to 67.10 bcm¹, including 30.99 bcm of natural gas and 36.11 bcm of associated petroleum gas. Out of the total, 0.97 bcm of gas production (0.62 bcm of natural gas) was produced as part of the Company's foreign projects in Vietnam, Venezuela and Canada, while 66.13 bcm was produced in Russia. In addition, part of the gas produced in Russia is used for the production of hydrocarbon liquids. In 2016, the Company's gas production volume in Russia, including gas used for hydrocarbon liquid production, amounted to 66.54 bcm.

The Company aims to develop the gas business in the long term. Stable growth of gas and HL production is driven by projects at the active stage of development and new fields.

In the short term, this is, first and foremost, the project aimed at full-scale development of fields of JSC Rospan

International, which involves reaching the design capacity and increasing the annual production of gas, gas condensate and oil, and the technical propane-butane blend to over 19 bcm, about 5 mmt and 1.2 mmt per year respectively.

In the medium term, the Company also plans to launch the first stage of the Kharampur Project with a design capacity of up to 11 bcm per year and to start developing the fields in the Kynsko-Chaselsky license area with a design capacity of about 7 bcm per year.

PJSC Sibneftegaz, the largest gas-producing asset at the moment, produced 12 bcm this year by developing the lower levels of the Beregovoye field and the production maintenance projects at the existing fields, and plans to increase production to almost 17 bcm by 2020.

The Company also continues to develop new gas production centers based on its continental assets in Eastern Russia, namely in the Republic of Sakha (Yakutia), the Irkutsk Region and the Krasnoyarsk Territory, which will enable it to enter new gas markets and in the

10.4%

THE COMPANY'S SHARE in the total gas production in Russia in 2016

future will form a basis for the organization of export supplies to the Asia-Pacific Region, provided that changes are made to the governmental policy on gas exports.

To achieve these objectives, Rosneft engages international partners in major projects with a gas component in the east of the country:

- In 2016, Rosneft and a consortium of Indian companies comprising Oil India Limited, Indian Oil Corporation Limited and Bharat PetroResources Limited closed the sale of a 29.9% stake in Taas-Yuryakh Neftegazodobycha LLC, which is developing the Srednebotuobinskoye oil and gas condensate field in the Republic of Sakha (Yakutia) and which is expected to form the basis for the implementation of a large gas production project. Earlier, in 2015, British Petroleum acquired a 20% stake in this asset.
- In 2016, the Company also entered into the agreement on the sale of 20% of shares in PJSC Verkhnechonskneftegaz to Beijing Gas Group Company Limited, a Chinese company. PJSC Verkhnechonskneftegaz is developing the Verkhnechonskoye oil and gas condensate field in the Irkutsk Region with a prospect of implementing a major gas project. In addition, Rosneft and Gas Group Company Limited signed an Agreement on Cooperation in the Gas Business. This transaction will enable Rosneft to unlock the significant gas potential of the Verkhnechonskoye field and to strengthen the strategic partnership relations with one of the largest natural gas distributors in the People's Republic of China;

Western Siberia is the largest gas-producing region of Rosneft. Following the commissioning of new production facilities and an increase in production at existing fields, in 2016, gas production in the region increased by 6.8% to 47.47 bcm, with natural gas production amounting to 26.33 bcm. Natural gas was produced mainly at the fields of PJSC Sibneftegaz, JSC Rospan International and RN-Purneftegaz LLC. Associated petroleum gas production amounted to 21.16 bcm. It was produced mainly at

the fields of JSC Samotlorneftegaz, RN-Yuganskneftegaz LLC, and RN-Purneftegaz LLC.

In Eastern Siberia, gas is produced at the fields of the Vankor group, which are the largest fields in the region, as well as at PJSC Verkhnechonskneftegaz. In 2016, associated petroleum gas production amounted to 8.24 bcm, while natural gas production totaled 0.66 bcm.

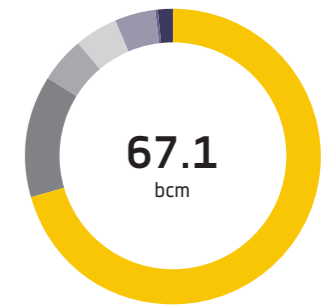
RN-Krasnodarneftegaz LLC is the main gas-producing asset in Southern Russia; it produces both natural and associated petroleum gas.

In the Far East, Rosneft produces primarily associated petroleum gas and natural gas at onshore fields and on the Sakhalin shelf. In 2016, gas production in the region more than doubled compared to 2015 and amounted to 3.27 bcm following the commissioning of three wells at the northern tip of the Chaivo field on the Sakhalin shelf (JSC RN-Shelf-Dalny Vostok) in late 2015 and in 2016.

In Central Russia, in 2016, gas was produced mainly at the fields of PJSC Orenburgneft and JSC Samaraneftegaz. In 2017, the Company plans to increase production in the region by producing gas at the acquired assets of PJSOC Bashneft.

Gas production abroad was carried out as part of foreign projects in Vietnam, Venezuela and Canada.

GAS PRODUCTION IN KEY REGIONS OF OPERATION IN RUSSIA AND ABROAD, BCM



Western Siberia	47.47
Eastern Siberia	8.90
Southern Russia	3.29
Far East	3.27
Central Russia	2.94
Others (including Timan-Pechora)	0.26
Foreign projects	0.97

1. Gas production excluding flared gas and gas used for HL production

MAP OF KEY ASSETS AND PROMISING PROJECTS OF THE GAS BUSINESS



- Gas production
- Promising gas production projects
- LNG production projects
- GPPs
- Rosneft's key gas supply regions in 2016

1. Rospan
This is the main center for the Company's hydrocarbon production growth in the long term until 2020. In 2016, natural gas production amounted to 6.22 bcm, up by 47% year on year. The target annual production exceeds 19 bcm of natural gas and over 5 mmt of gas condensate and oil, while the target production of technical propane-butane blend amounts to 1.2 mmt, with a potential for further production growth.

2. Sibneftegaz
In 2016, production totaled 12.14 bcm. Sibneftegaz was the largest gas-producing asset in 2016.

In 2016, production increased by 0.38 bcm, mainly due to the implementation of the production development program at the Khadyryakhinskoye field. In the short term, the Company plans to continue to implement production maintenance programs at the existing fields and a project to produce gas from the lower deposits of the Beregovoye field. Annual gas production will achieve almost 17 bcm by 2020.

3. Vankor group
In 2016, production totaled 8.69 bcm. As part of the program to increase the

APG utilization rate, in March 2016 a low-pressure compressor station was put into operation for gas gathering at low separation stages, with a capacity of 204 mmcm per year.

4. Purneftegaz
In 2016, production totaled 6.11 bcm, up by 10.5% year on year.

Production growth was driven by efficient well work at the Kharampur and Gubkinskoye fields and by an increase in gas production at the Barsukovskoye field following the commissioning of the gas treatment unit in December 2015.

5. Krasnodarneftegaz
In 2016, production totaled 2.91 bcm, up by 5.8% year on year.

This is the main gas-producing asset in Southern Russia, which produces both natural and associated petroleum gas. In 2016, cumulative production exceeded 100 bcm of gas.

1. Including the Nizhnevartovsk Oil and Gas Production Company and the North Varyeganskoye field
2. Including Yugraneft Corporation

6. Orenburgneft
In 2016, production totaled 2.32 bcm.

Gas is processed at the Zaykinsky GPP, the Pokrovskaya gas treatment unit and the Zagorskaya gas treatment unit.

7. RN-Nyaganneftegaz
In 2016, production totaled 1.59 bcm.

The APG utilization rate was maintained above 96%.

8. Varyeganneftegaz¹
In 2016, production totaled 3.4 bcm, up by 9.7% year on year due to the commissioning of the Varyegansky section of the gas pipeline connecting the enterprise to the Tyumenskaya compressor station.

The enterprise has significant free gas and gas cap reserves.

9. Samotlorneftegaz²
In 2016, production totaled 5.94 bcm.

The APG utilization rate was maintained above 95%.

10. Yuganskneftegaz
In 2016, production totaled 4.6 bcm.

The enterprise continues to implement the program to increase the APG utilization rate.

11. Otradnensky and Neftegorsky Gas Processing Plants in the Samara Region
High value-added product manufacturing centers.

12. Pechora LNG
A promising project: a joint venture with ALLTECH Group. The project is aimed at creating a new gas production center in the Nenets Autonomous District and involves the construction of an LNG plant and related infrastructure.

13. Far Eastern LNG (as part of the Sakhalin-1 project)
The project is implemented under the Production Sharing Agreement and is aimed at monetizing the natural gas reserves and resources of partners in the Sakhalin-1 project, as well as Rosneft's own reserves.

In the 2016 season, field engineering surveys were completed at offshore and onshore areas near De-Kastri, and pre-FEED was completed. The FEED stage is scheduled for 2017.

14. Kharampur
The project is being implemented. FEED is being completed, and preparation for the drilling of production wells has been started. Following the start of development, gas production will reach about 11 bcm per year by 2020, with a further growth potential due to the full-scale development of the Turonian deposit.

15. Kynsko-Chaselsky License Area
A promising project. Following the start of development of the group of fields, gas production will reach about 7 bcm per year by 2022.

16. Minkhovskoye
A promising gas production project in the northern part of the Yamalo-Nenets Autonomous District; additional exploration of reserves is underway on the Gydan Peninsula.

17. Bratskeogaz
Gas supplies to consumers in the Irkutsk Region.

18. Urubcheno-Tokhomskaya group
A promising project to develop one of the largest oil and gas condensate fields in the south of the Krasnoyarsk Territory with a large gas potential.

19. Verkhnechonskneftegaz
A promising gas production project in the Irkutsk Region.

20. Taas-Yuryakh NGD
A promising project to develop the Srednebotuobinskoye oil and gas condensate field in Yakutia.

21. North Veninskoye
A promising gas production project on the Sakhalin shelf

22. RN-Shelf-Dalny Vostok, RN-Sakhalin-morneftegaz, Sakhalin-1
Gas supplies to consumers in the Sakhalin Region and the Khabarovsk Territory.

23. Agaleevsky License Area
A promising gas production project in the Krasnoyarsk Territory at the stage of additional exploration of reserves.

24. Bashneft-Dobycha
Assets acquired in 2016, APG and natural gas production.

25. Bashneft-Polyus
A joint venture with PJSC Lukoil, which is developing the Trebs and Titov field in Timan-Pechora.

INTERNATIONAL GAS BUSINESS DEVELOPMENT

One of Rosneft's priorities is to enter foreign gas markets and become a global player on the international LNG market. The Company's involvement in

international gas projects will ensure a significant cost-effective increase in natural gas reserves and a balanced risk profile of the asset portfolio.

Target regions of operation include South America, North and East Africa,

the Middle East and the Asia-Pacific Region. The Company already operates in these regions and actively develops cooperation with local partners aimed at mutually beneficial implementation of projects.

THE COMPANY'S STAKE IN INTERNATIONAL GAS PROJECTS



1. South America



In **Brazil**, the Company acts as an operator and holds a 100% stake in the geological exploration projects in the Solimões River basin with confirmed gas potential.

2. North and East Africa



In October 2015, a consortium comprising Rosneft and its partner ExxonMobil was awarded three offshore blocks (A5-B, Z5-C and Z5-D) in the **Republic of Mozambique** (the Company's stake totals 20%). The start of geological exploration as part of the project is scheduled for H2 2017 following the signing of concession agreements with the Government of Mozambique.

3. Asia-Pacific Region



In **Vietnam**, Rosneft acts as an operator of an offshore gas production project at Block 06.1 (with a 35% stake) and as one of the main gas producers in the country; it also holds a 32.7% stake in the Nam Con Son marine pipeline.



FOCUS OF FORMATION OF THE FOREIGN GAS ASSET PORTFOLIO:

- Projects with proved reserves
- Producing assets
- Prospects of large discoveries as a result of exploration
- Opportunity to include LNG volumes in the portfolio
- Reliable partners in the country, including state-owned companies
- Fiscal stability
- Diversification of gas sales routes

UP TO **35%**

ROSNEFT HAS SIGNED AN AGREEMENT ON THE ACQUISITION OF A STAKE IN THE SHOROUK CONCESSION AGREEMENT IN OFFSHORE EGYPT



ACHIEVEMENTS IN INTERNATIONAL GAS BUSINESS DEVELOPMENT IN 2016

In February 2016, Rosneft and PDVSA, a Venezuelan state oil and gas company, signed the Heads of Agreement on the establishment of a JV to implement a major natural gas production, treatment and monetization project at the Patao and Mejillones fields and potentially at the Rio Caribe field on the Venezuelan shelf.

In December 2016, Rosneft entered into an agreement on the acquisition from ENI of a 30% stake in the Shorouk concession agreement on development of one of the largest gas fields, Zohr, located on the Mediterranean shelf in offshore Egypt (with the option to acquire an additional 5% interest). Participation in the Zohr

Project in partnership with ENI and BP will provide Rosneft with access to a strategically important market and a potential for significant increase in the Company's gas capacity and will create a base for further business expansion in the region.

ROSPAN

THE COMPANY'S LARGEST GAS ASSET. THE PROJECT WILL BE THE MAIN DRIVER OF GROWTH OF THE COMPANY'S HYDROCARBON PRODUCTION UNTIL 2020.

MAIN FACILITIES

1. Gas treatment unit at the Novo-Urengoy sky license area
2. Gas and gas condensate processing plant at the East Urengoy sky license area comprising four process lines, each of which includes:
 - A low-temperature separation unit;
 - A methanol recovery unit;
 - A condensate stabilization unit;
 - A booster compression station for low-pressure gases;
 - Warehouses for stable gas condensate and an industrial propane-butane blend, including external pumping stations;
 - Other auxiliary infrastructure
3. Treatment facilities for oil produced from Valanginian deposits, including an oil treatment unit and a tank farm for storage and transshipment of condensate and oil
4. Railway loading terminal at the Korotchaev o station with a tank farm for an industrial propane-butane blend
5. Trunk pipelines and flowlines
6. Compressor stations and power supply facilities



2019

RAMP-UP TO DESIGN CAPACITY

>19

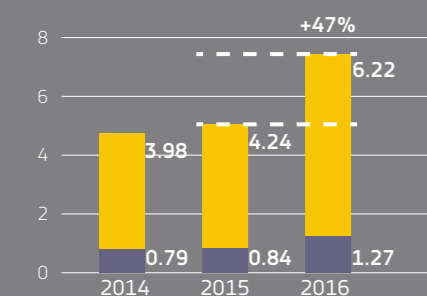
BCM – ANNUAL GAS PRODUCTION

>5

MMT – ANNUAL OIL AND GAS CONDENSATE PRODUCTION

>1.2

MMT PER YEAR – PRODUCTION OF AN INDUSTRIAL PROPANE-BUTANE BLEND



■ Gas production, bcm
■ Oil and gas condensate production, mmt



CURRENT PROJECT STATUS

- A considerable part of the well stock for the project has been drilled;
- The Novo-Urengoy sky gas treatment unit has been commissioned;
- A positive opinion has been received from the Main State Expert Review Board (Glavgosexpertiza) on all key infrastructure facilities;
- Equipment suppliers and contractors have been selected;
- Installation and construction works at the main facilities are being implemented.



FUTURE PLANS

- In the short term:
- To complete construction;
 - To commission the key facilities of the project in 2018;
 - To reach the design capacity in 2019.



NEW TECHNOLOGIES

- Large-volume hydraulic fracturing involving the creation of high-conductivity fractures. The advantage of this technique is that it enables an improvement in the characteristics of hydraulic fractures and an increase in the productivity of wells targeting low-permeability gas condensate layers of Achimov deposits within a time frame;
- Use of Quick-Stone, a specialized quick-setting lost circulation material designed to facilitate drilling in the north-western part of the East Urengoy sky license area which is characterized by geological conditions incompatible with standard drilling techniques. The lost-circulation material sets quickly, making it possible to efficiently seal lost circulation zones.



ACHIEVEMENTS

- In 2016, Rospan won the 2016 Project Olympus National Professional Management Contest in the following categories:
- Organization and Operation of Project Offices in State-Owned Corporations, State-Owned Companies and Development Institutes;
 - Integrated Project Management System.

HISTORICAL BACKGROUND

Rospan was founded in 1994. In 2013, the enterprise was included in the scope of Rosneft's business. This was an important milestone in its history marking the start of large-scale development of the project. The enterprise holds licenses for the exploration and development of the Urengoy sky field, as well as the East Urengoy sky and North Esetinskoye fields forming part of the Novo-Urengoy sky, East Urengoy sky and Resursny license areas. As of January 1, 2017, total recoverable AB1C1+B2C2 reserves at the fields amounted to 1 tcm of natural gas, 153 mmt of gas condensate and 46 mmt of oil. Achimov deposits are the main development target. They are difficult to develop due to their low natural permeability and abnormally high formation pressure. The project implementation involves the development of 83% of the asset's reserves.

3.9 DOWNSTREAM

ROSNEFT IS A LEADER OF THE RUSSIAN OIL REFINING INDUSTRY ACCOUNTING FOR OVER 35% OF OIL REFINING IN RUSSIA



Progress in refinery upgrades

● Completed ● Completion in 2017 or later ○ Renovation completed ○ Renovation to be completed in 2017 or later

	RYAZAN	ANGARSK	NOVOKUIBYSHEV	SYZRAN	KUIBYSHEV	KOMSOMOLSK	EFFECT (INCREASE)
Crude oil distillation	●		●				↑ Refinery throughput
Vacuum unit	●						↑ Conversion rate
Isomerization	●	●	○	●	●		↑ Euro 5 gasoline
Catalytic cracking				●	●		↑ Light product yield
Hydrotreating	●	●	●	●	●	●	↑ Euro 5 fuel
Reforming		○	●	○	○	○	↑ Euro 5 gasoline
Alkylation		●			●		↑ Euro 5 gasoline
Coking*			○			●	↑ Conversion rate
Hydrocracking	●		●			●	↑ Light product yield
MTBE	●	●		●	●		↑ Euro 5 gasoline

* Delayed coking or flexicoking.

LEGEND

- ▼ Retail coverage
- 🏭 Producing assets
- 🏭 Company's refineries
- 🏭 Petrochemical plants
- ⚓ Ports of presence
- 🏭 Company's GPPs

● Completed ● Completion in 2017 or later ○ Renovation completed ○ Renovation to be completed in 2017 or later

	TUAPSE	ACHINSK	SARATOV	UFA GROUP OF REFINERIES	EFFECT (INCREASE)
Crude oil distillation	●		○		↑ Refinery throughput
Vacuum unit		●			↑ Conversion rate
Isomerization	●	●	●		↑ Euro 5 gasoline
Catalytic cracking					↑ Light product yield
Hydrotreating	●	○	○	●	↑ Euro 5 fuel
Reforming	●				↑ Euro 5 gasoline
Alkylation				●	↑ Euro 5 gasoline
Coking*	●	●		●	↑ Conversion rate
Hydrocracking	●	●		○	↑ Light product yield
MTBE					↑ Euro 5 gasoline



KEY ACHIEVEMENTS IN OIL REFINING AND PETROCHEMICALS:

- Continued implementation of the refinery upgrade program in Russia:
- Completion of construction and commissioning of a catalytic cracking unit and an MTBE unit at the Kuibyshev Refinery;
- Commissioning of a catalyst regeneration unit at the Novokuibyshevsk Catalysts Plant;
- Commissioning of a rapid cycle pressure swing adsorption (RCPSA) unit at the Syzran Refinery.
- Successful implementation of the import substitution program: the Company has switched over to the use of domestically produced catalysts at all catalytic cracking units.
- Integration of new refining assets as a result of the acquisition of PJSOC Bashneft.



KEY STRATEGIC PRIORITIES:

- High standards of industrial safety.
- Competitiveness.
- Added value maximization.



OIL REFINING AND PETROCHEMICALS

As of the end of 2016, the Company's oil refining and petrochemicals unit comprised 13 large refineries situated in key regions of Russia, as well as three petrochemical plants, four gas processing plants (including the assets of Bashneft and the share in Slavneft-YANOS), two catalyst production plants and one service company.

The total design capacity of the main oil refineries in Russia amounts to 118.3 mmt per year. The Company also includes several mini-refineries in Russia; the largest of them is the Nizhnevartovsk Oil Refining Association.

In Q4 2016, three refineries forming part of the Ufa group, as well as a petrochemical company, gas processing plants and refinery service company were included in the structure of the Company as a result of the acquisition of PJSOC Bashneft.

The transaction has a high synergistic potential, more than a quarter of which is due to the effect of integration of Bashneft's refineries into the Oil Refining and Petrochemicals Unit through changes in the composition of feedstock and redistribution of component flow between Refineries within Rosneft Group, as well as through implementation of Rosneft's practices in

the sphere of performance management and optimization of operating expenses.

In addition, Rosneft owns a number of refining assets abroad: in Germany and in Belarus. In Germany, the Company holds stakes in three refineries and controls more than 12% of oil refining capacities with the total annual refining throughput of 12.5 mmt, and in Belarus it indirectly owns 21% of shares in OJSC Mozyr Refinery. Under Rosneft's strategy for strengthening its presence in the petroleum product market in the Asia-Pacific Region, the Company is expanding its footprint in Indonesia, China and India.

7.0

AVERAGE NELSON INDEX OF THE COMPANY'S REFINERIES IN RUSSIA



IMPORT SUBSTITUTION, DEVELOPMENT AND LAUNCH OF NEW PRODUCTS

An important focus of the Company's oil refining business is the implementation of the import substitution program. In 2016, a number of crucial projects were implemented as part of this initiative.

For instance, the Company switched over to using catalysts produced by JSC Angarsk Catalysts and Organic Synthesis Plant at the kerosene hydrotreaters of the Achinsk Refinery and the catalytic reformers of JSC Ryazan Oil Refining Company.

The Company has developed a program for the development of in-house catalyst production for the period up to 2025, which is aimed at producing new types of catalysts for oil refining and petrochemical processes and expanding the range of produced catalysts to improve the profitability of catalyst production plants and ensure their sustainable operation.

Key oil refining indicators in the Group of Companies

	2014	2015	2016*
Crude oil distillation capacity, mmt per year	95.10	95.10	118.0
Oil refining, mmt per year	86.59	84.70	101.24
Capacity utilization rate	91.05%	89.06%	85.58%
Total output of the refining complex, mmt	83.88	82.91	97.41
Conversion rate	65.25%	66.50%	72.00%
Light product yield	54.80%	55.30%	56.60%

* Including the results of PJSOC Bashneft for the 12 months of 2016

Oil refining

Rosneft is the largest oil refining company in Russia. In 2016, refining throughput at the Company's refineries in Russia, amounted to 87.5 mmt, compared to 84.7 mmt in 2015. In addition the volume of refining of the Company's refineries abroad (12.8 mmt) exceeded the figure of 2015 by 4.8%.

Rosneft successfully continues to optimize refinery utilization to ensure an efficient level of feedstock processing, taking into account the capacity of secondary processes to minimize the output of heavy petroleum products.

In 2016, fuel oil production at Russian refineries decreased by over 17%, while the output of Euro 5 gasoline and diesel fuel increased to 31.1 mmt, up by 56% year on year. Due to increased operating efficiency of process units and optimized operations of Russian refineries, and taking into account new assets, in 2016, light product yield increased by 1.3 p.p. and reached 56.6%, while the conversion rate increased by 5.5 p.p. compared to 2015 and amounted to 72.0%.

Refinery throughput at the Company's mini-refineries in Russia amounted to 1.9 mmt in 2016.

In 2016, refinery throughput at German refineries increased by 17.8% year on year due to acquisition of an additional stake in PCK Raffinerie GmbH in November 2015.

Implementation of the upgrade program at the Company's refineries in Russia

Rosneft continues implementing the refinery upgrade program in Russia, which

involves construction and renovation of processing units aimed at:

- Further increasing the conversion rate and light product yield;
- Increasing the output of high-grade motor fuels that comply with the requirements of the Technical Regulations of the Customs Union to meet the market needs for high-quality petroleum products;
- Minimizing the output of low-margin products.

As part of the ongoing upgrade program, construction of the following large facilities was completed in 2016:

- A catalytic cracking unit and off-site facilities within the FCC complex and the MTBE octane booster production unit at the Kuibyshev Refinery, which will enable the enterprise to meet the need for high-octane components for motor gasoline by producing them at its own facilities and to increase the output of high-quality motor fuels;
- An RCPSA unit at the Syzran Refinery;
- An "outside the reactor" catalyst regeneration unit under the license from Porocel, which will enable regeneration of imported Euro 5 fuel hydrotreating catalysts at the Novokuibyshevsk Catalysts Plant without exporting them for regeneration abroad.

Product mix of the Group's refining complex in Russia, mmt

	2014	2015	2016*	CHANGE 2015/2016.
Diesel fuel	26.94	26.26	32.97	25.6%
Motor gasoline	10.76	11.26	15.81	40.4%
Fuel oil	28.16	26.62	24.33	-8.6%
Naphtha	5.79	5.58	6.18	10.8%
Kerosene	3.5	3.12	3.12	0.0%
Petrochemicals	0.77	0.95	1.49	56.8%
Others	7.96	9.12	13.51	48.1%
Total in Russia	83.88	82.91	97.41	17.5%

* Including the results of PJSOC Bashneft for the 12 months of 2016



PETROLEUM PRODUCT QUALITY ASSURANCE

The motor fuels produced by Rosneft's refineries in accordance with intergovernmental and national standards have high performance characteristics and meet the environmental requirements of EURO 5 and the Technical Regulations of the Customs Union on Requirements for Motor and Aviation Gasoline, Diesel and Marine Fuels, Fuels for Jet Engines and Fuel Oil.

To optimize the range of commercial products, in 2016, a number of the Company's refineries performed pilot runs and confirmed the feasibility of production of road bitumen with improved specifications under the new intergovernmental standard GOST 33133, and started production of marine distillate and residual fuels. In addition, the range of approved additives for motor fuels has been significantly expanded, which enabled a reduction in the purchase costs by increasing the number of available alternatives.

The Company's refineries have implemented quality management systems that meet the requirements of the ISO 9000 international standards. Product compliance with mandatory requirements is confirmed through certification of compliance with assistance from accredited testing laboratories and leading research institutes, whose employees undergo continuous training and professional development. The laboratories are equipped with state-of-the-art laboratory equipment, which ensures that test results are highly accurate and reliable.

The project for monitoring commercial product quality giveaway gaps implemented at the Company's refineries since 2016 has helped to improve the efficiency of hydrocarbon processing by reducing unreasonable quality giveaway gaps.

By optimizing the list of controlled quality indicators of commercial petroleum products in 2016, the Company was able to avoid criticism from regulators, including during customs clearance of exported products.

The Company performs incoming quality control of feedstock, chemicals and additives supplied to the plants, as well as multistage monitoring and quality control of components and commercial products at all stages of the production cycle from delivery to the enterprise to product sales.

The Company's refineries assisted by experts from the relevant business units of Rosneft regularly organize so-called Days of Quality, where they examine the best practices for improving the production efficiency and quality control and the Company's experts share experience in quality and safety of petroleum products



+56%
INCREASE IN THE OUTPUT OF EURO 5 FUEL*

* Taking into account the consolidation of PJSOC Bashneft

INTEGRATION OF PJSOC BASHNEFT'S REFINERIES

As a result of the acquisition of PJSOC Bashneft, the Company expects to achieve a synergistic effect through the change in the composition of feedstock and redistribution of component flow between refineries within Rosneft Group.

In addition, a positive effect will be achieved through improved control over the investment program implementation, optimization of maintenance projects at refineries and implementation of Rosneft's practices in the sphere of performance management and optimization of operating expenses.

To unlock this potential, an action plan aimed at achieving synergy from Bashneft's integration has been developed and approved; its successful execution will significantly improve the performance of Rosneft's refining unit.

As part of the acquisition of Bashneft's assets, Rosneft's oil refining business acquired the following large enterprises: Bashneft-Ufaneftekhim, Bashneft-Novoil and Bashneft-UNPZ forming part of the integrated refinery in Ufa; a petrochemical company Ufaorgsintez and the Shkapovskoye and Tuimazinskoye gas processing plants.

LIGHT PRODUCT YIELD



CONVERSION RATE



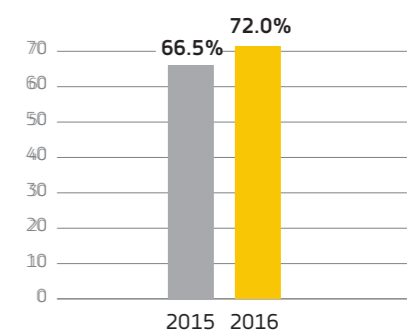
23.2

18.3

▼ mmt per year — total capacity of the Integrated Refining Complex in Ufa

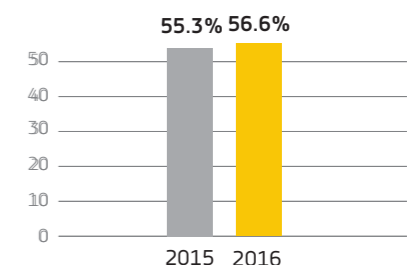
▼ mmt — oil refining in 2016

CONVERSION RATE AT ROSNEFT'S REFINERIES IN RUSSIA*



* Taking into account the consolidation of PJSOC Bashneft

LIGHT PRODUCT YIELD AT ROSNEFT'S REFINERIES IN RUSSIA*



* Taking into account the consolidation of PJSOC Bashneft

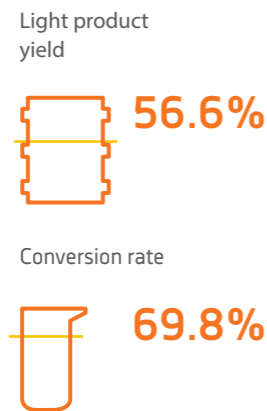
Currently, the efforts of Bashneft's refineries and petrochemical plants are aimed at achieving the following key objectives:

- Strict observance of industrial and occupational safety requirements;
- Implementation of the action plan aimed at achieving the synergistic effect from integration with Rosneft;
- Implementation of the best practices of Rosneft in the sphere of performance management and optimization of operating expenses;
- Increase in the output of high-margin products;
- Implementation of the program to reduce losses;
- Investment program and CAPEX optimization.

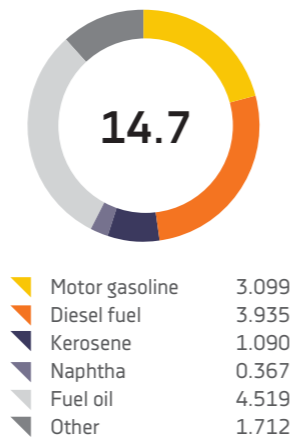
RYAZAN OIL REFINING COMPANY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



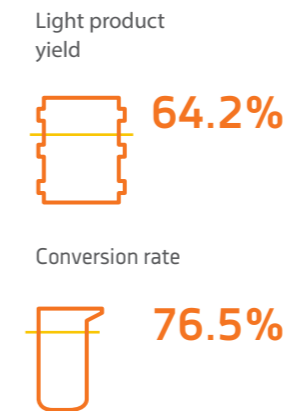
MAIN ACTIVITIES IN 2016

- Maintenance of existing capacities;
- Continuation of the implementation of a comprehensive enterprise development program;
- Increase in operational efficiency;
- Conversion rate increased by 1.2 percentage points.

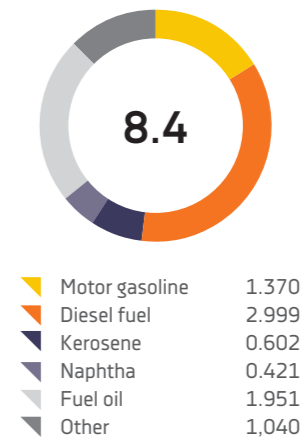
ANGARSK PETROCHEMICAL COMPANY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



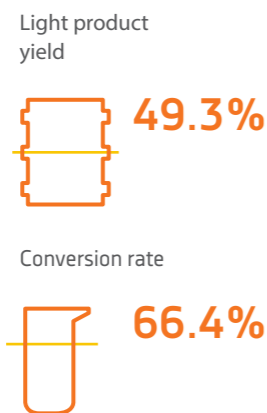
MAIN ACTIVITIES IN 2016

- The output of Euro 5 fuels increased by 1.4 mmt.
- Construction of sulfuric acid alkylation units, catalytic cracking gasoline hydrotreaters and a diesel fuel hydrotreating complex;
- Shipment of the first batch of the KADPRO octane booster produced by the Angarsk Petrochemical Company to the Achinsk Refinery;
- Maintenance of existing capacities;
- Increase in operational efficiency;
- Conversion rate increased by 2.7 percentage points.

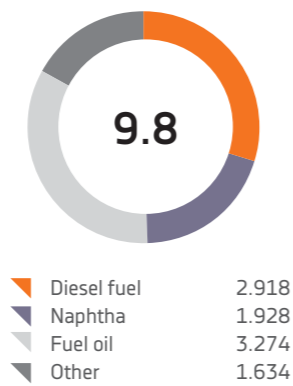
TUAPSE REFINERY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



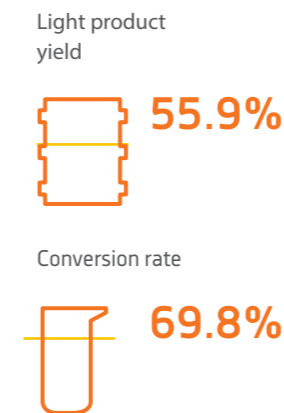
MAIN ACTIVITIES IN 2016

- Continuation of construction of hydrocracking, hydrotreatment, reforming and isomerization units;
- A number of off-site facilities of the second start-up complex (a refinery drainage system, a repair and mechanical shop, an LPG tank farm, etc.) were put into operation;
- Increase in operational efficiency.

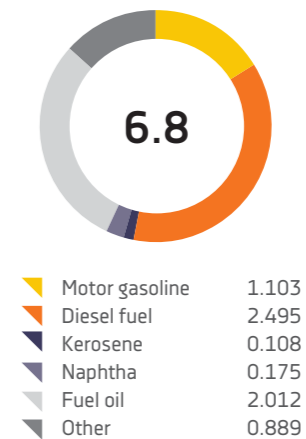
ACHINSK REFINERY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



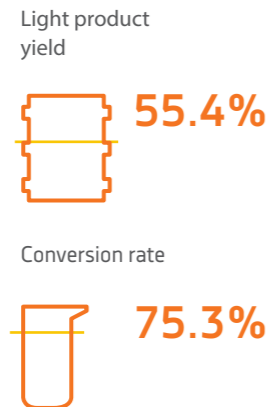
MAIN ACTIVITIES IN 2016

- The output of Euro 5 fuel increased by 2.1 mmt;
- Shipment of the first batch of the KADPRO octane booster produced by the Angarsk Petrochemical Company to the Achinsk Refinery;
- The improved AG-KD-400M catalyst produced by the Angarsk Catalyzers and Organic Synthesis Plant was introduced;
- Construction of hydrocracking and hydrotreating complexes, and a delayed coker with a vacuum unit;
- Maintenance of existing capacities;
- Increase in operational efficiency;
- Conversion rate increased by 3.7 percentage points.

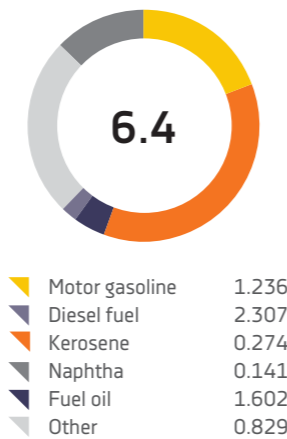
NOVOKUIBYSHEV REFINERY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



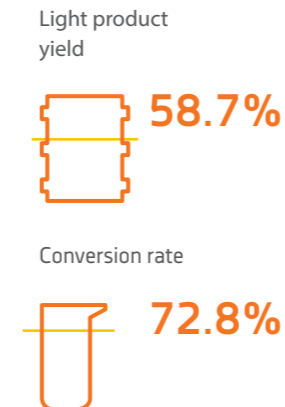
MAIN ACTIVITIES IN 2016

- Maintenance of existing capacities;
- Construction of a hydrocracking and hydrotreating complex and off-site facilities;
- Increase in operational efficiency;
- Conversion rate increased by 4.4 percentage points.

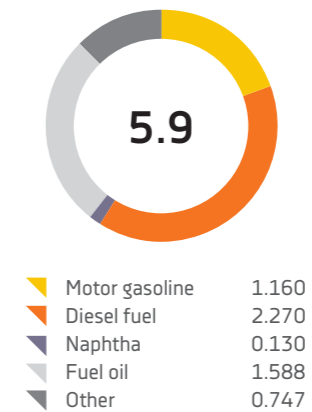
SYZRAN REFINERY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



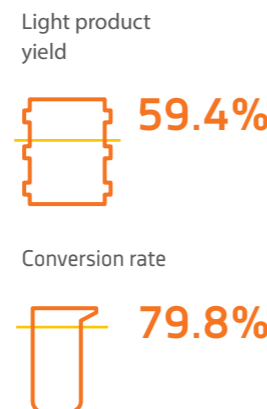
MAIN ACTIVITIES IN 2016

- The output of Euro 5 fuel increased by 1.0 mmt;
- Construction of a catalytic cracking complex, a diesel fuel hydrotreating complex and an MTBE production unit;
- Maintenance of existing capacities;
- Increase in operational efficiency;
- Conversion rate increased by 5.2 percentage points.

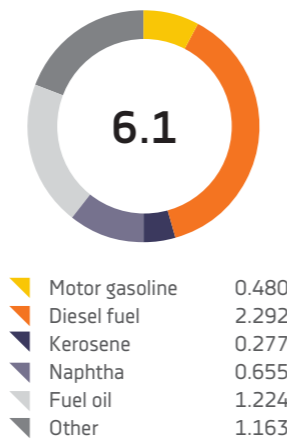
KOMSOMOLSK REFINERY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



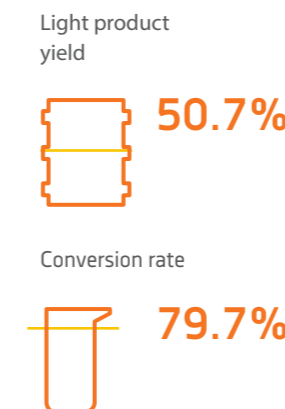
MAIN ACTIVITIES IN 2016

- Construction of a hydrocracking and hydrotreating complex;
- Maintenance of existing capacities;
- Increase in operational efficiency;
- Conversion rate increased by 17.0 percentage points.

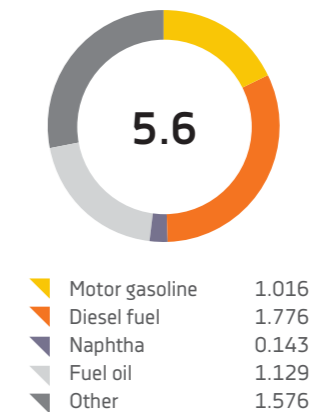
SARATOV REFINERY



Capacity, mmt
Refinery throughput, mmt



STRUCTURE OF OUTPUT OF PETROLEUM PRODUCTS AND PETROCHEMICALS, MMT



MAIN ACTIVITIES IN 2016

- Measures were developed and implemented to increase the intake of "light" oil;
- The scheme for separate shipment of export heavy petroleum fuel of different density and a reduction of fuel oil production was implemented;
- Implementation of the project to increase the vacuum gas oil yield at the crude oil distillation unit and the project to build a feedstock preparation and bitumen blending unit was continued;
- Maintenance of existing capacities;
- Increase in operational efficiency;
- Conversion rate increased by 7.7 percentage points.

KUIBYSHEV REFINERY



6.8

6.1

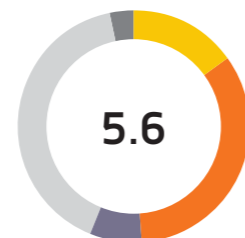
Capacity, mmt
Refinery throughput, mmt

Light product
yield

53.6%

Conversion rate

60.1%



Motor gasoline	0.857
Diesel fuel	1.913
Kerosene	0.397
Fuel oil	2.291
Other	0.178

- The output of Euro 5 fuel increased by 1.4 mmt.
- The construction and commissioning of the catalytic cracking unit with auxiliary facilities and an MTBE production unit were completed;
- Construction of vacuum gas oil hydrotreater, hydrogen and sulfur production units;
- Maintenance of existing capacities;
- Increase in operational efficiency.

INTEGRATED REFINERY OF BASHNEFT (12 MONTHS OF 2016) *



23.2

18.3

* The integrated refinery in Ufa includes Bashneft-Ufaneftekhim, Bashneft-Novoil, Bashneft-UNPZ

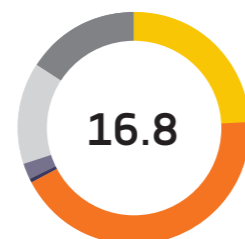
Capacity, mmt
Refinery throughput, mmt

Light product
yield

67.4%

Conversion rate

85.8%



Motor gasoline	4.077
Diesel fuel	7.216
Kerosene	0.086
Naphtha	0.384
Fuel oil	2.353
Other	2.642

- In Q4 2016, measures were taken to integrate new assets into the scope of operations of Rosneft.
- Bashneft's refining projects were reviewed and ranked in order to increase the efficiency of the capital program implementation, and to ensure full compliance with health, safety and environment regulations.
- Implementation of a process management improvement system.

GERMAN REFINERIES**



12.5

12.7

** Indicated volumes represent the share of Rosneft

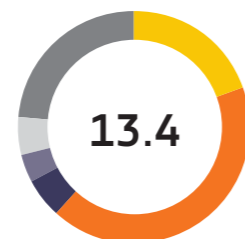
Capacity, mmt
Refinery throughput, mmt

Light product
yield

79.1%

Conversion rate

93.6%



Motor gasoline	2.621
Diesel fuel	5.651
Kerosene	0.750
Naphtha	0.522
Fuel oil	0.699
Other	3.157

- The restructuring of the JV Ruhr Oel GmbH (ROG) was completed;
- The company gained control over more than 12% of the German refining capacity with a total refinery throughput of 12.5 mmt per year.

FAR EASTERN PETROCHEMICAL COMPANY (FEPCO)

The FEPCO project is aimed at creating the largest oil refining and petrochemical complex in the Far Eastern Federal District.

The project implementation will help to solve the problem of local deficit and high prices for motor fuels in the Far Eastern Federal District and stimulate social and economic development of the region by creating a petrochemical cluster. The FEPCO complex will also make it possible to use the market environment in the Asia-Pacific Region most efficiently and export high value-added finished products.

The project has supported by the President of the Russian Federation Vladimir Putin (No. Pr-2579 dated December 29, 2016), by Chairman of the Government of the Russian Federation Dmitry Medvedev (No. DM-P9-705r dated January 31, 2014), as well as by regional authorities.

In 2016, the FEPCO project was implemented and financed in accordance with the project implementation schedule approved by the Board of Directors of Rosneft and the project implementation road map approved by Decree No. 2602-r of the Rus-

sian Government dated December 17, 2015.

In 2016, the engineering survey results and design documentation for the construction of FEPCO facilities, including Stage 1 and 2 production facilities, off-site facilities and major infrastructure facilities, were developed and submitted for state expert review.

Rosneft and ChemChina signed an Agreement Setting out the Framework for Further Implementation of the FEPCO Project and the Establishment of a Joint Venture.

Petrochemicals

Petrochemical assets form an important part of Rosneft's production complex. High quality of products and continuous improvement of the production process enable the Company to compete successfully with Russian and foreign producers on the Russian market.

Rosneft's petrochemical complex comprises:

- JSC Angarsk Polymer Plant (APP);
- JSC Novokuibyshevsk Petrochemical Company (NPC);
- PJSC Ufaorgsintez (UOS).

Petrochemical production facilities also include the aromatic hydrocarbon production complex at Bashneft-Ufaneftekhim and methanol, butyl alcohol and amine production capacities at Angarsk Petrochemical Company.

Angarsk Polymer Plant

The major share of the Company's petrochemical products is manufactured at JSC Angarsk Polymer Plant. Its core products are

ethylene, high-density polyethylene, propylene, benzene, the butylene-divinyl fraction, styrene, polystyrene, etc.

The Company annually produces 200 thsd tons of ethylene, 100 thsd tons of propylene and 60 thsd tons of benzene. Part of produced ethylene is supplied to JSC Sayanskkhimplast as feedstock, while the rest is used for production of high-density polyethylene and other types of petrochemicals. Feedstock used by the plant includes straight-run gasoline and hydrocarbon gases produced mostly by the Angarsk Petrochemical Company.

In 2016, APP processed 450 thsd tons of feedstock and produced 345.3 thsd tons of high value-added commercial products.

Following an incident at the M-1 turbo-charger in February 2016, APP was shut down for repairs till the end of June 2016.

Novokuibyshevsk Petrochemical Company

JSC NPC is one of the largest manufacturers of gas processing, petrochemical and organic synthesis products in Russia and Eastern Europe.

The list of its products contains more than 50 items, including tert-amyl methyl ether (TAME), industrial synthetic phenol, industrial synthetic ethyl alcohol, industrial acetone, liquefied petroleum gas for domestic use and other liquefied hydrocarbons, phenolic resin and para-tertiary butylphenol.

The enterprise also operates facilities producing a high-octane additive to TAME motor fuels, para-tert butylphenol (PTBP) production facilities which are unrivalled in Russia and the CIS countries, and the only synthetic ethanol production plant in the country.

In 2016, 1.2 mmt of feedstock were processed, and the output of commercial products totaled 1.1 mmt, etc.

In 2016, JSC NPC implemented a number of measures to improve its operational efficiency and product quality; these included include refitting of the phenolic resin demineralization unit and optimization of process flows to increase production of liquefied fuel gas for domestic consumption.



Ufaorgsintez

PJSC Ufaorgsintez is one of Russia's largest petrochemical enterprises. It specializes in 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 the total phenol output in Russia and is a leading producer of acetone. Ufaorgsintez accounts for over 10% of the country's polypropylene output and over 15% of high-density polyethylene output. It manufactures over 850 thsd tons of petrochemical products per year.

The company's products are widely used in the manufacture of PMMA, BPA, phenol formaldehyde resins, alkylphenol, plastic films, products for industrial and agricultural applications, industrial rubber products, as well as in mechanical engineering, the consumer goods sector, health care, electronics and electrical engineering.

Ufaorgsintez manufactures a number of unique organic synthesis products which are unrivalled in Russia. EPDM rubber

produced by the Company is used for the manufacturing of various industrial rubber products, including those for the needs of the military industrial sector, as well as for wire and cable insulation in electrical appliances.

Gas processing

The Company processes associated petroleum gas at JSC Otradnensky Gas Processing Plant (OGPP), JSC Neftegorsky Gas Processing Plant (NGPP), Tuymazinskoye Gas Processing Plant LLC (TGPP) and Shkapovskoe Gas Processing Plant LLC (ShGPP).

In 2016, the Neftegorsky and Otradnensky Gas Processing Plants processed 399 mmcm and 264 mmcm of associated gas respectively. The main products are dry stripped gas, natural gas liquids (NGLs), the ethane fraction and industrial sulfur.

At present, NGPP and OGPP continue to implement a comprehensive program involving refitting and replacing worn-out and obsolete equipment with modern modular units

that will improve operational efficiency and the automation level.

In 2016, the Neftegorsky Gas Processing Plant started to implement an investment project to restore the decommissioned section of the product pipeline for the transportation of NGLs from NGPP to the Novokuibyshevsk Petrochemical Company. This will make it possible to organize pipeline deliveries to NPC more efficiently, eliminate the risk of delays in the supply of feedstock (NGLs) related to railway transportation and enhance the synergistic effect of integration of NPC with gas processing plants.

The Shkapovskoe and Tuymazinskoe Gas Processing Plants incorporated in PJSOC Bashneft in October 2016 are being integrated in the scope of the Company's operations.

Their main products include liquefied gases (industrial propane/butane mixture, the isobutane fraction, the normal butane fraction) and stable natural gasoline, which are sold on the market and used as



feedstock for petrochemical production at PJSC Ufaorgsintez.

Production of catalysts

The Company owns two catalyst production plants, JSC Angarsk Catalysts and Organic Synthesis Plant (ACOSP) and Novokuibyshevsk Catalysts Plant LLC (NCP). About 50 different formulations of catalysts and adsorbents for oil refining and petrochemical processes have been mastered and are produced by the plants. ACOSP also manufactures a number of additives for motor fuels and bases for the development of special oils.

Novokuibyshevsk Catalysts Plant

In 2016, NCP continued to implement an investment project to start industrial production of hydroprocessing catalysts, whose key objectives are to meet the demand of the domestic market for high-quality catalysts and reduce dependence on imported hydroprocessing catalysts. An "outside the reactor" catalyst

regeneration unit under the license from Porocel has been put into operation; this will enable regeneration of imported Euro 5 fuel hydrotreating catalysts without exporting them for regeneration abroad.

Angarsk Catalysts and Organic Synthesis Plant

As part of the program to substitute imported catalysts and additives, gasoline reforming catalysts produced at JSC Angarsk Catalysts and Organic Synthesis Plant (ACOSP) started to be used at the Komsomolsk Refinery and the Ryazan Oil Refining Company in 2016. As a result, the total number of reforming units using ACOSP catalysts at the Company's refineries increased to 9 units.

Anti-wear additives made by ACOSP continue to be supplied to the Angarsk Petrochemical Company, the Komsomolsk and Achinsk Refineries, while pour point depressant additives are supplied to the Syzran and Saratov Refineries.

Foreign projects

Oil refining assets in the Republic of Belarus

In the Republic of Belarus, the Company indirectly owns 21% of shares in JSC Mozyr Refinery through PJSC NGK Slavneft. In 2016, Rosneft's share of refinery throughput of JSC Mozyr Refinery amounted to 2.07 mmt, including 0.07 mmt under the tolling scheme in accordance with the processing agreement. The total volume of oil supplied by the Company to this refinery amounted to 4.4 mmt in 2016. In 2016, the conversion rate at the Mozyr Refinery stood at 74.04%. In June 2016, a combined MTBE production unit was launched at the refinery.

Saras S. p. A.

Rosneft was a minority shareholder of Saras S. p. A. (Italy) between 2013 and 2017. In October 2015, as part of its efforts to optimize its assets and introduce efficient portfolio management, Rosneft reduced its ownership interest in Saras

S. p. A. from 20.99% to 12% of the issued share capital of Saras S. p. A.

The core asset of Saras S. p. A. is the Sarroch Refinery in Sardinia, one of the largest refineries in the Mediterranean Region with a refining capacity of up to 15 mmt of feedstock per year.

In the reporting period, operating performance of Saras S.p.A. met the approved targets for 2016.

In January 2017, Rosneft JV Projects S.A. (Luxembourg), an indirect subsidiary of Rosneft, announced that it had reached an agreement to sell 114,120,000 ordinary shares in Saras S.p.A., which amounted to 12% of the authorized capital of Saras S.p.A., to institutional investors at a price of 1.53 euros per share. The deal was closed on January 20, 2017.

After the sale of the remaining shareholding, Rosneft completely divested its stake in Saras S.p.A.

The sale forms a part of the program aimed at optimizing the Company's asset portfolio.

Promising foreign projects

In order to fulfill its strategic goal of expanding its business footprint, Rosneft is implementing a number of promising projects in oil refining and petrochemicals in Indonesia, China, and India.

Project to construct a refining and petrochemical complex in Indonesia

In order to implement the project to construct a refining and petrochemical complex in Tuban in the eastern part of the island of Java (Indonesia), Rosneft and PT Pertamina (Persero), an Indonesian company, signed a framework cooperation agreement in May 2016 and a joint venture agreement (with Rosneft holding a 45% stake and Pertamina holding a 55% stake) in October 2016.

In 2016, a feasibility study for the project was conducted. The final investment decision will be made based on the results of the feasibility study, the basic engineering design (BED) and the front-end engineering design (FEED).

The design capacity of crude oil distillation units at the refinery will total about 15 mmt per year. The refining complex will use imported medium and heavy sulfur oil grades as feedstock. The project involves the construction of a large fuel oil catalytic cracking unit and petrochemical facilities. The marine terminal of the plant is expected to accommodate VLCC supertankers with a deadweight tonnage of up to 300 thsd t.

PetroChina-Rosneft Orient Petrochemical (Tianjin) Company Ltd (JV Vostok-Petrochemicals)

Within the joint venture Vostok-Petrochemicals, Rosneft (49%) and China National Petroleum Corporation (CNPC) (51%) are implementing the project to construct a refining and petrochemical complex in the Nángàng Industrial Zone in Tianjin, the People's Republic of China.

The capacity of the Tianjin Refinery is expected to total 16 mmt per year.

In Q1 2016, a joint working group assisted by international consultants and

Chinese engineering companies completed the feasibility study for the Tianjin Refinery construction project with regard to the refining complex and production of aromatic hydrocarbons.

In May 2016, the Board of Directors of JV Vostok-Petrochemicals approved the process configuration of the refinery and the aromatic hydrocarbon production facilities for further design work.

Implementation of the project will provide the Company with access to the wholesale, small-scale wholesale and retail petroleum product market in China, as well as to the fast-growing and underserved petrochemical market in China and other countries in the region.

Oil refining assets in India

In October 2016, Rosneft announced the signing of the agreement on the sale and purchase of 49% of shares in Essar Oil Limited (EOL), an Indian company, from Essar Energy Holdings Limited and its affiliated companies controlled by the Ruia family. The transaction was unanimously

approved by the Board of Directors of Rosneft on October 13, 2016.

The transaction involves the acquisition of a 49% stake in one of the most modern refineries in the Asia-Pacific Region in Vadinar with integrated infrastructure. At the time of signing, EOL's business included a large network of filling stations in India comprising over 3 thsd stations operating under the Essar brand.

Acquisition of a stake in one of the largest and most modern refineries in India will enable Rosneft to enter the promising Indian market and make its trading division a leader in the Asia-Pacific Region. The major sources of synergy will include cross-supplies of petroleum products to the markets of the Asia-Pacific Region. This will improve the economic performance of the refinery, which exceeded similar indicators of other refineries in this region. The transaction is expected to be completed in 2017.

OIL REFINING ASSETS IN GERMANY

Germany has traditionally been the Company's country of operation.

As a result of restructuring of the joint venture Ruhr Oel GmbH (ROG) completed in 2016, Rosneft gained control of over 12% of refining capacity in Germany with a total throughput of 12.5 mmt per year. The Company became the third largest refining company on the German market and started developing its own business in the country within Rosneft Deutschland GmbH, a new subsidiary.

Rosneft became a direct shareholder and increased its stakes in the Bayernoil Refinery to 25% (from 12.5%), in the MiRO Refinery to 24% (from 12%), and in the PCK Refinery (Schwedt) to 54.17% (from 35.42%). BP consolidated the 100% interest in the Gelsenkirchen Refinery and in DHC Solvent Chemie, a solvent producer.



MIRO REFINERY



MMT PER YEAR — capacity of the MiRO Refinery (Rosneft's net share in the capacity totals 3.6 mmt per year or 24%)

Located in Karlsruhe, Baden-Württemberg. This is the largest oil refinery in Germany and one of the largest and most advanced refineries in Europe.

BAYERNOIL REFINERY



MMT PER YEAR — capacity of the Bayernoil Refinery (Rosneft's net share in the capacity totals 2.6 mmt per year or 25%)

Located in Neustadt an der Donau. The refinery supplies fuel to Bavaria and northern Austria.

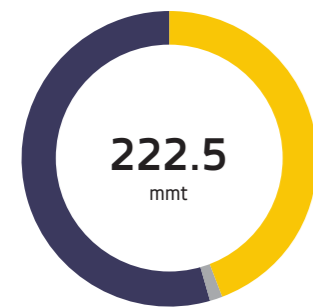
PCK RAFFINERIE GMBH



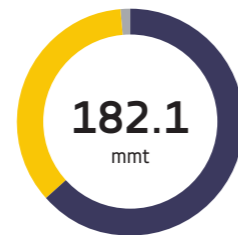
MMT PER YEAR — capacity of PCK Raffinerie GmbH (Rosneft's net share in the capacity totals 6.3 mmt per year or 54.17%)

Located in Schwedt, Brandenburg. The location of the refinery makes it possible to supply Urals oil through the Druzhba pipeline.

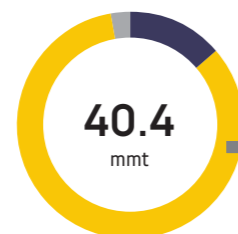
STRUCTURE OF CRUDE OIL AND PETROLEUM PRODUCT SALES



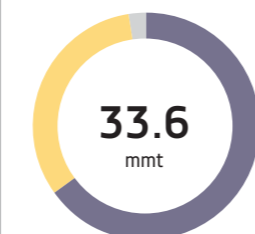
EXPORT



DOMESTIC MARKET



Petroleum product sales



COMMERCE AND LOGISTICS

Rosneft pursues a policy aimed at ensuring balance between oil monetization channels, including refining at its own refineries in Russia and abroad, export and domestic sales.



KEY ACHIEVEMENTS IN 2016:

- In 2016, oil supplies to the Asian markets hit a record high of 43.1 mmt per year (+8.6% compared to 2015);
- Oil supplies to China increased by 14% to 34.5 mmt, accounting for about 30% of the total oil exports;
- Rosneft's share of the total petroleum product sales on the St. Petersburg International Mercantile Exchange in 2016 amounted to 35% for motor gasoline, 38% for diesel fuel and 15% for gas;
- Domestic gas sales increased by 11% compared to 2015;
- The Company expanded the footprint of its retail business to 66 regions by expanding the network of operating filling stations by 15.8% to 2,962 filling stations.

Crude oil sales

The Company continuously monitors the economic efficiency of its oil monetization channels, which enables it to maximize the share of high-margin channels in the overall sales structure.

In the reporting year, the Company supplied about 82.6 mmt of oil to its own refineries in Russia (excluding PJSOC Bashneft's refineries).

In addition to oil supplies to its own refineries in Russia, in 2016, the Company supplied 4.4 mmt of its own oil to the refineries of JV Ruhr Oel GmbH in Germany, which is 18% more than in 2015. The growth of the Company's own oil supplies to the ROG refineries was driven by an increase in its stake in the oil refinery in Schwedt, Germany (PCK Raffinerie GmbH). This transaction forms an integral part of Rosneft's strategy aimed at expanding its footprint in the key European market and moving forward along the value chain.

In 2016, domestic and export sales of crude oil totaled 120.6 mmt, including 5.7 mmt of oil sold on the domestic market.

Export sales of crude oil

In 2016, the volume of crude oil exports amounted to 114.9 mmt. Economically, exports to the east (supplies via pipeline to China, sales in the ports of Kozmino and De-Kastri) are the most attractive destination for the Company. The volume of high-margin supplies to the east in 2016 amounted to 43.1 mmt, up by 8.6% year on year. In addition, the Company exported 63.8 mmt of oil to the North-Western, Central and Eastern Europe, to the Mediterranean countries and other destinations outside the CIS. Exports to the CIS totaled 8.0 mmt.

The Company exports crude oil mainly via the Transneft system, including the trunk pipeline network and ports. In the reporting year, the Company used mainly the following modes of transport for exports:

- Pipeline transportation: about 106 mmt, accounting for 94.1% of total oil exports excluding the impact of acquired assets.

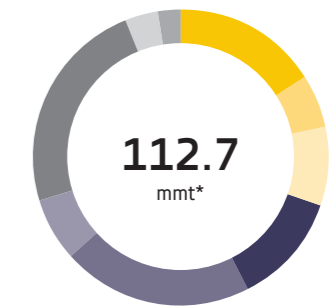
48.1 mmt of this volume were exported via ports and about 57.9 mmt via a pipeline to China, Belarus, Central and Eastern Europe. Transportation by rail and mixed transport totaled 2.8 mmt, or 2.5% of total exports excluding the impact of acquired assets. These were mainly supplies via the pipeline of the Caspian Pipeline Consortium (CPC) and by rail to Belarus.

In addition to the above routes, in 2016, 3.9 mmt of the Company's oil were shipped via the De-Kastri export terminal, which is 11% higher than in 2015 due to an increase in production. The De-Kastri export terminal with a capacity of 12 mmt per year belongs to the Sakhalin-1 project consortium, in which Rosneft holds a 20% stake.

In 2016, the supply volume via the port of Kozmino increased by 6% year on year, mainly because the Company managed to obtain an additional export schedule for supplies to China as part of fulfillment of its obligations under long-term contracts totaling 3.9 mmt.

In 2016, the Company supplied 2.8 mmt of oil and gas condensate via the pipeline of the Caspian Pipeline Consortium. The pipeline of the Caspian Pipeline Consortium (CPC) runs from the Tengiz oil field in Western Kazakhstan to the port of Novorossiysk. Rosneft has been participating in the CPC project since 1996 through a joint venture Rosneft Shell Caspian Ventures Ltd. (whose stake in the project totals 7.5%). The Company owns 51% of shares in the joint venture, while Shell owns 49%.

STRUCTURE OF CRUDE OIL EXPORTS EXCLUDING THE IMPACT OF ACQUIRED ASSETS, %



Central and Eastern Europe (pipeline)	23.6%
China (pipeline)	20.9%
Primorsk (sea)	16.1%
Kozmino (sea)	12.2%
Ust-Luga (sea)	8.6%
Belarus (pipeline)	6.9%
Novorossiysk (sea)	5.8%
De-Kastri (sea)	3.5%
Railway	2.5%

* The impact of the acquisition of new assets totaled 2.2 mmt



KEY STRATEGIC PRIORITIES:

- Further expansion of oil supplies to the east as the most effective sales destination;
- Further increase in operational efficiency of the retail business;
- Becoming a leading independent gas supplier on the Russian market with a market share of more than 20%;
- Optimization of logistical schemes and reduction of the Company's expenses.

Oil supplies under long-term contracts

In 2016, the Company continued to supply oil to Glencore, Vitol and Trafigura under Urals oil supply contracts via the ports of Novorossiysk, Primorsk and Ust-Luga on a prepayment basis. These contracts provide a stable long-term oil supply channel, and the sales prices under these contracts are equal to those obtained by the Company at regular tenders.

Export sales of petroleum products

In 2016, the Company significantly increased export sales of petroleum product to 64.8 mmt (as against 63.6 mmt in 2015).

In 2016, the Company transported petroleum products by river along the Volga-Baltic route during the summer navigation season for the first time. This enabled it to optimize transportation costs and expand logistic capabilities.

In order to load own transshipment facilities and develop petroleum product trading, the Company started supplying stable natural gasoline under a commission

agreement from the Khabarovsk Refinery to the port of Nakhodka under the Company's current export contracts.

Sales of petroleum products to the CIS

In 2016, the Company continued the stable and uninterrupted tanker and ferry supply to the Armenian market meeting 50% of the country's demand. During the year, 136 thsd tons of high-quality gasoline and diesel fuel produced by Rosneft's Russian refineries were supplied to the market.

In addition, Rosneft supplies gasoline and diesel fuel to the Kyrgyz Republic, to the sales subsidiary of CJSC RN-Kyrgyznefteprodukt (JSC Bishkek Oil Company), for subsequent sales via its own network of filling stations and wholesale. In 2016, petroleum product supplies to affiliated companies totaled 97 thsd tons.

The Company continues to take active steps to expand its international footprint and diversify its supply routes. In 2016, the Company continued to supply petroleum products to its own retail

network in Georgia (in 2016, supplies totaled 62 thsd tons of petroleum products), as well as to European customers, including Mabanafit, with supplies totaling 465 thsd tons of diesel fuel. At the same time, preparatory work was carried out to unlock new trading and logistic opportunities of the joint venture based on the assets of Petrocas Energy Limited, in which the Company purchased a 49% shareholding at the end of 2014. Thus, in October 2016, an agreement was signed with the Demironen Group of Companies on petroleum product supply to Turkey.

Domestic sales of petroleum products

In 2016, domestic sales of the Company's petroleum products in Russia amounted to 33.6 mmt, which is 9.8% more than in 2015

Product sales on the exchange

Rosneft is the largest motor fuel seller trading on the exchange in the Russian Federation.

MEETING THE NEEDS OF FEDERAL CUSTOMERS

One of the Rosneft's area of activity is to meet the needs of federal customers in high-quality products in order to fulfill their functions in the field of defense capability, state security, and response to emergencies. In 2016, the Company fully met the demand from military units of the Ministry of Defense of Russia deployed in the Central and Eastern military districts, as well as units of the Ministry of Internal Affairs, EMERCOM, the Federal Security Service and the Investigative Committee of Russia. As part of expansion of cooperation with federal customers, in 2016, by the decree of the Government of the Russian Federation, the Company was appointed the only motor fuel and jet fuel supplier to the EMERCOM of Russia and the only motor fuel supplier to the Ministry of Internal Affairs of the Russian Federation in 2016. Cooperation with other federal customers in this area will be continued in 2017.

The Company exceeds targets for sales volume on the exchange approved by the joint order of the FAS of Russia and the Ministry of Energy of Russia dated April 30, 2014. In 2016, 19.4% of the total motor gasoline output, 12.0% of diesel fuel, 16.7% of kerosene and 2.9% of fuel oil from Rosneft's refineries were sold on the exchange, with the targets set at 10%, 5%, 10% and 2% respectively.

In 2016, the Company's share of the total petroleum product sales on the St. Petersburg International Mercantile Exchange (including the Ufa group of refineries) totaled:

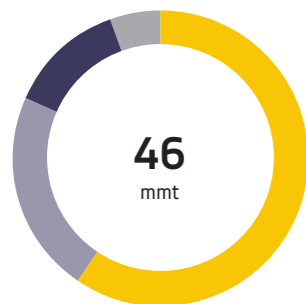
- 35% for gasoline;
- 38% for diesel fuel;
- 47% for fuel oil.

Actively taking part in the sale of petroleum products on the exchange, the Company maintains the efficiency of sales compared to alternative export channels.

In addition, in 2016, the Company continued to participate in natural gas

trading on the site of CJSC St. Petersburg International Mercantile Exchange launched in October 2014. In 2016, it sold 2.5 bcm of gas (15% of the total volume of exchange trading).

OIL SUPPLIES UNDER LONG-TERM CONTRACTS



■ CNPC (China)	27.4
■ Glencore	10.2
■ Vitol	5.9
■ Trafigura	2.5

Structure of domestic sales, mmt

	2014	2015	2016	SHARE IN 2016, %
Total sales of petroleum products	32.5	30.6	33.6	97%
Diesel fuel	9.3	9.6	10.7	31%
Gasoline	11.4	11.6	12.8	37%
Fuel oil	2.5	1.7	2.0	6%
Kerosene	3.4	3.2	3.0	9%
Bunker fuel	1.0	0.9	0.8	2%
Other	4.9	3.6	4.3	12%
Total sales of petrochemicals	1.0	1.0	1.1	3%
Total sales of petroleum products and petrochemicals	33.5	31.6	34.7	100%



PJSC OC Rosneft-Kubannefteprodukt

11%

INCREASE IN DOMESTIC GAS SALES IN 2016 COMPARED TO 2015

Gas sales

The Company supplies natural gas, dry stripped gas and associated petroleum gas to consumers in the Russian Federation. Associated petroleum gas is supplied to its own gas processing plants, as well as to third parties: PJSC SIBUR Holding and OJSC Surgutneftegas.

Natural and dry stripped gas is supplied to consumers via the gas transportation system of PJSC Gazprom under a gas transportation contract. Natural and dry stripped gas is supplied to end users and to regional sales companies in almost 40 regions. In order to maximize profits from gas sales, the Company has developed a commodity transport flow optimization system used in calculating the operational gas balance.

Rosneft's long-term development strategy is aimed at becoming a leading independent gas supplier on the domestic market of the Russian Federation

Amid increasing competition for consumers, the main strategic goal in the field of monetizing the Company's gas resources is to ensure a guaranteed sale of growing production volumes by concluding long-term supply contracts with the largest solvent consumers.

In 2016, Rosneft's domestic gas sales amounted to 64.2 bcm, up by 11% year on year. Revenue from the sale of Rosneft's gas exceeded RUB 200 bln. The growth was accompanied by an increase in the average selling price by 2% due to a change in the geography of gas supplies.



In September 2016, the Company started production and supply of APG produced at the Novoye oil field on the shelf of the Sea of Azov for the first time through a joint venture Priazovneft LLC (with Rosneft holding a 51% stake and PJSC LUKOIL holding a 49% stake in the JV).

As a result, in 2016, the Company supplied 14.1 mmcm of gas with the prospect of production and supply of up to 60 mmcm per year.

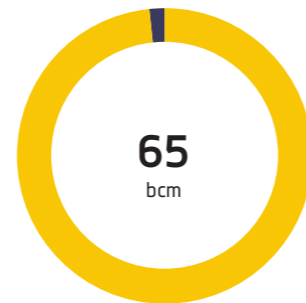


Starting from January 1, 2016, the power plants of Inter RAO Group have become the Company's largest gas consumer. Gas is supplied to the power plants under a long-term contract concluded earlier.

In 2016, Rosneft fulfilled all obligations to supply gas to end consumers in full in accordance with the concluded contracts.

As a result, in 2016 the Company strengthened its position on the domestic gas market; its market share reached 18%, up by 2% year on year.

GAS SALES, BCM



In Russia	64.19
Abroad	0.81

Retail sales and small-scale wholesale distribution

Rosneft's retail network is the largest network in the Russian Federation in terms of geographical coverage and the number of filling stations. The Rosneft filling station brand is one of the leaders in Russia in terms of recognition and perception of fuel quality.

At the end of 2016, the retail business covered 66 regions of Russia, from Murmansk in the north to the North Caucasus in the south and from Smolensk in the west to Sakhalin in the east. In addition, the Company has retail assets in Abkhazia, Belarus and Kyrgyzstan. In 2016, as a result of the acquisition of PJSOC Bashneft, the

Company entered new geographical markets and significantly expanded its retail and small-scale wholesale network.

As of December 31, 2016, the existing network of Company's filling stations comprised 2,962 own and leased stations, including 65 filling stations in the Republic of Belarus, in Abkhazia and in Kyrgyzstan. The Company's own and rented filling stations had 1,890 shops and 925 cafes. As of December 31, 2016, the Company had 143 operating oil depots with a total capacity of 2.5 mmcm and about 1.1 thsd gasoline tanker trucks.

In 2016, retail sales and small-scale wholesale distribution of petroleum products, excluding the integration of

Bashneft, remained at the level of the previous year. This was achieved through active development of small-scale wholesale distribution on regional markets, including a proactive policy of attracting counterparties, developing exchange sales and a long-term contracting program. At the same time, retail sales excluding the integration of Bashneft showed an increase in sales margins, while sales volumes decreased compared to 2015 amid a general decline in demand for petroleum products. In 2016, retail sales of petroleum products taking into account the integration of Bashneft amounted to 10.9 mmt, with sales of petroleum products per filling station averaging 11.5 tpd.

THE COMPANY'S RETAIL NETWORK IN RUSSIA

2,962

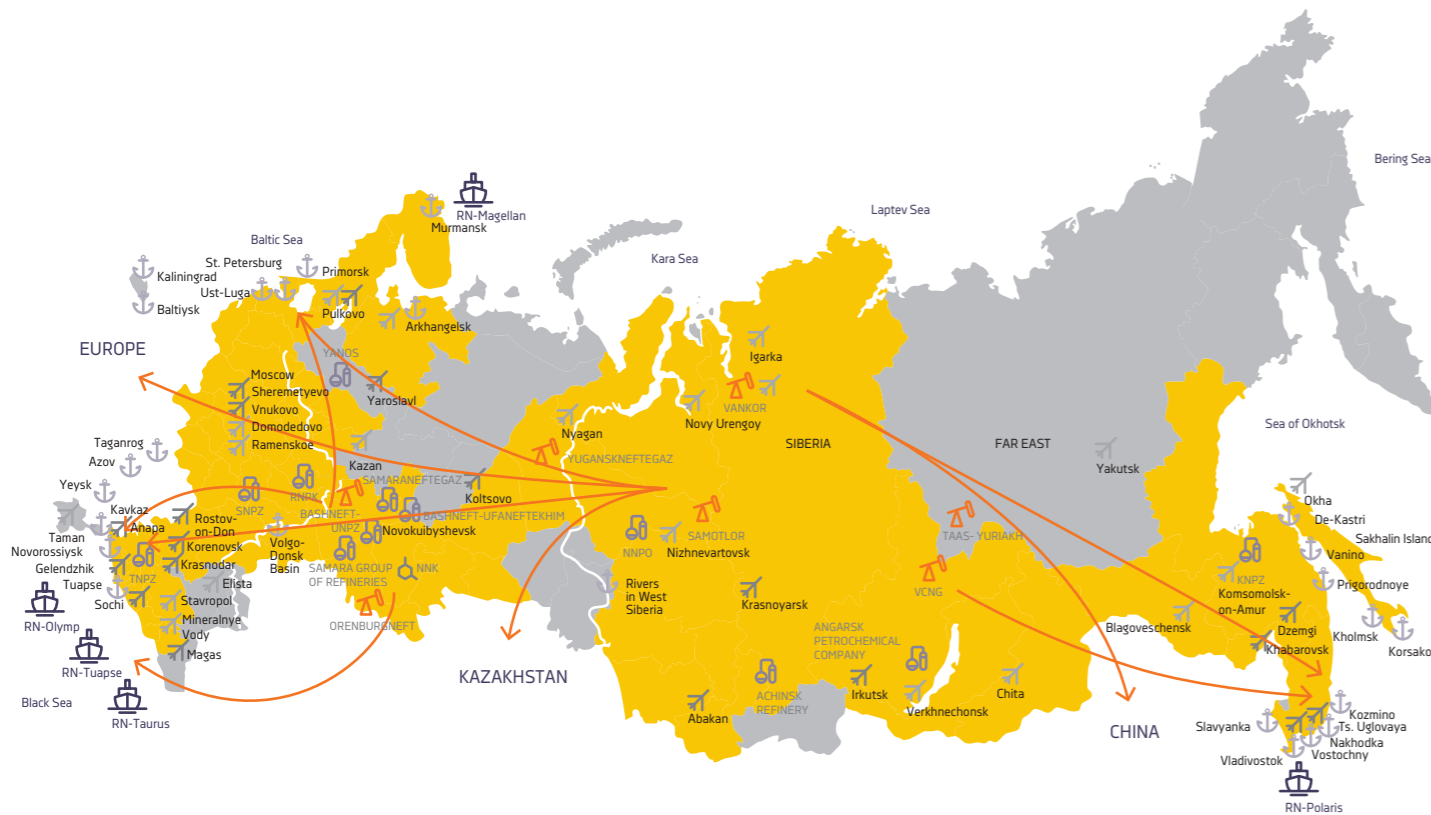
OPERATING FILLING STATIONS OF THE COMPANY, including 65 filling stations in the Republic of Belarus, Abkhazia and Kyrgyzstan



Footprint of Rosneft's filling stations

0-19
20-49
>50

KEY ASSETS IN RUSSIA AND PRODUCT FLOWS



LEGEND

- ▲ Retail coverage
- ▲ Producing assets
- ⚙️ Company's refinery
- ⚙️ Petrochemical plant
- ✈️ Company owned and jointly owned aircraft refueling complexes
- ✈️ Partner's aircraft refueling complexes
- 🚢 Tanker/fuel vessel
- ⚓ Ports of presence
- ➔ Marketable oil flows



The Company pays special attention to ensuring high fuel quality for its consumers. At present, Rosneft's brand is one of the leaders in Russia in terms of perception of fuel quality by consumers.

The petroleum product quality management includes controls along the entire logistical chain, from refineries to consumers; clearly defined standards for laboratory equipment at oil depots; continuous development of employees working in this area; systematic efforts to prevent sales of counterfeit products by dishonest players on the fuel market.

The company has been the first on the retail market to introduce a new procedure for the operation of cash registers which involves online data transmission to the tax authorities in accordance with Federal Law No. 290-FZ dated July 3, 2016. On September 19, 2016, the first retail transaction in the Russian Federation was performed in accordance with the new procedure for the use of cash registers at Rosneft's filling station in Moscow. In 2016, already about 400 filling stations in the Moscow, Tula and Kaluga Regions switched over to the new procedure for the use of cash registers, and by July 1, 2017, all filling stations, including the acquired assets of Bashneft, will operate under the new procedure.

The main focus of the retail business in 2016 was to improve operational efficiency, including standardization and systematization of business processes, implementation of optimization programs and initiatives and developing employees' competencies.

In 2016, the Company paid special attention to training and performance improvement of employees of its retail network, from territorial managers and managers of filling stations to operating personnel. Rosneft organized training workshops and meetings with representatives of its companies to discuss initiatives aimed at improving operational performance.

In 2016, a significant consolidation of the retail business was carried out in order to form an optimal business management structure. By the end of 2016, 89% of the total number of marketing and distribution companies were consolidated into a single subholding. Business processes in the small-scale wholesale and retail businesses were standardized; the process was developed for decision-making on conducting marketing campaigns in the retail network based on an analysis of their attractiveness to customers and efficiency for the Company and on subsequent roll-out of the most successful campaigns in the Company's operating regions.

As part of the retail business development, the following measures were implemented:

- A new Family Team loyalty program for customers of Rosneft's filling station network was implemented; the program is already run in 26 regions of the Russian Federation, with more than 2.8 million active participants involved. Since December 21, 2016, the BP Club loyalty program was launched in all regions of operations at BP's multifunctional filling stations; during the first week of the program, over 250 thsd cards were issued to customers.
- In order to ensure the uniformity of the brand, in Q4 2016, 17 filling stations in Tula and Moscow switched over from the TNK brand to Rosneft's corporate style. The transition to the Rosneft brand will be continued in 2017.
- In order to boost sales of related goods and services, the first 5 cafes of the Italian A-Cafe chain have been opened at Rosneft's filling stations in the Moscow Region since December 20, 2016. Rosneft plans to continue

cooperation with Autogrill and open A-Cafes at other filling stations.

- At the end of 2016, considerable work was done to integrate Bashneft's retail assets, which will continue in the next year. The main efforts will be focused on improving the performance of Bashneft's retail assets, including increasing sales per filling station, optimization of operating and capital expenses, achieving synergies for the merged Company, and developing a joint marketing strategy.

Increase of efficiency of the retail business

As part of its efforts to optimize and improve the efficiency of its oil depot facilities, in 2016, the Company closed 6 oil depots that did not meet its technical and operational requirements and had a low turnover and high unit costs.

As part of the measures to reduce the risks of petroleum product quantity and quality losses, the Company introduced procedures for petroleum product metering and loss management, and a pilot project to implement a system for guaranteed petroleum product supply from oil depots to filling stations by gasoline tanker trucks (electronic sealing) was completed.

The Company takes measures to reduce operating costs for the supply of petroleum products by gasoline tanker trucks, including by optimizing the logistics of direct supplies from refineries.

The Company continued to implement the project to benchmark operating costs of its marketing and distribution companies, and a number of initiatives were implemented to increase the retail business efficiency, including cost optimization of filling stations, oil depots and administrative and managerial personnel. As a result, despite an indexation, retail business costs remained at the level of the previous year; in 2016, operating costs decreased in comparable conditions by 5% compared to 2015.

Petrochemicals sales

In 2016, Rosneft sold 3.5 mmt of petrochemicals, which is 9.4% more than in the

previous year. This volume includes 2.4 mmt of petrochemicals sold abroad (including 1.9 mmt produced at the plants of Ruhr Oel GmbH) and 1.1 mmt sold on the domestic market.

In 2016, about 75% of petrochemicals were sold by tender and under contracts with formula-based prices.

B2B

Aircraft refueling business

Jet fuel is sold via 20 refueling complexes controlled by Rosneft and 19 third-party refueling complexes.

In 2016, the Company's main customers included PJSC Aeroflot, Turkish Airlines, Delta Airlines, S7, Ellinair, Deutsche Lufthansa, Alitalia, Air Serbia, Korean Air, JSC YAMAL AIR, JSC Ural Airlines, IKAR LLC and Lufthansa Cargo.

As part of the Company's project to enter the international jet fuel supply market, the Company supplies fuel to the key player on the Kazakhstan market, KazMunayGas-Aero LLP, and to Magnai Trade LLC (Mongolia); a direct contract for fuel supply has been concluded with Air Astana.

As a result of a decrease in purchasing power and a consequent decrease in transportation volume in the Russian Federation, in 2016, jet fuel sales decreased by 4% compared to 2015 and amounted to 3.0 mmt.

Consumer structure on the domestic market in 2016:

- 1.7 mmt: airlines and refueling complexes controlled by Rosneft;
- 1.3 mmt: bulk sales, including sales on the exchange (0.5 mmt).

Bunkering business

Rosneft's bunkering business covers all major sea and river bunkering ports in Russia, as well as a number of foreign destinations. In 2016, bunker fuel sales decreased by 36.6% year on year to 2 mmt as a result of the redistribution of fuel oil for export due to changes in the pricing environment following a decrease in export duties.

In 2016, a number of initiatives were implemented to maintain and expand the Company's presence on the bunkering market:

- Rosneft resumed cooperation under a long-term contract with the world's third largest container shipping company CMA CGM, which is a key consumer of Rosneft's bunker fuel in the Far East;
- As part of expansion of the bunker fuel product line, the Company started to produce RMG700 III residual marine fuel at the Saratov and Tuapse Refineries, RME180, RMG380 and RMG500 residual marine fuel and DMF IV distillate marine fuel at the Achinsk Refinery, DMF V distillate marine fuel at the Syzran Refinery; DMF IV and DMF V distillate marine fuel at the Komsomolsk Refinery, which fully meet the requirements of international standards for bunker fuel quality. At the Komsomolsk Refinery, the Company started commercial production of DMF-I marine fuel with improved environmental performance (sulfur content not exceeding 0.1%);
- The Company exported marine fuel for the bunkering of fishing vessels in the fishing areas in the North Pacific and on the southern border of the Arctic Ocean;
- The Company arranged fuel supply for auxiliary vessels supporting the operation of the platform performing exploration drilling as part of cooperation between the Company and Statoil in offshore development in the Sea of Okhotsk;
- RN-Bunker LLC, a specialized subsidiary of the Company, was issued a certificate of compliance with the ISO 9001:2008 standard in the field of petroleum product sales on the bunkering market, which confirmed the high level of quality of bunkering services provided by the Company.

Sales of bitumen products

In 2016, sales of bitumen materials sales increased by 23% year on year to 2.2 mmt due to the effective development of the sales system.

Domestic sales accounted for 97% of the total sales volume in the reporting period.

Rosneft is developing the production and sales of an innovative product, polymer-modified bitumen (PMB), which helps to improve the road surface quality considerably. In 2016, PMB sales tripled compared to 2015 and reached 25 thsd tons.

Sales of lubricants

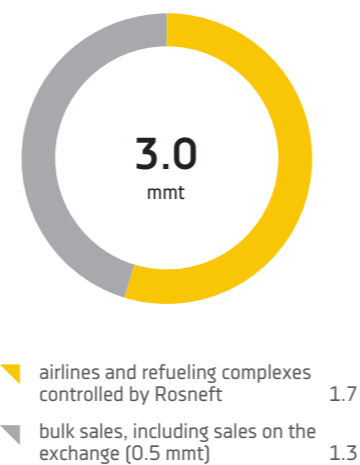
In 2016, sales of lubricants in the Company totaled 797 thsd tons, up by 2% year on year, with domestic sales totaling 529 thsd tons (66% of the total volume).

In the reporting period, sales of premium lubricants amounted to 60 thsd tons, up by 9% compared to 2015 (55 thsd tons).

In 2016, a number of initiatives were implemented to expand the Company's footprint in the lubricant market:

- A joint federal program to promote the Rosneft's production was launched at more than 300 points of sale of the LADA dealer network;

STRUCTURE OF JET FUEL CONSUMERS ON THE DOMESTIC MARKET IN 2016



1.7 ✂
MMT
airlines and refueling complexes controlled by Rosneft



- Agreements were reached and work is underway to substitute imported lubricants with the Company's products at large enterprises of the Russian Federation;
- Strategic agreements were concluded on partnership in the field of petroleum product supply with the largest companies of the Russian Federation, including PJSC KAMAZ;
- The Company started selling new products: Rosneft Oleotec Grind WF-310 cooling lubricant, a new AU low-viscosity oil, Redutec WR specialized gear oil for operation in environments characterized by an increased ingress of water and Redutec OE oil for equipment with a high degree of wear.

Logistics and production planning

The Company's priorities in the field of logistics are to improve the efficiency of the production program at the refineries, optimize the shipment schemes and reduce the Company's costs.

Main results in 2016:

- The Company optimized the refinery production program and the destinations for petroleum products sales as part of the preparation of monthly production plans and the petroleum product distribution balance, taking into account the volumes of PJSOC Bashneft.
















- The cost of services provided by railway operators was reduced.
- The Company established new efficient logistic channels for oil and petroleum product sales (including light crude oil supply by rail to the Tuapse Refinery and a multimodal scheme for light crude oil supply to the Saratov Refinery).
- The existing logistic channels were optimized; this involved expanding the existing petroleum product shipment channels in the Far East (the port of Slavyanka, Vanino). Given restrictions on transshipment in the Baltic ports, backup routes via Ust-Luga and St. Petersburg were organized.
- During the 2016 navigation season, the volume of petroleum product transportation by river increased from 4 mmt (in 2015) to 5.3 mmt. New petroleum product supply routes from Nizhnekamsk and Yaroslavl to European ports were organized.

- The share of JSC Rosneftflot on the towing service market increased due to the start of operation in the Sheskhari oil terminal (Novorossiysk).

In 2017, the Company will continue to implement measures aimed at achieving strategic goals, including:

- Further optimization of production programs at refineries and sales of petroleum products to the most profitable destinations;
- Development and implementation of a program to stockpile motor fuels in order to provide consumers with gasoline during periods of increased demand;
- Reduction of logistic costs when transporting products by different modes of transport, optimizing the costs of the Company's own logistic assets;
- Organization of new efficient logistics schemes;
- Effective contracting of the fleet for transportation of the Company's petroleum products by river during the 2017 navigation season, including export and bunkering, taking into account the volumes of PJSOC Bashneft;
- Achievement of synergies from the integration with PJSOC Bashneft in terms of production and product distribution optimization and reduction of logistic costs;
- Development of a program for petrochemical shipment in tank containers due to the restrictions on specialized rolling stock.

ROSNEFT'S MARINE TERMINALS

Terminal	Sources of supplies	Product flows	Principal destinations	Modernization of port facilities	Key achievements in 2016 in numbers
RN-TUAPSENEFTEPRODUKT LLC  17 16.3 Terminal capacity, mmt/year Transshipment volume in 2016, mmt/year	1. Rosneft's refineries <ul style="list-style-type: none"> Tuapse Refinery Achinsk Refinery Kuibyshev Refinery Novokuibyshev Refinery 2. Third-party suppliers	 PETROLEUM PRODUCT EXPORT	Europe: Italy, Greece, Spain, Netherlands, Germany, Turkey, Bulgaria, Romania, Malta, Cyprus, Georgia, Estonia, Slovenia, Albania Asia: China, Singapore, South Korea, India, etc. North and South America: USA, Argentina, Brazil Africa and Middle East: Lebanon, Tunisia	<ul style="list-style-type: none"> Implementation of a program to renovate production assets in order to ensure their compliance with new industrial, environmental and fire safety requirements and a program to expand production capacities to receive cargo traffic from the Tuapse Refinery in the future. Refitting and upgrades of a number of process facilities were completed, including the tanker truck loading area of shop No. 1, wastewater treatment facilities, process pipelines at the oil piers, heating networks, security systems and equipment; 	2.1  MMT — transshipment of third-party products 9.2  MMT — transshipment via the terminal's own berth 1.1  MMT — crude oil transhipped for the Tuapse Refinery in addition to petroleum product transshipment
RN-NAKHODKAPRODUKT LLC  7.5 6.4 Terminal capacity, mmt/year Transshipment volume in 2016, mmt/year	1. Rosneft's refineries <ul style="list-style-type: none"> Komsomolsk Refinery Achinsk Refinery Angarsk Petrochemical Company 2. Third-party suppliers	 PETROLEUM PRODUCT EXPORT  TRANSSHIPMENT ON THE DOMESTIC MARKET  BUNKERING ON THE DOMESTIC AND EXPORT MARKETS	Asia: China, South Korea, Singapore, Malaysia, Japan North America: USA Magadan Region, Kamchatka, Sakhalin	<ul style="list-style-type: none"> A program is being implemented to renovate production assets in order to ensure their compliance with new industrial, environmental and fire safety requirements. The Company continued to implement the program to renovate the tank farm, the oil pier, process pipelines and utility networks. 	0.7 MMT TRANSSHIPMENT ON THE DOMESTIC MARKET 0.6  MMT — transshipment of petroleum products for bunkering 0.2  MMT — transshipment of third-party products
RN-ARKHANGELSKNEFTEPRODUKT LLC  4 0.94 Terminal capacity, mmt/year Transshipment volume in 2016, mmt/year	1. Rosneft's refineries <ul style="list-style-type: none"> YANOS Ryazan Oil Refining Company 2. Third-party suppliers	 PETROLEUM PRODUCT EXPORT  TRANSSHIPMENT ON THE DOMESTIC MARKET  BUNKERING ON THE DOMESTIC AND EXPORT MARKETS	Europe: Netherlands, Germany, Estonia, UK Supply to Northern Russia	Implementation of a program to renovate production assets at the terminal in order to ensure their compliance with new industrial, environmental and fire safety requirements.	0.3 MMT TRANSSHIPMENT OF THIRD-PARTY PRODUCTS

04. SUSTAINABLE DEVELOPMENT

- 4.1. Personnel and social programs
- 4.2. Social and economic development of the regions and charity in 2016
- 4.3. Sponsorship activity of the Company
- 4.4. Health and safety
- 4.5. Environmental safety and environmental protection
- 4.6. Enhanced energy efficiency and energy conservation
- 4.7. Localization and development of industrial clusters
- 4.8. Contractor and supplier relationships
- 4.9. Research, design and innovations



AS ONE OF RUSSIA'S LARGEST COMPANIES, ROSNEFT SEEKS NOT ONLY TO ACHIEVE THE HIGHEST OPERATING RESULTS BUT ALSO TO CONTRIBUTE TO THE DEVELOPMENT AND WELL-BEING OF THE COUNTRY AND IMPROVEMENT OF THE QUALITY OF LIFE OF ITS PEOPLE.



295.8

THSD
EMPLOYEES —
HEADCOUNT
AS OF DECEMBER 31, 2016



74

RUB BLN —
EXPENDITURE
ON ENVIRONMENTAL
PROTECTION IN 2016



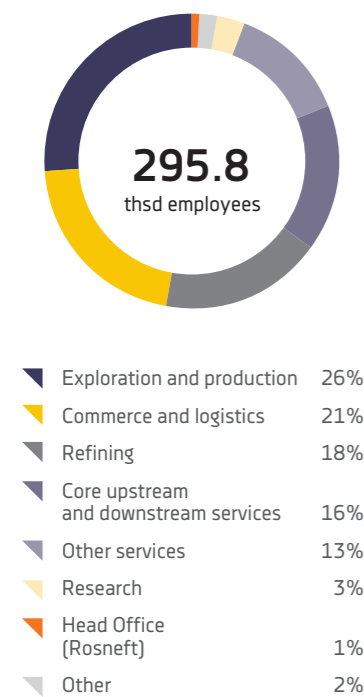
20

RUB BLN —
R&D EXPENDITURE IN 2016

4.1 PERSONNEL AND SOCIAL PROGRAMS

THE COMPANY'S MAIN ASSET IS A TEAM OF HIGHLY SKILLED EMPLOYEES MOTIVATED TO DEMONSTRATE SUPERIOR PERFORMANCE

HEADCOUNT AS OF DECEMBER 31, 2016, %



As of December 31, 2016, the headcount of Rosneft Group companies totaled 295.8 thsd employees¹. The increase in the headcount by 34.3 thsd employees was driven mainly by acquisition of new assets (Bashneft Group) and recruitment of employees from third-party service contractors to the Group Companies. The median age of the Company's employees remained almost unchanged at 39.9 years (39.7 at year-end 2015). Executive positions were held by 37.1 thsd employees (32.7 thsd at year-end 2015). As of December 31, 2016, the share of employees in executive positions remained unchanged compared to December 31, 2015 and amounted to 12.5% of the total headcount.

LABOR PRODUCTIVITY

One of the Company's key priorities is to improve labor productivity. To achieve this objective, in 2015, the Company completed the development and approval of consolidated labor productivity indicators for the companies of key business units and the Company as a whole.

The target for labor productivity across the Company as a whole was approved by the Board of Directors as a technical and economic indicator of the Company included in the 2016 Business Plan. As from 2016, KPIs for the relevant businesses have been included in the lists of performance indicators of the Company's top managers and chief executives of the Group Companies. Rosneft established criteria for the evaluation of efficiency of the Group Companies' organizational structure, the maximum share and structure of administrative and management staff and the potential status of divisions in the Group Companies: these criteria were formalized in the Regulations on the Procedure for Development and Approval of Group Companies' Reorganization approved in October 2016.

IN ORDER TO STANDARDIZE ORGANIZATIONAL DEVELOPMENT PROCESSES,

standard organizational and functional structures for the following functional areas were developed and submitted to the Group Companies for implementation:

- Public and media relations;
- Drilling, power generation, economics and finance in the upstream segment;
- Administration;
- Capital construction;
- Oversight over contracting and compliance with procedures.

438.5 THSD

MAN-COURSES - THE AMOUNT OF MANDATORY, PROFESSIONAL, TECHNICAL AND MANAGEMENT TRAINING IN 2016.

TALENT POOL MANAGEMENT

As part of the planned work with the talent pool, in 2016, HR Committees chaired by senior managers of the Company held meetings. The talent pool for target positions of Level 1 of the Company's management was upgraded. In 2016, we completed process automation of the Company's talent pool system in corporate IT systems and developed functions for talent pool database maintenance.

In order to ensure that the Company has a sufficient talent pool, Rosneft works systematically to develop its management talent pool:

A multi-stage competency assessment system for the selection of talent pool members, identification of their development priorities and preparation of individual development plans was organized. Since the beginning of 2016, 5.9 thsd employees were evaluated.

Training was organized for talent pool members under three corporate MBA programs in MGIMO MIEP, the Graduate School of Management of St. Petersburg State University, and Gubkin Russian State University of Oil and Gas, and training sessions aimed at the development of managerial competencies were held.

- In 2016, over 2.6 thsd members of the talent pool received training.

PERSONNEL TRAINING AND DEVELOPMENT SYSTEM

An integrated corporate training system covers all businesses and employee grades. Through education we communicate statutory requirements, corporate policies and procedures, best Russian and international practices and develop skills required for effective work.

The Company engages academics from Russian and international universities and coaches from leading local and foreign education and consulting companies to conduct training. Training programs are adjusted to the Company's business needs.

In 2016, the amount of mandatory, professional, technical and management training totaled 438.5 man-courses.

Mandatory programs on industrial, environmental and fire safety, occupational safety and admission to hazardous work account for 70% of the total amount of training provided by the Company.

More than 60% of training is delivered using in-house training resources.

In order to develop employees' professional, technical and managerial competencies, corporate educational programs are conducted taking into account the needs of business units.

Among corporate training programs delivered in 2016, a special part was played by comprehensive corporate employee training programs implemented in the Company's business segments.

Training is provided as part of the approved Program for Improvement of Occupational Safety Culture and Informed Leadership in the Field of HSE. In 2016, 208 General Directors of the Group Companies and 1.2 thsd in-house coaches completed training programs.

All employees receive face-to-face and on-line training in fighting corruption and fraud (the compliance system).

1. The headcount of the Group Companies consolidated in accordance with the proportional consolidation principle (with the Company's share totaling 50%) is included in full.

EMPLOYEE TRAINING PROGRAM FOR THE UPSTREAM SEGMENT

In 2016, Rosneft initiated the implementation of a comprehensive career planning and development program for young engineers in the Upstream segment (covering more than 2 thsd employees until 2021). In December 2016, 20 specialists of upstream companies started to receive training in drilling supervision and engineering. A program on oilfield chemistry (30 employees) was developed and prepared to be launched in 2017.

In 2016 and 2017, more than 100 employees of the Offshore Projects unit will complete specially developed innovative programs on the exploration of offshore oil and gas fields, offshore O&G geology, offshore O&G geophysics, offshore project management and engineering survey management for construction of oil and gas field facilities; the programs are delivered by Gubkin Russian State University of Oil and Gas and Lomonosov State University.

>2 THSD 

EMPLOYEES will participate in a comprehensive career planning and development program for young engineers in the Upstream segment

>100 

EMPLOYEES of the Offshore Projects unit will complete innovative programs specially developed for the Company in 2016 and 2017



EMPLOYEE TRAINING PROGRAM FOR THE DOWNSTREAM SEGMENT

As part of the refinery upgrade program and in order to prevent accidents and occupational injuries and improve the Company's refinery performance, comprehensive long-term (2014-2021) training programs for operating personnel of the refineries using simulators of processing units and target preparation programs for refinery employees are delivered.

In 2016, in order to study best practices, we organized on-the-job training for employees at refineries in Germany and Finland and implemented a new format for training in operational efficiency with assistance from BP experts. 52 employees completed training courses and underwent on-the-job training. In accordance with the retail business development strategy, the Company provides training in corporate service standards for filling stations, marketing and sales of related products.

>116,000 

MAN-COURSES — the amount of training courses conducted in 2016 as part of the program for the Refining and Petrochemicals Unit

44,000 

MAN-COURSES — the amount of training provided in 2016 for the Commerce and Logistics Unit



Rosneft's team ranked second in the WorldSkills National Championship.

The Company participates in the WorldSkills global movement promoting blue-collar occupations. The participation of the Company's team of chemical analysis laboratory technicians in the WorldSkills National Championship was organized; our delegates took second place in the Championship. In 2016, the first corporate championship was held at JSC Novokuibyshev Refinery. The Company started preparations for participation in the 2019 global championship.

DEVELOPMENT OF IN-HOUSE TRAINING RESOURCES

60 training centers have been established and successfully operate in Group Companies and educational institutions in the Company's regions of operation. The training centers are equipped with test sites/practical training sites. They run professional development, professional and obligatory training programs for workers and specialists.

An in-house training system is being developed to ensure knowledge protection and sharing within the Company with assistance from in-house coaches, experts and mentors.

In 2016, in-house coaches working full-time in the Head Office and Group Companies provided training to more than 100,000 employees of the Company. 396 in-house corporate training courses for 6,955 employees were developed and delivered.

In 2016, the total amount of online training exceeded 25 thsd man-courses.

>25 THSD MAN-COURSES — AMOUNT OF ONLINE TRAINING

TRAINING OF FOREIGN CITIZENS

As part of its international projects, Rosneft suggests that its foreign partners consider staff training for further cooperation on joint projects along with business projects in the fuel and energy sector.

In 2016, Rosneft continued to implement joint projects in the field of education with Cubapetroleo (Republic of Cuba), Petróleos de Venezuela S.A. (PDVSA) (Republic of Venezuela) and the Ministry of Education and Science of Mongolia. Training was provided to 25 Cuban, 15 Venezuelan and 17 Mongolian citizens under Bachelor's,

Specialist and Master's degree programs in the Company's partner universities.

In 2016, Rosneft signed agreements on cooperation in the sphere of education with the Vietnam oil and gas corporation PetroVietnam (Socialist Republic of Vietnam) and ONGC Videsh Ltd. (Republic of India).

The Company continued to cooperate with Pertamina, an oil and gas company in the Republic of Indonesia, on the provision of training under the Memorandum of Understanding on assisting in the provision of training to Pertamina employees in partner universities of Rosneft signed in 2015.

On-the-job training was organized for employees of JSC NC KazMunayGas (Kazakhstan) at JSC Syzran Refinery and RN-Uvatneftegaz LLC.

Trilateral cooperation agreements with the Polytechnic University of Turin (Italy) and partner universities of Rosneft (MGIMO, Gubkin Russian State University of Oil and Gas) were prepared for signing.



INTRODUCING NATIONAL PROFESSIONAL STANDARDS

As the amendments to the Labor Code of the Russian Federation came into effect on July 1, 2016 (Federal Law No. 122-FZ dated May 2, 2016), and pursuant to Directive No. 5119p-P13 of the Russian Government on Introducing Professional Standards in the Business of Rosneft dated July 14, 2016, in 2016, the Company began to introduce the professional standards. To organize work in this sphere, the Company approved Order No. 591 on Establishing a Commission on Introducing Professional Standards in Rosneft. The work in Group Companies is

organized in a similar way: Commissions have been set up, and introduction of Standards has been organized. The Commissions include representatives of HR services and the relevant divisions, lawyers and representatives of trade unions. In August 2016, during the conference of chairpersons of trade unions of Group Companies, a presentation was given on the Company's efforts aimed at introducing the Standards. Since 2015, representatives of the Company's HR Department have participated in the work of the National Council for

Professional Qualifications in the Oil and Gas Industry: Draft professional standards and regulatory documents related to the development of the national system of qualifications are regularly reviewed by experts; In 2016 and 2017, the Company developed and updated industry Standards for the five key blue-collar jobs with assistance from the Private Institution of Additional Professional Education Center of Professional Qualifications Rosneft Nefteyugansk Corporate Institute.

COMPETENCY ASSESSMENT SYSTEM

The Company's comprehensive personnel assessment system sets uniform requirements for the knowledge and skills (competencies) of employees in all segments of the Company's business, including the Administration and Group Companies.

Personnel assessment is carried out in three areas: in order to plan training (to develop competencies); when the Talent Pool and Expert Communities are being formed; when an employee is hired or changes his/her position.

The assessment criteria include managerial, corporate, professional and technical competencies. The assessment covers all categories of personnel: senior managers, specialists and workers.

Competency assessment makes it possible to identify knowledge gaps and determine priority areas of personnel development, optimize training costs, improve employees' qualification and, consequently, their performance.

In order to accumulate the results of the assessment and integrate them with the shared HR database of Group Companies and the Company's Administration, as well

as with the Company's training resources, in 2016, the project to create a single corporate information system was implemented.

Corporate and managerial competency assessment is based on the Model of Corporate and Management Skills of Rosneft. The Model reflects the Company's culture and values; it also includes the description of senior managers' competencies. As the Company's structure, priorities and culture changed, in 2016, the Model was updated with assistance from the Company's Vice Presidents and approved by the Chief Executive Officer. In 2016, the updated Model was used for assessing over 12 thsd people; for this purpose, 176 specialists in Group Companies underwent certification.

The assessment of professional and technical competencies of personnel is based on materials developed during the implementation of the Target Innovative Project titled Implementation of the Competency-Based Method for Personnel Development in All Business Segments of the Company (TIP).

The project is being implemented with assistance from specialized universities such as Gubkin Russian State University of Oil and Gas (the Oil Refining project), Tomsk

Polytechnic University (the Oil and Gas Production and Offshore projects), as well as leading Russian and foreign consulting firms.

In 2016 and 2017, as part of the TIP, materials are being developed for six business units: Procurement; Energy Efficiency Improvement; Economics, Finance, Accounting and Tax Accounting; Capital Construction; Gas Projects, and In-House Upstream Services.

The project is being implemented in the context of government policy on developing the national system of qualifications. The project's outcomes form the basis for professional standards of the Ministry of Labor and Social Protection of the Russian Federation (Mintrud).

In 2016, materials for assessing and developing professional knowledge and skills (competencies) for the ten key blue-collar jobs were developed and introduced at the Company's refineries.

In 2016, over 9 thsd people underwent an assessment of professional and technical competencies.

YOUTH POLICY

Rosneft's youth policy is aimed at ensuring a steady influx of young specialists from among the best graduates of educational institutions holding professional qualifications and facilitating their induction as quickly and effectively as possible.

To achieve this, Rosneft is actively working on building an external talent pool in its regions of operation.

The system for working with the youth covers three target audiences: students of Rosneft classes (grades 10 and 11 with an emphasis on subjects related to engineering); students of specialized universities and young specialists of the Company.

Rosneft's corporate continuing education program, School-University-Enterprise, is an instrument for implementing the youth policy.

PRE-UNIVERSITY TRAINING

The Company has successfully implemented the system for pre-university training and career guidance for school students by creating specialized Rosneft classes in regions. The creation of the classes is supported by Group Companies if they have a considerable future need for young professionals.

Rosneft classes are aimed at providing school students with high-quality secondary education, enabling them to continue to study engineering disciplines at universities, as well as at ensuring that the graduates are employed by the Company after receiving the relevant education.

Based on development prospects and an increase in the Company's capacities, the pre-university training project is being gradually expanded; new Rosneft classes are opened every year.

In 2016, four Rosneft classes were opened in Raduzhny (in the Khanty-Mansi

Autonomous District — Yugra), Sorochinsk (in the Orenburg Region), Lensk (in the Sakha (Yakutia) Republic), and Ryazan (the Ryazan Region).

The Pre-University Training project makes a considerable positive impact on the Company's reputation in regions and helps maintain Rosneft's image of a socially responsible partner of the public education system. The effectiveness of the project is confirmed by the fact that graduates of Rosneft classes who have received higher education and training in the relevant professions are employed by the Company.

57

GENERAL EDUCATION INSTITUTIONS participate in the project

50

REGIONS (50 cities and towns) - geographic reach of the project

2,499

TOTALS THE NUMBER OF STUDENTS in Rosneft classes.





SUPPORTING THE NATIONAL POLICY IN THE SPHERE OF EDUCATION

In 2016, the following measures were taken to support the national policy in the sphere of education:

- Rosneft's representatives participated in the work of Boards of Trustees and Supervisory Boards of nine partner universities, the National Intellectual Development Foundation (NIDF) and the Russian Academy of Education;
- The Company provided support for the project to establish a University Gymnasium for Gifted Children affiliated with Lomonosov Moscow State University: equipment was provided for specialized physics, chemistry and biology classrooms; the Company assisted in organizing competitive selection of students at partner universities in various regions of Russia;
- The Company provided support for the development of academic infrastructure of maritime universities (Saint Petersburg State Marine Technical University, Admiral Makarov State University of Maritime and Inland Shipping, Admiral Nevelskoy Maritime State University) to train highly qualified engineers for the shipbuilding industry and the Navy.

COOPERATION WITH UNIVERSITIES

Rosneft's partnership with universities is being systematically developed to achieve the following strategic objectives:

- Ensuring the necessary level of qualifications and continuous development of personnel in accordance with the current business needs;
- Building an external talent pool of young professionals for the Company and ensuring that the Company is provided with human resources in the long term;
- Supporting the national policy in the sphere of education.

To achieve the targets for the inflow of young people into the Company and to build an external talent pool, as well as to fulfill its obligations to educational institutions involved in the implementation of the corporate continuing education system, Rosneft and Group Companies provide charitable assistance for educational institutions of various levels, which is aimed at:

- Supporting the activities and organizing additional education in the relevant disciplines in Rosneft classes, including provision of equipment for specialized classrooms, organizing training of teachers in the relevant disciplines, and team-building and career guidance events for school students. Overall, in 2016, Rosneft allocated RUB 185.2 mln for these purposes.

- Developing cooperation in the sphere of education and infrastructure with universities and vocational education institutions, including improvement and development of facilities, equipment and teaching materials of educational institutions, supporting the work of specialized departments and Master's degree programs at partner universities to meet the needs of the Company's strategic projects, supporting gifted students who aim for professional development within the Company and promising teachers. The charitable assistance totaled RUB 784.2 mln.

As a result of systematic efforts aimed at building the external talent pool, every year Rosneft's enterprises employ over 1,000 university graduates who have received full-time education and are given the "young specialist" status (in 2016, 1,273 people were hired by the Company).

54

RUSSIAN UNIVERSITIES COOPERATE WITH THE COMPANY ON A LONG-TERM BASIS

1,273 

UNIVERSITY GRADUATES were hired by the Company in 2016

185.2 

RUB MLN ALLOCATED to support Rosneft classes

784.2 

RUB MLN DONATED to universities and vocational schools



96

GRANTS AND 490 SCHOLARSHIPS WERE AWARDED IN 2016

COOPERATION WITH UNIVERSITIES

In accordance with cooperation agreements with universities, the following measures are being implemented:

- Specialist training programs and further vocational education programs for the Company's employees are being updated: in 2016, the professional competence profile for drilling engineers was confidentially handed over to Tyumen Industrial University;
- Gubkin Russian State University of Oil and Gas participates in the Company's project to develop professional competencies for the personnel of the Procurement unit;
- Rosneft is implementing projects to develop university infrastructure ensuring higher quality of specialist training to meet Rosneft's business needs. Rosneft has been supporting the activities of the Technology Training Center of St.

20,000 

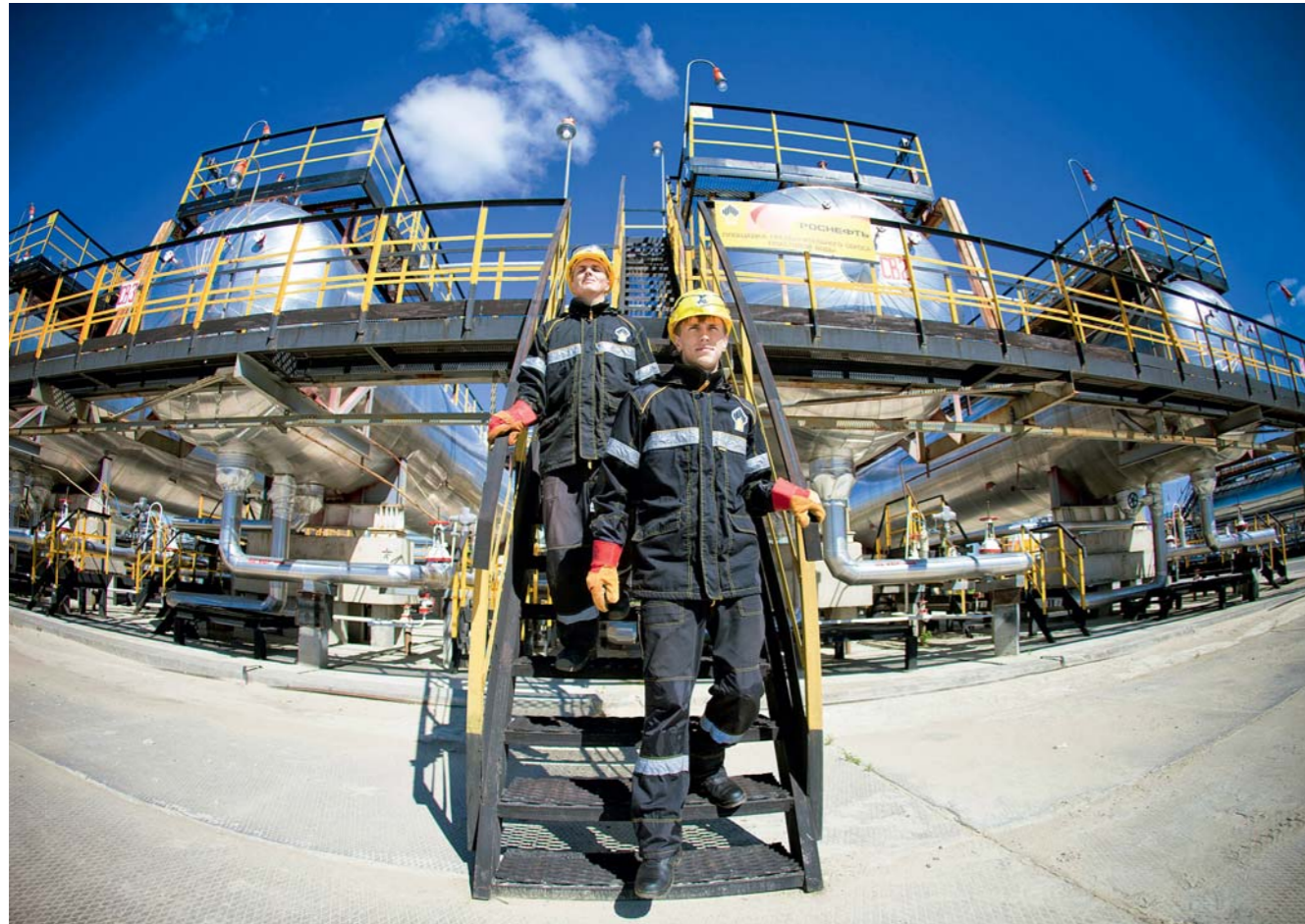
STUDENTS attended career guidance and publicity events (Rosneft Days) in 2016

Petersburg National Research Academic University of the Russian Academy of Sciences and the laboratory for studying the properties of sea ice of Far Eastern Federal University for several years. In 2016, the following facilities were opened: a laboratory for designing maintenance and repair of marine facilities at the Admiral Nevelskoy Maritime State University, a laboratory for 3D modelling of processes in the oil and gas industry for training specialists who work in the Arctic at Murmansk State Technical University; a project to create the research and education Offshore Drilling Center at Gubkin Russian State University of Oil and Gas was completed. Since 2016, efforts have been made to create Rosneft's drilling simulator laboratory at Tyumen Industrial University;

17 

SPECIALIZED DEPARTMENTS OF THE COMPANY have been created and are functioning

- 17 specialized departments of the Company have been created and are functioning; in 2016, 48 employees of the Company were involved in teaching;
- Targeted support is provided for academic staff and students of universities by awarding them corporate grants and scholarships; in 2016, 96 grants and 490 scholarships were awarded;
- Career guidance and publicity events (Rosneft Days) are held; in 2016, they were attended by about 20,000 students;
- Internship and work placement are organized: in 2016, 6,645 students did internship at Rosneft. In 2016, the Company's Head Office organized a long-term internship (up to two years) for 92 graduate students of Rosneft's partner universities.



WORK WITH YOUNG SPECIALISTS

In 2016, 4,027 young specialists worked for 106 Group Companies (including 381 people for 13 enterprises of Bashneft's companies integrated with the Company). The system for working with young specialists includes onboarding, training and development programs, financial and social support, as well as discovering and developing promising young specialists with leadership potential.

In 2016, the following measures were taken to develop the competencies of young specialists:

Training was provided under professional, technical and managerial competency development programs; the amount of training totaled 3,706 man-courses;

Participation of 1,853 young specialists in regional and cluster R&D conferences was organized. The Inter-Regional Research and Development Conference

was attended by 278 young specialists; 76 of them became prize-winners, and implementation of 58 projects was recommended.

In order to build up a strategic young talent pool, in November and December 2016, 287 young specialists from 58 Group Companies underwent performance assessment in the form of business games. Based on the results of the games, 74 young specialists from 41 Group Companies were selected; it was recommended that they be further considered as potential talent pool members. 75 young specialists selected based on the results of the business games in 2015 underwent training in accordance with the Young Leader's Corporate University program.

In order to improve performance of councils of young specialists, in December 2016, an annual conference of chairmen of councils of young specialists was held; it was attended by 43 participants.

4,027

YOUNG SPECIALISTS WORKED FOR 106 GROUP COMPANIES IN 2016

SOCIAL PARTNERSHIP AND SOCIAL BENEFITS FOR EMPLOYEES

In 2016, Rosneft continued to make mutually beneficial constructive decisions as part of improving the Standard Collective Agreement of Rosneft Group Companies. To enhance social protection of the employees, several amendments were made to the Standard Collective Agreement.

With an active involvement of trade unionists and management of the Interregional Trade Union Organization of Rosneft (ITUO Rosneft), in 2016, a Company Template titled the Model Regulations on Internal Labor Regulations of Rosneft Group Companies was introduced.

The introduction of a uniform standard Template will make it possible to:

- Organize work more efficiently by regulating working hours and monitoring to ensure the appropriate use of working time;
- Avoid the risk of breaking the law when developing and introducing the Internal Labor Regulations in Group Companies;
- Improve the performance of employees by stipulating working hours and

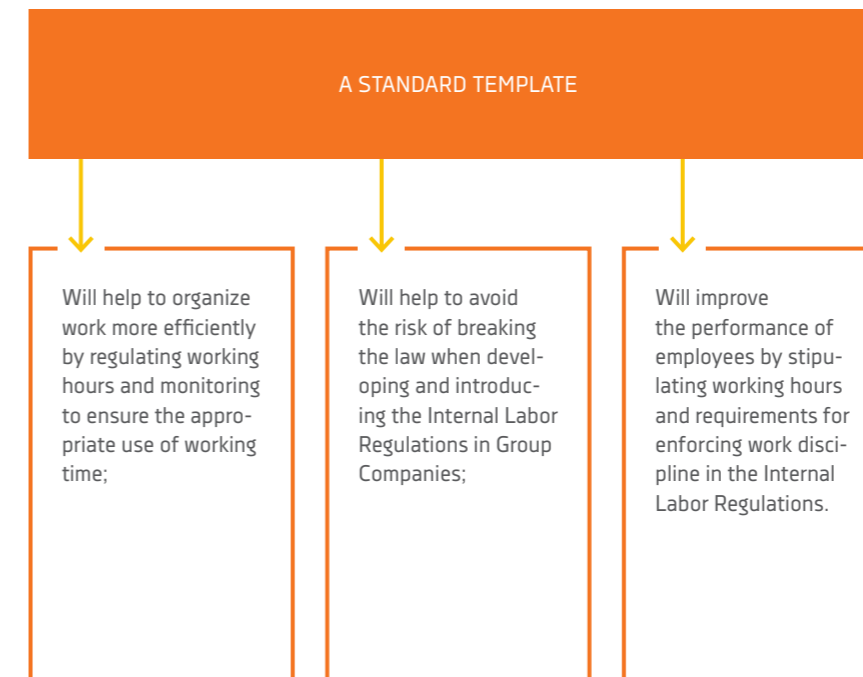
requirements for enforcing work discipline in the Internal Labor Regulations.

The structure and content of the document introduced by the Company help achieve an optimal balance between the requirements of the Labor Code of the Russian Federation and the employer's interests.

In addition, in 2016, traditional annual meetings of the representatives of the Company's HR and social unit with the leaders of trade union organizations forming part of ITUO Rosneft continued. During the meeting held on the premises of the Company's enterprises on the Nizhnevartovsk site, the discussion was focused on burning issues that are a major concern for the personnel of Group Companies, such as providing employees with high-quality seasonal workwear in a timely manner, resort treatment and health care, salaries and incentives.

To enable a deeper understanding of interaction between employers within Rosneft Group and active trade unionists by the administration of ITUO Rosneft, a questionnaire survey was conducted among chairmen of trade unions forming part of ITUO Rosneft in order to determine the level of interaction in each Group Company.

MODEL REGULATIONS ON INTERNAL LABOR REGULATIONS OF ROSNEFT GROUP COMPANIES



The findings of the survey indicate that most leaders of trade unions consider that the interaction between the management of Group Companies and chairmen of trade unions is highly constructive.

SOCIAL PROGRAMS

Rosneft is one of the most socially responsible employers in Russia. In 2016, the Company spent RUB 24.7 bln to create optimal working conditions, provide health care, promote a healthy lifestyle and provide its employees with social guarantees.

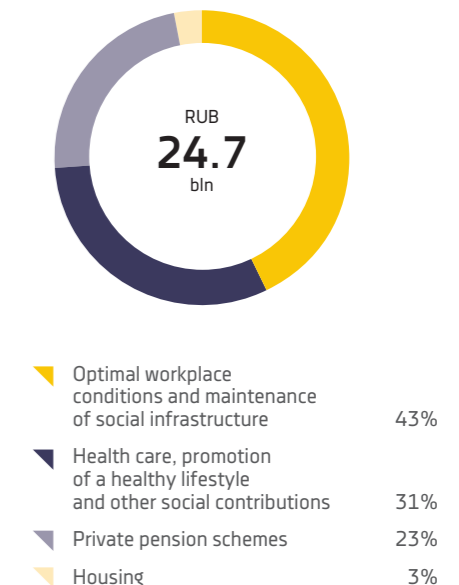
Rosneft's management has been committed to meeting high standards of social security for its employees for many years.

Corporate pensions and social support for veterans

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

In the reporting year, pension contributions made by Rosneft and Group Companies to NPF Neftegarant totaled RUB 5.72 bln; in addition, the Company allocated RUB 445.96 mln for social support for veterans.

EXPENDITURE ON SOCIAL PROGRAMS IN 2016



788

EMPLOYEES OF THE COMPANY IMPROVED THEIR HOUSING CONDITIONS THROUGH A LONG-TERM MORTGAGE LENDING PROGRAM IN 2016.

₽ 11.3 

BLN ALLOCATED IN 2016 for the development and construction of workers' camps and facilities for the Company's teams, sites and workshops

In 2016, the Company adopted a new version of the Standard for Private Pension Schemes for Employees of Rosneft and Group Companies. The main difference between the new standard and the previous version consists in the fact that a multiplying coefficient has been included in the calculation of corporate pensions:

- to encourage employees to conclude individual pension agreements at an early stage, which helps provide them with greater social security when they retire;
- to reward employees who have worked for the Company for many years.

In addition, for over 10 years, the Company has been implementing a social support program for veterans, which involves monthly corporate pension payments via NPF NEFTEGARANT. The Company also continues to provide financial assistance for retirees on holidays, subsidize their resort treatment, etc.

The pension program not only helps to address social issues but also provides the Company with a competitive advantage in terms of attracting and retaining highly qualified employees.

Corporate housing programs

The Company has been implementing a comprehensive housing program for over 11 years. The program is an important incentive tool forming part of the corporate social policy. It enables the Company to attract and retain highly qualified and valuable specialists for a long period of time by providing them with housing under the following arrangements:

- Mortgage lending;
- Housing construction;
- Provision of corporate apartments.

In 2016, 788 employees of the Company improved their housing conditions through a long-term mortgage lending program.

To improve its operations and adopt new technologies, Rosneft needs to attract highly qualified specialists from other cities and encourage them to relocate to its regions of operations. To provide them with comfortable apartments in a new location, the Company is implementing a housing construction program in Komsomolsk-on-Amur and the village of Agoy in the Tuapse District of the Krasnodar Territory.

In addition, relocated specialists are provided with corporate apartments (the total number of corporate apartments in the Company's regions of operation exceeds 1,300).

Working conditions and recreation

In the reporting year, Rosneft continued to implement an integrated program aimed at creating favorable working conditions for its employees. The key focus of the program is the construction and development of 95 workers' camps; in the reporting year, they accommodated about 22 thsd employees of the Company and its contractors.

During the year, Standard Corporate Technical Solutions were designed for the construction of workers' camps and support facilities for the Company's teams, sites and workshops. The solutions are

used for designing workers' camps and residential buildings forming part of them.

In the reporting year, expenditure on the development and construction of workers' camps and facilities for the Company's teams, sites and workshops totaled RUB 11.3 bln.

Health care and personal insurance

The Company systematically implements a range of measures in the sphere of health care and personal insurance of employees. Their primary objective is to reduce health risks, improve the quality of employees' life, prevent diseases and promote a healthy lifestyle.

The main areas of work in this sphere include the following:

- Provision of medical aid on site and in the Company's workers' camps;
- Voluntary health insurance making it possible to provide the Company's employees with high-quality health care services in addition to services guaranteed by the government in the best health care institutions in the country;
- Provision of health resort and rehabilitation treatment for employees;
- Preventive measures aimed at preventing diseases and reducing their incidence (vaccination against flu and tick-borne encephalitis; prevention of cardiovascular diseases);
- Organizing and conducting sporting and recreational events for the Company's employees;
- Implementation of a program to promote a healthy lifestyle;

HEALTH RESORT TREATMENT

In 2016, the Company provided health resort treatment to a total of 55,460 people, including 53,410 people who stayed in health resorts in the Krasnodar Territory, Belokurikha, the Republic of Bashkortostan and other regions of Russia. Under the existing cooperation agreement, since 2013, the Company

has been implementing a program to provide resort treatment to employees and their families in the Republic of Cuba. Over the past three years, about 6 thsd employees of Rosneft's subsidiaries and their families enjoyed recreation and treatment at Cuban resorts.

- Reimbursement for the cost of membership in health groups and sports clubs.

The Company has adopted uniform standards in the sphere of on-site medical care and emergency medical aid. In accordance with the standards, health centers in Rosneft's companies have been provided with modern medical equipment for the provision of emergency medical aid and evacuation of injured or sick persons from the Company's production facilities.

To improve professional qualifications of medical personnel in the health centers, the Company implements an annual training program to develop and exercise practical skills required for providing prehospital emergency care.

Resort treatment and rehabilitation is an integral part of social security programs for the Company's employees, their families and retirees.

As part of its efforts to promote a healthy lifestyle, the Company has been implementing a program titled Live Longer! for three years. The program is popular among Rosneft's employees. Apart from preventive measures, including medical screening, it also involves active development of the mass sports movement.

In 2016, voluntary health insurance programs covered over 200 thsd employees of Group Companies and the administration of Rosneft. When arranging voluntary health insurance for its employees, the Company focuses primarily on improving the quality of services provided to insured persons, expanding the range of health care services provided to employees under

a voluntary health insurance policy and cooperating with the best regional health care institutions in Russia.

Rosneft has arranged insurance against death and total or partial disability as a result of an accident for 220 thsd employees; moreover, employees are covered by the insurance both during and outside working hours. The Company's contractors also continue to adopt similar approaches to arranging voluntary accident insurance for their employees.

A systematic approach to the implementation of all aspects of social policy, close attention to the needs of employees and their families and a responsible business conduct contribute to greater stability and efficiency of social investments both within the Group Companies and in the regions of Rosneft's operation.

>200,000 

EMPLOYEES OF THE COMPANY are covered by voluntary health insurance programs

4.2 SOCIAL AND ECONOMIC DEVELOPMENT OF THE REGIONS AND CHARITY IN 2016

>3.3 

BLN RUB — charity expenses in 2016

PRINCIPLES UNDERLYING THE COMPANY'S CHARITY ACTIVITIES:

- Compliance with the legislation;
- Social responsibility;
- Openness and transparency;
- Prevention of corruption.

Rosneft takes an active part in the implementation of social and economic programs in its regions of operation under the concluded Agreements; it also provides financing for individual charity projects.

The Company follows a systematic approach to addressing social issues, social investments and its social impact in order to reduce social risks. As part of the implementation of social and charity programs, the Company strictly observes the principle of counteracting involvement in corruption.

When carrying out its charity activities, the Company is committed to achieving the following objectives:

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

The main areas of the Company's charity activities, in accordance with Federal Law No. 135-FZ on Charitable Activity and

Charitable Organizations dated August 11, 1995 and with the stated objectives, include the following:

- Development of social infrastructure of the regions of operation;
- Support for veterans, disabled people, including pensioners and the Company's employees and their families;
- Support for indigenous peoples of the North;
- Assistance in the field of education, science, culture, art, patriotic education and spiritual development of individuals;
- Support for educational general education institutions, vocational schools and universities, as well as corporate training centers of the Company as part of the corporate continuing education system, School—University—Enterprise;
- Support for health care and disease prevention, as well as promoting a healthy lifestyle, improving people's moral and psychological state;
- Environmental protection and animal protection;
- Support for initiatives in the field of physical training and mass sports.

When identifying specific facilities and activities to be financed, the Company gives priority to social and infrastructure projects with the highest social efficiency and a direct impact on the quality of life of the population in the Company's regions of operation (including employees of the Group Companies).

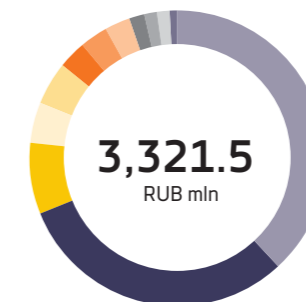
As part of charity activities under Agreements with regional governments and individual charity projects, in 2016, Rosneft and the Group Companies funded repairs, equipment and maintenance of 29 general and additional education institutions, orphanages, shelters and kindergartens. More than 60 projects were implemented in the field of education and science, health care, support of sports, culture and the revival of cultural heritage, and environment.

The Company traditionally provided financial support for activities commemorating the Victory in the Great Patriotic War. The Company provided funding for targeted assistance to veterans and war workers, for organizing and holding official celebrations to mark the Victory Day in the Company's regions of operation, for renovating and repairing monuments and memorials to the heroes of the Great Patriotic War.

Assistance to indigenous peoples of the North also remains an important area of the Company's charity work. Rosneft respects the traditional way of life of

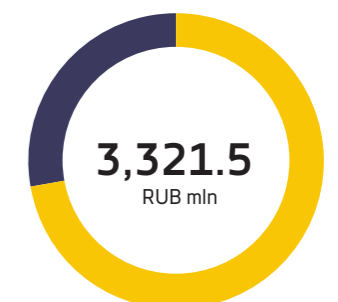
indigenous peoples of the North as they preserve a link with the history, customs and traditions of the Northern peoples. In addition to business development, the Company makes every effort to preserve the environment and the cultural heritage of indigenous peoples. In 2016, Rosneft allocated RUB 48 mln for these purposes as part of its charity activities.

CHARITY EXPENSES IN 2016, %



Development of infrastructure in regions, districts and municipalities	38.1%
Sports	30.8%
Culture	7.7%
Kindergartens	4.6%
Science and education	4.5%
Health care	3.2%
Support for veterans, disabled people and the poor	3.0%
Charities, NGOs, humanitarian aid	2.9%
Revival of cultural heritage	1.6%
Support for indigenous peoples of the North	1.4%
Other (including support for pensioners, low-income families, youth organizations, municipal events, social facilities and amenities, and agricultural enterprises)	1.2%
Orphanages	0.8%

FINANCING OF CHARITY IN 2016, RUB MLN



Financing of the social sphere under the concluded agreements	2,403
Individual charity projects	919



> 60

CHARITY PROJECTS IMPLEMENTED IN 2016

4.3 SPONSORSHIP ACTIVITY OF THE COMPANY

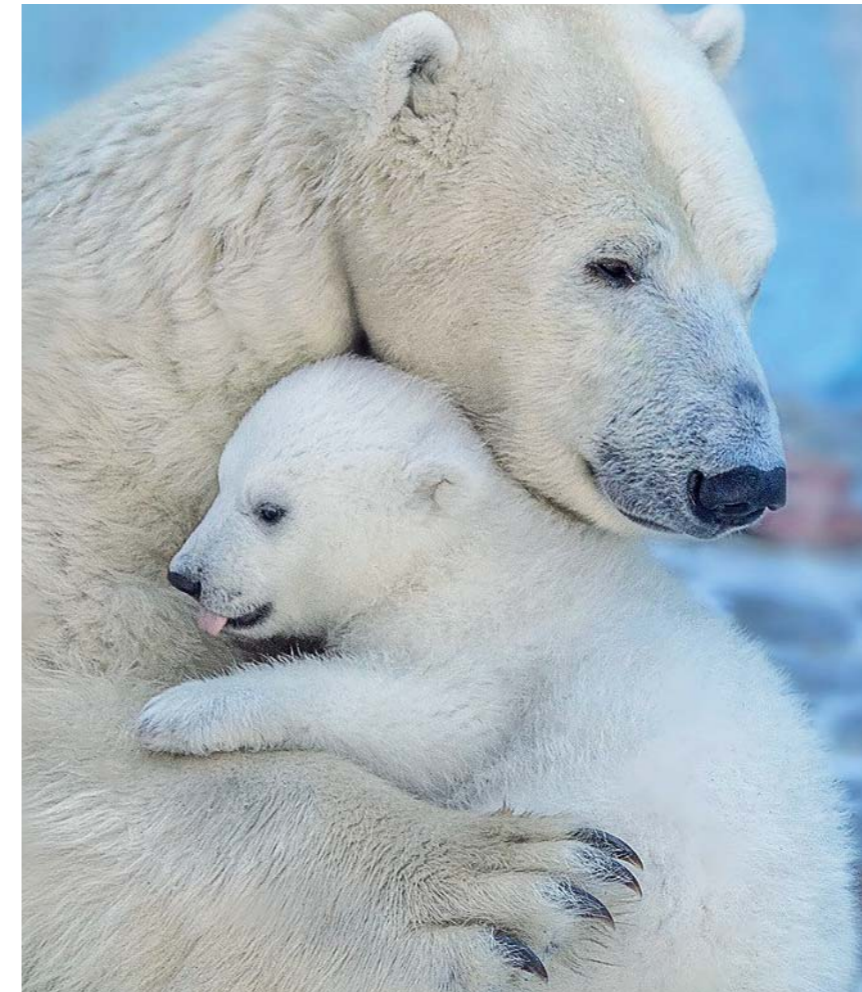


Rosneft's sponsorship activity has traditionally been aimed at reviving the spiritual and national values of our country, supporting culture, science and education, facilitating scientific and technological progress and developing both professional and amateur sports.

Sponsorship projects involve conducting promotional and publicity campaigns and maintaining a positive image of the Company at high-profile venues in Russia and abroad and during major national and industry events.

In 2016, the Company's actual sponsorship expenses totaled RUB 973 mln.

Sponsorship activity of the Company and Group Companies is governed by the legislation of the Russian Federation, the Charter of Rosneft, the Charters of Group Companies and the Company's local regulatory documents, including the Company Regulations on Sponsorship Activity of Rosneft and Group Companies.



Rosneft sponsors professional and amateur sports, including HC CSKA Moscow and well-known Russian football teams. The Lada Sport Rosneft team supported by the Company regularly competes in prestigious motor rallies. The Company has sponsored boxing matches in Latin America featuring the world's strongest boxers. The Company provides financial support for the organization of international SAMBO tournaments in Russia, Bulgaria, Scotland and other countries.

Rosneft is reviving the traditions of partnership between business and culture. In 2016, the Pushkin State Museum of Fine Arts with support from Rosneft organized a unique exhibition of works by an Italian artist Raphael featuring the legendary paintings: the Madonna del Granduca from the Palatine Gallery, the Angel from the Pinacoteca Tosio Martinengo, the Portrait of a Young Woman (La Muta) from the National Gallery in Urbino and the Ecstasy of St. Cecilia from the National Art Gallery of Bologna.

In 2016, the Company became the title sponsor of a tour of St. Petersburg Eifman Ballet in Samara.

Since 2015, the Company has been the title partner of the St. Petersburg Academic Philharmonia.

In addition, in 2016, the Company participated as a title sponsor or partner in over 10 events of various levels, including the Eastern Economic Forum and the St. Petersburg International Economic Forum attended by the President, the presentation of the Zvezda Shipbuilding Complex to the President of the Russian Federation and events at other venues.

Rosneft gives high priority to environmental safety and environmental protection. Starting from 2013, the Company has been successfully implementing a comprehensive program to protect polar bears living in Russian zoos.



4.4 HEALTH AND SAFETY

AS A LEADER OF THE RUSSIAN OIL AND GAS INDUSTRY AND ONE OF THE WORLD'S LARGEST FUEL AND ENERGY COMPANIES, THE COMPANY IS AWARE OF THE NATURE AND SCALE OF IMPACT OF ITS OPERATIONS, PRODUCTS AND SERVICES AND ACCEPTS ITS RESPONSIBILITY FOR PREVENTING ACCIDENTS, ENSURING SAFE WORKING CONDITIONS FOR ITS EMPLOYEES AND PROTECTING THE HEALTH OF PEOPLE LIVING IN THE COMPANY'S REGIONS OF OPERATION



In its operations, the Company is guided by the following principles:

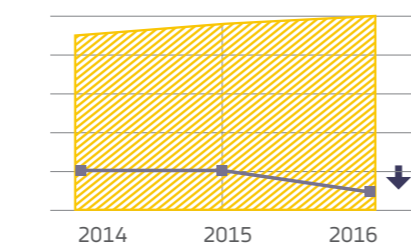
- Priority of the life and health of people over the results of the Company's business;
- Leading role of managers at all levels of the Company in ensuring safe working conditions;
- Responsibility of every employee of the Company and its contractors for their own safety and the safety of those around them, as well as the right to intervene in a situation where the work is performed in an unsafe manner;
- Involvement of all of the Company's employees in efforts to reduce workplace injuries, risks of fire, explosions, accidents and diseases;

- Priority of preventive measures over emergency containment and response measures.

Rosneft seeks to meet the global industry benchmarks in the field of industrial and occupational safety, including health, road safety, fire and radiation safety, blowout prevention, integrity of production facilities, preventing and responding to fire, explosion and accident hazards (hereinafter referred to as health and safety). To do so, the Company has set the following strategic objectives:

- Zero rate of workplace injuries and occupational diseases;
- Zero accident rate and prevention of fires.

LOST TIME INJURY FREQUENCY RATE



number of man-hours worked

LTIF

Rosneft operates a health, safety and environment (HSE) management system. The principles and approaches applied in the area ensure continuous improvement of the management system through effective decision-making at all stages of work, from planning and implementation of appropriate measures to monitoring and performance assessment. As part of its efforts to adapt and integrate global best practices into the HSE management system, in 2016, the Company introduced the Instructions of the Company on Safety Analysis of Work Performance and on Identification of Hazardous Conditions and Dangerous Actions that had been developed earlier; it also finalized and approved the Regulations of the Company on the Procedure for Accident Investigation (which establishes

the procedure for analyzing system-wide causes of accidents, including those that have environmental consequences, and for developing and implementing corrective measures).

In 2016, following a review of Rosneft's current industrial safety management system by BP experts, the Program of Measures to Improve the Existing Industrial Safety Management System was developed in cooperation with BP and approved by top managers. The Program includes the following key areas:

- Development of measures to improve the existing Industrial Safety Management System;
- Development of a single Strategy for Integrity, Reliability and Maintenance;

> 30%

IN 2016, THE NUMBER OF OCCUPATIONAL INJURIES DECREASED BY MORE THAN 30% COMPARED TO 2015, WHICH IS A POSITIVE TREND.



In 2016, the Company approved the Program for Business Process Automation in the Health, Safety and Environment Unit and the Civil Defense, Emergency Prevention and Response Unit until 2021 (hereinafter referred to as the Program).

The Program has been developed based on the findings of an analysis of the workflow automation level in order to provide a single approach to the selection and development of automated solutions.

The Program involves using a forward-looking approach to the automation of business processes in the field of HSE, such as:

- Special assessment of working conditions (SAWC);
- Management of guarantees and compensations based on the findings of SAWC;
- Management of periodic health checks;
- Registration of personal protective equipment;
- Management of training, knowledge assessment and briefings;
- Management of health and safety measures;
- Management of operational controls;
- Incident and investigation management;
- Management of compliance with the requirements of supervisory authorities;
- Consolidation of information in the field of health and safety.

- Upgrade of the HSE Risk Management System;
- Implementation of measures to improve the occupational safety culture.

As part of a program to improve the culture of safety and informed leadership in the field of health and safety, in 2016, the Company implemented the following measures:

- A series of posters titled Golden Safety Rules was designed and distributed to the Group Companies;
- Four articles on occupational safety were published in the Oil Courier corporate newspaper;
- The Company's employees underwent certification according to the Golden Safety Rules;
- The Company is introducing a practice of using a quick reference card and short checklists for mandatory checks of the industrial and occupational safety status during visits to the facilities of the Group Companies by all visiting employees of Rosneft;
- The Company introduced a practice of compiling an HSE ranking of the Group Companies based on the results of the annual contest for the best Group Company in terms of health and safety performance;
- For the first time, the Company introduced a practice of holding events to mark the World Day for Safety and Health at Work on April 28 in the Group Companies and in the central office of Rosneft;
- A pilot project titled the Employee Incentive and Recognition Program (Safety Leader) was implemented in six Group Companies. Rosneft plans to follow up the implementation of the pilot project with the gradual implementation of a similar program in other Group Companies starting from 2017;
- A questionnaire survey was conducted among employees of the Group Companies in a number of business units and among senior executives of the Group Companies in order to assess the level of occupational safety culture;
- Targets in the field of health and safety and measures for their achievement as part of the Company's Strategy for

Industrial, Fire and Occupational Safety and the Company's Long-Term Development Program were approved;

- 650 employees of the Company underwent training and completed the following internal corporate courses: Leadership in the Field of Health and Safety, Accident Investigation, HSE Risk Assessment and Management.

Since May 2006, the health, safety and environment management system has been audited on an annual basis to assess its compliance with the requirements of the International Standard on Environmental Management Systems (ISO 14001:2004) and the Standard on Occupational Health and Safety Management Systems (OHSAS 18001:2007). The main achievements in the field of certification in 2016 included the following:

- In 2016, the British Standards Institution (BSI) conducted the first compliance audit of the Group Companies to assess the compliance of their IHSEMS with the ISO 14001 and OHSAS 18001 standards. Its results confirmed the effectiveness of the management system.
- The scope of the IHSEMS was extended to include five new Group companies: JSC Varyeganneftegaz, JSC Tyumenneftegaz, JSC Orenburgneft, Novokuibyshevsk Catalysts Plant LLC and Purneftepererabotka LLC. As of the end of 2016, 50 Group Companies underwent certification as part of the IHSEMS.
- Preparation for the 2017 certification was carried out in two Group Companies (JSC Samotlorneftegaz and RN-Lubricants LLC).

FIRE SAFETY

Fire safety audits were conducted in the Group Companies by organizations accredited by the EMERCOM of Russia. Following the audits, a number of companies developed programs to ensure compliance of the Company's facilities with fire safety requirements.

In 2016, fire safety inspections were conducted in office buildings of Rosneft (including leased buildings) in



Moscow. Following the inspections, the Administrative Department started to implement a plan to address the identified problems.

In 2016, the Company developed, revised and implemented the following local regulations on fire safety:

- Company Regulations on the Operation of the Fire Safety System of the Company;
- Company Guidelines on Equipping the Company's Facilities with

Fire-Fighting Equipment, Fire-Fighting Vehicles and Other Fire-Fighting Resources;

- Guidelines on Calculation of Initial (Maximum) Prices for the Procurement of Fire Prevention and Fire-Fighting Services;
- Quick reference card on the use of fire extinguishers, in order to ensure that employees' actions in case of a fire comply with fire safety legislation and that basic safety precautions are observed when using fire extinguishers.

4.5 ENVIRONMENTAL SAFETY AND ENVIRONMENTAL PROTECTION

ENVIRONMENTAL SAFETY AND ENVIRONMENTAL PROTECTION ARE ONE OF ROSNEFT'S TOP PRIORITIES



The Company's mission in the sphere of environmental protection is to efficiently manage the impact of the Company's operations on the environment so as to ensure its preservation for the benefit of current and future generations.

According to the approved Development Strategy of Rosneft, the key priority is to meet the highest standards in the sphere of environmental protection.

In order to achieve the best results the Company continuously improves its approaches to management of environmental activities, expands the scope of environmental measures and necessary investments in environmental protection.

In 2016, environmental expenses totaled RUB 73.7 bln 1, up by 3% year on year. This included RUB 47.1 bln invested in fixed assets in order to reduce the negative environmental impact.

Rosneft has the Company Policy on Environmental Protection and has established the goals, principles and priority tasks in the sphere of environmental protection.

The main principles underlying the Company's efforts in the sphere of environmental protections are as follows:

- compliance with requirements of the laws and other requirements applicable to the Company's efforts in the sphere of environmental protection, including the standards of international law;
- preservation of a healthy environment and biodiversity;
- maintaining a balance of interests of the Company and the Society when using natural resources;
- a zero tolerance approach to environmental risks;
- an innovative approach to introducing environmental technologies;

- priority of preventive measures over measures aimed at containment of and response to hazardous incidents;
- transparency and reliability of reports of the Company in the sphere of environmental protection;
- continuity and consistency of efforts to accomplish the tasks and objectives in the sphere of environmental protection.

The main tasks in the sphere of environmental protection are as follows:

- to reduce the negative environmental impact of the Company's business;
- to use natural resources efficiently;

- to take measures to preserve ecosystems and biodiversity, including when implementing offshore projects in the Arctic;
- to improve the Company's performance by developing and systematically introducing innovative technologies, adopting international best practices in the sphere of environmental protection and improving the management system using a risk-based approach;
- to ensure that the Company's employees and contractors have the necessary competences and act responsibly through communication and systematic efforts to increase the level of environmental culture and awareness;

73.9
RUB BLN
THE COMPANY'S EXPENDITURE ON ENVIRONMENTAL PROTECTION IN 2016

1. Including data on the companies of Bashneft Group for Q4 2016



RATIFICATION OF THE PARIS AGREEMENT BY THE RUSSIAN FEDERATION

Under the international convention of the United Nations on climate change, in April 2016 the Russian Federation joined the majority of the UN member states in signing the Paris Agreement and is now preparing to ratify the agreement. The ideology of the Paris Agreement with regard to environmental

responsibility is incorporated into strategic documents of the Russian oil and gas industry. As the leading company of the Russian oil and gas industry, Rosneft contributes to the fulfillment of arrangements between the countries that are parties to the agreement and formulates its

strategic goals and objectives taking into account measures aimed at improving environmental performance and reducing the environmental impact. The Company is aware of the urgency of issues of climate change and tries to meet the global industry benchmarks for environmental safety.

- to quickly and efficiently respond to and to minimize the negative environmental impacts in case of emergency situations, including organizing measures to protect the fauna in oil spill areas;
- to cooperate with government agencies, partners and other stakeholders in order to develop relations in the sphere of natural resource management and environmental protection.

The Board of Directors of Rosneft has set performance targets for the Company to assess the achievement of the goals stated in the sphere of environmental protection. Their achievement is monitored permanently, which enables the Company to develop and implement corrective measures.

In 2016, the Company continued to work towards achieving strategic goals set by the Board of Directors and meeting environmental protection targets set in Rosneft's Long-Term Development Program in the key areas of its environmental protection work.

Rosneft is implementing a wide range of programs to minimize the negative environmental impact of its operations:

- A gas investment program contributing to an increase in associated petroleum gas utilization;
- Refinery upgrade programs, which involve construction and renovation of production facilities and environmental infrastructure;
- An energy conservation program aimed at improving the efficiency of fuel and energy consumption;
- An environmental performance improvement program until 2025, which includes environmental measures aimed at reducing atmospheric emissions.

The Company's performance targets in the sphere of environmental protection are as follows:

- to fulfill environmental obligations arising in connection with the Company's day-to-day operations on time;
- to repair the damage at the Company's sites resulting from the actions of third parties;
- in the sphere of efficient use of water resources and protection of water bodies, to increase the share of the recycled and re-used water, environmentally safe handling of formation water,

to introduce modern wastewater treatment systems;

- in the sphere of protection of the atmosphere, to reduce the share of APG flaring, to cut specific gross emissions.

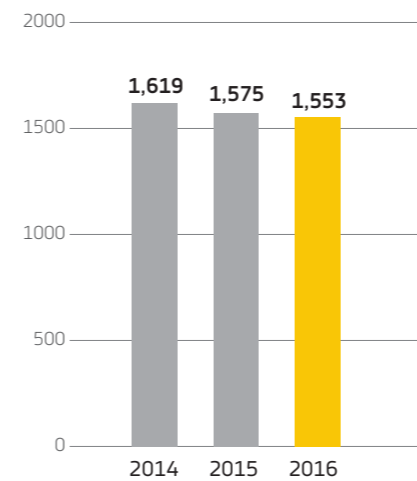
To achieve these goals, in 2015, Rosneft developed an Environmental Performance Improvement Program until 2025. Every year since 2013 the Company has been inventorying its environmental obligations in accordance with the Corporate Accounting Policy and IFRS 37.

In 2016, the Company continued to work towards achieving strategic goals set by the board of Directors and meeting environmental protection targets set in Rosneft's Long-Term Development Program in the key areas of its environmental protection work.

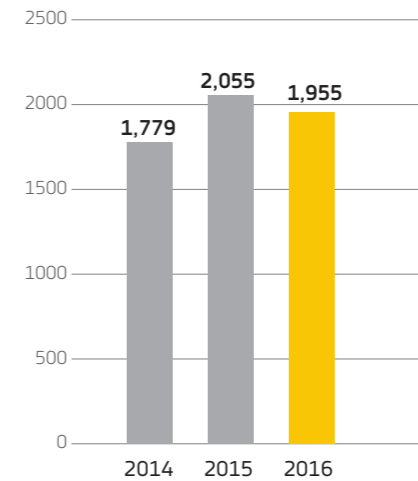
The Company has implemented voluntary environmental responsibility mechanisms and has arranged voluntary insurance against liability for environmental damage.

In 2016, the independent certification authority conducted the regular compliance audit to assess the compliance of the integrated HSE management system with the ISO 14001 international standard and OHSAS 18001 standard. Findings of the audit confirmed the efficiency of the management system and revealed its strengths.

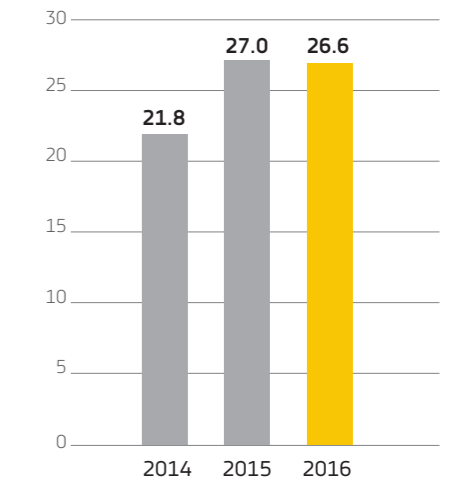
GROSS ATMOSPHERIC EMISSIONS, '000 TONS



WATER CONSUMPTION, MMCM



CURRENT EXPENDITURE ON ENVIRONMENTAL PROTECTION, RUB BLN EXCLUDING VAT



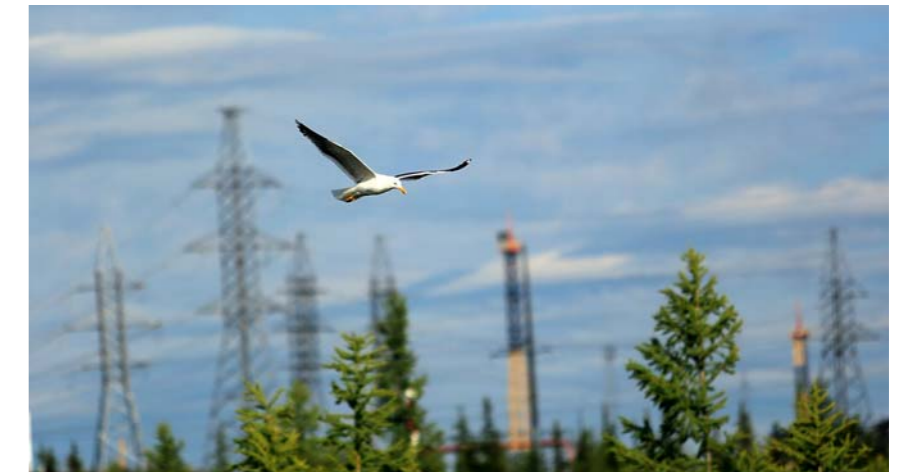
In 2016, the Company continued to implement the Program to Preserve the Biodiversity of Marine Ecosystems at Rosneft's License Areas in the Russian Arctic Zone.

Key measures under the Program include the following: scientific research on marine ecosystems, observation of indicator plant and animal species and their study, scientific research on the sensibility of areas and habitats, collection and analysis of background information about environmental condition, monitoring and assessment of influence of economic and other activities on the environment, as well as creation of a single Company database on environmental indicators of marine ecosystems in the Arctic region.

SOCIAL ACTIVITIES IN THE SPHERE OF ENVIRONMENTAL SAFETY

A responsible attitude to the environment is an integral part of corporate culture of Rosneft ensuring its sustainable development.

The Company gives significant attention to social activities in the sphere of environmental safety and actively supports important social environmental projects.



As a result of implementation of the Investment Gas Program and the Energy Conservation Program of the Company, between 2013 and 2016, APG flaring decreased from 29% to 9%. Every year since 2011 Rosneft has been analyzing and calculating the volumes of greenhouse gas emissions and publishing the relevant information in its Sustainability Report.

1. Including data on the companies of Bashneft Group for Q4 2016

4.6 ENHANCED ENERGY EFFICIENCY AND ENERGY CONSERVATION

FUEL AND ENERGY CONSUMPTION

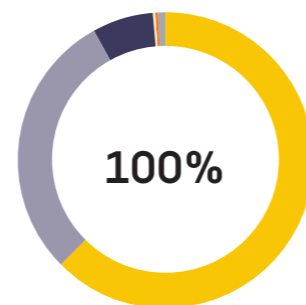
Rosneft is the third largest consumer of fuel and energy resources in the Russian Federation accounting for more than 3% of the country's energy mix.

In 2016, the total volume of fuel and energy consumption by the Company¹ amounted to 26,528 thsd tons of coal equivalent (tce).



Distribution of energy consumption by business area in 2016

BUSINESS AREA	FUEL AND ENERGY CONSUMPTION			IN '000 TCE	SHARE, %
	ELECTRICITY, '000 KWH	HEAT, '000 GCAL	FUEL, '000 TONS		
Oil and gas production	40,240,986	3,087	1,619	16,600	62.6%
Oil refining	4,267,620	14,113	3,159	7,846	29.6%
Petrochemicals and gas processing	1,744,184	5,783	230	1,784	6.7%
Gas production and distribution	45,025	51	—	23	0.1%
Marketing and distribution	294,760	55	—	116	0.4%
Services	378,692	185	0.4	159	0.6%
TOTAL	46,971,268	23,274	5,008	26,528	100%



- Oil and gas production 62.6%
- Oil refining 29.6%
- Petrochemicals and gas processing 6.7%
- Gas production and distribution 0.1%
- Marketing and distribution 0.4%
- Services 0.6%

1. Data on assets included in the scope of consolidation of Rosneft's 2016 Energy Conservation Program

IMPLEMENTATION OF THE ENERGY CONSERVATION PROGRAM

In 2016, the Company started to implement Rosneft's Energy Conservation Program 2016-2020 approved by the Board

of Directors in December 2015. Under the Program, the Company plans to take measures aimed at more efficient use of electricity, heat, and boiler and furnace fuel in main business areas. Actual savings of fuel and energy in 2016 amounted to 1,218.9 thsd tce.

Fuel and energy savings in 2016

BUSINESS AREA	SAVINGS IN 2016			IN '000 TCE	SHARE, %
	ELECTRICITY, '000 KWH	HEAT, '000 GCAL	FUEL, TCE		
Oil and gas production	2,130,319	12.98	17,198	753.0	61.8
Oil refining	106,091	785	287,806	440.9	36.2
Petrochemicals and gas processing	9,282	61	3,837	16.1	1.3
Gas production and distribution	54	1	35	0.2	0.02
Marketing and distribution	16,387	6	470	7.0	0.6
Services	2,159	1	717	1.6	0.1
TOTAL	2,264,292	867	310,064	1,218.9	100

In addition, in 2016, Rosneft's Energy Conservation Program for 2017-2021 was developed and approved by the Board of Directors as part of updates to the Energy Conservation Program. Over five years, the total energy and fuel savings under the Program will amount to 5,814 thsd tce, or to RUB 41,676 mln in monetary terms.

IMPLEMENTATION OF THE ENHANCED ENERGY EFFICIENCY AND ENERGY CONSERVATION POLICY

In accordance with the Enhanced Energy Efficiency and Energy Conservation Policy of the Company and the Company Standard titled "Energy Management System. Requirements with Guidance for Use", a number of measures aimed at personnel development were implemented in 2016, including the development and introduction of training materials, requirements for energy efficiency competences of technical personnel in various business areas, and conducting training sessions and workshops.

In addition, extensive efforts are being made to certify the Energy Management System (EMS).

- Training materials have been developed, and in-house workshops/training sessions on the enhancement of energy efficiency are conducted;

- Requirements for energy efficiency competences of technical personnel in the areas of oil production, oil refining, marketing and distribution, as well as methods for the assessment of competences in the sphere of enhancement of energy efficiency have been developed. Large-scale introduction of the relevant changes in job descriptions for employees of Subsidiaries and of the Company's Head Office is scheduled for 2017;

- A Reference Guide titled "Best Available Technologies, Technical Solutions and Equipment in the Area of Enhancement of Energy Efficiency of Upstream Facilities" including descriptions of more than 350 energy-efficient technologies has been developed and prepared for use in the Company's Subsidiaries. The development of a similar Reference Guide for oil refining and petrochemicals is planned for 2017-2018;

- Four previously developed local regulatory documents on the enhancement of energy efficiency and

energy conservation have been updated; Technological Instructions on Enhancement of Energy Efficiency of Processes, such as reservoir pressure maintenance, oil treatment and pumping, gas collection and transportation, heating and electricity supply and generation, have been developed and prepared for use in Subsidiaries.

The results of efforts to certify the Energy Management System (EMS) are also noteworthy. In 2016, 27 Subsidiaries were issued with the international ISO 50001:2012 certificate; to date, a total of 33 Subsidiaries have undergone certification.

The EMS is being developed and improved on an ongoing basis. In 2017, the Company plans to update the Road Map for the Development of the Energy Management System and Enhancement of Energy Efficiency in Rosneft in 2018-2020.



DEVELOPMENT OF POWER GENERATION

In 2016, the following significant power generating facilities were built and commissioned as part of projects to provide power supply to prospective consumers and improve the reliability of power supply to oil and gas producing and oil and gas processing subsidiaries of the Group.

JSC Vankorneft:
220/110 kV Vankor substation, 2x125 MVA. The second stage of connection of the Vankor power district to the Tyumen

power grid with a maximum allowable capacity of 126.5 MW was completed.

CJSC Messoyakhaneftegaz:
84 MW gas turbine power plant at the East Messoyakha field.

OJSC Udmurtneft:
Segedur – Pyzep 110 kV overhead power line (36 km). The reliability category of power supply to consumers at the Karsovayskoye field was upgraded to category II.

JSC Achinsk Refinery VNK:
Renovation of the 110/6 kV GPP-5 substation including replacement of 2x25 MVA power transformers with 2x40 MVA transformers was completed.

By the end of 2016, transformer capacity in the 220 kV voltage class increased by 250 MVA; transformer capacity in the 110 kV voltage class increased by 30 MVA, while the power generating capacity of the Company's own power sources increased by 84 MW.



4.7 LOCALIZATION AND DEVELOPMENT OF INDUSTRIAL CLUSTERS

IMPORT SUBSTITUTION AND EQUIPMENT LOCALIZATION PROGRAM

In order to reduce dependence on imports and develop Russia's industrial and engineering potential, Rosneft developed the Import Substitution and Equipment Localization Program in the Russian Federation for the medium and long terms and started to implement it in May 2015 (the updated Program was approved by Order No. 513dsp of Rosneft dated September 23, 2016).

The Program has been developed in accordance with applicable legislation and with the Company's regulations currently in force:

- Federal Law No. 223-FZ on Procurement of Goods, Works and Services by Certain Types of Legal Entities dated July 18, 2011 and related secondary legislation;
- Decree No. 925 of the Government of the Russian Federation on the Priority of Goods of Russian Origin and Works Performed and Services Rendered by Russian Persons over Goods Originating from a Foreign Country and Works Performed and Services Rendered by Foreign Persons dated September 16, 2016;
- Rosneft's Regulations No. P2-08 R-0019 on Procurement of Goods, Works and Services (approved by order No. 230 dated May 26, 2015), whereby the Company has the right to prioritize goods of Russian origin.

Rosneft's import substitution policy is being implemented in two main areas:

- Substitution of imported equipment currently on the Russian market;
- Localization of manufacturing and maintenance of equipment currently not manufactured in the Russian Federation and necessary for implementing promising projects and for supporting the Company's day-to-day operations.

Strategic objectives of the Company in the sphere of localization and import substitution are as follows:

- To provide the Company with reliable access to equipment, materials and services necessary for uninterrupted operations of the Company;
- To promote the development of domestic manufacturing and service companies to achieve high rates of economic growth.

The implementation of the program is scheduled for the period from 2015 through 2025 and includes the following key stages:

- Search for existing Russian analogues of foreign equipment, providing a rationale for their use and replacement of foreign equipment with domestic

equipment by developing the Russian manufacturing industry and improving quality;

- Establishment of partnerships and joint ventures with the world's leading equipment manufacturers to produce equipment in the Russian Federation;
- Gradual localization of foreign equipment manufacturing in Russia from assembly to local production on the basis of established partnerships to achieve a localization level of no less than 70% by 2025.

In 2016, the Company implemented a number of measures to prioritize domestic products (under Russian legislation, the Company has the right to prioritize goods of Russian origin).

70%

PROJECTED LEVEL of localization of foreign equipment manufacturing in Russia by 2025



INDUSTRIAL AND SHIPBUILDING CLUSTER IN THE RUSSIAN FAR EAST

On instruction from the President of the Russian Federation V.V. Putin, a consortium formed by Rosneft and Gazprom-bank and represented by a joint venture JSC Modern Shipbuilding Technologies (MST) is creating an industrial and shipbuilding cluster in the Russian Far East on the basis of OJSC Far Eastern Shipbuilding and Ship Repair Center (FESRC), with a project to build a new shipyard, the Zvezda shipbuilding complex in Bolshoy Kamen, as its core. In 2015, JSC ROSNEFTEGAZ joined the consortium. Zvezda's product line will include high-tech, large-capacity vessels, offshore drilling rigs, exploration and production platforms, and support ships, including ice class vessels. Rosneft has become the first customer of the new shipyard and has concluded contracts for the construction of four ice class replenishment vessels. Contracts have been signed for the design and construction of five next-gen-

eration Aframax tankers that will use natural gas fuel meeting the highest environment safety standards that will come into effect as from 2020. An agreement on the construction of Aframax tankers has been signed with Exxon Neftegas Limited. The cooperation with FSUE Rosmorport is another promising area. An extensive plan of cooperation has been outlined; it includes the construction of five shallow-draft icebreakers at the Zvezda shipyard. A preliminary schedule has been signed with PJSC NOVATEK for the placement of orders by ship owners for the construction of ships as part of the project implemented by NOVATEK and aimed at the development of LNG production on the Gydan Peninsula (the Arctic LNG 2 project), including 15 Arctic LNG carriers.

COOPERATION IN EQUIPMENT LOCALIZATION

In 2016, Rosneft concluded a number of important agreements with the world's leading companies, such as General Electric, Damen, Leonardo, Fincantieri, Hyundai Heavy Industries and Keppel/MHWirth, on localization of equipment and other products which are not currently produced in the Russian Federation.

Cooperation with General Electric

As part of implementation of shipbuilding projects at the Zvezda shipyard, a plant for the manufacture of steerable thrusters and enterprises producing marine electrical equipment are to be built in Vladivostok. Rosneft and General Electric (GE) continue to work on organizing the production of wellhead equipment and Christmas trees.

In January 2016, three joint ventures of Rosneft, GE and Inter RAO were

established: Sapphire Steerable Thruster Manufacturing Plant LLC, Sapphire Marine Electrical Equipment Manufacturing Plant LLC and Sapphire Wellhead Equipment Manufacturing Plant LLC.

In January 2016, Rosneft, GE, and Transmashholding also signed a Letter of Intent providing for the local production of marine diesel engines.

At the St. Petersburg International Economic Forum, Rosneft and GE signed the shareholder resolution on investment in the design and construction of plants for assembly and manufacturing of steerable thrusters and marine electrical equipment in Vladivostok (Bolshoy Kamen).

In September 2016, at the Eastern Economic Forum, Rosneft and GE signed a Letter of Intent concerning the development of a dynamic positioning system for ice class marine vessels.

Cooperation with Damen

In August 2016, a joint venture, Zvezda Marine Technologies LLC, was established by Damen, Rosneft and Nord Marine Engineering LLC. The joint venture will act as a contractor responsible for designing and building an agreed list of replenishment vessels of ice class ARC 4 and above for offshore projects at the Zvezda shipbuilding complex.

Cooperation with Fincantieri

At the St. Petersburg International Economic Forum, Rosneft and Fincantieri S.p.A. signed a heads of agreement for the formation of a joint venture to develop production at the Zvezda shipbuilding complex and meet its needs.

The parties are exploring opportunities for future collaboration in the area of design and engineering of promising types of vessels and development of professional competence



SAPPHIRE APPLIED ENGINEERING AND TRAINING CENTER

Project to design steerable thrusters, localization of steerable thrusters

Sapphire Applied Engineering and Training Center LLC has completed front-end engineering and preliminary design of steerable thrusters. Currently, detailed designs of steerable thrusters are being prepared. Federal Autonomous Institution Russian Maritime Register of Shipping granted an approval in principle for the design of steerable thrusters. Ice trials and hydrodynamic tests of steerable thrusters have been conducted in experimental tanks at HSVA in Hamburg and at the Krylov State Research Center. In January 2017, a working group on localization was set up at the joint venture of the Sapphire Applied Engineering and Training Center. The working group comprises specialists in procurement and qualification of suppliers. During the 2016 St. Petersburg International Economic Forum, an anchor order was signed

for the supply of 16 steerable thrusters and 4 sets of marine electrical equipment for IBSV-10022 ships.

Plants for manufacturing steerable thrusters and marine electrical equipment

In January 2016, three companies were established: Sapphire Steerable Thruster Manufacturing Plant LLC (in Bolshoy Kamen), Sapphire Marine Electrical Equipment Manufacturing Plant LLC (in Bolshoy Kamen) and Sapphire Wellhead Equipment Manufacturing Plant LLC (in Murmansk). A feasibility study was conducted for the steerable thruster and marine electrical equipment manufacturing plants in Bolshoy Kamen.

of specialists as part of shipbuilding project management. The parties plan to use the outcomes of this work and the expertise gained during the cooperation while working on projects of the Zvezda shipbuilding complex.

Cooperation with Hyundai Heavy Industries

At the Eastern Economic Forum, Rosneft and Hyundai Heavy Industries signed a heads of agreement for the establishment of an engineering and project management center for the Russian shipbuilding industry in the form of a joint venture focused on designing and building Aframax tankers at the Zvezda shipbuilding complex.

Cooperation with Keppel/MHWirth

In May 2016, a shareholder agreement was signed by Rosneft, a Singapore company Keppel FELS Limited and MH Wirth; the agreement is aimed at developing cooperation between the parties through the

establishment of a shipbuilding and engineering design center in the Russian Federation. A joint venture, Zvezda-Keppel Design and Engineering Center LLC, was registered in the Russian Federation in August 2016. Core areas of business of the center will include design and commercial engineering of mobile offshore drilling rigs.

ESTABLISHMENT OF AN INDUSTRY CLUSTER OF OIL FIELD SERVICE COMPANIES FOR OFFSHORE PROJECTS IN THE RUSSIAN ARCTIC

JSC Shipyard 82 in the Roslyakovo residential district of Murmansk has been chosen as a site for building infrastructure for the production of gravity-based structures, including a site for assembly of topside facilities of oil and gas platforms, and for building workshops that will produce components for deep-water production systems and equipment for eliminating oil spills. In addition, the Company plans to build onshore support facilities

for the Company's offshore projects in the Western Arctic and to continue further development of ship repair capacities.

The need for the Company's own production facilities for equipment manufacture has emerged due to the need to reduce dependence on foreign manufacturers and cut production costs and the need to localize the production of high-tech components.

In the reporting year, Rosneft developed a preliminary site development program taking into account all planned business areas; this will allow the Company to start comprehensive front-end engineering and design in 2017.

4.8 CONTRACTOR AND SUPPLIER RELATIONSHIPS

ROSNEFT IS THE LARGEST CONSUMER OF GOODS, WORK AND SERVICES AMONG RUSSIAN PRIVATE AND STATE-OWNED COMPANIES. ANNUAL PROCUREMENT OF GOODS, WORK AND SERVICES BY THE COMPANY (ROSNEFT AND GROUP COMPANIES) FROM EXTERNAL COUNTERPARTIES TOTALED RUB 2.7 TRLN, UP BY 93% YEAR ON YEAR



108.9

RUB BLN
total value of contracts concluded by Rosneft with small and medium-sized enterprises

72%

SHARE OF SMALL AND MEDIUM-SIZED ENTERPRISES in the total number of suppliers accredited by the Company



The procurement process is designed to meet the demand of business units for goods, work and services on time, in full, ensuring maximum business efficiency and the required level of quality.

Key achievements in procurement in 2016:

1. To improve the economic efficiency of procurement, as a vertically integrated holding company, the Company performs consolidated procurement of goods, work and services for Group Companies. This approach is consistent with recommendations of federal executive bodies. 48% of procurement of goods, work and services from external counterparties in Rosneft is centralized.

2. As part of its efforts to improve procurement efficiency, the Company switched over to long-term contracts allowing discounts on bulk purchases.

By 2017, the share of procurement under long-term contracts had increased by 25% reaching 62%, or RUB 602 bln in annual terms.

In 2016, the Company purchased the following types of work and services under long-term contracts: drilling, sidetracking, hydraulic fracturing, oil field services and lease of electric

submersible pumps, logistic services, well servicing and workover, well logging.

The Company concluded long-term contracts for the supply of key categories of materials and equipment: submersible cable, substations, chemicals, control stations, shut-off and control valves, hydrochloric acid, various buildings, tanks and vessels.

3. The Company is committed to establishing long-standing relationships with suppliers. The Company's local regulations provide for long-term (18-month) accreditation, which enables a considerable reduction in the costs incurred by potential suppliers participating in procurement procedures. After the duration of the accreditation period was extended from 12 to 18 month in 2016, the number of accredited suppliers increased by 42%.

4. To standardize procurement principles and approaches, Rosneft and Group Companies implement the Uniform Company Regulations on

the Procurement of Goods, Work and Services. In addition, to ensure maximum transparency, the Company publishes its procurement plans, information on the procurement process and its outcomes and information on the conclusion and execution of contracts (information on 99% of the Company's purchases is made publicly available on the Internet).

5. To increase the transparency of procurement via the electronic trading platform of CJSC TEK-Torg (in the Rosneft section), in 2016, the Company and Group Companies initiated 9,096 procurement procedures regulated by Federal Law No. 223- FZ on Procurement of Goods, Works and Services by Certain Types of Legal Entities dated July 18, 2011 with a total initial (maximum) price of RUB 1.081 trln and registered 16,613 suppliers.

6. The Company is implementing an import substitution program approved in 2015 and updated in 2016. In 2016, the share of Russian goods

in the Company's procurement totaled 90.5%, up by 7.5 p.p. year on year. The Company's Regulations on the Procurement of Goods, Work and Services enable the Company to prioritize domestically produced goods, works performed and services rendered by Russian entities in the circumstances and under the procedure stipulated by applicable legislation.

7. The Company is committed to developing cooperation with small and medium-sized enterprises (SMEs). In 2016, the Company actively cooperated with JSC Federal Corporation for Small and Medium-Sized Business Development in holding joint training workshops for small and medium-sized enterprises on their participation in the Company's procurement process. The workshops were held in Moscow, Nefteyugansk, Tyumen, Krasnoyarsk, Krasnodar, Irkutsk and Murmansk. To provide SMEs with wider access to procurement procedures, the Company implements measures stipulated by the laws and regulations of the Russian Government on an ongoing basis. Pursuant to Decree No. 1352 of the

Government of the Russian Federation dated December 11, 2014, targets for the share of procurement from small and medium-sized enterprises were met. The total value of contracts concluded by Rosneft with SMEs, including contracts concluded by Group Companies on behalf of Rosneft, amounted to RUB 108.9 bln. The value of contracts concluded with SMEs as a result of procurement procedures involving only SMEs totaled RUB 18.7 bln, or 13.39% of the estimated base. SMEs account for 72% of the total number of suppliers accredited by the Company

8. The Company is implementing a comprehensive program to automate procurement processes, including IT projects. Among other things, the Company has organized rebidding on the electronic trading platform of CJSC TEK-Torg (in the Rosneft section), which makes it possible to shorten the duration of rebidding/negotiations during procurement; an IT solution is being implemented to enable participants of the procurement process to sign contracts with an electronic signature.

2.7

RUB TRLN
procurement of goods, work and services by the Company from external counterparties

4.9 RESEARCH, DESIGN AND INNOVATIONS

20.2
BLN RUB
R&D EXPENSES

5 

TCM OF FREE GAS – resource potential of the Berezovskaya suite

Rosneft's innovative activities are implemented in accordance with the Innovative Development Program. In accordance with Instruction No. DM-P36-7563 of the Government of the Russian Federation dated November 7, 2015, in 2016, the Innovative Development Program for 2016-2020 with an Outlook until 2030 was updated and approved by the Company's Board of Directors.

The program is aimed at achievement of the Company's strategic goals and is based on its strategic priorities: efficiency, sustainable growth, transparency, social responsibility and innovations.

The program involves developing a set of measures aimed at:

- Development and introduction of new technologies;
- Development, production and launch of new innovative products and services meeting international standards;
- Assisting the Company's modernization and technological development through significant improvement of key performance indicators of production processes;
- Increasing the Company's capitalization and competitive advantages on the global market.

All measures scheduled for 2016 were implemented in full.

TARGETED INNOVATION PROJECTS

In the reporting year, the Company gave special focus to revision of its project portfolio in order to enhance its efficiency, as well as to the implementation of R&D results and registering intellectual property rights. As a result of targeted innovation programs implemented in 2016, the Company submitted 54 applications for documents confirming intellectual property rights.

INNOVATIONS IN THE UPSTREAM SEGMENT

- The Company organized systematic research of promising gas fields of the Berezovskaya suite. A program of targeted field surveys involving additional exploration of the Berezovskaya suite was developed and is currently being implemented. According to the 2015 and 2016 assessment, the resource potential of the Berezovskaya suite exceeds 5 tcm of free gas. The Company started to develop technologies for the location and cost-effective development of reserves that will enable Rosneft to record the reserves on its balance sheet and increase the capitalization of the Company.
- The Company has developed a technology for detecting and characterizing cavernous fractured reservoirs based on innovative methods of processing and interpretation of scattered waves. The technology was tested during pilot development of the Labagansky, Kuyumbinsky and Yurubchensky license areas of the Company and is considered a success. Rosneft has started to implement the technology.
- The Company assessed the potential of Upper Jurassic deposits at license areas operated by Yuganskneftegaz; core samples were studied, and extended geophysical well logging was carried out at three wells. A 1D geomechanical model and hydraulic fracturing designs were developed for directional wells based on the results of these surveys. High-rate hydraulic fracturing was carried out at two directional wells using the Slickwater technology. Based on the results of these works, a multistage hydraulic fracturing design will be developed and tested at two directional wells.



- RN-Yuganskneftegaz LLC continued pilot tests of a proprietary technology for developing low-permeability reservoirs based on horizontal wells with multiple transverse fractures for hydraulic fracturing. 15 wells were constructed in 2016 at a pilot site; scheduled geophysical studies were conducted to monitor the efficiency of proposed development options. At horizontal wells with cross-cut hydraulic fracturing, the productivity index increased compared to neighboring wells with similar geological conditions.
- 20 core analysis methodologies for complex and non-conventional reservoirs aimed at defining lithology, mineralogy, porosity and permeability, mechanical and other characteristics were developed, approved by government bodies and implemented at the corporate R&D institute.
- Implementation of the RN-KIM corporate hydrodynamic simulator continued. 129 new workplaces were set up; more than 500 hydrodynamic models were built. In addition, the Company started the development of new modules to optimize

work with cluster and supercomputer systems, calculations of double porosity and permeability models, surface arrangement, modeling of log-inject-log technique research studies, polymer flooding calculation, and expert review of geological and hydrodynamic models.

A beta version of a hydraulic fracturing simulator was developed and is currently being tested in the relevant divisions of the Company. The Company developed a technology and a prototype of an electromagnetic probe with toroidal coils for high-resolution measurement of specific electric resistance.

Polymer materials

Samples of an ultralight polymer proppant (microspheres) based on polydicyclopentadiene (PDCPD) using ruthenium catalyst were obtained and tested. The test results confirmed that it is technologically possible to apply the ultralight PDCPD-based polymer proppant (microspheres) at the Company's geological sites to carry out hydraulic fracturing.

20 

CORE ANALYSIS METHODOLOGIES for complex and non-conventional reservoirs were developed and approved by government bodies

>500 

HYDRODYNAMIC MODELS were built as part of implementation of the RN-KIM corporate hydrodynamic simulator

INNOVATIVE RESEARCH ON THE ARCTIC SHELF

- Rosneft organized the Kara-Summer-2016 expedition in the Barents, Kara and Laptev Seas with assistance from the Arctic Research Center and experts of the Arctic and Antarctic Research Institute. During the expedition, data on hydrometeorological, ice and glaciological conditions were collected to assess the impact of a harsh environment on the development of the Company's license areas on the Arctic shelf. Surveys were conducted at 10 offshore license areas in the Laptev, Barents and Kara Seas. Maintenance of previously installed infrastructure was carried out; components of the ice condition control system were tested.
- A temporary field research base was set up on the shore of the Khatanga Gulf to conduct helicopter ice survey expeditions in winter.

GTL technology

The Company completed the development of a technology for processing natural/associated gas into synthesis gas using compact equipment and developed a technology for synthetic oil production. Tests were conducted to confirm the stability of a mixture of mineral and synthetic oil.

The implementation of this technology will make it possible to produce up to 20 mmta of oil by processing natural/associated gas on site. The main advantages of the GTL technology include:

- Compact size making it possible to use GTL on hard-to-reach and remote fields (including offshore projects);
- Modular design of the facility, which enables easy scaling for fields with a different capacity;
- Low capital expenses compared to conventional GTL technologies.

INNOVATIONS IN REFINING AND PETRO-CHEMICAL PRODUCTION

- A catalytic system comprised of IDZ-028RN IDW and HG-017RN hydrofinishing catalysts was developed. It is designed for producing Arctic and winter diesel fuel with a high yield of Euro 5 products. A pilot batch of catalysts was tested. During the tests, stable products were developed meeting the requirements for Class 4 Arctic diesel fuel according to the GOST 32511-2013 standard with a cold filter plugging point not exceeding -44 °C and a yield of 88-94 wt% (depending on the test mode).
- A catalytic system comprised of HtVG-610RN hydrodesulfurization and HtVG-600 RN denitrogenation catalysts was designed to produce hydrogenate with a residual sulfur content of less than 500 ppm, nitrogen content of less than 350 ppm and heavy metal content of less than 10 ppm during vacuum gas oil hydroskimming.

- Development of a pilot batch of Ht-100RN diesel hydrotreating catalyst was completed. Independent tests of the developed catalyst were carried out and it was compared with a foreign analog during straight run diesel hydro-treating. The developed catalyst showed a higher activity level compared to the foreign analog during hydrotreating in the temperature range of 380-410°C at a pressure of 4.0 MPa and a feed space velocity of 1.0 hour⁻¹.
- IDW catalysts were developed to be used for production of mineral oils with a low pour point (not exceeding -50°C) for lubricants for the Arctic climate. The advantage of the new catalyst consists in a high base yield.

ADAPTATION AND IMPLEMENTATION OF ADVANCED TECHNOLOGIES

As part of its efforts to adopt promising efficient technologies developed by Russian and foreign companies, in 2016,

the Company organized testing, adaptation and adoption of new technologies as part of pilot test projects. During the tests, the key features of the technologies were determined, and a feasibility study was conducted to assess the feasibility and effectiveness of their use in the geological and technical conditions of the Company's upstream subsidiaries. Overall, in 2016, 598 tests were performed as part of the pilot test projects; during these tests, additional oil production amounted to 319 thsd tons.

In 2016, 109 technologies were tested at 18 subsidiaries as part of pilot test projects. The Company and its relevant divisions analyze the results and evaluate the cost-effectiveness of the implementation of new technologies and prepare plans for their roll-out and implementation.

As part of the implementation program, in 2016, the Company implemented and rolled out 141 new technologies that

had been previously tested as part of pilot tests and whose feasibility had been confirmed. The scope of implementation and roll-out amounted to 10.8 thsd items, and funding amounted to RUB 12,528 mln.

As part of the implementation of results of targeted innovation projects, 12 license agreements for the transfer of software and technologies worth RUB 46.4 mln were concluded. In 2016, the confirmed economic benefit from the results of targeted innovation projects implemented over the last 3 years totaled approximately RUB 10 bln.



CORPORATE RESEARCH AND DESIGN COMPLEX

In 2016, 26 research and design institutes within the scope of the Company's business were merged into a single Corporate Research and Design Complex (CRDC), which provides extensive capabilities for the implementation of Rosneft's large-scale integrated projects. The complex has a considerable research potential and the necessary infrastructure. The CRDC currently employs over 12,000 highly qualified specialists, 5% of whom hold academic degrees. The CRDC supports Rosneft's business in all regions of its operations, both in Russia and abroad. It is involved in all business

processes, from an oil well to a filling station. It participates in all of the Company's major projects (the Vankor cluster, the Urubcheno-Tokhmoskoye, Kuyumbinskoye, Russkoye fields, Rospan, Kharampur, FEPCO, Sakhalin-1, LNG projects, offshore joint ventures, etc.). It implements foreign projects and joint projects in cooperation with international partners (ExxonMobil, Eni, Statoil) in Russia. As part of the Corporate Research and Design Complex, the institutes have received new impetus for development:

- A system of leading and specialized institutes has been formed to ensure

the efficiency of management and improve technological competencies;

- A long-term development strategy of the CRDC has been formulated;
- Systematic work is carried out in order to fully meet the needs of internal business customers in the key areas, pursue a fully-fledged technical policy, develop the technologies and human resources to match global peers, and maximize economic benefits for the Company throughout the life cycle of its production facilities.

598

TESTS were performed as part of pilot test projects

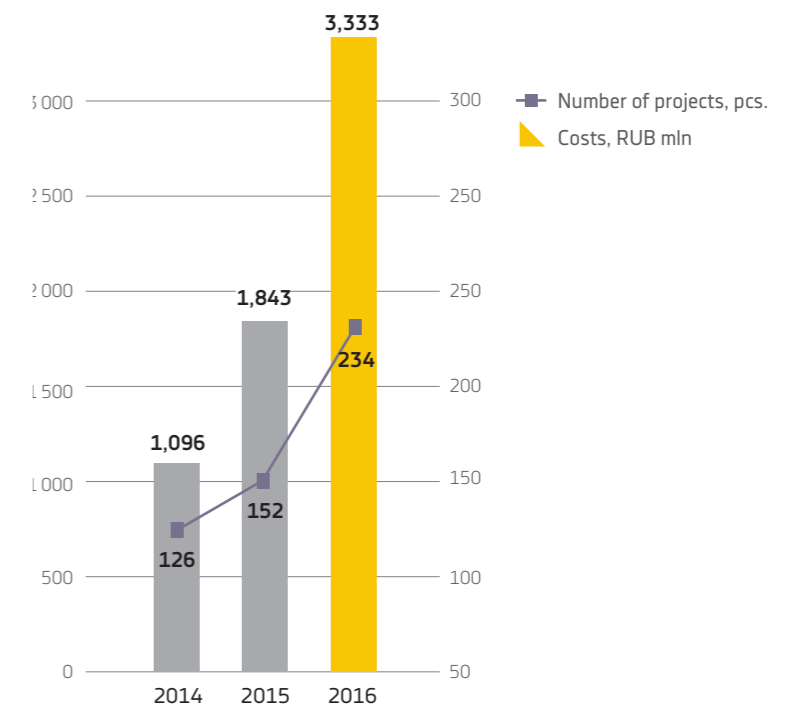
319

THSD TONS — additional oil production during pilot test projects in 2016

~10

RUB BLN confirmed economic benefit in 2016 from the results of targeted innovation projects implemented over the last 3 years

IMPLEMENTATION OF PROJECTS TO TEST NEW TECHNOLOGIES



05. CORPORATE GOVERNANCE

- 5.1. Key principles and improvement of the corporate governance system in 2016
- 5.2. Local regulatory documents of the Company
- 5.3. Rosneft's Board of Directors
- 5.4. Rosneft's executive bodies

- 5.5. Remuneration of members of the Board of Directors
- 5.6. Remuneration of the management
- 5.7. Risk management, internal control, development of the compliance function and internal audit



COMMITMENT TO TRANSPARENT AND RESPONSIBLE GOVERNANCE IS CRUCIAL FOR MAINTAINING THE CONFIDENCE OF INVESTORS AND MAXIMIZING THE LONG-TERM RETURN ON INVESTMENT FOR ALL SHAREHOLDERS

KEY ELEMENTS OF ROSNEFT'S CORPORATE GOVERNANCE SYSTEM:



EFFECTIVE WORK OF EXECUTIVE BODIES



STRATEGIC BUSINESS PLANNING



RELIABLE AND EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM



INDEPENDENT INTERNAL AUDIT



SOCIAL, ETHICAL AND ENVIRONMENTAL RESPONSIBILITY



TRANSPARENCY, FULL TIMELY DISCLOSURE OF INFORMATION

5.1 KEY PRINCIPLES AND IMPROVEMENT OF THE CORPORATE GOVERNANCE SYSTEM IN 2016

ROSNEFT'S CORPORATE GOVERNANCE SYSTEM HELPS TO SAFEGUARD ALL SHAREHOLDER RIGHTS IN ACCORDANCE WITH LEGAL REQUIREMENTS, THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE OF THE BANK OF RUSSIA AND THE COMPANY'S INTERNAL REGULATIONS

Corporate governance is a multi-level system of relations through which the management and control of Rosneft's activities is ensured for the purpose of increasing its value and maintaining its reputation in the interests of its shareholders, employees, lenders and other stakeholders.

Stock exchanges establish strict requirements for corporate governance as one of the conditions for corporate securities to be admitted to exchange trading. The fact that Rosneft's securities have been included in the Moscow Exchange's First (Top) Tier Quotation List and are traded on the London Stock Exchange evidences that the Company follows the most stringent rules in this area.

The main trends of the corporate governance development in Russia are determined by the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on March 21, 2014 (the Bank of Russia Code) and recommended by the Bank of Russia for application by Russian joint-stock companies with securities have been admitted to exchange trading.



THE COMPANY'S CORPORATE GOVERNANCE PRINCIPLES ARE SET FORTH IN THE CORPORATE GOVERNANCE CODE OF ROSNEFT ADOPTED IN ACCORDANCE WITH THE KEY PROVISIONS OF THE BANK OF RUSSIA CODE, AS WELL AS PRINCIPLES OF THE ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT:

1. Ensuring the exercise and protection of shareholder rights.
2. Strategic management of the Company by an efficient and professional Board of Directors, due control by the Board of Directors over the work of the Company's executive bodies, accountability of the Board of Directors and the executive governing bodies to the shareholders.

3. Recognition and protection of stakeholders' rights stipulated by law, active cooperation with stakeholders in order to promote the Company's financial well-being, ensure compliance of the Company's operations with social responsibility standards and create jobs.
4. Building an efficient internal control and risk management system providing reasonable assurance that the Company will achieve its goals.
5. Ensuring timely and accurate disclosure of information on all material issues, including financial position, performance, property, Company management, significant corporate actions, etc.

According to the results of the performed assessment of compliance with the recommendations of the Bank of Russia Code, it was established that Rosneft observed most of the recommendations. Rosneft's corporate governance complies with 89.7% of recommendations of the Bank of Russia Code, which is higher than the 2015 indicator (by 1.6%) and significantly higher than the minimum threshold (65%) recommended by the Federal Agency for State Property Management (Rosimuschestvo).

In 2016, the Company continued the work commenced in 2015 for realization of the actions stipulated by the Road Map for implementation of the Bank of Russia Code recommendations. As part of this work, the General Shareholders' Meeting approved amendments to the Charter, the Regulations on the General Shareholders' Meeting and the Regulations on the Board of Directors of the Company, formalizing the Bank of Russia Code recommendations that have been actually performed in practice starting from 2015:

1. extending the deadline for disclosure of information about the date for recording persons entitled to participate in the General Shareholders' Meeting from 5 to 7 days;
2. concerning the inclusion of additional information into materials submitted to shareholders during a General Shareholders' Meeting:
 - on the position of the Board of Directors and separate opinions (if any) of members of the Board of Directors regarding the agenda of the General Meeting,
 - on persons who suggested adding a certain issue to the agenda of the meeting or nominated a candidate to a governing body.
3. granting to shareholders access to materials for a General Shareholders' Meeting at least 30 days prior to the date of the meeting (rather than 20 days as stipulated by law);
4. concerning the disclosure on the Company's website of information on how to get to the venue of a General Shareholders' Meeting, a model power of attorney for participation in the meeting on the Company's website;
5. granting to members of the Board of Directors the right to seek professional

advice on matters within the competence of the Board of Directors.

In addition, pursuant to the Road Map and in accordance with the Bank of Russia Code, the Board of Directors:

1. reviewed information about efficiency assessment of the risk management and internal control system as part of the reports on the internal audit performance results;
2. approved the Compliance Road Map for 2016-2019;
3. reviews information about the Security Hotline results on a quarterly basis;
4. reviewed information about key risks of the Company (during the meeting of the Audit Committee of the Board of Directors).

One of the actions stipulated by the Road Map and the Bank of Russia Code is the annual self-assessment of performance of the Board of Directors, its Committees and members of the Board of Directors, which is a common corporate governance practice aimed at enhancing the efficiency of the Board of Directors' work through the identification of areas for improvement.

The first self-assessment was carried out by Rosneft in the 2014-2015 corporate year.

In June 2016, the HR and Remuneration Committee developed the Methodology for Performance Assessment of the Board of Directors of Rosneft that determines the goals, principles, methods and procedure for performance assessment of the Board of Directors, its Committees and members of the Board of Directors.

Based on the Methodology, the HR and Remuneration Committee updated the questionnaire for performance assessment of the Board of Directors for the 2015-2016 corporate year, with the list of questions developed with due regard for the recommendations of the Bank of Russia Code and covering the most important areas of work of the Board of Directors:

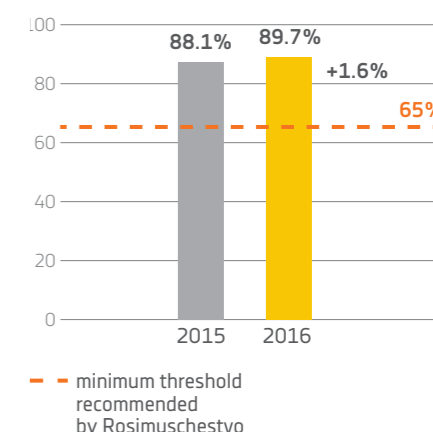
- composition and structure of the Board of Directors;
- key processes and functions of the Board of Directors;
- proceedings of the Board of Directors.



89.7%

OF RECOMMENDATIONS of the Bank of Russia Code are observed by the Company, with the minimum threshold set by Rosimuschestvo at 65%

COMPLIANCE OF ROSNEFT'S CORPORATE GOVERNANCE WITH THE BANK OF RUSSIA CODE

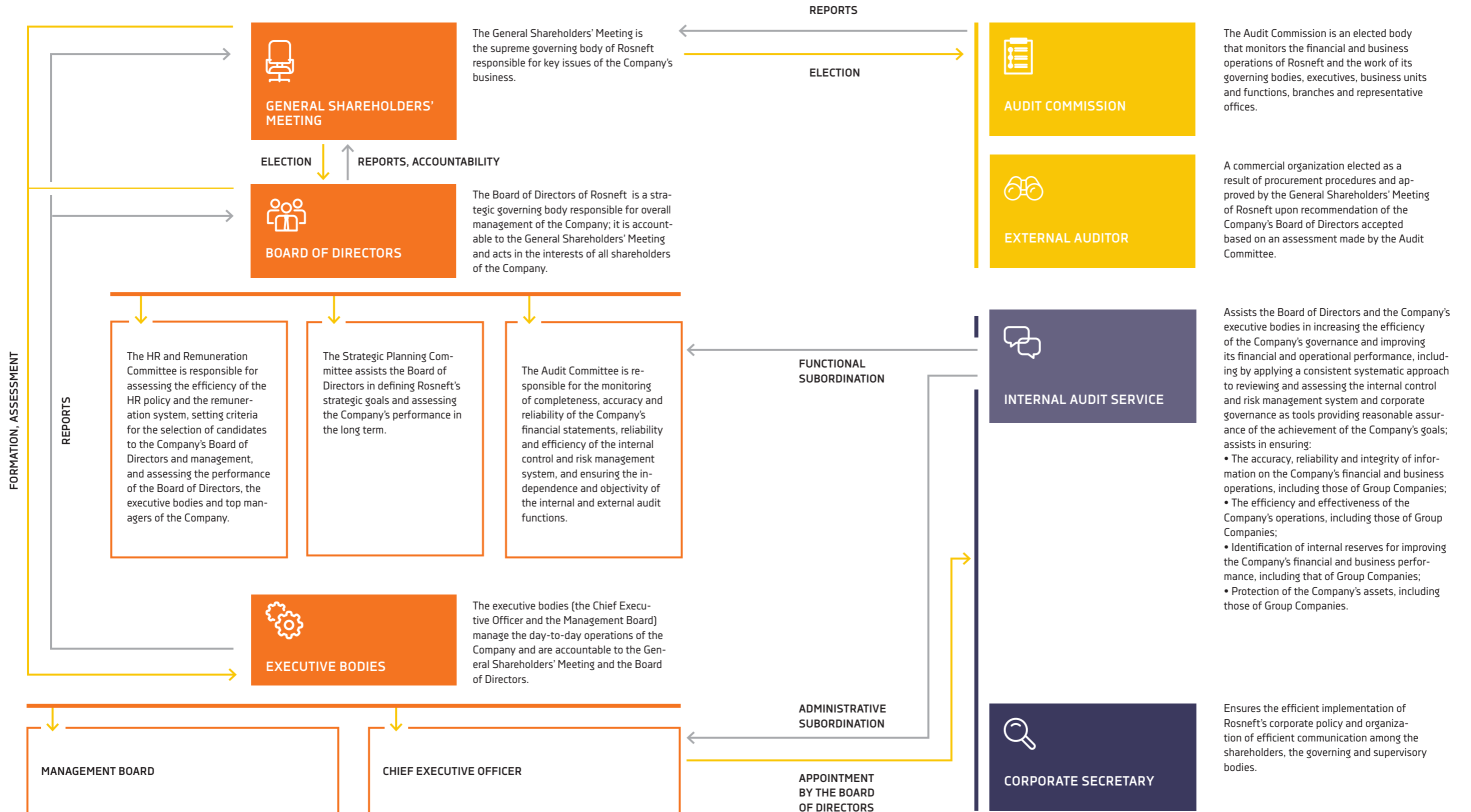


The results of the performed self-assessment were reviewed by the HR and Remuneration Committee and the Board of Directors of the Company in December 2016.

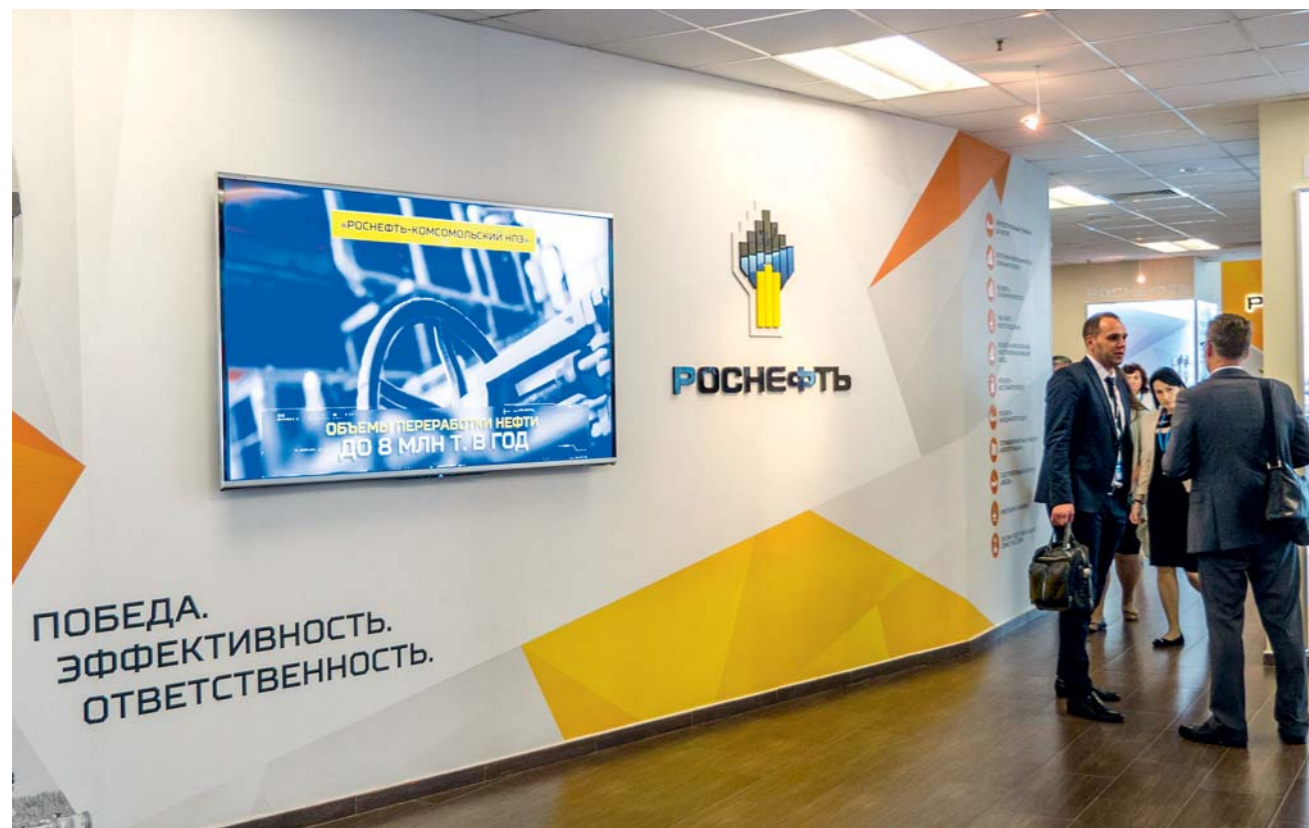
As part of the events conducted in the reporting year and aimed at improving the Company's corporate governance system, it is worth noting the update of the Company's internal documents governing two related processes: information disclosure (Regulations on Information Disclosure on the Securities Market) and provision of information to shareholders (Regulations on Information Disclosure to Shareholders of Rosneft).

The results of realization of the Roadmap for implementation of key Bank of Russia Code provisions in Rosneft's activities in 2016 received a positive assessment of the Board of Directors. Rosneft intends to continue the development of the corporate governance system by implementing the Bank of Russia Code in its operations in accordance with the Road Map.

STRUCTURE OF THE GOVERNING AND SUPERVISORY BODIES



5.2 LOCAL REGULATORY DOCUMENTS OF THE COMPANY



Information on the internal regulations that form the basis for the preparation of the current Annual Report is provided in the Appendix to the Annual Report.

The existing system of internal documents developed with due regard to the provisions of the Russian legislation and best international practices ensures the efficiency of Rosneft and its Group Companies in all key areas of activities.

The Company's internal documents govern such spheres of activities as: investment management and implementation of major projects; business planning, pricing, internal control and risk management, internal audit and corporate governance,

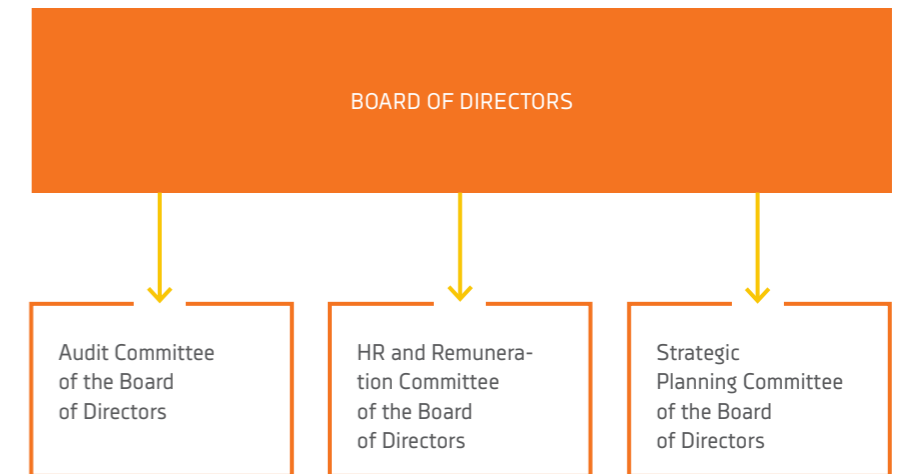
quality management, procurement, innovative development and other areas of the Company's activities.

The Company's internal documents determining the corporate governance system and principles are available on Rosneft's official website at www.rosneft.ru / www.rosneft.com.

5.3 ROSNEFT'S BOARD OF DIRECTORS



Rosneft's Board of Directors is responsible for the strategic management of the Company's operations and acts pursuant to the Charter, which determines the area of competence of the Board of Directors, and the Regulations on the Board of Directors, which establish the procedure and rules for its work.



KEY RESOLUTIONS



The integrated transaction involving the privatization of a 19.5% stake in Rosneft and a controlling stake in Bashneft is the largest privatization deal in the recent history of Russia

On implementation of business projects by the Company and the Group Companies, acquisition/sale of assets, including:

ACQUISITION OF

50.0755%*

of shares in PJSC Bashneft

ACQUISITION

49% ✦

of shares in Essar Oil Limited (India)

* As a result of the offer made to the shareholders of Bashneft, Rosneft's stake totaled 69.9% of the Company's voting shares.

Members of Rosneft's Board of Directors have experience in strategic management and have competences sufficient to make informed and objective decisions in the interests of the Company and its shareholders.

In accordance with Rosneft's Charter, Rosneft's Board of Directors consists of nine elected members, which is consistent with legislative requirements and the Company's scope of operations and needs.

The membership of the Board of Directors is determined by the General Shareholders' Meeting. The procedure for election of members to the Board of Directors established by the Charter and the Regulations on the Board of Directors provides for the Company's obligation to submit to shareholders information about the candidates, which must be sufficient to form an opinion about their personal and professional qualities.

Rosneft's annual campaign ensures that the shareholders are provided with all necessary information about the candidates nominated for election to the Board of Directors, as stipulated by the Corporate Governance Code of the Bank of Russia.

The Chairman of Rosneft's Board of Directors is elected and Committees of the Board of Directors are formed at the first meeting after the the Board of Directors has been formed, and has powers established by the Regulations on the Board of Directors.

Given the strategic nature of the Board of Directors' activities, meetings of the Board of Directors are held on a scheduled basis, taking into account the Company's

business planning cycles. The schedule is approved by the Board of Directors every six months based on the assumed need of holding meetings at least once every 6 weeks.

The work schedule of the Board of Directors also contains matters stipulated by directives of the Russian Government that need to be regularly reviewed by the Board of Directors, as well as standard matters submitted to the Board of Directors for consideration on a regular basis and/or in accordance with legislation: approval of transactions and business projects, approval of the Company's local regulatory documents, determination of an opinion on significant issues of the Group Companies's activities, matters relating to the preparation and conduct of the Shareholders Meeting, etc.

Furthermore, in 2016, the following matters were reviewed at the initiative of members of the Board of Directors:

- A report on the Company's activities in the area of health and safety;
- A status report on the implementation of the Road Map for Incorporating Key Provisions of the Bank of Russia Code in the Company's Operations;
- Reports on Rosneft's corporate level risks, etc.

MATTERS CONSIDERED BY THE BOARD OF DIRECTORS ANNUALLY/SEMIANNUALLY INCLUDE PRIMARILY:

- Review of results of the audit of implementation of Rosneft's Long-Term Development Program approved in December 2014, updates to the Program taking into account any changes in objectives and measures related to the development of the Company's business segments, the independent auditor's recommendations based on implementation audit results, directives of the Government of the Russian Federation;
- Approval of the Company's business plans, normalization of approved targets and review of their achievement;
- Approval of target key performance indicators for the management, normalization of targets, assessment of their achievement and adoption of a resolution on the amount of remuneration to the Company's top managers;
- Review of the report on performance of the innovative development and energy conservation programs in the reporting year and approval of the programs for the next year;
- Review of internal audit reports and reports on the Company's compliance with legislative requirements concerning combating misuse of insider information and market manipulation;
- Results of self-assessment of performance of the Board of Directors, etc.



The Charter and the Corporate Governance Code of Rosneft determine a list of matters in respect of which decisions may be made in only at face-to-face meetings, and a list of matters that the Board of Directors seeks to consider at face-to-face meetings. In the latter case, the decision on the form of a meeting is taken by the Chairman of the Board of Directors of Rosneft.

Work schedules of the Board of Directors Committees are approved based on the meetings schedule approved by the Board of Directors. Matters that require preliminary assessment by a dedicated committee are decided by the Board of Directors taking account the recommendation of such committee.

When considering agenda items, members of the Board of Directors assess a potential conflict between their interests and those of the Company (including any conflict related to their participation in governing bodies of other companies). With respect of any issue that may, in the opinion of a member of the Board of Directors, result in such a conflict of interest, the director shall not participate in voting and, where necessary, in the discussion of such

issue. In this case, directors communicate to the Board of Directors information about existence of a conflict of interest/potential conflict of interest and grounds therefor. The relevant information is submitted through the Corporate Secretary, who ensures support of activities of the Board of Directors and its Committees.

Taking into account the high level of responsibility of the Board of Directors and the executive bodies, with due regard to the scope of implemented projects and materiality of transactions made, the Company, at its own expense, insures the liability of members of the Board of Directors and the management of the Company at its own expense.



Strategic matters are considered by the Board of Directors at face-to-face meetings.

Information about the membership and work of the Board of Directors required by the law, recommendations of the Bank of Russia Code and the Company's information policy is disclosed by Rosneft on the Company's official website.

MEMBERSHIP OF THE BOARD OF DIRECTORS

ON JUNE 15, 2016, ROSNEFT'S BOARD OF DIRECTORS WAS ELECTED COMPRISING THE SAME MEMBERS THAT HAD BEEN ELECTED ON JUNE 17, 2015. THUS, FROM JANUARY 1, 2016 TO DECEMBER 31, 2016, THE COMPANY'S BOARD OF DIRECTORS WAS COMPOSED OF THE FOLLOWING MEMBERS:



ANDREY BELOUSOV

Chairman of the Board of Directors (since 2015)

Born in 1959.

Graduated from Lomonosov Moscow State University in 1981. Doctor of Economics, Honored Economist of the Russian Federation (2007), Order of Honor (2009).

Member of Rosneft's Board of Directors since 2015.

Director of the Economics and Finance Department of the Government of the Russian Federation (from 2008 until 2012), Minister of Economic Development of the Russian Federation (from 2012 until 2013), Assistant to the President of the Russian Federation (since 2013).

Holds no shares of Rosneft.

IGOR SECHIN

Deputy Chairman of the Board of Directors



Born in 1960.

Graduated from Leningrad State University in 1984. PhD in Economics. Chairman of the Board of Directors of Rosneft from 2004 through 2011.

Re-elected to the Board of Directors of Rosneft in November 2012; Deputy Chairman of the Board of Directors of Rosneft since June 2013.

Deputy Head of the Presidential Executive Office of the Russian Federation (from 2000 until 2004), Deputy Head of the Presidential Executive Office of the Russian Federation - Assistant to the President of the Russian Federation (from 2004 until 2008), Deputy Prime Minister of the Russian Federation (from 2008 until 2012).

Holds 13,489,350 shares in Rosneft (0.1273% of the share capital of the Company).

MATTHIAS WARNIG

Independent director
Deputy Chairman of the Board of Directors
Chairman of the HR and Remuneration Committee, Member of the Audit Committee of the Board of Directors



Born in 1955.

Graduated from the Bruno Leuschner Higher School of Economics (Berlin) in 1981. Member of Rosneft's Board of Directors since 2011, Deputy Chairman of the Board of Directors since 2014.

Managing Director of Nord Stream AG (from 2006 until 2016); held executive positions in the Dresdner Bank Group (from 1990 until 2006).

Executive Director of Nord Stream 2 AG (since 2015).

Holds 92,633 shares in Rosneft (0.0009% of the share capital of the Company).

ANDREY AKIMOV

Member of the Strategic Planning Committee of the Board of Directors, member of the HR and Remuneration Committee of the Board of Directors (until December 23, 2016)



Born in 1953.

Graduated from the Moscow Finance Institute in 1975.

Member of Rosneft's Board of Directors since 2014.

Chairman of the Management Board of JSC Gazprombank (since 2003), held executive positions in Vneshtorgbank (from 1974 until 1987).

Holds no shares of Rosneft.

OLEG VIYUGIN

Independent director
Chairman of the Strategic Planning Committee of the Board of Directors, member of the Audit Committee of the Board of Directors



Born in 1952.

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

Member of Rosneft's Board of Directors since 2015.

Professor at the Department of Finance of the Faculty of Economic Sciences of the National Research University Higher School of Economics (since 2007), Senior Advisor in Russia and the CIS to Morgan Stanley Bank LLC (under a civil law contract) (from 2013 until 2015).

Holds no shares of Rosneft.

ROBERT DUDLEY

Member of the Strategic Planning Committee of the Board of Directors



Born in 1955.

Graduated from the University of Illinois in 1977 and Thunderbird School of Global Management in 1979.

Member of Rosneft's Board of Directors since 2013.

President of BP p.l.c. Group (since 2010).

Holds no shares of Rosneft.

GUILLERMO QUINTERO

Member of the HR and Remuneration Committee of the Board of Directors



Born in 1957.

Graduated from the University of Southern California in 1979.

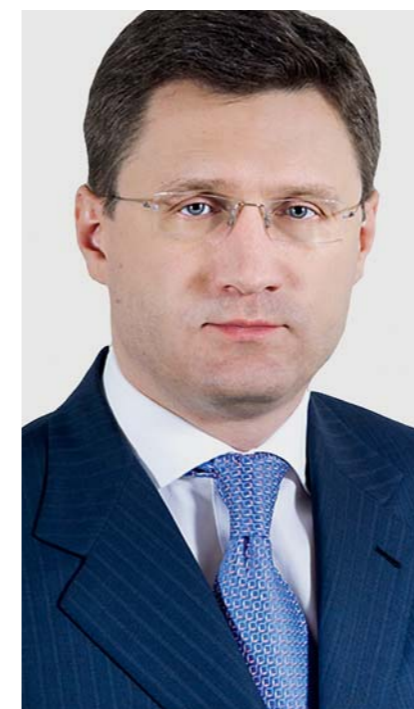
Member of Rosneft's Board of Directors since 2015.

SPUL (President) Middle East and Pakistan in BP p.l.c. (from 2009 until 2010), Regional President Brazil, Uruguay, Venezuela and Colombia in BP Energy do Brasil Ltda and BP Brasil Ltda (from 2010 until 2015).

Holds no shares of Rosneft.

ALEXANDER NOVAK

Member of the Strategic Planning Committee of the Board of Directors



Born in 1971.

Graduated from Norilsk Industrial Institute in 1993 and from Lomonosov Moscow State University in 2009. Member of Rosneft's Board of Directors since 2015.

Deputy Minister of Finance of the Russian Federation (from 2008 until 2012), Minister of Energy of the Russian Federation (since 2012).

Holds no shares of Rosneft.

DONALD HUMPHREYS

Independent director
Chairman of the Audit Committee of the Board of Directors, member of the HR and Remuneration Committee of the Board of Directors (since December 23, 2016)



Born in 1948.

Graduated from Oklahoma State University in 1971 and the Wharton School, University of Pennsylvania in 1976. Member of Rosneft's Board of Directors since 2013.

Managed financial operations of ExxonMobil Corporation (from 2006 until 2013).

Holds 220,000 global depositary receipts representing rights to Rosneft's ordinary shares (0.0021% of the share capital of the Company).

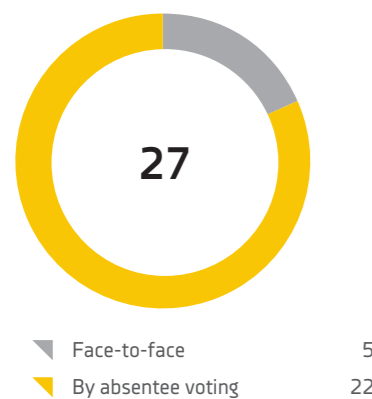
PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN MEETINGS OF THE BOARD OF DIRECTORS AND ITS COMMITTEES IN 2016

MEMBER OF THE BOARD OF DIRECTORS	BOARD OF DIRECTORS		PARTICIPATION IN MEETINGS	AUDIT COMMITTEE	HR AND RE-MUNERATIONS COMMITTEE	STRATEGIC PLANNING COMMITTEE
	EXECUTIVE	INDEPENDENT				
Andrey Akimov			27/27		16/16	9/9
Andrey Belousov			27/27			
Matthias Warnig		X	27/27	10/10	16/16	
Oleg Viyugin		X	27/27	10/10		9/9
Robert Dudley			27/27			9/9
Guillermo Quintero			27/27		16/16	
Alexander Novak			27/27			9/9
Igor Sechin	X		26 ¹ /27			
Donald Humphreys		X	27/27	10/10		

Note: The first figure shows the number of meetings attended by a member of the Board of Directors, and the second one is the total number of meetings in which he was entitled to participate in 2016.

WORK OF THE BOARD OF DIRECTORS IN 2016

STRUCTURE OF MEETINGS OF THE BOARD OF DIRECTORS



In 2016, the Board of Directors held 27 meetings (5 face-to-face meetings and 22 meetings by absentee voting), at which resolutions were made concerning various directions of the Company activities, including the following most significant resolutions:

- **Updating the Long-Term Development Program** of Rosneft and reviewing its 2015 performance audit results.
- **Approving Rosneft's business plans**, normalized indicators and performance results in the reporting year;
- **Carrying out instructions given by the President of the Russian Federation and the Government of the Russian Federation** concerning:
 - developing (updating) the plans for reduction of operating expenses and import substitution;
 - making export settlements in rubles;

- investment projects realization and accounting;
- procurement regulation and performance;
- non-core assets disposal;
- prioritized development of infrastructure in the Far East;
- implementation of professional standards in companies' operations.
- **Concerning business projects implementation by the Company and the Group Companies, acquisition/sale of assets**, including:
 - sale of 29.9% participatory interest in the charter capital of Taas-Yuriakh Neftegazodobycha LLC to Oil India Limited, Indian Oil Corporation Limited and Bharat PetroResources Limited;
 - sale of 23.9000039% ordinary shares in JSC Vankorneft to Oil India Limited, Indian Oil Corporation Limited and Bharat Petro Resources Limited;

- sale of 49 % interest in Yermak Neftegas LLC to BP Russian Investments Limited;
- acquisition of 50.0755% shares in PJSOC Bashneft;
- acquisition of 49% shares in Essar Oil Limited (India) — one of the most modern refineries in the Asia-Pacific Region in Vadinar, which has a comprehensive infrastructure;
- acquisition of up to 35% in the Shorouk Concession, offshore Egypt.

• **Recognizing M. Warnig, a current member of the Company's Board of Directors, as an independent director based on the results of the performed assessment**, notwithstanding the existence of formal criteria of being related to the state and the Company's counterparties, because, given M. Warnig's professional experience and business reputation, such relations do not affect his ability to render independent and objective and good faith judgements in his capacity of the member of the Company's Board of Directors (resolution of the Board of Directors with a statement of reasons is disclosed on the Company's official website: https://www.rosneft.ru/upload/site1/attach/0/62/04/pdf_f_28122016W.pdf).

- **Concerning the review of the realization status of the Roadmap for implementation of key Bank of Russia Code provisions in the Company's activities** (implementation deadlines for certain actions under the Road Map were adjusted due to objective factors).
- **The annual self-assessment of the Board of Directors performance** in the 2015-2016 corporate year and review of its results.
- **Approving amendments to the Company's internal documents**:
 - Company Policy on Internal Audit;
 - Dividend Policy of Rosneft.

- **Approving/reviewing Rosneft's programs and reports**:
 - Innovative Development Program for 2016-2020 with a perspective to 2030 and the report on the implementation of the Company's 2015-2019 Innovative Development Program in 2015;
 - Energy Saving Program for 2017-2021 and the report on the implementation of the Company's 2015-2019 Energy Saving Program in 2015;
 - Consolidated Corporate Compliance Program for 2016-2019;
 - Report on Rosneft's activities in the area of industrial and occupational safety for the 10 months of 2016;
 - Report on the Company's compliance with legislative requirements concerning combating misuse of insider information and market manipulation for 2015 and the 6 months of 2016;
 - Reports on internal audit results of the Company for 2015 and the 6 months of 2016.
- **In the area of incentives system** — approving (1) normalized target performance indicators for the management of the Company for the purpose of assessing the 2015 annual bonuses, (2) results of the KPI delivery by top managers and amounts of their annual remuneration for 2015; (3) performance indicators for top managers of the Company for 2016.
- **Concerning the membership of Rosneft's Management Board**

The resolution appointing the Head of the Internal Audit Service (IAS) as a member of the Management Board was adopted by the Board of Directors taking into account the assessment of a potential conflict of interest and the need to comply with the Moscow Exchange Listing Rules and the Bank of Russia Regulations No. 534-P dated March 24, 2016 that establish corporate governance requirements

for issuers with securities admitted to exchange trading, including requirements for internal audit organization.

In organizing internal audit, Rosneft not only complies with such requirements, but also follows the principles of objectiveness and independence of internal audit, which, according to international internal audit standards of the Institute of Internal Auditors and the Bank of Russia Code, is achieved by making the head of the internal audit service administratively subordinate to Rosneft's executive governing bodies, and functionally subordinate and accountable to the Board of Directors of the Company.

The Company IAS Head holding the position of a member of Rosneft's Management Board is one of the mechanism ensuring IAS' supervision of the Company's operating activities. In this case, the membership of the IAS Head in the Management Board does not affect the objectiveness and independence of internal audit and does not bring about any conflict of interest, because it does not provide for any participation of the IAS Head in management of any Company businesses.

- **Approval of the Exchange-Traded Bond Program worth a total of RUB 1.071 trln** (for the purposes of financing foreign projects and the upstream asset investment program of Rosneft, as well as scheduled refinancing of loans and bonds attracted earlier).
- **Approval of over 1,200 related-party transactions**.

In addition, in Q3 2016, members of the Board of Directors participated in a survey regarding risks associated with the achievement of goals of the Company Strategy and the Long-Term Development Program in 2016.

Information on the most significant issues is disclosed by the Company on an ongoing basis in press releases¹ and in the form of notices of material facts².

1. Deputy Chairman of the Board of Directors, I. Sechin did not take part in the Board of Directors meeting with the agenda that contained solely the approval of related-party transactions, in respect of which his vote could not be taken into account according to Art. 83 of the Federal Law on Joint-Stock Companies.

1. <http://rosneft.ru/news/pressrelease/>
 2. <http://rosneft.ru/Investors/information/importantnotices/>

COMMITTEES OF ROSNEFT'S BOARD OF DIRECTORS

In order to enable a preliminary review of the most important issues within the competence of Rosneft's Board of Directors, three standing committees of the Board of Directors have been established.

The membership of the Committees was determined by the Board of Directors dated June 15, 2016.

Following the consideration of the issue of recognizing M. Warnig, a member of the Board of Directors, as an independent director, for the purposes of ensuring compliance of the membership of the HR and Remuneration Committee with the Moscow Exchange Listing Rules, the membership of the HR and Remuneration Committee was changed under the resolution of the Board of Directors dated December 23, 2016.

The Committees have been formed with due regard for professional experience and expertise of members of the Board of Directors in the relevant field, which allows the Committees to efficiently achieve their tasks.

The membership of the Board of Directors Committees follows the recommendations of the Corporate Governance Code of the Bank of Russia.

For example, the Audit Committee of the Board of Directors is comprised solely of independent directors; the majority of members of the HR and Remuneration Committee are independent directors. Furthermore, each Committee of the Board of Directors is chaired by an independent director.



STANDING COMMITTEES of the Board of Directors chaired by independent directors

1

AUDIT COMMITTEE

2

HR AND REMUNERATION COMMITTEE

3

STRATEGIC PLANNING COMMITTEE











FUNCTIONS

- Monitoring of completeness and accuracy of financial statements and other reports;
- Monitoring of reliability and efficiency of the internal control and risk management system;
- Monitoring of the Company's corporate governance practice, development of recommendations for improvement the Company's corporate governance system;
- Monitoring of efficiency of the system for reporting potential wrongdoings by the Company's employees (including misuse of insider or confidential information) and third parties, as well as other violations in the Company's operations;
- Ensuring the of independence, objectiveness and efficiency of the internal and external audit functions.

- Assessment of efficiency of the HR policy and continuity policy, the appointment and remuneration system;
- Development of assessment methodology and assessment of performance of the Board of Directors, executive bodies and other top managers of the Company;
- Assessment of compliance of candidates nominated to the Board of Directors, and analysis of compliance of independent directors with independence criteria;
- Monitoring of information disclosure about the remuneration policy and practices as well as about the Company's shares held by members of the Board of Directors, executive bodies and other top managers.

- Setting strategic goals and guidelines for the Company's development;
- Assessing the Company's performance in the long term;
- Supporting strategic and business planning;
- Formulating the Company's policy in respect of the Group Companies within the competence of the Board of Directors in terms of corporate structure.

MEMBERSHIP AS OF DECEMBER 31, 2016

 Donald Humphreys Chairman (independent director)	 Matthias Warnig Chairman (independent director)	 Oleg Viyugin – Chairman (independent director)
 Matthias Warnig (independent director)	 Donald Humphreys (as from December 23, 2016) (independent director)	 Andrey Akimov
 Oleg Viyugin (independent director)	 Guillermo Quintero	 Alexander Novak
		 Robert Dudley

1. In accordance with the existing Moscow Exchange Listing Rules, the HR and Remuneration Committee should be composed of independent directors only, or, if not possible due to external factors, the majority of the Committee members should be independent directors. Accordingly, by virtue of the resolution of the Company's Board of Directors dated December 23, 2016 (Minutes No. 17 dated December 26, 2016), measures were taken to ensure that the composition of the HR and Remuneration Committee was brought in compliance with the Moscow Exchange Listing Rules.

WORK OF THE BOARD COMMITTEES IN 2016

In 2016, the Audit Committee held 10 meetings, during which it performed the following activities:

In the area of oversight of the financial statements preparation process and efficiency of the internal control and risk management system:

- on a quarterly basis, reviewed financial results of the Company's activities and results of their audit (prior to submission for review by the Audit Committee, the draft financial statements and information prepared by the auditor was considered in the course of telephone conferences with participation of members of the Committee, the Company management and representatives of the external auditor);
- reviewed and approved reports on corporate level risks for 2016;
- reviewed the report on results of currency and interest risk management in 2014-2015, provided recommendations to the Board of Directors.

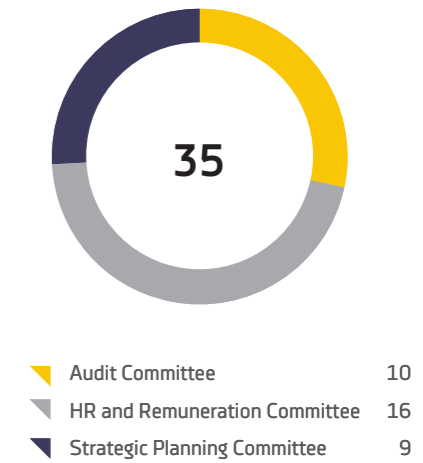
In the area of assuring objectiveness of internal and external audit:

- reviewed and recommended for approval the candidate to the Company auditors - Ernst and Young Limited Liability Company, provided recommendations in respect of the determination of the amount of auditor's fees;
- reviewed the Report on internal audit activity results for 2015 and 6 months of 2016, endorsed the Internal Audit Activity Plan for 2016;
- reviewed and endorsed the Regulations on structural units of the Internal Audit Service of Rosneft;

In the area of cooperation with the Audit Commission and the 2016 annual campaign:

- approved the directions of the Rosneft Audit Commission's inspection of Rosneft financial and economic activities in 2016; preliminary (together with the Audit Commission) reviewed the opinion of the Audit Commission for the year 2015 upon results of the inspection of Rosneft financial and economic activities;

NUMBER OF MEETINGS OF COMMITTEES OF THE BOARD OF DIRECTORS



Having considered the Internal Audit Activities Report for 2016 the Chairman of the Audit Committee of the Board of Directors Mr. Donald Humphreys noted: "I was very impressed with the Internal Audit Team's work and their report for 2016. I look forward to hearing that all the issues they have identified have been corrected."

5.4 ROSNEFT'S EXECUTIVE BODIES

- assessed the Rosneft auditor's report on the Company's 2015 financial statements;
- reviewed proposals on distribution of the Company profit, amount of dividends for the year 2015 and the procedure for payment thereof.

The Board of Directors was provided with positive recommendations in respect of issues within its competence.

Working meetings (conference calls) with the Head of the Internal Audit Service, representatives of the external auditor and members of the Company's Audit Commission form a systematic working practice of the Audit Committee.

In 2016, the HR and Remuneration Committee held 16 meetings, during which it performed the following activities:

- approved the conduct of self-assessment of performance of Rosneft Board of Directors in the corporate year 2015-2016, approved in principle the method for assessing the performance of the Company' Board of Directors, approved an updated self-assessment questionnaire, preliminary (prior to submission to the board of Directors) reviewed the results of the performed self-assessment;
- reviewed the results of realization of the Roadmap for implementation of key Bank of Russia Corporate Governance Code provisions in Rosneft's activities approved by the Company's Board of Directors on February 27, 2015, provided a positive recommendation to the Board of Directors.
- assessed the compliance of M. Warnig, a current member of Rosneft Board of Directors, with independence criteria;

- in accordance with the Company's standards, preliminary reviewed and recommended for approval by the Board of Directors (1) proposals of the Company's HR service relating to the determination of key performance indicators for top managers of Rosneft for the year 2016; (2) normalized criteria for achievement of the top managers' KPIs for the purposes of annual bonus payment for the year 2015; (3) reports on KPI delivery by Rosneft top managers in 2015 and amounts of remuneration upon results of delivery thereof; (4) preliminary reviewed candidates for appointment to the Company's Management Board; (5) recommended that the Board of Directors grant consent to the combination by members of Rosneft Management Board of positions in governing bodies of other organizations;
- reviewed proposals regarding remuneration of members of the Board of Directors and the Audit Commission for the corporate year 2015-2016;
- endorsed the 2015 sustainability report of Rosneft (published on the Company's official website: <https://www.rosneft.ru/Development/reports/>).

In 2016, the Strategic Planning Committee held 9 meetings, during which it performed the following activities:

- reviewed and recommended for approval by the Board of Directors:
 - audit results of the Rosneft Long-Term Development Program implementation;
 - the updated Long-Term Development Program of the Company;
 - normalized indicators and results of performance of the Company Business Plan;

- Rosneft business plan for the years 2017-2018;
- Rosneft Innovative Development Program for 2016-2020 with a perspective to 2030 and the Report on the implementation of the Company's Innovative Development Program in 2015;
- preliminary reviewed information and provided positive recommendations to the Board of Directors in respect of:
 - the approval of the Exchange-Traded Bonds Program in the total amount of 1.071 trillion rubles (for the purposes of financing foreign projects and the upstream assets investment program of Rosneft, as well as scheduled refinancing of loans and bonds attracted earlier);
 - key indicators (including financing volumes) for the business projects implemented by Rosneft and the Group Companies that are related to the development of fields and license areas.

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

The Management Board, a collective executive body.

The Chief Executive Officer, a sole executive body.

ROSNEFT'S MANAGEMENT BOARD

Members of Rosneft's Management Board are appointed for a period determined by the Company's Charter, namely three years. The procedure for Management Board formation, the rights, duties and liability of Management Board members, proceedings of the Management Board are governed by the Regulations on the Collective Executive Body (the Management Board) of Rosneft.

In 2016, the membership of Rosneft's Management Board was changed as follows:

- On June 9, 2016, L. Kalanda and S. Slavinskiy were removed from the Management Board due to employment termination (Board of Directors minutes No. 19 dated June 10, 2016);

- On July 1, 2016, G. Bukaev, Vice President, Head of the Internal Audit Service of Rosneft, was appointed as a member of the Management Board (Board of Directors minutes No. 3 dated July 4, 2016);
- On September 30, 2016, due to organizational and staffing changes, V. Yurchenko was removed from the Management Board (Board of Directors minutes No. 7 dated October 3, 2016).

The number of members of the Company's Management Board has not changed and totals 11 persons. Rosneft's Management Board includes the heads of key business lines, operation service and support function segments of the Company.

3 

YEARS — term of appointment of members of the Management Board

11 

PERSONS — number of members of the Company's Management Board

MEMBERSHIP OF ROSNEFT'S MANAGEMENT BOARD

AS OF DECEMBER 31, 2016



IGOR SECHIN

Chief Executive Officer, Chairman of Rosneft's Management Board, Deputy Chairman of Rosneft's Board of Directors

Born in 1960.

Graduated from Leningrad State University in 1984. PhD in Economics. Has been presented with government and industry awards.

Chairman of Rosneft's Board of Directors from 2004 until 2011.

Chief Executive Officer, Chairman of Rosneft's Management Board since May 2012.

Member of Rosneft's Board of Directors since November 2012.

Deputy Chairman of Rosneft's Board of Directors since June 2013.

Chairman of the Board of Directors of JSC ROSNEFTEGAZ, PJSC Inter RAO, National Oil Consortium LLC, JSC SPIMEX, Chairman of the Supervisory Board of CSKA Professional Hockey Club LLC; member of the Boards of Directors of Pirelli & C. S.p.A.

Holds 13,489,350 shares in Rosneft (0.1273% of the share capital of the Company).



YURY KALININ

Deputy Chairman of the Management Board, Vice President for HR and Social Affairs of Rosneft

Born in 1946.

Graduated from the D.I. Kursky Saratov Institute of Law in 1979.

Has been presented with government and industry awards: three Orders for Merit to the Fatherland, Class 2, 3 and 4; two Orders of Courage, Order of the Red Banner of Labor, Medal of the Veteran of Labor, the title of Honorary Lawyer of the Russian Federation, Order of Ivan Kalita, Medal for Diligence, Class 1 and 2; Medal of Valor, Letter of Appreciation from the Council of Federation of the Russian Federation, from the Chairman of the Council of Federation of the Russian Federation, Certificate of Appreciation from the Government of the Russian Federation and other awards.

Vice President of Rosneft since December 2012.

Vice President for HR and Social Affairs of Rosneft since March 2013.

Member of Rosneft's Management Board since February 2013.

Deputy Chairman of the Management Board since October 2014.

Member of the Council of the NEFTEGARANT Private Pension Fund.

Holds 203,916 shares in Rosneft (0.0019% of the share capital of the Company).

ERIC MAURICE LIRON

First Vice President of Rosneft

Born in 1954 .

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

Vice President for Drilling, Completion and Services of Rosneft since April 2013.

First Vice President of Rosneft overseeing the Production Unit since July 2013.

Member of Rosneft's Management Board since September 2013.



Chairman of the Board of Directors of PJSC Orenburgneft, PJSC Varyoganneftegaz; member of the Board of Directors of OJSC NGK Slavneft, OJSC Udmurtneft, OJSC Tomskneft VNK, JSC Yugraneft Corporation, PJSC Grozneftegaz, JSC Messoyakhaneftegaz, JSC Slavneft-Megionneftegaz, PJSC OC Rosneft-Dagneft, OJSC Ingushtneft; General Director of RN-Upstream LLC.

Holds 543,804 shares in Rosneft (0.0051% of the share capital of the Company).

GENNADY BUKAEV

Vice President, Head of the Internal Audit Service of Rosneft

Born in 1947.

Graduated from Ufa State Petroleum Technological University in 1971. PhD in Economics.

Has been presented with government and industry awards: Order for Merit to the Fatherland, Class 4; Certificate of Appreciation from the Government of the Russian Federation, Letter of Appreciation from the Government of the Russian Federation, Certificate of Appreciation from the Central Office of the Government of the Russian Federation, the title of Honorary Economist of the Russian Federation, the title of Honorary Economist of the Republic of Bashkortostan.

Advisor to the President of Rosneft since 2013.

Head of the Internal Audit Service of Rosneft since March 2015.

Vice President, Head of the Internal Audit Service of Rosneft since June 2016.

Member of Rosneft's Management Board since July 2016.

General Director of JSC ROSNEFTEGAZ.

Holds no shares in Rosneft.

DIDIER CASIMIRO

Vice President for Refining, Petrochemical, Commerce and Logistics of Rosneft

Born in 1966.

Graduated with distinction from Ghent University, Belgium, in 1991, and from Ghent University, Belgium/Lisbon University, Portugal, in 1992.

Vice President of Rosneft since May 2012.

Member of Rosneft's Management Board since June 2012.

Vice President for Commerce and Logistics of Rosneft since March 2013.

Vice President for Refining, Petrochemical, Commerce and Logistics of Rosneft since January 2015.

Deputy Chairman of the Supply and Marketing Committee of Ruhr Oel GmbH; Chairman of the Board of Directors of CJSC Rosneft-Armenia, PJSC Saratov Oil Refinery, RN-Erevan LLC, Rosneft Trading S.A., PJSC Rosneft - MZ Nefteprodukt, PJSC Samaraneftekhimpromekt, JSC ANCP; Chairman of the Supervisory Board of PRJSC LINIK; member of the Board of Directors of PJSOC Bashneft, JSC Aviation Fuel Company, CJSC TZS, CJSC Fuel Filling Complex Slavneft-Tunoshna, ITERA OGC LLC, RN-RDC LLC, JSC SPIMEX, OJSC NGK Slavneft, OJSC NGK Slavneft-YANOS, Rosneft Trade Limited, Rosneft Global Trade S.A., Lanard Holdings Limited, Rosneft Techno S.A.; Board member of SIA ITERA Latvia; General Director of RN-Commerce LLC.

Holds 457,598 shares in Rosneft (0.0043% of the share capital of the Company).

PETR LAZAREV

Financial Director of Rosneft

Born in 1967.

Graduated from Plekhanov Moscow Institute of National Economy in 1990.

Has been presented with government award: the Order of Honor

Head of Rosneft's Treasury from June 2004.

Member of Rosneft's Management Board since June 2011.

Financial Director of Rosneft since February 2012.

Chairman of the Board of Directors of JSC NEFTEGARANT Private Pension Fund, CJSC Manoil; Chairman of the Council of the NEFTEGARANT Private Pension Fund; member of the Board of Directors of Neftepromleasing LLC, PJSC Rosneft - MZ Nefteprodukt, ITERA OGC LLC, Pursatkom LLC, RN-RDC LLC, JSC FESRC, JSC DSRC; General Director of Invest-M-kom LLC, RN-Foreign Projects LLC, JSC RN Holding; Executive Financial Director of JSC RN Management.

Holds 448,066 shares in Rosneft (0.0042% of the share capital of the Company).

YURY NARUSHEVICH

Vice President for In-House Services of Rosneft

Born in 1968.

Graduated from Ivano-Frankivsk Oil and Gas Institute in 1992.

Has been presented with industry awards: Certificate of Appreciation from the Ministry of Energy of the Russian Federation, Letter of Appreciation from the Ministry of Energy of the Russian Federation.

Vice President for Drilling, Completion and Services of Rosneft since June 2014.

Vice President for In-House Services of Rosneft since March 2015.

Member of Rosneft's Management Board since April 2015.

Chairman of the Board of Directors at RN-Service LLC, OJSC Purnefteotdacha; member of the Board of Directors of Precision Drilling de Venezuela, C.A., JSC Targin.

Holds 6,888 shares in Rosneft (0.00006% of the share capital of the Company).

ZELJKO RUNJE

Vice President for Offshore Projects of Rosneft

Born in 1954 .

Graduated with distinction from the University of Alaska.

Has a Letter of Appreciation from the President of the Russian Federation for significant contribution to strengthening intergovernmental cooperation in the oil and gas industry; has been awarded the Order of Friendship.

Vice President of Rosneft since October 2012.

Member of Rosneft's Management Board since November 2012.

Vice President for Offshore Projects of Rosneft since March 2013.

Chairman of the Board of Directors of CJSC RN-Shelf- Dalny-Vostok; member of the Supervisory Board of OJSC Rosneft-Sakhalin; member of the Board of Directors of Arctic Science Center LLC, CJSC Rosshelf, Caspian Oil Company LLC, JSC FESRC, Venineft LLC, SNGT LLC, RN Nordic Oil AS.

Holds 377,318 shares in Rosneft (0.0036% of the share capital of the Company).



ANDREY SHISHKIN

Vice President for Energy, Localization and Innovations of Rosneft

Born in 1959.

Graduated from Gubkin Moscow Institute of Petrochemical and Gas Industry in 1985, from the Financial Academy under the Government of the Russian Federation in 1996 and from Moscow International Higher Business School MIRBIS in 2002.

Has been presented with government and industry awards: Order for Merit to the Fatherland, Class 3 and 4; Order of Honor, Letter of Appreciation from the Government of the Russian Federation and a number of honorary titles.

Vice President of Rosneft since July 2012.

Vice President for Energy, Health, Safety and Environment of Rosneft since March 2013.

Vice President for Energy and Localization of Rosneft since August 2014.

Member of Rosneft's Management Board since April 2015.

Vice President for Energy, Localization and Innovations of Rosneft since April 2016.

Chairman of the Board of Directors of Arctic Science Center LLC, JSC Lazurit CDB, RIG Research Pte. Ltd., JSC Okhinskaya TETS, JSC 82 SRZ, JSC FESRC; member of the Board of Directors of JSC USC, PJSC RusHydro, National Oil Consortium LLC, JSC Tyumen Energy Sales Company, RN-RDC LLC, SARAS S.p.A., Antares Singapore Pte. Ltd. (Singapore), Zvezda Marine Technologies LLC; member of the Presidium of NP RMC WEC; General Director of RN-Assets LLC; member of the Board of Directors, Chairman of the Management Board, President of PJSOC Bashneft.

Holds 377,144 shares in Rosneft (0.0036% of the share capital of the Company).



WORK OF THE MANAGEMENT BOARD IN 2016

In 2016, the Management Board held 53 meetings and reviewed over 150 items within its remit. In particular, in 2016, the Management Board of the Company:

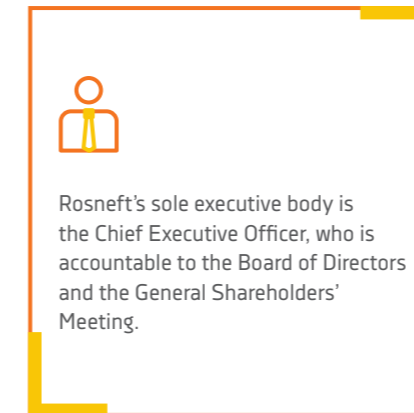
- Approved indicators of the Company's Investment Gas Program for 2016-2018 to improve sustainable use of associated petroleum gas;
- Adopted a number of resolutions on implementation of business projects by the Company and Group Companies, including set up of joint ventures based on the assets of JSC Vankorneft and PJSC Verkhnechonskneftegaz; study, exploration, production and development of certain fields;
- Adopted resolutions on the Company's participation (termination of the Company's participation) (direct or indirect) in commercial and non-profit organizations;
- Approved transactions that are material for the Company and the Group Companies;
- Adopted resolutions on liquidation and reorganization of certain Group Companies in order to optimize the Company's corporate structure, operating and financial resources;

- Approved a Single Action Plan for Liquidation / Reorganization / Disposal of Non-Core and Inefficient Assets of Rosneft and the Group Companies;
- Approved local regulatory documents of the governing the Company's key business processes; some of these regulations were implemented in the Company in 2016 to comply with the instructions of the President of the Russian Federation and the Government of the Russian Federation:
 - Company Standard for Managing Temporarily Available Free Cash and Short-Term Fund Raising Transactions in Rosneft and the Group Companies;
 - Company Standard for the Organization of Internal Audit;
 - Company Standard for Competence-Based Personnel Assessment and Development;
 - Company Regulations on the Procedure for Charitable Activities of Rosneft and the Group Companies, and on Sponsorship by Rosneft and the Group Companies;
 - Company Regulations on the Risk Management Committee of Rosneft;
 - Company Regulations Rosneft's Commission for the Disposal of Idle Material and Technical Resources of the Company;
 - Company Regulations on the Efficiency Analysis of Wholesale Distribution of Oil, Liquefied Petroleum Gas and Main Petroleum

- Products and Petrochemicals and the Procedure for the Work of the Working Group on Monitoring the Efficiency of Sales of Hydrocarbons, Petroleum and Gas Products and Petrochemicals of Rosneft;
- Company Regulations on the Technical Council for Offshore Projects of Rosneft.
- Approved amendments to the Company's local regulatory documents establishing requirements in the area of health, safety and environment, etc.;
- Reviewed the performance of the heads of Rosneft's independent structural units and general directors of the Key Group Companies for 2015 and approved key performance indicators for them for 2016;
- Approved a list of candidates to the boards of directors (supervisory boards) for 2016 and approved candidates to positions in executive bodies of the Key Group Companies.

The planning of the Management Board's work is carried out on a quarterly basis. The Management Board's work plan includes matters that correspond to the Management Board's competence set forth in paragraph 12.10 of Rosneft's Charter and are proposed by members of the Management Board and top managers of the Company.

CHIEF EXECUTIVE OFFICER, CHAIRMAN OF THE MANAGEMENT BOARD OF ROSNEFT



The Chief Executive Officer acts pursuant to the Charter and the Regulations on the Sole Executive Body (Chief Executive Officer) of Rosneft, and represents the Company's interests without a power of attorney.

The term of office of the Chief Executive Officer is determined by Rosneft's Charter and amounts to 5 years.

The Chief Executive Officer's competence covers matters of the Company's operating activities, including:

- Transactions concluded and business projects implemented by the Company and the Group Companies with a value not exceeding the thresholds established by the Company's Charter;
- Approval of the Group Companies' business plans;
- Adoption of resolutions on distribution of profit of Group Companies.

Since May 24, 2012, the functions of the sole executive body of Rosneft are performed by Igor Sechin. By virtue of the resolution of Rosneft's Board of Directors dated April 30, 2015, Igor Sechin was appointed the Company's sole executive body for a new period of 5 years.

CORPORATE SECRETARY OF ROSNEFT

The Corporate Secretary is an officer of Rosneft assuring compliance of the Company with the applicable laws, the Rosneft's Charter and internal documents which safeguard Company's shareholders' rights and legitimate interests, efficient communication with shareholders, support of the Board of Directors productivity and development of the Company's corporate governance in line with the interests of its shareholders and other stakeholders.

The work of Rosneft's Corporate Secretary is governed by the Regulations on the Corporate Secretary that reflects all requirements of the Moscow Exchange and recommendations of the Bank of Russia Code relating to the activities of a Corporate Secretary.

The Regulations on Corporate Secretary is published on the Company's official website: <http://www.rosneft.ru/Investors/corpgov/>.

The Corporate Secretary possesses sufficient knowledge, experience and qualification to perform his/her functions. The Corporate Secretary is administratively accountable to the Chief Executive Officer of the Company, and is functionally accountable to the Board of Directors. Main functions of the Corporate Secretary are as follows:

- Participation in the improvement of the system and practice of the issuer's corporate governance system and practice;
- participation in arrangements preceding and accompanying the General Shareholders' Meetings of the issuer;
- Supporting the work of the Board of Directors and Committees of the Board of Directors;
- Participation in implementation of the issuer's policy on information disclosure, as well as ensuring storage of the issuer's corporate documents;
- Supporting communication between the issuer and its shareholders and participation in the prevention of corporate conflicts;
- Ensuring the procedures stipulated by the law and the issuer's internal documents to secure shareholders' rights and legitimate interests are met, as well as control of their fulfillment.

In addition, the Corporate Secretary of Rosneft:

- Performs the functions of the secretary of the Company's Management Board;
- Organizes the work aimed at ensuring compliance with the requirements of the Russian legislation and the Company's local regulatory documents in the area of combating misuse of insider information (including keeping records, preparing an insiders list of Rosneft, notifying persons on the inclusion into (exclusion from) the insiders list of Rosneft, submitting the insiders list of Rosneft to the stock exchange and the regulator upon their request; disclosure of insider information);
- Interacts with the Company's registrar, governmental bodies authorized to regulate corporate relations and securities market.

Under the resolution of Rosneft's Board of Directors, functions of the Corporate Secretary are performed by the director of the Corporate Governance Department of Rosneft:

Svetlana Gritskevich

Born in 1974.

Graduated from the Institute of Modern Knowledge, Belarus State University (Minsk) in 1996.

Graduated from the Russian Presidential Academy of Public Administration in 2011.

Has an MBA degree from MIRBIS (Moscow International Business School, 2011); has considerable experience in corporate governance (since 1998) and in specifics of business of fuel and energy sector companies (since 1996), as well as management experience (since 2003), which enable her to efficiently and with high quality perform the functions of the Company's Corporate Secretary efficiently and to a high standard.

Member of the Board of Directors of PJSC Varyeganneftegaz, PJSC Orenburgneft, OJSC Udmurtneft, OJSC NGK Slavneft, PJSC NC Rosneft-Kubannefteprodukt, RN-West LLC, PJSC Saratov Oil Refinery, JSC Slavneft-Yaroslavnefteorgsintez; member of the Supervisory Board of JSC Bank RRDB.

Holds 393 shares in Rosneft (0.000004% of the share capital of the Company).

WORK OF THE MANAGEMENT BOARD IN 2016

In 2016, the Management Board held 53 meetings and considered over 150 items within its remit.

53
MEETINGS WERE HELD

>150
ITEMS WERE CONSIDERED

5.5 REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS

Rosneft's existing program of remuneration to members of the Board of Directors of the Company is based on observance of legislative provisions and the Company's internal documents developed with due regard for the recommendations of the Bank of Russia Corporate Governance Code and best practices in respect of determination of a system of incentives for members of governing bodies.

Matters of remuneration to members of the Company's Board of Directors is the Regulation on Remuneration and Compensation of Expenses to Members of the Board of Directors, which contain an exhaustive list of all types of payments provided to the Board of Directors members and conditions for receipt thereof. This which ensures absolute transparency of the director remuneration determination mechanism.

The Regulations set the base remuneration of a member of the Board of Directors (for performing functions of a Board member) at USD 500,000 (five hundred thousand US dollars) for a corporate year, which is comparable to directors' remuneration in major vertically integrated oil companies.

The total amount of remuneration is calculated proportionately to the period of a Board member's service (performance of the functions of the Chairman of the Board of Directors/Committee member/Committee Chairman).

At the same time, remuneration shall not be paid to a Board member taking part in less than 2/3 of the meetings held, which ensures that the principle of fair calculation of remuneration is observed.

In order to provide an opportunity for aligning the interests of the Board of Directors with the Company's long-term development goals and financial interests

of its shareholders, the Regulations provide for a possibility to pay remuneration to members of the Board of Directors with the Company shares and set limits on transactions with the shares received as remuneration in shares: following the recommendations of the Bank of Russia Corporate Governance Code, the Regulation recommends that directors are advised not to sell the major part of their shares of the Company (50% or more) and not to apply any hedging instruments within at least one year upon cessation of their membership in the Board of Directors.

In accordance with the policy on incentives to members of the Board of Directors, the Company determined the list of expenses (compensations) that are subject to reimbursement to members of the Board of Directors, and has set the conditions for the reimbursement thereof.

On June 15, 2016, the General Shareholders' Meeting (unnumbered minutes dated June 20, 2016) adopted a resolution approving the payment of remuneration to the following members of the Board of Directors of the Company for the period of their service in the following amounts:

- **To Andrey Akimov:** USD 560,000 (USD 500,000 base remuneration and USD 60,000 for performing the functions of a member of the HR and Remuneration Committee and the Strategic Planning Committee);
- **To Matthias Warnig:** USD 580,000 (USD 500,000 base remuneration, USD 50,000 for performing the functions of the Chairman of the HR and Remuneration Committee, and USD 30,000 for performing the functions of a member of the Audit Committee);

- **To Oleg Viyugin:** USD 580,000 (USD 500,000 base remuneration, USD 50,000 for performing the functions of the Chairman of the Strategic Planning Committee, and USD 30,000 for performing the functions of a member of the Audit Committee);
- **To Donald Humphreys:** USD 550,000 (USD 500,000 base remuneration and USD 50,000 for performing the functions of the Chairman of the Audit Committee);

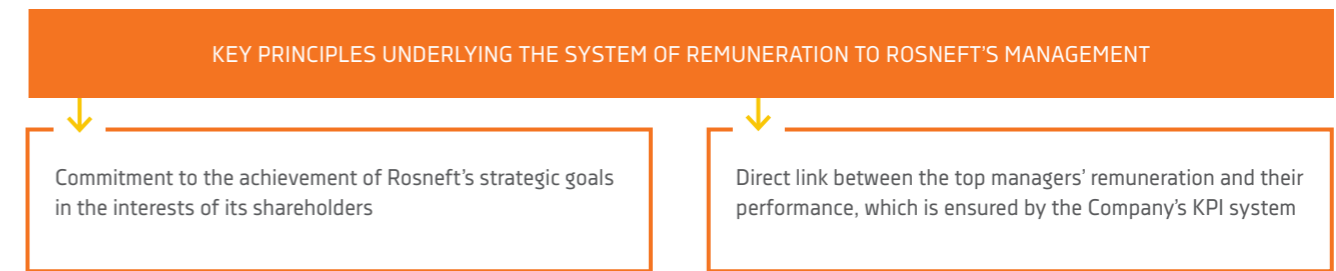
Pursuant to the restrictions stipulate by the Regulations, remuneration for the corporate year 2015-2016 was not paid to the Chairman of the Board of Directors A. Belousov, who is a government official, to the Deputy Chairman of the Board of Directors, Chief Executive Officer of the Company I. Sechin, and to the member of the Board of Directors A. Novak, who holds a government position of the Minister of Energy of the Russian Federation.

Furthermore, remuneration was not paid to Robert Dudley and Guillermo Quintero, members of the Board of Directors, who are representatives of BP, the Company shareholder, according to applications received from them.

The total amount of remuneration to members of the Board of Directors for the 2015-2016 corporate year was equal to USD 2,270,000.

As of December 31, 2016, Rosneft fulfilled its obligation to pay remuneration to the members of the Board of Directors in full.

5.6 REMUNERATION OF THE MANAGEMENT



The key principles underlying the system of remuneration to Rosneft's management are as follows:

- Commitment to the achievement of Rosneft's strategic goals in the interests of its shareholders;
- Direct link between the top managers' remuneration and their performance, which is ensured by the Company's KPI system.

The procedure for determining KPIs and assessing the achievement thereof includes:

- determination of KPIs based on the Company Strategy, Long-Term Development Program, instructions of the President of the Russian Federation and the Government of the Russian Federation, the Company Business Plan and goals in the reporting year;

- approval by the Board of Directors of the Company and its business segments, as well as individual KPIs for top managers;
- calculation of the collective and individual KPI delivery based on the audited consolidated accounting statements and management accounts upon results of the reporting period;
- assessment by the HR and Remuneration Committee and by the Board of Directors of the approved KPIs delivery results and approval of amounts of the top managers' bonuses.

The KPI system structure and its connection to the Company's Strategy and the Long-Term Development Program is described in detail in section 2.5 hereof "KPI system of the Company".

The key provisions of the system of remuneration to Rosneft's top managers are set out in Rosneft's Regulations on Payments and Compensations to Top Managers (Minutes No. 29 of the Board of Directors dated April 24, 2015), which determine the procedure, conditions and the list of possible payments to Rosneft's Chief Executive Officer, Vice Presidents and officers in the rank of Rosneft's Vice President (the document is posted on the Company's official website: <http://www.rosneft.ru/Investors/corpgov/>).

In 2016, the total remuneration, benefits and/or reimbursement of expenses of the collective executive body (the Management Board) of Rosneft totaled RUB 3.7 bln¹, down by 0.4% year on year, including the following:

INDICATOR	RUB
Remuneration for serving on the governing body	113,225,840
Salary	572,275,442
Bonuses (including annual bonuses for the previous year, one-time bonuses for the implementation of major projects and being presented with government awards of the Russian Federation)	2,006,700,413
Fees	0
Benefits	0
Payments for business trips and other remuneration	1,004,711,139
Reimbursement of expenses	29,696,975
TOTAL	3,726,609,809

1. Information on remuneration and reimbursement of expenses of the collective executive body (the Management Board) for 2016 was published on February 14, 2017 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 2016.

5.7 RISK MANAGEMENT, INTERNAL CONTROL, DEVELOPMENT OF THE COMPLIANCE FUNCTION AND INTERNAL AUDIT

ROSNEFT HAS IMPLEMENTED AND CONTINUOUSLY IMPROVES AN INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM (IC&RMS) IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE OF THE BANK OF RUSSIA¹, REQUIREMENTS OF THE RUSSIAN LEGISLATION² AND BEST PRACTICES.

OVERVIEW

The goals and objectives of the IC&RMS are set out in the Company's Policy on Risk Management and Internal Control³, which has been developed based on recommendations of international professional organizations specializing in risk management, internal control and audit. They are designed to provide reasonable assurance of achievement of the Company's goals, including:

- Strategic goals contributing to the accomplishment of the Company's mission;
- Operational goals related to the Company's financial and business performance and protection of its assets;
- Goals related to the Company's compliance with applicable laws and local regulatory documents;
- Goals related to the timely preparation of accurate and reliable financial or non-financial reports, internal and/or external reports.

Continuous development and improvement of the IC&RMS enables the Company to respond promptly and adequately to changes in the external and internal environment, improve the efficiency and effectiveness of its operations, and maintain and increase the Company's value.

Key areas of development of the IC&RMS are included in the Long-Term Development Program approved by Rosneft's Board of Directors on October 13, 2016 (minutes No. 10 dated October 17, 2016).



In addition to the Long-Term Development Program, an Integrated Program for the Development of the Internal Control and Risk Management System (IC&RMS) in the Short and Medium Term has been prepared and approved by the Chief Executive Officer. The program sets the goals and objectives and lists the key measures contributing to the achievement of the Company's strategic goals related to the IC&RMS.

IC&RMS BODIES

The Company's key IC&RMS bodies are: the Board of Directors, the Audit Committee of the Board of Directors, the Chief Executive Officer, the Management Board, the Audit Commission, the Company's management, heads of divisions and employees responsible for the organization and operation of the IC&RMS, the Risk Department, the Internal Control Department, the Internal Audit Service and the Risk Management Committee.

OVERVIEW OF THE WORK OF IC&RMS BODIES AND KEY RESULTS FOR 2016:

Board of Directors of Rosneft

The Board of Directors is responsible for the strategic management of the Company's operations on behalf and in the interests of all of the Company's shareholders.

In accordance with the Regulations on the Board of Directors¹, the area of competence of the Board of Directors related to supervising the Company's financial and business operations includes approval of the main areas of development of the IC&RMS, monitoring of progress in these areas, organization of performance review and assessment of the IC&RMS.

Audit Committee of Rosneft's Board of Directors

The Audit Committee of the Board of Directors has been established to examine various issues in depth and formulate

recommendations to the Board of Directors on matters within its competence related to supervising the Company's financial and business operations and on other matters falling within the competence of the Committee.

In accordance with the Regulations on the Audit Committee of the Board of Directors of Rosneft², the main task of the Committee is to assist the Board of Directors in safeguarding shareholders' interests by monitoring the completeness and accuracy of the Company's financial and other reports, the reliability and efficiency of the internal control and risk management system, compliance, internal audit and the corporate governance system.

Key functions of the Committee include approving various areas of development of the internal control and risk management system, monitoring progress in these areas, organizing performance review and assessment of the internal control and risk management system.

1. Corporate Governance Code recommended by letter No. 06-52/2463 of the Bank of Russia dated April 10, 2014

2. Federal Law No. 402-FZ on Accounting dated December 6, 2011 and other documents

3. Company Policy on Internal Control and Risk Management No. P4-01 P-01 approved by the Board of Directors of Rosneft, minutes No. 8 dated November 16, 2015

1. Regulations on the Board of Directors of Rosneft approved by the General Shareholders' Meeting of Rosneft on June 27, 2014 (unnumbered minutes) with amendments No. 1 (approved by the General Shareholders' Meeting on June 15, 2016, unnumbered minutes)

2. Regulations on the Audit Committee of the Board of Directors of Rosneft approved by the Board of Directors on October 1, 2014 (minutes No. 7 dated October 6, 2014)

5 

PERSONS
composed the Audit Commission
as of December 31, 2016

4 

MEETINGS
were held by the Audit Commission
during the reporting period

AUDIT COMMISSION OF ROSNEFT

The Company has adopted the Regulations on the Audit Commission of Rosneft¹ and the Regulations on Remuneration and Compensations to the Audit Commission Members of Rosneft².

The Audit Commission comprises five members and is elected by the General Shareholders' Meeting until the next Annual General Shareholders' Meeting. A shareholder of the Company or any person nominated by a shareholder may be a member of the Audit Commission. Members of the Audit Commission may not concurrently serve on the Board of Directors or hold other positions in the Company's governing bodies.

The Audit Commission is tasked with auditing the Company's operations, which involves identifying and assessing risks arising as a result and in the course of its financial and business operations.

The Audit Commission is responsible for auditing the Company's financial and business operations, verifying the accuracy and reliability of data included in Rosneft's annual report and annual financial statements as well as in a report on interested party transactions closed during the reporting period.

In accordance with the approved work plan, the Audit Commission conducted a desk audit of Rosneft's financial and business operations in two stages. The Commission prepared reports on the findings of the audit of annual financial statements and on the accuracy and reliability of data included in the annual report.

Membership of the Audit Commission (as of December 31, 2016)

Under the resolution of the General Shareholders' Meeting dated June 15, 2016, the following persons were elected to the Audit Commission:

Chairman of the Audit Commission:

ZAKHAR SABANTSEV

Born in: 1974
Education: university degree
Organization: Ministry of Finance of the Russian Federation
Position: Head of the Banking Sector Monitoring, Consolidation and Analysis Division of the Financial Policy Department

Members of the Audit Commission:

ALEXEY AFONYASHIN

Born in: 1983
Education: university degree
Organization: PJSC Gazprom Neft
Position: Head of the Long-Term Strategy Department

VIKTOR MAMIN

Born in: 1982
Education: university degree
Organization: Ministry of Energy of the Russian Federation
Position: Adviser to the Minister, Director of the Department of Corporate Governance, Pricing Environment and Control and Audit Activities in Industries of the Fuel and Energy Sector

SERGEY POMA

Born in: 1959
Education: university degree
Organization: Self-Regulatory Organization National Association of Securities Market Participants (NAUFOR)
Position: Vice President, Deputy Chairman of the Management Board

OLEG ZENKOV³

Born in: 1977
Education: university degree

DEVELOPMENT OF THE COMPLIANCE FUNCTION

All of Rosneft's employees are required to comply strictly with legal, ethical and professional rules and standards consistent with the requirements of the government, the market and society and forming the basis of compliance. Over the past few years, the Company has already made considerable progress in the sphere of compliance: the Code of Business Ethics and Corporate Conduct has been approved; the Policies on Prevention of Involvement in Corruption and on Prevention of Corporate Fraud are in place; a number of IT measures have been implemented to ensure data protection; the Company operates a Security Hotline and

an electronic mailbox for receiving reports on issues related to business ethics. As part of the development of the corporate compliance system, in 2016: A report on Rosneft's compliance with key requirements of the National Anti-Corruption Plan for 2016 and 2017 was prepared and submitted to the Russian Government. In accordance with the Guidelines of the Federal Agency for State Property Management on Risk Management and Internal Control in the Sphere of Preventing and Combating Corruption in Joint-Stock Companies in which the Russian Federation Holds Shares, as approved by order No. 80

of the Federal Agency for State Property Management dated March 2, 2016, and in accordance with the Standard Road Map, a Consolidated Corporate Compliance Program (Road Map) was developed and approved by the Board of Directors of Rosneft. Employees of Rosneft's divisions and Group Companies underwent face-to-face training in compliance to support and develop the Company's compliance system. Issues of the Newsletter titled Complete Guide to the Compliance System were prepared; it is designed to provide the Company's employees with information on compliance matters.

INTERNAL CONTROL SYSTEM

In accordance with the Policy on Internal Control and Risk Management and the Standard for the Internal Control System¹, the Company takes measures for the comprehensive implementation and continuous development of the Internal Control System (ICS).

The Internal Control Department, which forms part of Rosneft's Administration, provides methodological support for the organization of the ICS and assists the management in formalizing business processes and improving their efficiency by formulating and implementing requirements for the design of controls and their place in business processes.

Complete information on business process risks and controls helps the management make efficient management decisions and achieve the goals by preventing adverse events in business processes on time; thus, the ICS contributes directly to the achievement of the Company's strategic goals by helping to maintain high management standards.

The goals and objectives of the ICS correspond to the goals and objectives of the IC&RMS set out in the Policy on Internal

Control and Risk Management and are accomplished through internal control processes.

Principal objectives related to the achievement of ICS goals include the following:

- Defining and updating the main areas of development of the ICS taking into account the Company's needs, stakeholders' requirements, business process risk assessment, etc.;
- Developing, implementing and following control procedures, including centralized methodological support for the organization and efficient operation of the Company's ICS;
- Identifying shortcomings in existing controls, developing and implementing measures to eliminate them; standardizing and optimizing control procedures;
- Developing and implementing a mechanism for cooperation and exchange of information on internal control and business process risk management between all of Rosneft's divisions and Group Companies (including joint ventures), including via information systems.

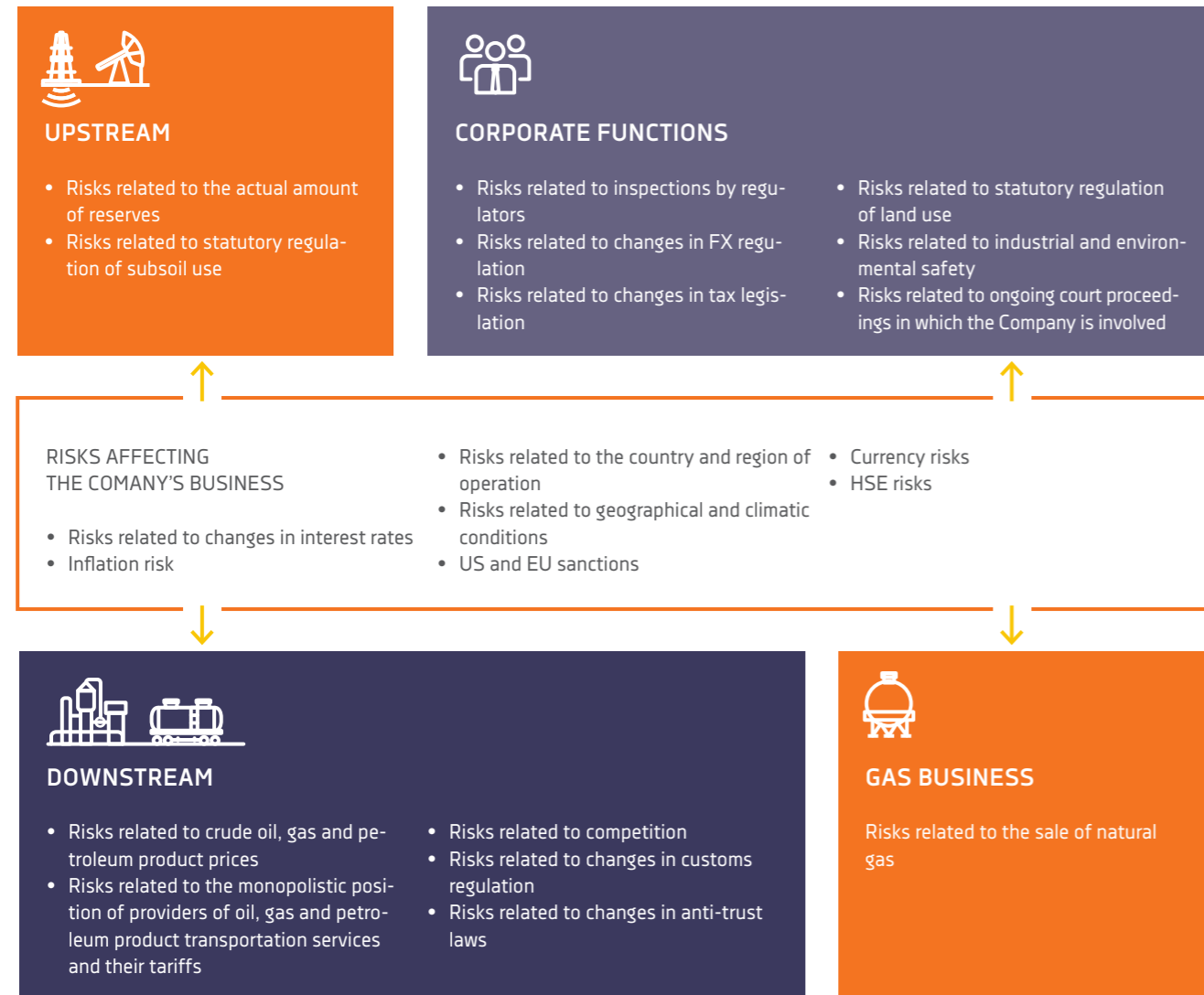
In 2016, the following key measures and initiatives were implemented as part of the ICS development:

- The internal control methodology was finalized, which involved approving and adopting the Company's Regulations on Development, Implementation and Maintenance of the Internal Control System;
- Training was provided to employees of Rosneft and Group Companies as part of the corporate in-house training system and the plan for the development, implementation and maintenance of the Company's internal control system;
- Risk matrices and controls were developed in Rosneft and Group Companies; shortcomings in the design of business process control procedures were revealed and eliminated;
- Standard risk matrices and control procedures were developed for core business processes and implemented in Group Companies;
- Progress in the elimination of shortcomings in the design of control procedures was monitored on a quarterly basis, and the relevant quarterly status reports were submitted to the Company's management;
- A functional responsibility assignment matrix was developed for internal control and risk management bodies.

1. Regulations on the Audit Commission of Rosneft approved by the General Shareholders' Meeting of Rosneft on June 27, 2014 (unnumbered minutes) with amendments No. 1 (approved by the General Shareholders' Meeting on June 15, 2016, unnumbered minutes)
2. Regulations on Remuneration and Compensations to the Audit Commission Members of Rosneft approved by the Board of Directors of Rosneft on May 22, 2015 (minutes No. 34 dated May 25, 2015)
3. Did not hold any posts as of December 31, 2016

1. Company Standard on Internal Control No. P4-01S-0018 approved by the Management Board of Rosneft, minutes No. Pr-IS-54p dated December 31, 2014, and put into effect on March 10, 2015 pursuant to order No. 100 dated March 10, 2015, with amendments approved by the Management Board of Rosneft, minutes No. Pr-IS-38p dated November 1, 2016, and put into effect pursuant to order No. 765 dated December 23, 2016

RISKS RELATED TO ROSNEFT'S OPERATIONS



RISK MANAGEMENT SYSTEM

The Company's risk management process is regulated by the Standard for the Corporate-Wide Risk Management System (CWRM).

Responsibility for developing and maintaining the CWRM is assigned to the Risk Department.

As part of the corporate-wide risk management system, reports are prepared on all of the Company's key risks, including risks affecting the implementation of its Long-Term Development Program and risks related to day-to-day financial and business operations. Risk reports are submitted to the

Board of Directors, the Company's management and employees; these reports contain all the necessary information on risks, their assessment and a description of measures aimed at reducing the risks to an acceptable level. Continuous development and improvement of the CWRM enables the Company to respond promptly and adequately to changes in the external and internal environment, improve the efficiency and effectiveness of the Company's operations, and maintain and increase the Company's value.

Rosneft continuously analyzes and identifies risks that may affect the achievement of strategic goals of the Company as a whole and its individual businesses¹.

1. Detailed information on the risks is provided in Appendix 2 to the annual report



CORPORATE INSURANCE

Rosneft uses insurance as a risk management tool enabling it to transfer financial losses resulting from the occurrence of insurable risks to insurance companies. Insurance covers Rosneft's property interests related to the following:

- Ownership, use and management of property (property insurance);
- Obligatory indemnification (civil liability insurance);
- Entrepreneurship (entrepreneurial risk insurance).

Rosneft arranges liability insurance in accordance with federal laws, including Federal Law No. 225 on Compulsory Insurance of the Owner of a Hazardous Facility against Civil Liability for Damage Caused by an Accident at the Hazardous Facility. Pursuant to Federal Law No. 225, compulsory insurance covers property interests of the owner of a hazardous facility related to their obligation to

compensate the victims for the damage that they have suffered (part 1 of article 1 of the Federal Law). Rosneft arranges insurance against the risk of damage to (loss of) property and potential losses resulting from business interruption due to accidents and other accidental impacts. It also arranges liability insurance against third-party risks during onshore and offshore operations. Rosneft is currently taking steps to settle damage claims related to the accident that occurred on July 16, 2016 at PJSOC Bashneft (the Bashneft-Ufaneftekhim Branch). Insurance cover against risks related to this event is provided under a contract for comprehensive property and business interruption insurance.



In 2016, the Company's operations were still affected by the state of the global and Russian economy, as well as changes in foreign policy. The Company expects that these trends may continue to affect the Company's operations in the near future. In 2016, sectoral sanctions imposed earlier against Russia and individual Russian companies by a number of countries, including the US and the EU, remained in force. These sectoral sanctions impose restrictions on the provision of new funding by US and EU entities to a number of sanctioned entities specified in US and EU regulations and on the performance of work and provision of goods and services that might be used in Russia for deep-water oil exploration and production, oil exploration and production in the Arctic and the extraction of hard-to-recover reserves. The Company takes these sanctions into account in its operations and continuously monitors them in order to minimize their negative impact.

In addition, Rosneft has established the Risk Management Committee under the Chief Executive Officer of the Company. It is a collective advisory body whose area of competence includes formulating a single position on risk management issues.

The Company took the following steps to improve the CWRM:

- It continued to develop the risk assessment methodology based on mathematical modelling, for both financial and operational risks of Rosneft.
- As part of a portfolio-based approach to market risk management, the Company's exposure to market risks is regularly

analyzed based on the analysis and quantitative assessment of the impact of price and currency risks on the Company's financial performance.

- The Company prepares and regularly updates risk reports, including reports on risks affecting the implementation of the Long-Term Development Program and risks related to day-to-day financial and business operations (including the results of risk modelling).
- The Company takes systematic measures to ensure that its subsidiaries are covered by the CWRM, taking into account the integration of PJSOC Bashneft in the Company's structure.

INTERNAL AUDIT

The internal audit function in Rosneft is performed by the head of the Internal Audit Service and the following divisions: the Operational Audit Department, the Corporate Audit Department, the Regional Audit Department, the Office for Internal Audit Methodology and Management and the Office for Economic and Organizational Analysis. In accordance with Rosneft's organizational structure approved by the Board of Directors, divisions of the Internal Audit Service report directly to the head of the Internal Audit Service.

In order to centralize the internal audit function and to ensure its independence and organizational integrity, the Internal Audit Service has been reorganized. As a result, starting from January 2016, employees of internal audit divisions of Group Companies report directly to the head of the Internal Audit Service, and separate workplaces have been created in the Company's core regions of operation.

As part of the development of the internal audit function, the Company has approved the Company Policy on Internal Audit¹, the Company Standard for the Organization of Internal Audit², the Company Regulations on the Internal Quality Assurance Program³, and the Company Regulations on the Procedure for Cooperation between the Internal Audit Service and Divisions of Rosneft and Group Companies when Performing Internal Audit⁴.

The internal audit function assists the Board of Directors and the Company's executive bodies in increasing the efficiency of the Company's governance and improving its financial and operational performance, including by applying a consistent systematic approach to reviewing and assessing the internal

control and risk management system and corporate governance as tools providing reasonable assurance of the achievement of the Company's goals. It also helps to ensure:

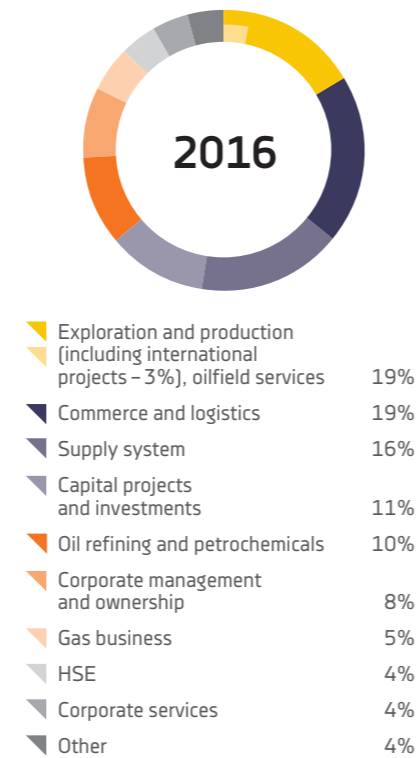
- The accuracy, reliability and integrity of information on the Company's financial and business operations, including those of Group Companies;
- The efficiency and effectiveness of the Company's operations, including those of Group Companies;
- Identification of internal reserves for improving the Company's financial and business performance, including that of Group Companies;
- Protection of the Company's assets, including those of Group Companies.

The work plan of the internal audit function for the reporting period is approved by the Chief Executive Director of Rosneft and agreed by the Audit Committee of the Board of Directors. Information about the plan has been presented to the Board of Directors while reviewing an internal audit report for a previous period.

The internal audit report includes information about material risks, violations / shortcomings, results and efficiency of implementation of internal audit proposals concerning elimination of revealed violations / shortcomings, results of the internal audit plan implementation, results of assessment of the actual condition, reliability and efficiency of IC&RMS and corporate governance.

Based on results of assessment of IC&RMS efficiency, the internal audit concluded that this system as a whole supported the risk management process

KEY AREAS COVERED BY INTERNAL AUDIT IN 2016



>300

INSPECTIONS were conducted in 2016

>97%

TOP-LEVEL PROCESSES are covered with checks

and functioning of the internal control system and provided reasonable assurance that Rosneft's goals will be achieved. The assessment results have been reviewed by the Rosneft Board of Directors.

The head of the Internal Audit Service is appointed and dismissed by the Chief Executive Officer based on the resolution of the Board of Directors. The existing reporting lines, whereby the head of the Internal Audit Service reports to the Board of Directors and the Company's executive bodies, ensure a degree of independence sufficient for performing internal audit functions.

Heads of divisions of the Internal Audit Service do not participate in the management of functional areas of the Company's business requiring management decision-making with regard to audited entities.

Under the resolution of the Board of Directors, starting from July 2016, the head of the Internal Audit Service is a member of the Management Board of Rosneft. The head of the Internal Audit Service attends the meetings of this body but is not entitled to vote on matters requiring management decision-making with regard to audited entities.

In 2016, over 300 inspections were conducted; they covered over 97% of top-level processes.

Thematic inspections and audit aimed at assessing the performance of the IC&RMS and improving the efficiency of the Company's business processes in core Group Companies make up over 90% of the total.

Based on the findings of the inspections, the Internal Audit Service in cooperation with heads of business units formulates proposals for business process improvement and increasing the efficiency of the IC&RMS and drafts resolutions on the elimination of violations and shortcomings identified during the inspections.

In the reporting period, the Internal Audit Service prepared the internal audit function for external assessment. Following the preparation, a report was drafted, and an action plan for the development of the Company's internal audit function in 2017 was developed.

The head of the Internal Audit cooperates with the Company's governing and supervisory bodies, the external auditor and audit commissions of the Company's subsidiaries and affiliates. The head of the Internal Audit Service provides the Board of Directors (the Audit Committee of the Board of Directors) with confirmation of organizational independence of internal audit twice a year.

1. Company Policy on Internal Audit approved by the Board of Directors of Rosneft, minutes No. 20 dated February 2, 2015, and put into effect on February 18, 2015 pursuant to order No. 60 dated February 18, 2015 (with amendments approved by the Board of Directors of Rosneft (minutes No. 17 dated April 29, 2016) and put into effect pursuant to order No. 354 of Rosneft dated July 4, 2016)

2. Company Standard for the Organization of Internal Audit approved by the Management Board (minutes No. Pr-IS-31p dated September 30, 2016) and put into effect pursuant to Order No. 594 of Rosneft dated October 25, 2016

3. Company Regulations on the Internal Audit Quality Assurance Program approved pursuant to Order No. 215 of Rosneft dated May 18, 2015

4. Company Regulations on the Procedure for Cooperation between the Internal Audit Service and Divisions of Rosneft and Group Companies when Performing Internal Audit approved and put into effect pursuant to Order No. 10 of Rosneft dated January 21, 2016

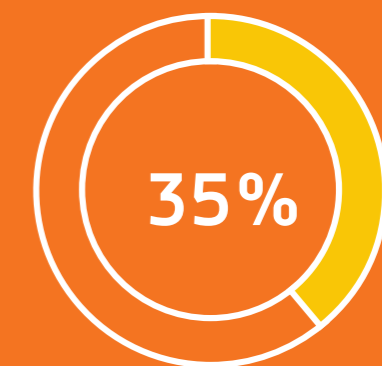
06. INFORMATION FOR SHAREHOLDERS AND INVESTORS

- 6.1. Share capital
- 6.2. Dividend policy
- 6.3. Measures implemented in 2016 to improve the efficiency of communication with shareholders and the exercise of their rights
- 6.4. Cooperation with institutional investors
- 6.5. Bonds and credit ratings of the Company
- 6.6. Information disclosure



ROSNEFT PROVIDES FREE ACCESS TO INFORMATION DISCLOSED IN ACCORDANCE WITH REQUIREMENTS OF THE RUSSIAN LEGISLATION, THE COMPANY'S CHARTER AND ITS INTERNAL REGULATIONS

MINIMAL TARGET LEVEL OF DIVIDEND PAYMENTS AS A PERCENTAGE OF IFRS NET PROFIT



63.4

RUB BLN –
DECLARED DIVIDENDS
FOR 2016



#1

IN TERMS OF MARKET
CAPITALIZATION IN 2016

CHANGE OF THE SHAREHOLDER STRUCTURE

CHANGE OF THE SHAREHOLDER STRUCTURE AS A RESULT OF COMPLETION OF THE INTEGRATED TRANSACTION FOR THE SALE OF 19.5% OF SHARES IN ROSNEFT

12/7/2016

Signing of an agreement on the sale of 19.5% of shares in Rosneft to a consortium of international investors

1,040 

RUB BLN — budget revenue in Q4 2016 from privatization deals involving Rosneft

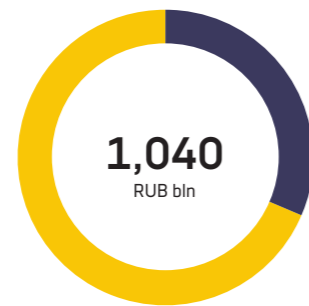
19.5%

of shares in Rosneft were sold under the agreement



GLENCORE

Major representatives of the consortium of international investors participating in the transaction



- ▲ Budget revenue from the privatization of a 19.5% stake in Rosneft — RUB 710.8 bln
- ▲ Privatization of the stake in PJSOC Bashneft held by the government — RUB 329.69 bln

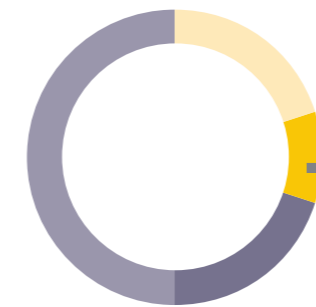
On December 7, 2016, an agreement was signed for the sale of 19.5% of shares of Rosneft to the consortium of international investors, which on parity basis comprises Qatar Investment Authority, one of the world's largest sovereign funds and Glencore, a leading commodities producer and trader.

The integrated privatization deal in respect of 19.5% shares in Rosneft and a controlling stake in PJSOC Bashneft is the largest privatization deal in Russian history and the largest deal in the global oil and gas industry in 2016. The economic benefit from its successful completion for the Russian Government, including the value of synergies between Rosneft and PJSOC Bashneft, exceeded RUB 1,100 bln, with budget revenues in Q4 2016 equal to RUB 1,040 bln, including RUB 710.8 bln as the result of the privatization of 19.5% of shares in Rosneft.

Rosneft's Board of Directors also approved a strategic cooperation agreement between the Company and Qatar Investment Authority and Glencore; the agreement provides new synergistic opportunities related to further cooperation with the new shareholders, including the development of upstream projects, logistics and trading.

6.1 SHARE CAPITAL

SHARE CAPITAL STRUCTURE



JSC ROSNEFTEGAZ	50.00000001%
BP Russian Investments Limited	19.75%
QHG Shares Pte. Ltd.*	19.5%
Free float	10.75%

*QHG Shares Pte. Ltd. changed its name for QHG Oil Ventures Pte. Ltd. in 2017

7.5% 

Global Depository Receipts (GDRs)

3.25% 

Ordinary shares

In accordance with the Charter, in addition to outstanding shares, Rosneft has the right to additional placement of 6,332,510,632 ordinary registered book-entry shares with a par value of RUB 0.01 each and with a total par value of RUB 63,325,106.32 (authorized shares). Such shares offer the same rights as outstanding ordinary shares of Rosneft. A decision on increase Rosneft's share capital by placement of additional registered shares is taken by the General Shareholders' Meeting.

The state registration number of the issue of ordinary shares of Rosneft is 1-02-00122-A.

The date of state registration of the issue of ordinary shares of Rosneft is September 29, 2005.

In 2016, Rosneft did not issue or place additional shares.

The number of shareholders registered in the shareholder register of Rosneft as of December 31, 2016 (without taking into account the information disclosed by nominees) totaled 29,139 (including 6 nominees).

The number of nominees decreased by 1 holder compared against December 31, 2015.

As of December 31, 2016, Rosneft had no preferred shares.

Share capital structure¹

SHAREHOLDERS	AS OF DECEMBER 31, 2015		AS OF DECEMBER 31, 2016	
	NUMBER OF SHARES	EQUITY STAKE, %	NUMBER OF SHARES	EQUITY STAKE, %
JSC ROSNEFTEGAZ ² (shareholder)	7,365,816,383	69.50	5,299,088,910	50.00000001
BP Russian Investments Limited (shareholder)	-	-	2,092,900,097	19.75
QHG Shares Pte. Ltd. (shareholder)	-	-	2,066,727,473	19.50
National Settlement Depository (nominee central depository) ³	3,189,547,616	30.10	1,098,600,619	10.37
Other legal entities	1,582,062	0.01	1,492,677	0.01
Russian Federation represented by the Federal Agency for State Property Management	1	< 0.01	1	< 0.01
Individuals	41,199,398	0.39	39,256,385	0.37
Account of unidentified entities	32,357	> 0.01%	111,655	> 0.01%
TOTAL	10,598,177,817	100.00	10,598,177,817	100.00

In 2016, Rosneft updated information about shareholders owning more than 5% of share capital on its corporate website on a monthly basis. Rosneft management has no information about any shareholders with equity stakes exceeding 5% (all shareholders of the Company with equity stakes exceeding 5% of the total number of outstanding shares of the Company), other than those listed above.

Rosneft's shares are traded on the Russian organized securities market operated by PJSC Moscow Exchange (in the First Tier Quotation List).

Order No. 06-1380/pz-i of the Federal Service for Financial Markets dated June 20, 2006, permits placement and trading of 2,140,000,000 ordinary registered

book-entry shares of Rosneft outside the Russian Federation.

In July 2006, Rosneft carried out listing of Global Depositary Receipts (GDRs) on the London Stock Exchange. The issue of GDRs, which certify rights in respect of ordinary registered shares of Rosneft, in accordance with foreign law, was carried out by J. P. Morgan depositary bank. One Global Depositary Receipt certifies rights to one ordinary registered share of Rosneft. As of December 31, 2016, GDRs were issued for 789 mln ordinary shares of Rosneft, which is 7.4% of total shares in the Company.

The rights of a holder of ordinary shares of Rosneft, including the voting right on each voting share of Rosneft, are listed in Article 5.8 of the Company's Charter posted on the Company's official website.

- Information in the Table is based on data from Rosneft's Shareholder Register.
- JSC ROSNEFTEGAZ is 100% in federal ownership. The Russian Government's direct share (through the Federal Agency for State Property Management) in Rosneft's equity is 0.000000009%.
- The total number of nominee-held shares as of December 31, 2015 includes 2,092,900,097 shares (19.75% of Rosneft share capital) owned by BP Russian Investments Limited.

Information on Rosneft's shares held by members of the Board of Directors and of the Management Board

MEMBER OF THE BOARD OF DIRECTORS AND OF THE MANAGEMENT BOARD OF ROSNEFT	NUMBER OF ORDINARY SHARES	EQUITY STAKE, %
Andrey Akimov	-	-
Andrey Belousov	-	-
Gennady Bukaev	-	-
Matthias Warnig	92,633	0.0009
Oleg Viyugin	-	-
Robert Dudley	-	-
Yury Kalinin	203,916	0.0019
Didier Casimiro	457,598	0.0043
Guillermo Quintero	-	-
Petr Lazarev	448,066	0.0042
Eric Maurice Liron	543,804	0.0051
Yury Narushevich	6,888	0.00006
Alexander Novak	-	-
Zeljko Runje	377,318	0.0036
Igor Sechin	13,489,350	0.1273
Donald Humphreys	220,000 (GDRs)	0.0021
Andrey Shishkin	377,114	0.0036

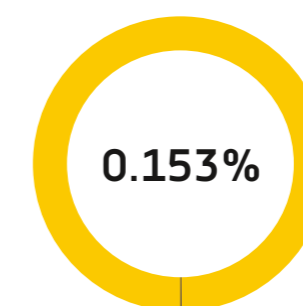
TRANSACTIONS IN ROSNEFT'S SECURITIES BY MEMBERS OF THE BOARD OF DIRECTORS AND THE MANAGEMENT BOARD

The effective Company Regulations on Insider Information require members of the Board of Directors, members of the Management Board and the Chief Executive Officer to disclose to the Company information on transactions made by them in Rosneft's securities.

In 2016, a member of Rosneft's Board of Directors carried out a transaction in the Company's securities. Details of the transaction were presented to the Company (in compliance with the procedure and within the time limits stipulated by internal documents) and were disclosed to the stock market in compliance with the applicable legislation.

Donald Humphreys bought 60,000 shares on August 31, 2016

TOTAL



Total interest of members of the Board of Directors and of the Management Board in the Company's authorized capital



16,216,687

SHARES
Number of shares in Rosneft held by members of the Board of Directors

6.2 DIVIDEND POLICY

≥35%

TARGET LEVEL
OF DIVIDEND PAYMENTS
AS A PERCENTAGE
OF ROSNEFT'S IFRS
NET PROFIT

5

YEARS
period during which a shareholder
may apply for payment of declared
dividends that have not been paid
due to the absence of the shareholder's
address and bank details

For the purposes of increasing the Company's investment attractiveness, on December 7, 2016, the Board of Directors approved amendments to the dividend policy of Rosneft approved by the Company's Board of Directors on June 5, 2015. These amendments stipulate that:

- the target level of dividend payments shall be at least 35% of Rosneft's IFRS net profit;
- the target frequency of dividend payments shall be at least twice a year.

The Dividend Policy of Rosneft regulates the procedure for the determination of the share of profit allocated for dividend payment, the conditions under which dividends are declared, the procedure for the calculation of the amount of dividends on shares, and the procedure for the payment of declared dividends.

The Dividend Policy of Rosneft is based on the following principles:

- compliance with the requirements of the laws of the Russian Federation, the Company's Charter and internal documents;
- maintaining the balance of short- and long-term interests of shareholders;
- ensuring shareholders' commitment to improving the Company's profitability;
- increasing Rosneft's investment potential;
- ensuring sustainable dividend growth in line with an increase in net profit;
- providing shareholders with the most convenient way to receive dividends;

- payment of dividends in the shortest possible time.

Rosneft's Charter provides for a longer period, as compared against the period established by the legislation of the Russian Federation, during which a shareholder may apply for payment of declared dividends that have not been paid due to the absence of the shareholder's address and bank details, –5 years.

The resolution on dividend payment (including the amount of dividends and the form of payment) is passed by the General Shareholders' Meeting of Rosneft upon recommendation of the Board of Directors. As stated in the Company Dividend Policy, in determining recommended dividend amounts the Board of Directors is guided by the level of net profit as determined based on Rosneft's financial statements prepared under Russian Accounting Standards, as well as consolidated financial statements of Rosneft prepared under International Financial Reporting Standards. The recommended amount of dividends to be paid is determined by Rosneft's Board of Directors based on the Company's financial performance in the reporting year.

The dividend amount can be affected by the following factors: the Company's development prospects, its financial position and funding needs, the overall macroeconomic situation and market conditions and other factors, including those related to taxation and legislation.

On April 22, 2016, the Board of Directors recommended that the General Shareholders' Meeting allocate RUB 124.5 bln, or RUB 11.75 per ordinary share, for the payment of dividends for 2015. On June 15, 2016, the Annual General Shareholders' Meeting adopted a resolution on the payment of

Rosneft's dividend history

YEAR	DIVIDENDS PER SHARE ¹ , RUB	TOTAL DECLARED DIVIDENDS, RUB MLN	TOTAL DIVIDEND PAYMENTS, RUB MLN	DIVIDEND PAYOUT RATIO UNDER RAS ³	DIVIDEND PAYOUT RATIO UNDER IFRS/US GAAP
1999	0.0221	200	200	3,4%	
2000	0.0887	800	800	5,3%	6,4%
2001	0.1219	1,100	1,100	11,0%	8,2%
2002	0.1663	1,500	1,500	16,8%	14,8%
2003	0.1650	1,500	1,500	8,1%	12,7%
2004	0.1931	1,775	1,775	10,0%	7,4%
2005	1.25	11,335	11,335	20,0%	9,6%
DIVIDENDS PAID AFTER THE INITIAL PUBLIC OFFERING COMPLETED ON JULY 18, 2006					
2006	1.33	14,096	14,082	13.3% ²	14.7%
2007	1.60	16,957	16,943	10.5%	5.2%
2008	1.92	20,349	20,335	14.4%	7.4%
2009	2.30	24,374	24,359	11.7%	11.8%
2010	2.76	29,251	29,234	15.2%	9.3%
2011	3.45	36,564	36,543	33.1%	25.0%
	4.08	41,928	41,899		
2012	8.05	85,315	85,269	28.2%	25.0%
2013	12.85	136,187	136,115	99.9%	25.0%
2014	8.21	87,011	86,966	17.4%	25.0%
2015	11.75	124,529	124,500	52.0%	35.0%

dividends in accordance with the recommendations of the Board of Directors. A total of RUB 124.5 bln was paid to the Company's shareholders.

A total of RUB 86,548 mln was paid to the federal budget of Russia in the form of dividends (to JSC ROSNEFTEGAZ which is wholly owned by the federal government). At year-end 2016, Rosneft had no dividend payments outstanding to either the federal budget or JSC ROSNEFTEGAZ.

Dividends were paid to all shareholders of record, except for persons who failed to timely inform the registrar of the

issuer in a timely manner of changes in the data recorded on their profile.

On April 24, 2017, Rosneft's Board of Directors recommended that the General Shareholders' Meeting approve the amount of dividends for 2016 at the level of RUB 5.98 per share. The total amount of recommended dividends for 2016 is RUB 63,377.1 mln. The ratio of dividends to non-consolidated net profit under Russian Accounting Standards for 2016 amounts to 63.9%, while the ratio of dividends to consolidated net profit under IFRS is 35% (with due regard for the directives of the Government of the Russian Federation).

63.4

RUB BLN
Recommended dividends for 2016

1. The amount of dividends per share is given taking into account the split of shares held in September 2005 with a ratio of 1 to 100.
2. Net profit for 2006 is adjusted for non-recurring items.
3. Dividend payout ratio is the ratio of the declared dividend amount to the net profit for the reporting year.

6.3 MEASURES IMPLEMENTED IN 2016 TO IMPROVE THE EFFICIENCY OF COMMUNICATION WITH SHAREHOLDERS AND THE EXERCISE OF THEIR RIGHTS



Rosneft's corporate governance system ensures the observance of all shareholder rights in accordance with legislative requirements, recommendations of the Bank of Russia Corporate Governance Code, Rosneft's Charter and internal documents of Rosneft.

In 2016, the Company implemented a number of measures aimed at enabling shareholders to exercise their rights. According to the Corporate Governance Code of Rosneft, the most important of these rights include the following:

1. THE RIGHT TO PARTICIPATE IN THE MANAGEMENT OF ROSNEFT BY VOTING AT THE GENERAL SHAREHOLDERS' MEETING OF ROSNEFT.

On June 15, 2016, the anniversary Annual General Shareholders' Meeting was held in Saint Petersburg, which was the tenth meeting after the initial public offering of shares (IPO) on the Moscow Exchange and the London Stock Exchange.

Shareholders had an opportunity to do the following under the procedure and within the time limits established by the legislation, Rosneft's Charter and the Company's internal regulations:

- to add issues to the agenda of the Annual General Shareholders' Meeting and nominate candidates to the governing and supervisory bodies;
- to review information and materials provided for the Annual General Shareholders' Meeting;
- to participate in the Annual General Shareholders' Meeting and vote on all issues within its competence.

Shareholders could exercise their right to participate in the management of Rosneft by taking part in the Annual General

Shareholders' Meeting either in person, or by sending filled-in voting ballots to the Company or its registrar, Reestr-RN LLC.

Shareholders whose rights to Company shares are recorded by a nominee were also provided with an opportunity to participate in the Annual General Shareholders' Meeting by giving the nominee a voting instruction (provided that this opportunity is stipulated by an agreement between a Company shareholder and a nominee).

The Annual General Shareholders' Meeting approved the Company's Annual Report, annual financial statements and distribution of net profit for the financial year 2015, elected the Board of Directors, the Audit Commission and the Auditor of the Company, decided on the amount, timing and form of payment of dividends for 2015, the payment of remuneration and reimbursement of expenses to members of the Company's Board of Directors, on payment of remuneration to a member of the Company's Audit Commission, approved related-party transactions, and approved amendments to the Company's Charter and to the following internal documents of the Company:

- Regulations on the General Shareholders' Meeting of the Company;
- Regulations on the Board of Directors of the Company;
- Regulations on the Collective Executive Body (Management Board) of the Company;

OPPORTUNITY TO WATCH A LIVE BROADCAST

The Company offered an opportunity to watch a live broadcast to shareholders in the cities where the Company operates: Gubkinsky, Krasnodar, Moscow, Neftekumsk, Nefteyugansk, Orenburg, Samara, Tuapse, Tyumen, Usinsk, as well as at the Vankor field.



- Regulations on the Sole Executive Body (President) of the Company;
- Regulations on the Audit Commission of the Company.

As of December 31, 2016, the resolutions passed by the General Shareholders' Meeting had been implemented in full.

During the Annual General Meeting, the shareholders were provided an equal opportunity to express their views on the agenda items, to ask questions to speakers, members of the Board of Directors, the President, members of the Audit Commission, the Auditor, candidates nominated to the management and supervisory bodies, analysts and consultants, and receive answers at the time of the General Meeting or in writing after the General Meeting as soon as possible. The opportunity to ask questions was also provided to shareholders who viewed the broadcast of the General Shareholders' Meeting.

The decisions adopted by the Annual General Meeting were announced after the vote count and brought to the attention of stakeholders by the publication in Rossiyskaya Gazeta and Komsomolskaya Pravda and posting on the official Rosneft website.

2. THE RIGHT TO PARTICIPATE IN THE FORMATION OF ROSNEFT'S BOARD OF DIRECTORS ON CONDITIONS STIPULATED BY THE LEGISLATION OF THE RUSSIAN FEDERATION.

Based on the applicable legislation, the Company has established simple and convenient rules for shareholders to make proposals on adding issues to the agenda of the General Meeting, and nominating candidates to the Board of Directors and to the Audit Commission of Rosneft.

As compared to the requirements of the Russian law, the Company's Charter provides for a longer period (60 days after the end of a financial year) for the shareholders to submit proposals concerning the agenda of the Annual General Meeting and nominate candidates to the Board of Directors and the Audit Commission of Rosneft.

3. THE RIGHT TO RECEIVE PART OF THE COMPANY'S PROFIT AS DIVIDENDS.

In 2016, dividends were paid by Rosneft within the prescribed time frame and in the prescribed amount RUB 124.5 bln was allocated to be paid in dividends on Rosneft's shares for 2015 (11 rubles and 75 kopecks per outstanding share). The approved amount of dividend payment totaled 35% of the Company's IFRS net profit.

The Company's Dividend Policy approved by the Board of Directors on June 5, 2015 with amendments introduced under the resolution of the Board of Directors on December 7, 2016 is available on Rosneft's official website at: www.rosneft.ru / www.rosneft.com.

Shareholders who has requested payment of dividends declared but not paid by the Company for previous periods due to the absence of the relevant payment details and who had updated their data in the Shareholder Register and/or with the nominee, including the heirs of the shareholders, were paid dividends for the previous periods.

124.5

RUB BLN
WAS PAID OUT TO THE COMPANY'S SHAREHOLDERS FROM
NET INCOME FOR 2015**4. THE RIGHT TO RECEIVE NECESSARY INFORMATION ABOUT THE COMPANY ON A TIMELY AND REGULAR BASIS.**

The Regulations on Information Disclosure to Shareholders of Rosneft were enacted pursuant to the Company's Order on December 1, 2016 and posted on the official website of Rosneft at www.rosneft.ru / www.rosneft.com. The Regulations are aimed at enabling the Company shareholders to exercise their rights to receive information; they establish the procedure and time limits for provision of shareholders with information stipulated by the current legislation of the Russian Federation.

A considerable amount of information and documents for shareholders is posted on the official website of Rosneft at www.rosneft.ru / www.rosneft.com.

To enable effective cooperation with shareholders, the Company has provided the following communication channels: a Hotline for shareholders, mail, electronic communication and fax.

Contact details for communication with the Company's representatives can be found in the section of the Annual Report on shareholder and investor relations on pages 223 and 338, as well as on the official website of Rosneft at www.rosneft.ru / www.rosneft.com.

5. THE RIGHT TO FREE AND EASY DISPOSAL OF SHARES, RELIABLE METHODS OF REGISTRATION OF RIGHTS TO SHARES.

The Shareholder Register is maintained by a professional registrar, Reestr-RN LLC, acting on the basis of a perpetual license for registering security holders. The Company's registrar has an impeccable reputation and all necessary resources, including the technical means, to safeguard the rights of shareholders to register and exercise their rights to shares of the Company.

For all matters related to exercising their rights to shares, submission of documents required to update personal data and making transactions in their securities, shareholders whose shares are recorded in the Register may contact the service points and the transfer agent points operating in the regions where the shareholders of the Company operate most. These are the Head Office and 11 branches of the Company's Registrar, 5 transfer agent points based on the Rosneft partner banks and 3 Company reception and service points for shareholders.

Contact details of the Registrar and service points can be found on the official website of Rosneft at www.rosneft.ru / www.rosneft.com.

WORK WITH INDIVIDUAL SHAREHOLDERS, KEY EVENTS IN 2016

In 2016, shareholders most frequently requested the following information from the Company:

- holding of the General Shareholders' Meetings:
 - shareholders' right to participate in the General Shareholders' Meeting;
 - methods and timing for notifying shareholders of the General Meeting to be held and adopted resolutions;
 - the procedure for voting by ballots.
- Payment of dividends on shares:
 - shareholder's right to receive dividends;
 - the amount, timing and method of dividend payment;
 - the procedure and timing for submitting a request for payment of outstanding dividends;
 - the procedure for payment of tax on income received in the form of dividends;
 - receipt of Form 2-NDFL statements.
- Ownership of shares and procedure for registration of rights to shares:
 - information on the par value and share prices;
 - registration of rights to shares (receipt of documents confirming the ownership of shares, the procedure for making changes to the shareholder's personal data, information about the registrar);
 - clarifications on the procedure for the purchase/sale of shares;
 - the procedure for inheriting shares;
 - the ratio for the conversion of sshares of a subsidiary into Rosneft's shares during the 2006 reorganization.

Shareholders received answers from the Company's specialists to all questions of interest to them. Answers to frequently asked questions can be found on the official website of Rosneft in the section "For Investors and Shareholders/Information for Shareholders".

In 2016, the Company held large-scale events to inform private and corporate shareholders about the need to update their profiles.

Information about the need to update the profiles was posted on Rosneft's website and on the websites of the Group Companies, published in corporate newspapers of the Group Companies and published by the media: on television and radio, in newspapers and online editions.

Shareholders were notified that:

- in order to receive dividends on Rosneft's shares, it is necessary to update the profile in a timely manner at the place of registration of the shares held (in the Shareholder Register and/or the depository), which involves providing up-to-date details for the transfer of funds (postal address/bank details);
- if a shareholder with a customer account opened in the register or a custody account with the depository has not provided information about any change in their profile, the issuer, the holder of the securities owner register and the depository shall not be liable for any loss incurred by such person in connection with the failure to provide information;
- when paying dividends on shares to the Company's shareholders whose rights are registered in the Shareholder Register, Rosneft performs the functions of a tax agent, and in order to apply a correct tax rate to dividend income, the Company requires a full and up-to-date profile of the shareholder.



For the purposes of effective cooperation with shareholders to aid enable them to exercise their rights in full, the Company has provided several communication channels:

- A Hotline of the Shareholder Relations Division of the Corporate Governance Department of Rosneft: a multichannel phone to receive and process verbal inquiries: 8-800-500-11-00 (toll-free in Russia); +7 (495) 987-30-60.
- The Company's postal address: 26/1 Sofiyskaya Embankment, Moscow, 117997, Russia, for written inquiries.
- Email: shareholders@rosneft.ru.
- Fax: +7 (499) 517-86-53.



6.4 COOPERATION WITH INSTITUTIONAL INVESTORS

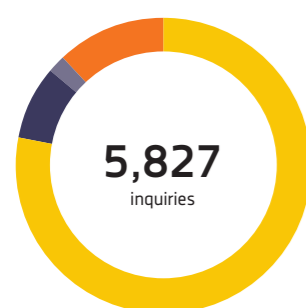
PRIORITIES FOR THE YEAR 2017

1. Improvement of information disclosure standards.
2. Active communication with investors and shareholders.
3. Increase of promptness, quality and professionalism of financial communications.

Main indices in which the Company's shares are included

INDEX	WEIGHTING OF SHARES AND DEPOSITARY RECEIPTS OF THE COMPANY AT YEAR-END 2016
MSCI Russia	4.32%
FTSE Russia IOB	5.32%
MICEX	4.49%
SCI ¹	24.31%

OVERALL, IN 2016 THE SHAREHOLDER RELATIONS DIVISION PROCESSED



Telephone inquiries	4,552
Written inquiries	480
Email inquiries	105
Requests for the payment of dividends for the previous periods	690

Accordingly, if shareholders had not provided a Profile to the Registrar, or if there had been changes in the information specified in the Profile provided to the Registrar and/or Depository earlier, such shareholders were advised to submit a Profile or the required set of documents to the organization that registers rights to the shares owned by them (the Registrar and/or the Depository).

The Profile should contain up-to-date information about a shareholder:

- surname, first name, patronymic;
- citizenship;
- type, number, series, date of issue of an identification document, and name of the issuing authority;
- date and place of birth;
- registered address;
- actual residential address;
- taxpayer identification number assigned to an individual (if any);
- information about details for payment of income on securities;
- a sample of the shareholder's signature.

The Company's shares are one of the most attractive investments among the Russian issuers. 10.75% of shares are free float, including 7.20% in the form of global depository receipts (GDR), which are traded on the London Stock Exchange (LSE). The Company has a diversified investor base, which includes more than 700 institutional investors. International institutional shareholders of the Company are situated in the main business and financial hubs including New York, Boston, Los Angeles, London, Frankfurt, Stockholm, Hong Kong, Singapore and Tokyo. For ten years since the primary placement, the quotations of PJSC OC Rosneft show the positive dynamism, outrunning the prices of shares of competitors and the MICEX Index in terms of the growth rate. Between July 19, 2006 and December 30, 2016 the Company's share prices on the Moscow Exchange grew by 98%, which exceeds the figures of the nearest competitors by 35 percentage points and which exceeds the MICEX Index by 30 percentage points. In 2016, the Company's shares (60%) showed stronger growth than the MICEX Index (29%).

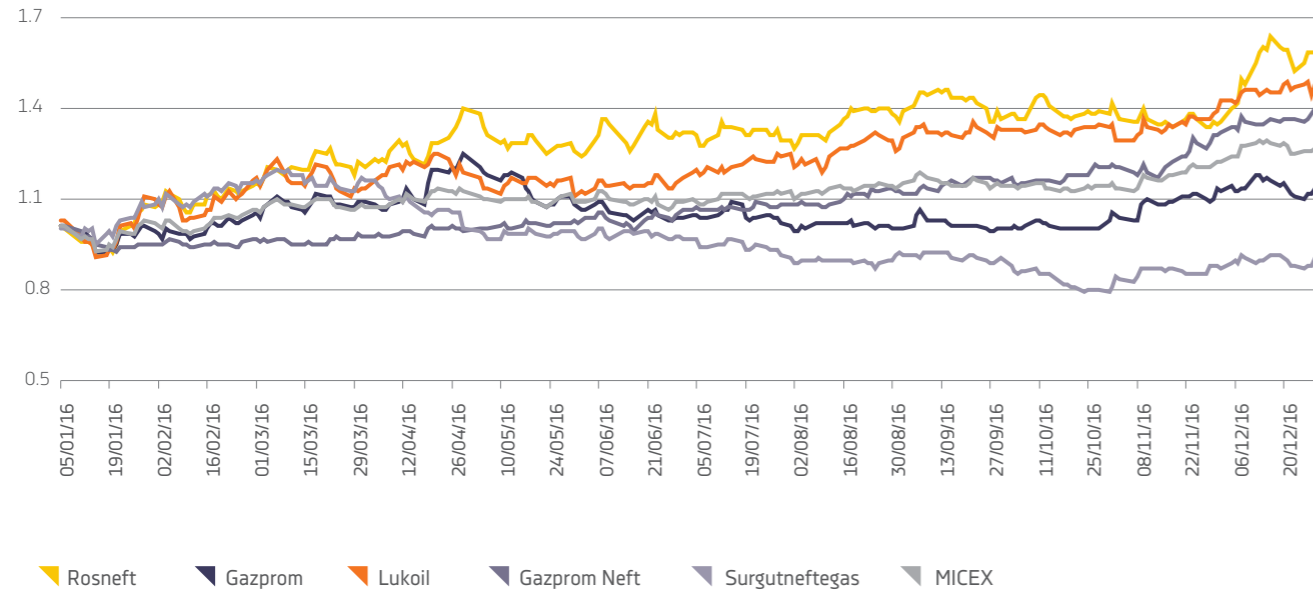
Major international institutional investors of Rosneft

FUND	COUNTRY
Alfred Berg Kapitalförvaltning AB	Sweden
APG Asset Management NV	Netherlands
BlackRock Advisors (UK) Ltd.	United Kingdom
BlackRock Fund Advisors	United States of America
Delaware Management Business Trust	United States of America
Deutsche Asset Management Investment GmbH	Germany
Dimensional Fund Advisors LP	United States of America
East Capital AB	Sweden
Fidelity Management & Research Co.	United States of America
First Pacific Advisors LLC	United States of America
Handelsbanken Fonder AB	Sweden
HSBC Global Asset Management (UK) Ltd.	United Kingdom
JPMorgan Asset Management (UK) Ltd.	United Kingdom
JPMorgan Investment Management, Inc.	United States of America
Lyxor International Asset Management SAS	France
Schroder Investment Management Ltd.	United Kingdom
Swedbank Robur Fonder AB	Sweden
The Vanguard Group, Inc.	United States of America
Van Eck Associates Corp.	United States of America
Wellington Management Co. LLP	United States of America

Source: FactSet

1. MOEX State-Owned Companies Index

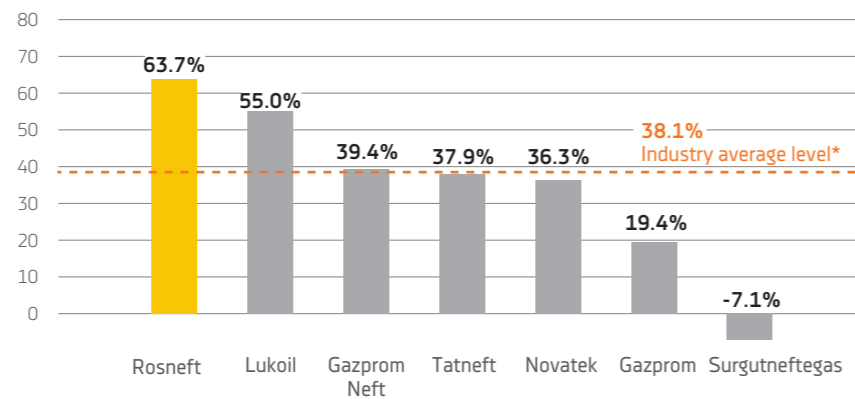
SHARE PERFORMANCE OF ROSNEFT AND ITS COMPETITORS IN 2016



4.27

RUB TRLN capitalization of Rosneft at year-end 2016. In 2016, Rosneft ranked first among Russian companies in terms of market capitalization.

TOTAL SHAREHOLDER RETURN OF ROSNEFT AND COMPARABLE RUSSIAN COMPANIES IN 2016, %



Source: company data

Note: Total shareholder return, TSR is calculated by the formula: $TSR = (K_k - K_b + D) / K_b * 100\%$, where K_k is market capitalization as of the end of the period, K_b is market capitalization as of the beginning of the period, D is dividends for the reporting year. The average total shareholder return is weighted by market capitalization of companies as of the beginning of the year.

- The industry average total shareholder return is calculated based on the data for the following oil and gas companies: Gazprom, Lukoil, Novatek, Rosneft, Surgutneftegas, Tatneft, Transneft, Bashneft.



5
INVESTMENT BANKS REVISED THEIR RECOMMENDATIONS UPWARDS, WITH THREE BANKS GIVING THE BUY RECOMMENDATION BASED ON PERFORMANCE IN 2016



The Company won the prize IR Magazine Russia & CIS Awards and was recognized as the best company among Russian large-cap companies in the sphere of investor relations in 2016. At present 18 investment banks provide analytical coverage of the Company.

In December 2016, an integrated privatization deal was successfully completed. As part of the deal, JSC Rosneftegaz sold a 19.5% shareholding in Rosneft to a consortium of international investors comprising the Qatar Investment Authority, one of the world's largest sovereign funds, and Glencore, a leading commodities producer and trader.

In 2016, Rosneft's total shareholder return stood at 63.7%, which exceeds the average return of comparable Russian companies by 25.6 percentage points. Communication with the Company's existing and potential

investors is performed at the level of the Chief Executive Officer of Rosneft, the First Vice Presidents, management of businesses and the Investor Relations Department. In 2016, the Company implemented an active program in the sphere of investor relations, including more than 150 individual and collective meetings of the Company's management with leading investment funds. Comments received from investors are regularly reported to Rosneft's management.

BANK NAME	RECOMMENDATION, BEGINNING OF 2016	RECOMMENDATION, END OF 2016	
1 Bank of America Merrill Lynch	Hold	Buy	↑
2 Citibank	Buy	Buy	
3 Credit Suisse	Sell	Hold	↑
4 Deutsche Bank	Buy	Buy	
5 Goldman Sachs	Buy	Hold	↓
6 HSBC	Sell	Buy	↑↑
7 J.P. Morgan	Hold	Hold	
8 Morgan Stanley	Buy	Buy	
9 Sberbank CIB	Hold	Hold	
10 UBS	Hold	Hold	
11 BCS Prime	Hold	Hold	
12 Gazprombank	Hold	Hold	
13 Otkritie	Hold	Buy	↑
14 Raiffeisen Bank	Buy	Hold	↓
15 Renaissance Capital	Hold	Hold	
16 Uralsib	Hold	Hold	
17 Aton	Put on review	Hold	↑
18 VTB Capital	Put on review	Put on review	

↑ recommendation has been upgraded

↓ recommendation has been downgraded



To date, all major banks have issued the Buy or Hold recommendation on the Company's shares/GDRs (as of March 2017)

The meetings allow investors, analysts and representatives of international rating agencies to receive information about the strategic focus of the Company's development, its operations and management of financial resources directly from the Company's management. Every quarter Rosneft holds conference calls for investors involving managers of the financial and economic and operational departments with detailed coverage of performance for the reporting period. Materials for shareholders and investors, including press releases, presentations, the annual report and the sustainability report of Rosneft, material facts about the resolutions of the Board of Directors and the Management Board of the Company, are placed on the corporate website at www.rosneft.ru.

The 2015 annual report of Rosneft won the 19th annual competition of Moscow Exchange in the Best Annual Report of in the Oil and Gas Sector category and became a prize winner of competition in the Best Annual Report of a Company with Capitalization Exceeding RUB 200 bln category.

The most important events in the sphere of investor relations in 2016.

Disclosure of reports Conference Meetings/NDR

FEBRUARY

Meetings with investors as part of the Russia Corporate Days – Moscow investment conference organized by UBS

Meetings with investors as part of the 21st Annual Credit Suisse Energy Summit, USA

Meeting with investors as part of the Global Emerging Markets Corporate investment conference organized by J.P. Morgan, USA

Meetings of the Chairman of the Management Board of Rosneft with major investors as part of the International Petroleum Week, London

MARCH

Disclosure of the Company's operating results for 2015

Conference call for investors involving the managers of the financial and economic unit and businesses

Meeting with investors as part of the CEEMEA Conference organized by J.P. Morgan, London

APRIL

Meetings with investors as part of a Non-Deal Road Show, Helsinki, Tallinn, Stockholm, Rotterdam, the Hague, Amsterdam, Copenhagen, Frankfurt

MAY

Publication of the annual report of Rosneft for 2015

Meetings with investors as part of the 3rd Annual GEMS Conference organized by Morgan Stanley, London

Meetings with investors as part of the Inside Track investment conference organized by Sberbank CIB, Moscow

Meetings with investors as part of a Non-Deal Road Show, New York, Boston

JUNE

Disclosure of the Company's operating results for Q1 2016

Conference call for investors involving the managers of the financial and economic unit and businesses

Meetings with investors as part of the 20th Annual Russia Investor Conference organized by Renaissance Capital

Speech of the Chief Executive Officer of Rosneft at the St.Petersburg Economic Forum

Speech of the Chief Executive Officer of Rosneft at the Annual General Shareholders' Meeting

JULY

On-site visit for investors and analysts of leading investment banks to assets of Yuganskneftegaz

AUGUST

Disclosure of the Company's operating results for Q2 2016

Conference call for investors involving the managers of the financial and economic unit and businesses

SEPTEMBER

Meetings with investors as part of the Oil & Gas Conference organized by Deutsche Bank, London

Meeting with investors as part of the CLSA Investors Forum held by the Credit Lyonnais Securities Asia investment group, Hong Kong

OCTOBER

Disclosure of the Company's operating results for Q3 2016

Conference call for investors involving the managers of the financial and economic unit and businesses

Meetings with investors as part of the RUSSIA CALLING! investment conference organized by VTB Capital, Moscow

NOVEMBER

Meetings with investors as part of the CEEMEA 1x1 Conference organized by Goldman Sachs, London

DECEMBER

Group meeting of the Company's management with investors

6.5 BONDS AND CREDIT RATINGS OF THE COMPANY

BB+

CREDIT RATING
by Standard&Poor's

Ba1

CREDIT RATING BY MOODY'S

Rosneft's credit ratings stand at the level of sovereign ratings of the Russian Federation

In September 2016, Standard&Poor's changed the outlook on the Company's

credit rating from "negative" to "stable"; in February 2017, the same action was taken by Moody's. In March 2017, Standard&Poor's changed the outlook on the Company's credit rating from "stable" to "positive".

The Company is one of the major high quality borrowers on the Russian market.

PAR VALUE, MLN	CURRENCY	COUPON	SERIES / REGISTRATION NUMBER	PLACEMENT DATE	MATURITY DATE	ISSUER
Eurobonds						
800	USD	6.625%	Series 4	March 2007	March 2017	Rosneft Finance S.A.
1,100	USD	7.875%	Series 6	October 2007	March 2018	Rosneft Finance S.A.
500	USD	7.25%	Series 8	February 2010	February 2020	Rosneft Finance S.A.
1,000	USD	3.149%	Series 1	December 2012	March 2017	Rosneft International Finance Ltd.
2,000	USD	4.199%	Series 2	December 2012	March 2022	Rosneft International Finance Ltd.
Ruble-denominated bonds						
20,000	RUB	8.6%	Series 04, 05	October 2012	October 2022	Rosneft
30,000	RUB	8%	Series 07, 08	March 2013	March 2023	Rosneft
40,000	RUB	7.95%	Series 06, 09, 10	June 2013	May 2023	Rosneft
40,000	RUB	7.95%	Series BO-05, BO-06	December 2013	December 2023	Rosneft
35,000	RUB	8.9%	Series BO-01, BO-07	February 2014	February 2024	Rosneft
225,000	RUB	10.9%*	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
400,000	RUB	11.4%*	Series BO-15, BO-16, BO-17, BO-24	December 2014	December 2020	Rosneft
400,000	RUB	10.1%*	Series BO-18, BO-19, BO-20, BO-21, BO-22, BO-23, BO-25, BO-26	January 2015	January 2021	Rosneft
600,000	RUB	10.10%*	001P-01	December 2016	November 2026	Rosneft
30,000	RUB	9.39%	001P-02	December 2016	December 2026	Rosneft
20,000	RUB	9.50%	001P-03	December 2016	December 2026	Rosneft

* Actual coupon rate as of December 31, 2016

As part of its Eurobond program worth a total of USD 10 bln, in 2012 Rosneft issued two series of Eurobonds: worth USD 1 bln and maturing in 2017 and worth USD 2 bln and maturing in 2022. Between 2006 and 2010, the companies of TNK-BP Group issued eight series of Eurobonds worth a total of USD 5.5 bln and maturing in 2011-2020. As

of December 31, 2016, three series of Eurobonds worth a total of USD 2.4 bln remained outstanding.

The Company launched 3 ruble bond programs with 33 bond issues worth a total of RUB 1,190 bln, including 8 issues worth a total of RUB 400 bln in 2015.

In 2016, the Company registered the fourth multi-currency Exchange-Traded Bond Program and placed 3 issues with a total par value RUB 650 bln in December 2017.

6.6 INFORMATION DISCLOSURE



The Company's information disclosure policy is based on the principles of regularity, timeliness, availability, reliability and thoroughness

In the area of information disclosure, Rosneft is governed by the Federal Law on the Securities Market, the Federal Law on Joint-Stock Companies, the Bank of Russia Regulations No. 454-P on Disclosure of Information by Issuers of Issue-Grade Securities dated December 30, 2014 (hereinafter in this section referred to as the Regulations on Information Disclosure). The Company also observes the requirements of the Moscow Exchange and the London Stock Exchange.

The Company ensures the timely and full disclosure of information on all aspects of its operations to stakeholders (except in cases where the information is a trade secret).

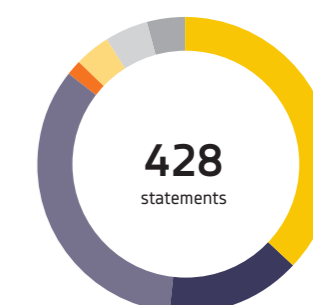
The main channel of information disclosure is the Company's official website, which contains information on material facts, events, management structure, results of financial and operating activities of the Company. The website contains the Charter and other internal documents, annual reports and sustainability reports of the Company, quarterly financial statements under Russian Accounting Standards, quarterly consolidated financial statements under IFRS and management discussion and analysis (MD&A), the analyst's handbook, presentations, press releases, information on affiliates and other data

that may have an impact on the value of Rosneft's securities. The Company's corporate website is updated on a regular basis in accordance with the applicable regulations of Rosneft.

Pursuant to the requirements of the Regulations on Information Disclosure, when posting information on the Internet, the Company also uses the web page provided by one of the distributors of information in the securities market (Interfax Corporate Information Disclosure Center LLC).

Also, the Company provides information in the form of booklets and leaflets, as well as holds regular meetings, telephone and press conferences with stakeholders. As requested by shareholders, the Company provides copies of key internal documents, documents related to the General Shareholders' Meeting, lists of affiliated entities and other documents in accordance with the requirements of the Federal Law on Joint-Stock Companies.

TYPES OF STATEMENTS DISCLOSED IN 2016



On bond issue	159
On resolutions of the issuer's governing bodies	63
On licensing material operations of the issuer	145
Other statements	7
On disclosure of various reports of the issuer (annual reports, quarterly reports, annual financial statements, consolidated financial statements, lists of affiliates)	17
On the issuer's interest in the authorized capital of other entities	20
On completed transactions	17

Rosneft's mandatory information disclosure system

DISCLOSURE OF INFORMATION ON THE SECURITIES MARKET AS REQUIRED BY THE RUSSIAN LAWS

TYPE OF INFORMATION	CHANNEL OF DISCLOSURE	REGULATION
<ul style="list-style-type: none"> Charter and internal documents regulating the work of the Company's governing bodies Lists of affiliates Issue documents, including the prospectus Annual report Financial statements under RAS (annual and interim) Consolidated financial statements under IFRS (annual, interim) Quarterly report of the issue-grade securities issuer Communications about disclosure of insider information, including those in the form of material facts Press releases about decisions made by governing bodies¹ 	<ul style="list-style-type: none"> The Company's news feed and page on the website of an authorized news agency Interfax http://e-disclosure.ru/portal/company.aspx?id=6505 The Company's official page (Corporate Website) http://www.rosneft.ru/investors/information 	<ul style="list-style-type: none"> No. 208-FZ on Joint-Stock Companies dated December 16, 1995 Federal Law on the Securities Market Bank of Russia Regulations No. 454-P on Disclosure of Information by Issuers of Issue-Grade Securities dated December 30, 2014 No. 224-FZ on Counteracting Illegal Use of Insider Information and Market Manipulations dated July 27, 2010
<ul style="list-style-type: none"> List of major and related-party transactions closed during the reporting period² 	<ul style="list-style-type: none"> The Company's news feed and page on the website of an authorized news agency Interfax http://e-disclosure.ru/portal/company.aspx?id=6505 The Company's official page (Corporate Website) http://www.rosneft.ru/investors/information 	<ul style="list-style-type: none"> Bank of Russia Regulations No. 454-P on Disclosure of Information by Issuers of Issue-Grade Securities dated December 30, 2014 (as amended by Instructions No. 3899-U of the Bank of Russia dated December 16, 2015)
<ul style="list-style-type: none"> Information for analysts, shareholders and investors, in Russian and English, concerning the Company's performance, financial statements, implementation of large-scale investment projects, strategic priorities Information for investors, in English Disclosure of information about various aspects of the Company's operations to investment fund analysts and shareholders 	<ul style="list-style-type: none"> Newspaper of record Rossiyskaya Gazeta Corporate website www.rosneft.ru/investors/, www.rosneft.com/investors/ Bloomberg Events for investors (conference calls, meetings of the Company's management with investors, participation in investment conferences) 	
Sustainability report	The Company's official page (Corporate Website) www.rosneft.ru	Recommendations provided in the Corporate Governance Code of the Bank of Russia
Press releases, news	The Company's official page (Corporate Website) www.rosneft.ru	

DISCLOSURE OF INFORMATION AS REQUIRED BY THE UK LAWS / REGULATOR / TRADE ORGANIZER

<ul style="list-style-type: none"> Financial sections of the Annual Report, including annual financial statements under IFRS Quarterly press releases with key operating and financial results under IFRS Press releases related to events that may influence the price of the Company's shares / global depository receipts (GRD) Report on payments to governments 	<ul style="list-style-type: none"> Website of London Stock Exchange www.londonstockexchange.com The Company's official web page (corporate website) at http://www.rosneft.ru/investors/information News feed and the Company's page on the website of an authorized information agency Interfax at http://www.e-disclosure.ru/portal/files.aspx?id=6505&type=8 	<ul style="list-style-type: none"> London Stock Exchange's Admission and Disclosure Standards Requirements of the UK Listing Authority (UKLA) Requirements of the Financial Conduct Authority (FCA)
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INFORMATION ON PROCUREMENT IS DISCLOSED AS REQUIRED BY LAWS OF THE RUSSIAN FEDERATION

Procurement plans, procurement notice and documents, result sheets for each stage, information about concluded contracts	Unified Information System www.zakupki.gov.ru , procurement section of the Company's official website: www.zakupki.rosneft.ru	Federal Law No. 223-FZ on Procurement of Goods, Works and Services by Certain Types of Legal Entities dated July 18, 2011
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1. The obligation to disclose (publish) press releases about decisions made by the issuer's governing bodies was terminated on March 14, 2016 ias Instructions No. 3899-U of the Bank of Russia dated December 16, 2015 on Amendments to the Bank of Russia Regulations No. 454-P on Disclosure of Information by Issuers of Issue-Grade Securities dated December 30, 2014 came into force.

2. The list of transactions closed in the reporting year is disclosed by the Company in the form of an individual document in accordance with paragraphs 9-10 of Clause 70.3 of the Bank of Russia Regulations No. 454-P on Disclosure of Information by Issuers of Issue-Grade Securities dated December 30, 2014 (as amended by Instructions No. 3899-U of the Bank of Russia dated December 16, 2015).



Annual General Shareholders' Meeting, 2016

INCREASING INFORMATION TRANSPARENCY

Information transparency is one of the most important principles of Rosneft's corporate governance. The company is consistently one of the leaders in terms of the number of disclosures.

In 2016, Rosneft ranked 2nd in the Best Corporate Information Disclosure on a Public Company's Website category in the Best Corporate Information Disclosure on an Internet Website competition held by the National Association of Corporate Secretaries (NACS).

As part of its efforts to increase transparency and openness, the Company gives priority to improving the efficiency of communication with shareholders and investors. On an ongoing basis, telephones and e-mail addresses are operated in Rosneft for inquiries from shareholders and investors. Hot line for shareholders is functioning.

Transparency of financial statements is an important element of corporate governance. On February 22, 2017, the Company published its full IFRS audited

consolidated financial statements for 2016.

As part of interaction with institutional investors, shareholders and other stakeholders, Rosneft in 2016 held presentations on its financial results in accordance with the IFRS on a regular basis. In addition, the Company is constantly working on improving the transparency of its operations through periodic meetings of the management with the largest investment banks analysts, representatives of international investment funds and recognized rating agencies. The Company management in their presentations at key events, especially the annual General Meetings of Shareholders, address the topic of close relations with investors and shareholders and protection of their interests on a regular basis.

In accordance with Rosneft's Sustainability Policy, since 2007, Rosneft has held annual round-table meetings with representatives of its stakeholders in the form of round tables in the regions where it operates (14 round-table meetings were held in 2016). Subjects of the meetings include the issues of social

and economic collaboration, environment and environmental protection, occupational health and safety, the social sphere and charity.

Rosneft gives special focus to ensuring the quality and relevance of information for stakeholders during the preparation of Sustainability Report. The Company plans to release the 2016 its Sustainability Report in accordance with the GRI G4 Sustainability Reporting Guidelines. The report will undergo an independent audit by Ernst & Young.

APPENDIX 1

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2016 WITH INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF ROSNEFT OIL COMPANY

Opinion

We have audited the consolidated financial statements of Public Joint Stock Company Rosneft Oil Company and its subsidiaries (hereinafter collectively referred to as the "Company"), which comprise the consolidated balance sheet as at December 31, 2016, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in 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 financial position of the Company as at December 31, 2016, and its financial performance and its 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.

Impairment of non-current assets

We considered this matter to be one of most significance in our audit due to the materiality of the balances of non-current assets to the financial statements, the high level of subjectivity in respect of assumptions underlying the impairment analysis and the significant judgements and estimates made by management. In addition, the combination of the recent drop in oil prices, devaluation of the Russian ruble, change in inflation and cost of debt and uncertainty about future economic growth affects the Company's business prospects and could thus result in an impairment of the Company's assets.

Significant assumptions included discount rates, forecast prices of oil and petroleum products and production forecasts. Significant judgements and estimates included future capital expenditure and oil and gas reserves available for development and production.

We involved our business valuation specialists in the analysis of management's testing of impairment and calculation of the recoverable amount. We compared oil and petroleum products prices used in the calculation of recoverable amounts to available market forecasts. We compared the discount rate and long-term growth rate to general market indicators and other available evidence.

We tested the mathematical integrity of the impairment models, sensitivity analysis and consistency of use of models (formulas and calculations) with prior periods.

Information on non-current assets and the impairment test performed is disclosed in Note 26 to the consolidated financial statement.

Estimation of oil and gas reserves and resources

We considered this matter to be one of most significance in our audit due to the fact that the estimate of hydrocarbon reserves and resources has a significant impact on the impairment test, depreciation, depletion and amortization and decommissioning provisions.

We performed procedures to assess competence, capabilities and objectivity of the external expert engaged by the Company to estimate volumes of oil and gas reserves and resources. We assessed the assumptions used by the external expert and compared the assumptions to the macroeconomic indicators, hydrocarbon production, operating costs, capital expenditures forecasts and other performance indicators, approved by the Company's management. We compared the updated estimates of reserves and resources to the estimates included in the consideration of impairment, depreciation, depletion and amortization and decommissioning provisions.

Information on the estimation of oil and gas reserves and resources is disclosed in Note 4 to the consolidated financial statement to the financial statements as part of significant accounting estimates as well as in the supplementary oil and gas disclosure in Note 43 to the consolidated financial statement.

Approaches to the assessment of control, joint control and significant influence

We considered this matter to be one of most significance in our audit due to the fact that during 2015 and 2016 the Company entered into several agreements to sell non-controlling interest in existing subsidiaries and was required to make significant judgements in respect of retention of control or joint control. This judgement depends on assessing the power over an investee and existing rights that give it the current ability to direct the relevant activities.

We reviewed purchase and sale contracts and additional agreements between the Company and buyers of non-controlling interests and analyzed the Company's ability to use its power over the investees to affect the amount of the Company's returns in order to assess management assertions about retention of control in those subsidiaries where the Company concluded that only non-controlling ownership interests have been disposed of.

Information about significant disposals is disclosed in Note 18 to the consolidated financial statement.

Other matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information accompanying the consolidated financial statements which has been disclosed as Supplementary oil and gas disclosure on page 87 is presented for purposes of additional analysis and is not within the scope of International Financial Reporting Standards. Such information has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

Information other than the financial statements and auditor's report thereon

Other information comprises the Management's discussion and analysis of financial condition and results of operations for 2016 (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 2016 Annual report, which is expected to be made available to us after that date. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

Responsibilities of management and the audit committee of the board of directors for the consolidated financial statements

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

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

The Audit Committee of the Board of Directors 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 Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Konstantin I. Petrov.

D.E. Lobachev
General director
Ernst & Young LLC
February 22, 2017

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 December 5, 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

Rosneft Oil Company
in billions of Russian rubles

	Notes	AS OF DECEMBER 31,	
		2016	2015 (restated)
ASSETS			
Current assets			
Cash and cash equivalents	20	790	559
Restricted cash	20	2	2
Other short-term financial assets	21	447	986
Accounts receivable	22	485	367
Inventories	23	283	219
Prepayments and other current assets	24	293	271
Total current assets		2,300	2,404
NON-CURRENT ASSETS			
Property, plant and equipment	25	7,090	5,896
Intangible assets	26	59	48
Other long-term financial assets	27	808	510
Investments in associates and joint ventures	28	411	353
Bank loans granted		26	18
Deferred tax assets	17	22	25
Goodwill	26	230	230
Other non-current non-financial assets	29	84	8
Total non-current assets		8,730	7,088
Assets held for sale	8	—	150
Total assets		11,030	9,642
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	30	583	476
Loans and borrowings and other financial liabilities	31	1,671	1,040
Income tax liabilities		6	8
Other tax liabilities	32	222	138
Provisions	33	29	28
Prepayment on long-term oil and petroleum products supply agreements	34	255	120
Other current liabilities		7	7
Total current liabilities		2,773	1,817
Non-current liabilities			
Loans and borrowings and other financial liabilities	31	1,914	2,283
Deferred tax liabilities	17	785	582
Provisions	33	203	143
Prepayment on long-term oil and petroleum products supply agreements	34	1,586	1,785
Other non-current liabilities	35	43	40
Total non-current liabilities		4,531	4,833
Liabilities associated with assets held for sale	8	—	63
Equity			
Share capital	37	1	1
Additional paid-in capital	37	603	507
Other funds and reserves		(497)	(768)
Retained earnings		3,202	3,146
Rosneft shareholders' equity		3,309	2,886
Non-controlling interests	18	417	43
Total equity		3,726	2,929
Total liabilities and equity		11,030	9,642

**CONSOLIDATED STATEMENT
OF PROFIT OR LOSS**Rosneft Oil Company
(in billions of Russian rubles,
except earnings per share data, and share amounts)

	NOTES	FOR THE YEARS ENDED DECEMBER 31,	
		2016	2015
REVENUES AND EQUITY SHARE IN PROFITS OF ASSOCIATES AND JOINT VENTURES			
Oil, gas, petroleum products and petrochemicals sales	9	4,887	5,071
Support services and other revenues		75	70
Equity share in profits of associates and joint ventures	28	26	9
Total revenues and equity share in profits of associates and joint ventures		4,988	5,150
COSTS AND EXPENSES			
Production and operating expenses			
Cost of purchased oil, gas, petroleum products and refining costs		614	530
General and administrative expenses		129	130
Pipeline tariffs and transportation costs		575	542
Exploration expenses		14	13
Depreciation, depletion and amortization	25, 26	482	450
Taxes other than income tax	10	1,296	1,277
Export customs duty	11	657	925
Total costs and expenses		4,326	4,442
Operating income		662	708
Finance income	12	91	55
Finance expenses	13	(193)	(269)
Other income	14	50	75
Other expenses	14	(76)	(72)
Foreign exchange differences		(70)	86
Cash flow hedges reclassified to profit or loss	6	(147)	(123)
Income before income tax		317	460
Income tax expense	17	(116)	(104)
Net income		201	356
Net income attributable to:			
· Rosneft shareholders		181	355
· non-controlling interests	18	20	1
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	19	17.08	33.50
Weighted average number of shares outstanding (millions)		10,598	10,598

**CONSOLIDATED STATEMENT
OF OTHER COMPREHENSIVE INCOME**Rosneft Oil Company
(in billions of Russian rubles)

	NOTES	FOR THE YEARS ENDED DECEMBER 31,	
		2016	2015
NET INCOME		201	356
Other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods			
Foreign exchange differences on translation of foreign operations		143	(194)
Foreign exchange cash flow hedges	6	155	(92)
Income from changes in fair value of financial assets available-for-sale		5	–
Income tax related to other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods	6, 17	(32)	18
Total other comprehensive income/(loss) – to be reclassified to profit or loss in subsequent periods, net of tax		271	(268)
Total comprehensive income, net of tax		472	88
Total comprehensive income, net of tax, attributable to:			
· Rosneft shareholders		452	87
non-controlling interests		20	1

**CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY**Rosneft Oil Company
(in billions of Russian rubles, except share amounts)

	NUMBER OF SHARES (MILLIONS)	SHARE CAPITAL	ADDITIONAL PAID-IN CAPITAL	OTHER FUNDS AND RESERVES	RETAINED EARNINGS	TOTAL SHARE- HOLDERS' EQUITY	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2015	10,598	1	493	(500)	2,878	2,872	9	2,881
Net income	–	–	–	–	355	355	1	356
Other comprehensive loss	–	–	–	(268)	–	(268)	–	(268)
Total comprehensive (loss)/income	–	–	–	(268)	355	87	1	88
Change of non-controlling interest in sub- sidiaries (Note 18)	–	–	14	–	–	14	32	46
Disposal of subsidiaries	–	–	–	–	–	–	1	1
Dividends declared on common stock (Note 37)	–	–	–	–	(87)	(87)	–	(87)
Balance at December 31, 2015	10,598	1	507	(768)	3,146	2,886	43	2,929
Net income	–	–	–	–	181	181	20	201
Other comprehensive income	–	–	–	271	–	271	–	271
Total comprehensive income	–	–	–	271	181	452	20	472
Change of non-controlling interest in sub- sidiaries (Note 18)	–	–	96	–	–	96	180	276
Acquisition of subsidiaries (Note 7)	–	–	–	–	–	–	169	169
Disposal of subsidiaries	–	–	–	–	–	–	(2)	(2)
Dividends declared on common stock (Note 37)	–	–	–	–	(125)	(125)	–	(125)
Other movements	–	–	–	–	–	–	7	7
Balance at December 31, 2016	10,598	1	603	(497)	3,202	3,309	417	3,726

CONSOLIDATED STATEMENT OF CASH FLOWSRosneft Oil Company
(in billions of Russian rubles)

	Notes	FOR THE YEARS ENDED DECEMBER 31,	
		2016	2015
OPERATING ACTIVITIES			
Net income		201	356
Adjustments to reconcile net income to net cash provided by operating activities:			
· Depreciation, depletion and amortization	25, 26	482	450
· Loss on disposal of non-current assets	14	16	22
· Impairment of assets	14	23	6
· Dry hole costs		5	2
· Foreign exchange gain on non-operating activities		(16)	(93)
· Cash flow hedges reclassified to profit or loss	6	147	123
· Equity share in profits of associates and joint ventures	28	(26)	(9)
· Gain on disposal of investments in associates and joint ventures	14	(29)	(15)
· Loss from disposal of subsidiaries and non-production assets	14	2	11
· Changes in bad debt provision		–	10
· Gain on notes write-off		–	(20)
· Gain from changes in estimates and liabilities write-off		(2)	(17)
· Finance expenses	13	193	269
· Finance income	12	(91)	(55)
· Income tax expense	17	116	104
Changes in operating assets and liabilities:			
· (Increase)/decrease in accounts receivable, gross		(53)	82
· (Increase)/decrease in inventories		(29)	17
· Increase in restricted cash		–	(1)
· Decrease in prepayments and other current assets		10	134
· Decrease in accounts payable and accrued liabilities		(73)	(47)
· Increase/(decrease) in other tax liabilities		57	(22)
· (Decrease)/increase in current provisions		(1)	3
· (Decrease)/increase in other current liabilities		(3)	3
· Increase in other non-current liabilities		1	23

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Rosneft Oil Company
(in billions of Russian rubles)

	FOR THE YEARS ENDED DECEMBER 31,		
	Notes	2016	2015
· (Decrease)/increase in long-term prepayment received on oil and petroleum products supply agreements	34	(163)	938
· Increase in long-term prepayments made on oil and petroleum products supply agreements	29	(95)	—
Interest paid on long-term prepayment on oil and petroleum products supply agreements received		(15)	(17)
Long-term loans granted by subsidiary banks		(19)	(32)
Repayment of long-term loans granted by subsidiary banks		6	28
Acquisition of trading securities		—	(4)
Proceeds from sale of trading securities	21	4	9
Net cash provided by operating activities before income tax and interest		648	2,258
Income tax payments		(85)	(112)
Interest received		58	31
Dividends received		11	18
Net cash provided by operating activities		632	2,195
Investing activities			
Capital expenditures		(709)	(595)
(Acquisition of licenses)/repayment of auction fees		(11)	(1)
Acquisition of short-term financial assets		(178)	(327)
Proceeds from sale of short-term financial assets		689	213
Acquisition of long-term financial assets	27	(403)	(104)
Proceeds from sale of long-term financial assets		19	—
Financing of joint ventures		(24)	(23)
Acquisition of interest in associates and joint ventures	28	(65)	(49)
Proceeds from sale of investments in associates and joint ventures	28	—	95
Acquisition of interest in subsidiary, net of cash acquired	7	(292)	(31)
Proceeds from sale of subsidiary, net of cash acquired		(5)	—
Proceeds from sale of property, plant and equipment		8	4
Placements under reverse REPO agreements		(4)	(5)
Receipts under reverse REPO agreements		2	10
Net cash used in investing activities		(973)	(813)
Financing activities			
Proceeds from short-term loans and borrowings and other financial liabilities	31	1,227	825
Repayment of short-term loans and borrowings		(689)	(678)
Proceeds from long-term loans and borrowings	31	1,132	208
Repayment of long-term loans and borrowings		(1,052)	(1,125)
Proceeds from other financial liabilities		49	—
Repayment of other financial liabilities		(14)	(143)
Interest paid		(143)	(137)
Proceeds from sale of non-controlling interest in subsidiaries	18	300	46
Other financing		8	—
Payment of dividends on common stock	37	(125)	(87)
Dividends paid to minority		(1)	—
Net cash provided by/(used in) financing activities		692	(1,091)
Net increase in cash and cash equivalents		351	291
Cash and cash equivalents at the beginning of the year	20	559	216
Effect of foreign exchange on cash and cash equivalents		(120)	52
Cash and cash equivalents at the end of the year	20	790	559

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.

In accordance with the changes to the Company's Charter, approved by the Annual General Shareholders' Meeting on June 15, 2016 (held for the results of 2015), Open Joint Stock Company Rosneft Oil Company was renamed Public Joint Stock Company Rosneft Oil Company. The Company's name was changed to conform to the provisions of Chapter Four of the Civil Code of the Russian Federation.

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 ROSNEFTEGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by JSC ROSNEFTEGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, JSC ROSNEFTEGAS's ownership interest decreased through additional issue of shares during Rosneft's Initial Public Offering ("IPO") in Russia, an issue of Global Depository Receipts ("GDR") for shares on the London Stock Exchange and the share swap completed during the merger of Rosneft and certain subsidiaries in 2006. In March 2013 in the course of the acquisition of TNK-BP Limited and TNK Industrial Holdings Limited, its subsidiary (collectively with their subsidiaries, "TNK-BP"), JSC ROSNEFTEGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). In December 2016 JSC ROSNEFTEGAS signed an agreement to sell 19.5% of Rosneft shares to a consortium of foreign investors. As of December 31, 2016 JSC ROSNEFTEGAS's ownership interest in Rosneft amounted to 50% plus one share.

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

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

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with the 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 38).

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 22, 2017.

Subsequent events have been evaluated through February 22, 2017, the date these consolidated financial statements were issued.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Business combinations, goodwill and other intangible assets

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

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

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

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

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

Associates

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

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

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

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

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

Joint arrangements

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

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

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

its share of any assets held jointly, its liabilities, including its share of any liabilities incurred jointly, its revenue from the sale of its share of the output arising from the joint operation, its share of the revenue from the sale of the output by the joint operation, and expenses, including its share of any expenses incurred jointly.

Cash and cash equivalents

Cash represents cash on hand, in the Company's bank accounts, in transit and interest bearing deposits which can be effectively withdrawn at any time without prior notice or any penalties reducing the principal amount of the deposit. Cash equivalents are highly liquid, short-term investments that are readily convertible to known amounts of cash and have original maturities of three months or less from their date of purchase. They are carried at cost plus accrued interest, which approximates fair value. Restricted cash is presented separately in the consolidated balance sheet if its amount is significant.

Financial assets

The Company recognizes financial assets in its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial assets are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial assets are recognized initially, they are classified as one of the following, as appropriate: (1) financial assets at fair value through profit or loss, (2) loans issued and accounts receivable, (3) financial assets held to maturity, or (4) financial assets available for sale.

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated as financial assets at fair value through profit or loss at initial recognition. Financial assets held for trading are those which are acquired principally for the purpose of sale or repurchase in the near future or are part of a portfolio of identifiable financial instruments that have been commonly managed and for which there is evidence of a recent pattern of actual short term profit taking, or which are derivative instruments (unless the derivative instrument is defined as an effective hedging instrument). Financial assets at fair value through profit or loss are classified in the consolidated balance sheet as current assets and changes in the fair value are recognized in the consolidated statement of profit or loss as Finance income or Finance expenses.

All derivative instruments are recorded in the consolidated balance sheet at fair value in either current financial assets, non-current financial assets, current liabilities related to derivative instruments, or non-current liabilities related to derivative instruments. The recognition and classification of a gain or loss that results from recognition of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement are recognized immediately in the profit or loss for the period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.

If no active market exists for financial assets, the Company measures the fair value using the following methods:

- analysis of recent transactions with peer instruments between independent parties;
- current fair value of similar financial instruments;
- discounting future cash flows.

The discount rate reflects the minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of forgoing other projects.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of profit or loss. The losses arising from impairment or gains from impairment reversals are recognized in the consolidated statement of profit or loss.

The Company does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Company has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity, unless: (1) the financial asset was close enough to maturity or the call date so that changes in the market rate of interest did not have a significant effect on the financial asset's fair value; (2) after substantially all of the financial asset's original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that was beyond the Company's control and could not have been reasonably anticipated by the Company.

Dividends and interest income are recognized in the consolidated statement of profit or loss on an accrual basis. The amount of accrued interest income is calculated using the effective interest rate.

All other financial assets not included in the other categories are designated as financial assets available for sale. Specifically, the shares of other companies not included in the first category are designated as available for sale. In addition, the Company may include any financial asset in this category at the initial recognition.

Financial liabilities

The Company recognizes financial liabilities on its balance sheet when, and only when, it becomes a party to the contractual provisions of the financial instrument. When financial liabilities are recognized initially, they are measured at fair value, which is usually the price of the transaction, i.e. the fair value of consideration paid or received.

When financial liabilities are recognized initially, they are classified as one of the following:

- financial liabilities at fair value through profit or loss;
- other financial liabilities.

Financial liabilities at fair value through profit or loss are financial liabilities held for trading unless such liabilities are linked to the delivery of unquoted equity instruments.

At the initial recognition, the Company may include in this category any financial liability, except for equity instruments that are not quoted in an active market and whose fair value cannot be reliably measured. After initial recognition, however, the liability cannot be reclassified.

Financial liabilities not classified as financial liabilities at fair value through profit or loss are designated as other financial liabilities. Other financial liabilities include, inter alia, trade and other accounts payable, and loans and borrowings payable.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognized in profit or loss in the consolidated statement of profit or loss. Other financial liabilities are carried at amortized cost.

The Company writes off a financial liability (or part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying value of a financial liability (or a part of a financial liability) extinguished or transferred to another party and the redemption value, including any transferred non-monetary assets and assumed liabilities, is recognized in profit or loss. Any previously recognized components of other comprehensive income pertaining to this financial liability are also included in the financial result and are recognized as gains and losses for the period.

Earnings per share

Basic earnings per share is calculated by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding during the corresponding period. In the absence of any securities-to-shares conversion transactions, the amount of basic earnings per share stated in these consolidated financial statements is equal to the amount of diluted earnings per share.

Inventories

Inventories consisting primarily of crude oil, petroleum products, petrochemicals and materials and supplies are accounted for at the weighted average cost unless net realizable value is less than cost. Materials that are used in production are not written down below cost if the finished products into which they will be incorporated are expected to be sold above cost.

Repurchase and resale agreements

Securities sold under repurchase agreements ("REPO") and securities purchased under agreements to resell ("reverse REPO") generally do not constitute a sale of the underlying securities for accounting purposes, and so are treated as collateralized financing transactions. Interest paid or received on all REPO and reverse REPO transactions is recorded in Finance expense or Finance income, respectively, at the contractually specified rate using the effective interest method.

Exploration and production assets

Exploration and production assets include exploration and evaluation assets, mineral rights and oil and gas properties (development assets and production assets).

Exploration and evaluation costs

The Company recognizes exploration and evaluation costs using the successful efforts method as permitted by IFRS 6 Exploration for and Evaluation of Mineral Resources. Under this method, costs related to exploration and evaluation (license acquisition costs, exploration and appraisal drilling) are temporarily capitalized in cost centers by field (well) until the drilling program results in the discovery of economically feasible oil and gas reserves.

The length of time necessary for this determination depends on the specific technical or economic difficulties in assessing the recoverability of the reserves. If a determination is made that the well did not encounter oil and gas in economically viable quantities, the well costs are expensed to Exploration expenses in the consolidated statement of profit or loss.

Exploration and evaluation costs, except for costs associated with seismic, topographical, geological, and geophysical surveys, are initially capitalized as exploration and evaluation assets. Exploration and evaluation assets are recognized at cost less impairment, if any, as property, plant and equipment until the existence (or absence) of commercial reserves has been established. The initial cost of exploration and evaluation assets acquired through a business combination is formed as a result of purchase price allocation. The cost allocation to mineral rights to proved properties and mineral rights to unproved properties is performed based on the respective oil and gas reserves information. Exploration and evaluation assets are subject to technical, commercial and management review as well as review for indicators of impairment at least once a year. This is to confirm the continued intent to develop or otherwise extract value from the discovery. When indicators of impairment are present, an impairment test is performed.

If, subsequently, commercial reserves are discovered, the carrying value, less losses from impairment of the respective exploration and evaluation assets, is classified as oil and gas properties (development assets). However, if no commercial reserves are discovered, such costs are expensed after exploration and evaluation activities have been completed.

Development and production

Oil and gas properties (development assets) are accounted for on a field-by-field basis and represent (1) capitalized costs to develop discovered commercial reserves and to put fields into production, and (2) exploration and evaluation costs incurred to discover commercial reserves reclassified from exploration and evaluation assets to oil and gas properties (development assets) following the discovery of commercial reserves.

The cost of oil and gas properties (development assets) also includes the expenditures to acquire such assets, directly identifiable overhead expenses, capitalized financing costs and related asset retirement (decommissioning) obligation costs. Oil and gas properties (development assets) are generally recognized as construction in progress.

Following the commencement of commercial production, oil and gas properties (development assets) are reclassified as oil and gas properties (production assets).

Other property, plant and equipment

Other property, plant and equipment are stated at historical cost as of the acquisition date, except for property, plant and equipment acquired prior to January 1, 2009, which is stated at deemed cost, net of accumulated depreciation and impairment. The cost of maintenance, repairs, and the replacement of minor items of property is charged to operating expenses. Renewals and betterments of assets are capitalized.

Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation are eliminated from the accounts. Any resulting gains or losses are included in profit or loss.

Depreciation, depletion and amortization

Oil and gas properties are depleted using the unit-of-production method on a field-by-field basis starting from the commencement of commercial production.

In applying the unit-of-production method to mineral licenses, the depletion rate is based on total proved reserves. In applying the unit-of-production method to producing wells and the related oil and gas infrastructure, the depletion rate is based on proved developed reserves.

Other property, plant and equipment are depreciated using the straight-line method over their estimated useful lives from the time they are ready for use, except for catalysts which are amortized using the unit-of-production method.

Components of other property, plant and equipment and their respective estimated useful lives are as follows:

PROPERTY, PLANT AND EQUIPMENT	USEFUL LIFE, NOT MORE THAN
Buildings and structures	30–45 years
Plant and machinery	5–25 years
Vehicles and other property, plant and equipment	6–10 years
Service vessels	20 years
Offshore drilling assets	20 years

Land generally has an indefinite useful life and is therefore not depreciated.

Land leasehold rights are amortized on a straight-line basis over their expected useful life, which averages 20 years.

Construction grants

The Company recognizes construction grants from local governments when there is a reasonable assurance that the Company will comply with the conditions attached and that the grant will be received. The construction grants are accounted for as a reduction of the cost of the asset for which the grant is received.

Impairment of non-current assets

The Company assesses at each balance sheet date whether there is any indication that an asset or cash-generating unit may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset or cash-generating unit.

In assessing whether there is any indication that an asset may be impaired, the Company considers internal and external sources of information. It considers at least the following:

External sources of information:

- during the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the Company have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Company operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- the carrying amount of the net assets of the Company is more than its market capitalization.

Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the Company have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used (e.g., the asset becoming idle, or the useful life of an asset is reassessed as finite rather than indefinite);
- information on dividends from a subsidiary, joint venture or associate;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected. Such evidence includes the existence of:
 - cash flows on acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted;
 - actual net cash flows or operating profit or loss flowing from the asset that are significantly worse than those budgeted;
 - a significant decline in budgeted net cash flows or operating profit, or a significant increase in budgeted losses, flowing from the asset;
 - operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

- the following factors indicate that exploration and evaluation assets may be impaired:
 - the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
 - substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
 - exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Company has decided to discontinue such activities in the specific area;
 - sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverable amount of an asset or a cash-generating unit is the higher of:

- the value in use of an asset (cash-generating unit); and
- the fair value of an asset (cash-generating unit) less costs to sell.

If the asset does not generate cash inflows that are largely independent of those from other assets, its recoverable amount is determined for the asset's cash-generating unit.

The Company initially measures the value in use of a cash-generating unit. When the carrying amount of a cash-generating unit is greater than its value in use, the Company measures the unit's fair value for the purpose of measuring the recoverable amount. When the fair value is less than the carrying value an impairment loss is recognized.

Value in use is determined by discounting the estimated value of the future cash inflows expected to be derived from the asset or cash-generating unit, including cash inflows from its sale. The value of the future cash inflows from a cash-generating unit is determined based on the forecast approved by management of the business unit to which the unit in question pertains.

Impairment of financial assets

At each balance sheet date the Company analyzes whether there is objective evidence of impairment for all categories of financial assets, except those recorded at fair value through profit or loss. A financial asset or a group of financial assets is deemed to be impaired if there is objective evidence of impairment as a result of one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include (but is not limited to) indications that debtors or a group of debtors are experiencing financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Capitalized interest

Interest expense on borrowed funds used for capital construction projects and the acquisition of property, plant and equipment is capitalized provided that the interest expense could have been avoided if the Company had not made capital investments. Interest is capitalized only during the period when construction activities are actually in progress and until the resulting properties are put into operation. Capitalized borrowing costs include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Leasing agreements

Leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the asset, are classified as financial leases and are capitalized at the commencement of the lease at the fair value of the leased property or, if it is lower than the cost, 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 risks and rewards pass to the customer, which usually occurs when the title passes to the customer, provided that the contract price is fixed or determinable and collectability of the receivable is reasonably assured. Specifically, domestic sales of crude oil and gas, as well as petroleum products and materials are usually recognized when title passes. For export sales, title

generally passes at the border of the Russian Federation and the Company covers transportation expenses (except freight), duties and taxes on those sales (Note 10). Revenue is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts, volume rebates and reimbursable taxes.

Sales of support services are recognized as services are performed provided that the service price can be determined and no significant uncertainties regarding the receipt of revenues exist.

Transportation expenses

Transportation expenses recognized in the consolidated statement of profit or loss represent all expenses incurred by the Company to transport crude oil for refining and to end customers, and to deliver petroleum products from refineries to end customers (these may include pipeline tariffs and any additional railroad transportation costs, handling costs, port fees, sea freight and other costs).

Refinery maintenance costs

The Company recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred.

Environmental liabilities

Expenditures that relate to an existing condition caused by past operations, and do not have a future economic benefit, are expensed. Liabilities for these expenditures are recorded when environmental assessments or clean-ups are probable and the costs can be reasonably estimated.

Accounting for contingencies

Certain conditions may exist as of the date of these consolidated financial statements which may further result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company's management makes an assessment of such contingent liabilities which is based on assumptions and is a matter of opinion. In assessing loss contingencies relating to legal or tax proceedings that involve the Company or unasserted claims that may result in such proceedings, the Company, after consultation with legal or tax advisors, evaluates the perceived merits of any legal or tax proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a loss will be incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the Company's consolidated financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve financial guarantees, in which case the nature of the guarantee would be disclosed. However, in some instances in which disclosure is not otherwise required, the Company may disclose contingent liabilities or other uncertainties of an unusual nature which, in the judgment of management after consultation with its legal or tax counsel, may be of interest to shareholders or others.

Taxes collected from customers and remitted to governmental authorities

Refundable taxes (excise and value-added tax ("VAT")) are deducted from revenues. Other taxes and duties are not deducted from revenues and are recognized as expenses in Taxes other than income tax in the consolidated statement of profit or loss.

VAT and excise receivable and payable are recognized as Prepayments and other current assets and Other tax liabilities in the consolidated balance sheet, respectively.

Functional and presentation currency

The consolidated financial statements are presented in Russian rubles, which is the functional currency of Rosneft Oil Company and all of its subsidiaries operating in the Russian Federation. The functional currency of the foreign subsidiaries is generally the U.S. dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of these transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognized in the profit or loss for the period.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities designated as foreign currency cash flow hedging instruments are recognized within other comprehensive income and reclassified to profit or loss in the period when the hedged item affects profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

The Company's subsidiaries

The results and financial position of all of the Company's subsidiaries, joint ventures and associates that have a functional currency which is different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of profit or loss and each statement of other comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

Prepayment on oil and petroleum products supply agreements

In the course of business the Company enters into long-term oil supply contracts. The contract terms may require the buyer to make a prepayment. The Company considers long-term oil supply contracts to be regular-way sale contracts entered into and continued to be held for the purpose of the receipt or delivery of non-financial items in accordance with the Company's expected purchase, sale or usage requirements. Regular-way sale contracts are exempted from the scope of IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement.

Conditions for meeting the definition of a regular-way sale are not met if either of the following applies:

- the ability to settle net in cash or another financial instrument, or by exchanging financial instruments, is not explicit in the terms of the contract, but the Company has a practice of settling similar contracts net in cash or via another financial instrument or by exchanging financial instruments (whether with the counterparty, by entering into offsetting contracts or by selling the contract before its exercise or lapse);
 - for similar contracts, the Company has a practice of taking delivery of the underlying goods and selling them within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or from a dealer's margin.
- Prepayments for the delivery of goods or respective deferred revenue are accounted for as non-financial liabilities because the outflow of economic benefits associated with them is the delivery of goods and services rather than a contractual obligation to pay cash or another financial asset.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards and interpretations effective as of January 1, 2016. The following amendments were applied for the first time in 2016:

- Accounting for Acquisitions of Interests in Joint Operations – amendments to IFRS 11 Joint Arrangements. The amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business and requires the application of IFRS 3 Business Combinations for such acquisitions.
- Clarification of Acceptable Methods of Depreciation and Amortization – amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets. These amendments clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate, because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.
- Amendments to IAS 1, Presentation of Financial Statements. These amendments are part of the initiative to improve presentation and disclosure in financial reports. Application of these amendments had no significant impact on the Company's financial position or results of operations. Certain prior period balances have been reclassified to conform to the current year presentation.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of consolidated financial statements requires management to make a number of accounting estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. The actual results, however, could differ from those estimates.

The most significant accounting estimates and assumptions used by the Company's management in preparing the consolidated financial statements include:

- estimation of oil and gas reserves;
- estimation of rights to, recoverability and useful lives of non-current assets;
- impairment of goodwill (Note 26 "Intangible assets and goodwill");
- allowances for doubtful accounts receivable and obsolete and slow-moving inventories (Note 22 "Accounts receivable" and Note 23 "Inventories");
- assessment of asset retirement (decommissioning) obligations (Note 3 "Significant accounting policies", section: "Asset retirement (decommissioning) obligations", and Note 33 "Provisions");
- assessment of legal and tax contingencies, recognition and disclosure of contingent liabilities (Note 41 "Contingencies");
- assessment of deferred income tax assets and liabilities (Note 3 "Significant accounting policies", section: "Income tax", and Note 17 "Income tax");
- assessment of environmental remediation obligations (Note 33 "Provisions" and Note 41 "Contingencies");
- fair value measurements (Note 38 "Fair value of financial instruments");
- assessment of the Company's ability to renew operating leases and to enter into new lease agreements;
- purchase price allocation to the identifiable assets acquired and the liabilities assumed (Note 7 "Acquisition of subsidiaries and shares in joint operations").

Significant estimates and assumptions affecting the reported amounts are those used in determining the economic recoverability of reserves.

Such estimates and assumptions may change over time when new information becomes available, e.g.:

- more detailed information on reserves was obtained (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- supplemental activities to enhance oil recovery were conducted;
- changes were made in economic estimates and assumptions (e.g. a change in pricing factors).

5. NEW AND AMENDED STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers. IFRS 15 establishes a single framework for revenue recognition and contains requirements for related disclosures. The new standard replaces IAS 18 Revenue, IAS 11 Construction Contracts, and the related interpretations on Revenue recognition. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. In April 2016, the IASB issued amendments to IFRS 15, which have the same effective date as the new standard: January 1, 2018. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments. The final version of IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together the requirements for the classification and measurement, impairment and hedge accounting of financial instruments. In respect of impairment, IFRS 9 replaces the 'incurred loss' model used in IAS 39 with a new 'expected credit loss' model that will require a more timely recognition of expected credit losses. The standard is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In September 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. These narrow scope amendments clarify that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not), and a partial gain or loss is recognized when a transaction involves assets that do not constitute a business. The IASB has postponed the date by when the entities must change these aspects of accounting for transactions between investors and equity accounted investees. Application of the amendments, initially planned for annual periods beginning on or after January 1, 2016, has been deferred. The Company does not expect the amendments to have a material impact on the consolidated financial statements as their requirements are already incorporated in the accounting policy of the Company.

In January 2016, the IASB issued IFRS 16 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases and establishes a single lessee accounting model. The most significant effect of the new requirements for the lessee will be an increase in lease assets and financial liabilities. The new standard replaces the previous leases standard, IAS 17 Leases, and the related interpretations. The standard is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for companies that also apply IFRS 15 Revenue from Contracts with Customers. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows entitled Disclosure Initiative. The amendments require companies to provide a reconciliation of financing cash flows in the statement of cash flows to the opening and closing balances of liabilities arising from financing activities (except for equity balances) in the statement of financial position. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company is currently assessing the impact of the standard on the consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12 Income Taxes entitled Recognition of Deferred Tax Assets for Unrealised Losses. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In June 2016, the IASB issued amendments to IFRS 2 Share-based Payment entitled Classification and Measurement of Share-based Payment Transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In September 2016, the IASB issued amendments to IFRS 4 Insurance Contracts entitled Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the replacement Standard that the Board is developing for IFRS 4. The amendments introduce two approaches, which should reconcile the timing of the application of the two new standards. Under the first approach, the amendments become effective on the date of first-time adoption of IFRS 9; under the second, the amendments become effective for annual periods beginning on or after January 1, 2018. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

In December 2016, the IASB issued IFRIC 22 Interpretation entitled Foreign Currency Transactions and Advance Consideration. The IFRIC addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. IFRIC 22 is effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements as their requirements are already incorporated in the accounting policy of the Company.

In December 2016, the IASB issued amendments to IAS 40 Investment Property entitled Transfers of Investment Property. The amendments clarify the requirements on transfers to, or from, investment property. The amendments are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

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.

The Company's management performs a regular assessment of the net debt to capital employed ratio to ensure it meets the Company's current rating requirements.

The Company's capital consists of debt obligations, which include long and short-term loans and borrowings, financial lease liabilities, liabilities related to derivative financial instruments, equity attributable to equity holders of Rosneft that includes share capital, reserves and retained earnings, as well as non-controlling interest. Net debt is a non-IFRS measure and is calculated as the sum of loans and borrowings and other financial liabilities as reported in the consolidated balance sheet, less cash and cash equivalents, other short-term financial assets and certain long-term deposits. The net debt to capital employed ratio enables users to see how significant net debt is relative to capital employed.

The Company's net debt to capital employed ratio was as follows:

	AS OF DECEMBER 31,	
	2016	2015
Total debt	3,585	3,323
Cash and cash equivalents	(790)	(559)
Other short-term financial assets and certain deposits	(905)	(1,070)
Net debt	1,890	1,694
Total equity	3,726	2,929

	AS OF DECEMBER 31,	
	2016	2015
Total capital employed	5,616	4,623
Net debt to capital employed ratio, %	33.7%	36.6%

Financial risk management

In the normal course of business the Company is exposed to the following financial risks: market risk (including foreign currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk. The Company has introduced a risk management system and developed a number of procedures to measure, assess and monitor risks and select the relevant risk management techniques.

The Company has developed, documented and approved the relevant policies pertaining to market, credit and liquidity risks and the use of derivative financial instruments.

Foreign currency risk

The Company undertakes transactions denominated in foreign currencies and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar and euro. Foreign exchange risk arises from assets, liabilities, commercial transactions and financing denominated in foreign currencies.

The carrying values of monetary assets and liabilities denominated in foreign currencies are presented in the table below:

	ASSETS		LIABILITIES	
	As of December 31,		As of December 31,	
	2016	2015	2016	2015
USS	1,358	1,828	(2,226)	(2,793)
EUR	153	121	(87)	(113)
Total	1,511	1,949	(2,313)	(2,906)

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

On October 1, 2014, the Company designated certain U.S. dollar denominated borrowings as a hedge of the expected highly probable U.S. dollar denominated export revenue stream in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

A portion of future monthly export revenues expected to be received in U.S. dollars over the period from January 2015 through December 2020 was designated as a hedged item. The nominal amounts of the hedged item and the hedging instruments were equal. To the extent that a change in the foreign currency rate impacts the fair value of the hedging instrument, the effects are recognized in other comprehensive income or loss and then reclassified to profit or loss in the same period in which the hedged item affects the profit or loss.

The Company's foreign currency risk management strategy is to hedge future export revenue in the amount of the net monetary position in U.S. dollars. The Company aligns the hedged nominal amount to the net monetary position in U.S. dollars on a periodical basis.

Changes in the nominal hedging amount during 2016 are presented in the table below:

	USS MILLION	THE EQUIVALENT AMOUNT AT THE CBR EXCHANGE RATE AS OF DECEMBER 31, 2016, RUB BILLION
Nominal amount as of December 31, 2015	3,918	238
Hedging instruments designated	7,000	425
Realized cash flow foreign exchange hedges	(437)	(27)
Hedging instruments de-designated	(8,718)	(529)
Nominal amount as of December 31, 2016	1,763	107

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	2016			2015		
	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	(590)	118	(472)	(498)	100	(398)
Foreign exchange effects recognized during the year	8	(2)	6	(215)	43	(172)
Foreign exchange effects reclassified to profit or loss	147	(29)	118	123	(25)	98
Total recognized in other comprehensive (loss)/income for the year	155	(31)	124	(92)	18	(74)
Total recognized in other comprehensive (loss)/income as of the end of the year	(435)	87	(348)	(590)	118	(472)

The schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of December 31, 2016, is presented below:

YEAR	2017	2018	2019	2020	TOTAL
Reclassification	(145.6)	(145.6)	(145.6)	1.8	(435)
Income tax	29.1	29.1	29.1	(0.3)	87
Total, net of tax	(116.5)	(116.5)	(116.5)	1.5	(348)

The expected reclassification is calculated using the Central Bank of Russia ("CBR") exchange rate as of December 31, 2016 and may be different using actual exchange rates in the future.

Analysis of sensitivity of financial instruments to foreign exchange risk

The level of currency risk is assessed on a monthly basis using sensitivity analysis and is maintained within the limits adopted in line with the Company's policy. The table below summarizes the impact on the Company's income before income tax and equity of the depreciation/(appreciation) of the Russian ruble against the U.S. dollar and euro.

	U.S. DOLLAR EFFECT		EURO EFFECT	
	2016	2015	2016	2015
Currency rate change in %	20.16%	27.22%	20.83%	27.69%
Gain/(loss)	147/(147)	115/(115)	11/(11)	(1)/1
Equity	(234)/234	(379)/379	2/(2)	(41)/41

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, 2016, the Company's variable rate liabilities totaled RUB 2,033 billion (net of interest payable). The Company analyzes its interest rate exposure, including by performing scenario analysis to measure the impact of an interest rate shift on annual income before income tax.

The table below summarizes the impact of a potential increase or decrease in interest rates on the Company's profit before tax, as applied to the variable element of interest rates on loans and borrowings. The increase/decrease is based on management estimates of potential interest rate movements.

	INCREASE/DECREASE IN INTEREST RATE	EFFECT ON INCOME BEFORE INCOME TAX
	basis points	RUB billion
2016	+5	(1)
	-5	1
2015	+5	(1)
	-5	1

The sensitivity analysis is limited to variable rate loans and borrowings and is conducted with all other variables held constant. The analysis is prepared with the assumption that the amount of variable rate liability outstanding at the balance sheet date was outstanding for the whole year. The interest rate on variable rate loans and borrowings will effectively change throughout the year in response to fluctuations in market interest rates.

The impact measured through the sensitivity analysis does not take into account other potential changes in economic conditions that may accompany the relevant changes in market interest rates.

Credit risk

The Company controls its own exposure to credit risk. All external customers and their financial guarantors, other than related parties, undergo a creditworthiness check (including sellers of goods and services who act on a prepayment basis). The Company performs an ongoing assessment and monitoring of the financial position and the risk of default. In the event of a default by the parties on their respective obligations under the financial guarantee contracts, the Company's exposure to credit risk will be limited to the corresponding contract amounts. As of December 31, 2016, management assessed such risk as remote.

In addition, as part of its cash management and credit risk function, the Company regularly evaluates the creditworthiness of financial and banking institutions where it deposits cash and performs trade finance operations. The Company primarily has banking relationships with the Russian subsidiaries of large international banking institutions and certain large Russian banks. The Company's exposure to credit risk is limited to the carrying value of financial assets recognized in the consolidated balance sheet.

Liquidity risk

The Company has mature liquidity risk management processes covering short-term, mid-term and long-term funding. Liquidity risk is controlled through maintaining sufficient reserves and the adequate amount of committed credit facilities and loan funds. Management regularly monitors projected and actual cash flow information, analyzes the repayment schedules of the existing financial assets and liabilities, and performs annual detailed budgeting procedures.

The contractual maturities of the Company's financial liabilities are presented below:

YEAR ENDED DECEMBER 31, 2015	ON DEMAND	12 MONTHS	1 TO 5 YEARS	> 5 YEARS	TOTAL
Loans and borrowings	—	1,025	1,623	978	3,626
Finance lease liabilities	—	8	23	33	64
Accounts payable to suppliers and contractors	—	263	—	—	263
Salary and other benefits payable	—	63	—	—	63
Banking customer accounts	69	—	—	—	69
Other accounts payable	—	26	—	—	26
Derivative financial liabilities	—	104	—	—	104

YEAR ENDED DECEMBER 31, 2016	ON DEMAND	12 MONTHS	1 TO 5 YEARS	> 5 YEARS	TOTAL
Loans and borrowings and other financial liabilities	—	1,699	1,460	800	3,959
Finance lease liabilities	—	5	15	24	44
Accounts payable to suppliers and contractors	—	337	—	—	337
Salary and other benefits payable	—	80	—	—	80
Banking customer accounts	41	—	—	—	41
Other accounts payable	—	22	—	—	22
Derivative financial liabilities	—	98	—	—	98
Voluntary offer to acquire shares	—	50	—	—	50

As of December 31, 2016, the Company's current liabilities exceeded its current assets. Management believes that the Group's current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet the Company's working capital requirements and repay its short-term debts and obligations when they become due.

7. ACQUISITIONS OF SUBSIDIARIES AND SHARES IN JOINT OPERATIONS**Acquisitions of 2016****Acquisition of shares in refineries in Germany**

On December 31, 2016 the Company acquired shares in refineries in Germany as part of the restructuring of Ruhr Oel GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe (Note 8). As a result of the restructuring, the Company has become a direct holder and increased its shareholdings in Bayernol Raffineriegesellschaft mbH from 12.5% to 25%; in Mineraloelraffinerie Oberheim GmbH from 12% to 24%; and in PCK Raffinerie GmbH (PCK) from 35.42% to 54.17%. In exchange, BP has consolidated 100% of the equity of the Gelsenkirchen refinery and solvents production facility DHC Solvent Chemie GmbH.

The total consideration amounted to US\$ 1,522 million (RUB 92 billion at the CBR official exchange rate at the acquisition date). The deal enables the Company to significantly strengthen its position in one of the most promising oil product markets in Europe. The Company has become the third-largest oil refiner in the German market and is starting to develop its own business in the country.

The acquired interest was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company's interests in accordance with IFRS 11, Joint Arrangements.

As of December 31, 2016, the Company had not yet completed the fair value estimation of assets acquired and liabilities assumed in the refineries in Germany. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date.

The following table summarizes the Company's preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
CURRENT ASSETS	
Accounts receivable	15
Inventories	2
Total current assets	17
NON-CURRENT ASSETS	
Property, plant and equipment	108
Investments in associates and joint ventures	1
Total non-current assets	109
Total assets	126
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	8
Loans and borrowings and other financial liabilities	2
Other tax liabilities	2
Total current liabilities	12
NON-CURRENT LIABILITIES	
Deferred tax liabilities	13
Other non-current liabilities	9
Total non-current liabilities	22
Total liabilities	34
Total identifiable net assets at fair value	92
Total consideration transferred	92

Had the refineries acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 5,299 billion and RUB 219 billion, respectively, for the year ended December 31, 2016.

Acquisition of JSC Targin

On December 30, 2016 the Company acquired a 100% interest in JSC Targin, a provider of oilfield services.

The following table summarizes the Company's preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
CURRENT ASSETS	
Accounts receivable	6
Inventories	2
Cash and cash equivalents	2
Total current assets	10
Non-current assets	
Property, plant and equipment	12
Total non-current assets	12
Total assets	22
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	4
Loans and borrowings	4
Other current liabilities	1
Total current liabilities	9
NON-CURRENT LIABILITIES	
Loans and borrowings	4
Total non-current liabilities	4
Total liabilities	13
Total identifiable net assets at fair value	9
Gain on bargain purchase	(5)
Total consideration transferred	4

The book value of the accounts receivable approximates their fair value as of the date of acquisition. There are no accounts receivable that are not expected to be collected.

Had Targin's acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 4,982 billion and RUB 197 billion, respectively, for the twelve month period ended December 31, 2016.

As of December 31, 2016 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of Targin's assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date.

Acquisition of PJSC Bashneft Oil Company

On October 12, 2016, the Company completed the acquisition of the state's stake in PJSC Bashneft Oil Company totaling 50.0755% of its charter capital. The consideration transferred totaled RUB 329.69 billion. As a result of the transaction, the Company has obtained control over PJSC Bashneft Oil Company and its subsidiaries ("Bashneft").

Bashneft is a vertically integrated group of companies, producing and refining crude oil in Russia, and selling oil and petroleum products on domestic and international markets. The main upstream and downstream assets of Bashneft comprise oil and gas fields, oil refineries, as well as a retail network.

As a result of the acquisition, the Company expects to expand into new crude oil and petroleum product production and supply areas, increase its liquid hydrocarbon production and refining throughput, as well as realize significant synergies from optimizing oil supplies, transport and logistics costs, drilling cost reductions, and the joint use of both production asset infrastructure and modern technologies.

Significant subsidiaries of Bashneft are listed below:

SUBSIDIARY	COUNTRY OF INCORPORATION	CORE ACTIVITY	TOTAL SHARES	VOTING SHARES
EXPLORATION AND PRODUCTION				
			%	%
LLC Bashneft-Dobycha	Russia	Crude oil and gas production	100	100
LLC Sorovskneft	Russia	Crude oil exploration and development	100	100
LLC Bashneft-Polus	Russia	Crude oil exploration and development	74.9	74.9
REFINING, MARKETING AND DISTRIBUTION				
LLC Bashneft-Roznytsa	Russia	Sale of petroleum products	100	100
PJSC Ufaorgsintez	Russia	Petrochemical production	95.06	100

The following table summarizes the Company's preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	41
Accounts receivable	14
Inventories	39
Prepayments and other current assets	24
Other financial assets	5
Total current assets	123
NON-CURRENT ASSETS	
Property, plant and equipment	815
Intangible assets	3
Other financial assets	5
Total non-current assets	823
Total assets	946
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	56
Loans and borrowings	19
Profit tax payable	2
Other tax liabilities	23
Prepayment on long-term oil and petroleum products supply agreements	58
Provisions	1
Total current liabilities	159
NON-CURRENT LIABILITIES	
Loans and borrowings	93
Provisions	31
Deferred tax liabilities	112
Other liabilities	2
Total non-current liabilities	238
Total liabilities	397
Total identifiable net assets at fair value	549
Non-controlling interests	(169)
Liability for the mandatory offer	(50)
Total consideration transferred	330
Bashneft acquisition cash flow:	
Net cash acquired	41
Cash paid	(330)
Net cash outflow	(289)

The book value of the accounts receivable approximates their fair value as of the date of acquisition. There are no accounts receivable that are not expected to be collected.

On November 15, 2016, in accordance with Russian legal requirements, Rosneft submitted a mandatory offer to Bashneft for the acquisition of 55,466,137 Bashneft ordinary shares, comprising 37.52% of the total number of Bashneft ordinary shares. The proposed acquisition price amounted to RUB 3,706.41 per Bashneft ordinary share. Following the results of the mandatory offer, determined in February 2017, the Company included a liability of RUB 50 billion in the preliminary purchase price allocation for Bashneft.

Had the Bashneft acquisition taken place at the beginning of the reporting period (January 1, 2016), revenues and net income of the combined entity would have been RUB 5,420 billion and RUB 229 billion, respectively, for the twelve month period ended December 31, 2016.

As of December 31, 2016 and the date of authorization of these financial statements for issue the Company had not yet completed the fair value estimation of Bashneft's assets acquired and liabilities assumed. Allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months of the acquisition date. The Company does not anticipate any significant goodwill being recognized upon completion of the fair value estimation.

Other acquisitions

On March 31, 2016 the Company acquired 100% of shares in a real estate leasing entity. The cost of the acquisition amounted to RUB 3 billion.

Acquisitions of 2015**Acquisition of AET-Raffineriebeteiligungsgesellschaft mbH**

In November 2015 the Company acquired a 66.67% ownership interest in AET-Raffineriebeteiligungsgesellschaft mbH, which represents a 16.67% effective interest in PCK refinery, Schwedt, Germany. The total consideration amounted to euro 321 million (RUB 23 billion at the CBR official exchange rate at the acquisition date) including related stocks of crude oil and petroleum products. The Company made the acquisition in order to develop its target business model in Germany in view of the restructuring of Ruhr Oel GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe.

The acquired interest was classified as a joint operation, and was accounted for through the recognition of assets, liabilities, income and expenses in respect of the Company's interests in accordance with IFRS 11, Joint Arrangements.

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
CURRENT ASSETS	
Accounts receivable	2
Inventories	2
Prepayments and other current assets	1
Total current assets	5
NON-CURRENT ASSETS	
Property, plant and equipment	27
Total non-current assets	27
Total assets	32
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	1
Total current liabilities	1
NON-CURRENT LIABILITIES	
Deferred tax liabilities	6
Other non-current liabilities	2
Total non-current liabilities	8
Total liabilities	9
Total identifiable net assets at fair value	23
Total consideration transferred	23

Acquisition of LLC Trican Well Service

In August 2015 the Company completed the acquisition of a 100% ownership interest in LLC Trican Well Service ("TWS"), engaged in pressure pumping services focused on the enhancement of production of conventional oil and gas deposits in Russia. The consideration paid amounted to RUB 10 billion (US\$ 150 million at the CBR official exchange rate at the acquisition date).

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
CURRENT ASSETS	
Accounts receivable	4
Inventories	2
Cash and cash equivalents	1
Total current assets	7
NON-CURRENT ASSETS	
Property, plant and equipment	4
Total non-current assets	4
Total assets	11
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	1
Total current liabilities	1
NON-CURRENT LIABILITIES	
Deferred tax liabilities	1
Total non-current liabilities	1
Total liabilities	2
Total identifiable net assets at fair value	9
Goodwill	1
Total consideration transferred	10

Acquisition of LLC Petrol Market Company

In August 2015 the Company acquired a 100% ownership interest in LLC Petrol Market Company ("Petrol Market"), which owns a network of gas stations and oil storage facilities in the Republic of Armenia. The consideration paid amounted to US\$ 40 million (RUB 2.7 billion at the CBR official exchange rate at the acquisition date).

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
NON-CURRENT ASSETS	
Property, plant and equipment	1
Total non-current assets	1
Total assets	1
Total identifiable net assets at fair value	1
Goodwill	2
Total consideration transferred	3

Finalization of the allocation of the purchase price of LLC Trican Well Service, LLC Petrol Market Company and PCK refinery

At the date of the issuance of the consolidated financial statements for the year ended December 31, 2015 the Company made a preliminary allocation of the purchase price of LLC Trican Well Service, LLC Petrol Market Company and PCK refinery to the fair value of assets acquired and liabilities assumed. The allocation of the purchase price of LLC Trican Well Service, LLC Petrol Market Company and PCK refinery was finalized during the second half of 2016.

The following table summarizes the effect from the finalized estimation on the consolidated balance sheet as of December 31, 2015:

	BEFORE FINALIZED ESTIMATION	EFFECT FROM FINALIZED ESTIMATION			AFTER FINALIZED ESTIMATION
		TWS	Petrol Market	PCK	
ASSETS					
Current assets	2,404	—	—	—	2,404
Non-current assets					
Property, plant and equipment	5,895	(1)	(3)	5	5,896
Intangible assets	48	—	—	—	48
Other long-term financial assets	510	—	—	—	510
Investments in associates and joint ventures	353	—	—	—	353
Bank loans granted	18	—	—	—	18
Deferred tax assets	25	—	—	—	25
Goodwill	227	1	2	—	230
Other non-current non-financial assets	8	—	—	—	8
Total non-current assets	7,084	—	(1)	5	7,088
Assets held for sale	150	—	—	—	150
Total assets	9,638	—	(1)	5	9,642
LIABILITIES AND EQUITY					
Current liabilities	1,817	—	—	—	1,817
Non-current liabilities					
Loans and borrowings and other financial liabilities	2,283	—	—	—	2,283
Deferred tax liabilities	579	—	(1)	4	582
Provisions	143	—	—	—	143
Prepayment on oil supply agreements	1,785	—	—	—	1,785
Other non-current liabilities	39	—	—	1	40
Total non-current liabilities	4,829	—	(1)	5	4,833
Liabilities associated with assets held for sale	63	—	—	—	63
Equity					
Share capital	1	—	—	—	1
Additional paid-in capital	507	—	—	—	507
Other funds and reserves	(768)	—	—	—	(768)
Retained earnings	3,146	—	—	—	3,146
Rosneft shareholders' equity	2,886	—	—	—	2,886
Non-controlling interest	43	—	—	—	43
Total equity	2,929	—	—	—	2,929
Total liabilities and equity	9,638	—	(1)	5	9,642

Acquisition of CJSC Novokuibyshevsk Petrochemical Company

In March 2015 the Company acquired a 100% share in CJSC Novokuibyshevsk Petrochemical Company ("NPC"). The acquisition allowed the Company to integrate its gas processing assets with petrochemical production and to expand its presence in the petrochemical market sector. The total consideration amounted to US\$ 300 million (RUB 18.3 billion at the CBR official exchange rate at the acquisition date).

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:

ASSETS	
CURRENT ASSETS	
Accounts receivable	1
Inventories	2

ASSETS	
Other current assets	3
Total current assets	6
NON-CURRENT ASSETS	
Property, plant and equipment	18
Deferred tax assets	1
Other non-current assets	1
Total non-current assets	20
Total assets	26
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	5
Loans and borrowings	7
Other current liabilities	2
Total current liabilities	14
NON-CURRENT LIABILITIES	
Loans and borrowings	5
Deferred tax liabilities	2
Total non-current liabilities	7
Total liabilities	21
Total identifiable net assets at fair value	5
Goodwill	13
Total consideration transferred	18

Goodwill in the amount of RUB 13 billion relates to the expected synergies arising from integration with the Company's nearby oil and gas refining facilities as well as the guaranteed processing of broad fraction of light hydrocarbons from the Company's oilfields. Accordingly, the goodwill was fully attributed to the Refining and distribution segment. The amount of goodwill arising from the acquisition is not tax deductible.

Had the NPC acquisition taken place at the beginning of the reporting period (January 1, 2015), revenues and net income of the combined entity would have been RUB 5,159 billion and RUB 358 billion, respectively, for the twelve month period end December 31, 2015. NPC's revenues and net income for the period from the acquisition date to December 31, 2015 amounted to RUB 13 billion and RUB 0.5 billion, respectively.

8. ASSETS HELD FOR SALE

As of December 31, 2016 the Company had completed the restructuring of Ruhr Oel GmbH, a joint operation with BP Group, engaged in the processing and sale of crude oil in Western Europe, and derecognized the assets and liabilities of Ruhr Oel GmbH classified as held for sale in the consolidated balance sheet as of December 31, 2016. The effect from the restructuring of Ruhr Oel GmbH was recognized in Other income in the consolidated statement of profit or loss for the year ended December 31, 2016 (Note 14).

9. SEGMENT INFORMATION

The Company determines its operating segments based on the nature of their operations. The performance of these operating segments is assessed by management on a regular basis. The Exploration and production segment is engaged in field exploration and the production of crude oil and natural gas. The Refining and distribution segment is engaged in processing crude oil and other hydrocarbons into petroleum products, as well as in the purchase, sale and transportation of crude oil and petroleum products. Corporate and other unallocated activities are not part of the operating segment and include corporate activity, activities involved in field development, the maintenance of infrastructure and the functioning of the first two segments, as well as banking and finance services, and other activities. Substantially all of the Company's operations and assets are located in the Russian Federation.

Segment performance is evaluated based on both revenues and operating income, which are measured on the same basis as in the consolidated financial statements, but with intersegment transactions revalued at market prices.

Operating segments in 2016:

	EXPLORATION AND PRODUCTION	REFINING AND DISTRIBUTION	CORPORATE AND OTHER UNALLOCATED ACTIVITIES	ADJUSTMENTS	CONSOLIDATED
Total revenues and equity share in profits of associates and joint ventures	2,542	5,012	90	(2,656)	4,988
Including: Equity share in profits of associates and joint ventures	17	8	1	—	26
COSTS AND EXPENSES					
Costs and expenses other than depreciation, depletion and amortization	1,504	4,862	134	(2,656)	3,844
Depreciation, depletion and amortization	392	84	6	—	482
Total costs and expenses	1,896	4,946	140	(2,656)	4,326
OPERATING INCOME	646	66	(50)	—	662
Finance income	—	—	91	—	91
Finance expenses	—	—	(193)	—	(193)
Total finance expenses	—	—	(102)	—	(102)
Other income	—	—	50	—	50
Other expenses	—	—	(76)	—	(76)
Foreign exchange differences	—	—	(70)	—	(70)
Cash flow hedges reclassified to profit or loss	—	—	(147)	—	(147)
Income before income tax	646	66	(395)	—	317
Income tax expense	(131)	(13)	28	—	(116)
Net income	515	53	(367)	—	201

Operating segments in 2015:

	EXPLORATION AND PRODUCTION	REFINING AND DISTRIBUTION	CORPORATE AND OTHER UNALLOCATED ACTIVITIES	ADJUSTMENTS	CONSOLIDATED
Total revenues and equity share in profits of associates and joint ventures	2,487	5,152	97	(2,586)	5,150
Including: Equity share in profits of associates and joint ventures	2	6	1	—	9
COSTS AND EXPENSES					
Costs and expenses other than depreciation, depletion and amortization	1,530	4,896	152	(2,586)	3,992
Depreciation, depletion and amortization	359	84	7	—	450
Total costs and expenses	1,889	4,980	159	(2,586)	4,442
OPERATING INCOME	598	172	(62)	—	708
Finance income	—	—	55	—	55
Finance expenses	—	—	(269)	—	(269)
Total finance expenses	—	—	(214)	—	(214)
Other income	—	—	75	—	75
Other expenses	—	—	(72)	—	(72)
Foreign exchange differences	—	—	86	—	86
Cash flow hedges reclassified to profit or loss	—	—	(123)	—	(123)
Income before income tax	598	172	(310)	—	460
Income tax expense	(120)	(34)	50	—	(104)
Net income	478	138	(260)	—	356

Oil and gas and petroleum products and petrochemical sales comprise the following (based on the country indicated in the bill of lading):

	2016	2015
International sales of crude oil, petroleum products and petrochemicals	3,403	3,690
International sales of crude oil and petroleum products – CIS, other than Russia	183	198
Domestic sales of crude oil, petroleum products and petrochemicals	1,087	995
Sales of gas	214	188
Total oil, gas, petroleum products and petrochemicals sales	4,887	5,071

The Company is not dependent on any of its major customers or any one particular customer, as there is a liquid market for crude oil and petroleum products. As of December 31, 2016, the amount of current receivables from the Company's largest customer totaled RUB 35 billion, or around 8% of the Company's trade receivables.

10. TAXES OTHER THAN INCOME TAX

Taxes other than income tax for the years ended December 31 comprise the following:

	2016	2015
Mineral extraction tax	1,007	1,091
Excise tax	197	103
Property tax	36	31
Social charges	50	47
Other	6	5
Total taxes	1,296	1,277

11. EXPORT CUSTOMS DUTY

Export customs duty for the years ended December 31 comprises the following:

	2016	2015
Export customs duty on oil sales	497	683
Export customs duty on petroleum products and petrochemicals sales	160	242
Total export customs duty	657	925

12. FINANCE INCOME

Finance income for the years ended December 31 comprises the following:

INTEREST INCOME ON:	2016	2015
Deposits and certificates of deposit	24	19
Loans issued	29	24
Notes receivable	4	3
Bonds	4	2
Current/settlement accounts	10	2
For the use of funds	8	—

INTEREST INCOME ON:	2016	2015
Total interest income	79	50
Net gain from operations with derivative financial instruments	10	4
Other finance income	2	1
Total finance income	91	55

13. FINANCE EXPENSES

Finance expenses for the years ended December 31 comprise the following:

INTEREST EXPENSE ON:	2016	2015
Loans and borrowings	(80)	(91)
Prepayment on long-term oil and petroleum products supply agreements (Note 34)	(90)	(58)
Other interest expenses	(7)	(2)
Total interest expenses	(177)	(151)
Net loss from operations with derivative financial instruments	—	(104)
Increase in provision due to the unwinding of a discount	(15)	(13)
Other finance expenses	(1)	(1)
Total finance expenses	(193)	(269)

The weighted average rates used to determine the amount of borrowing costs eligible for capitalization were 4.82% and 8.83% p.a. in 2016 and 2015, respectively.

14. OTHER INCOME AND EXPENSES

Other income for the years ended December 31 comprises the following:

	2016	2015
Liability write-off (Note 41)	5	37
Effect from disposal of investments in associates (Note 28)	—	15
Effect from disposal of subsidiaries and shares in joint operations (Note 8)	33	—
Insurance indemnity	—	17
Compensation payment for licenses from joint venture parties	2	—
Other	10	6
Total other income	50	75

The effect from the disposal of subsidiaries and shares in joint operations mainly includes the effect from the restructuring of Ruhr Oel GmbH. It is calculated as the difference between the fair value of the direct shareholding acquired in the refineries in Germany – Bayernoil Raffineriegesellschaft mbH, Mineraloelraffinerie Oberrhein GmbH and PCK (Note 7) – and the carrying value of the disposed assets and liabilities of Ruhr Oel GmbH (Note 8) as of December 31, 2016. The effect from the restructuring of Ruhr Oel GmbH includes the cumulative foreign exchange differences recognized in other comprehensive income, accumulated in shareholders' equity and reclassified to profit upon the disposal of Ruhr Oel GmbH.

Other expenses for the years ended December 31 comprise the following:

	2016	2015
Sale and disposal of property, plant and equipment and intangible assets	(16)	(22)
Disposal of companies and non-production assets	(2)	(11)
Impairment of assets	(23)	(6)
Social payments, charity, sponsorship, financial aid	(16)	(14)
Other	(19)	(19)
Total other expenses	(76)	(72)

The impairment of assets relates to a number of market quoted financial assets and certain other assets which were impaired due to a sustained decrease in market prices.

15. PERSONNEL EXPENSES

Personnel expenses for the years ended December 31 comprise the following:

	2016	2015
Salary	211	195
Statutory insurance contributions	51	47
Expenses on non-statutory defined contribution plan	5	5
Other employee benefits	11	10
Total personnel expenses	278	257

Personnel expenses are included in Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

16. 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, 2016 and 2015 amounted to RUB 28 billion and RUB 26 billion, respectively. The expenses were recognized within Production and operating expenses, General and administrative expenses and Other expenses in the consolidated statement of profit or loss.

Future minimum lease payments under non-cancellable operating leases as of December 31 are as follows:

	2016	2015
Less than 1 year	26	25
From 1 to 5 years	83	71
Over 5 years	188	200
Total future minimum lease payments	297	296

17. INCOME TAX

Income tax expenses for the years ended December 31 comprise the following:

	2016	2015
Current income tax	39	123
Prior period adjustments	(4)	(2)
Current income tax expense	35	121
Deferred tax relating to the origination and reversal of temporary differences	81	(17)
Deferred income tax expense/(benefit)	81	(17)
Total income tax expense	116	104

In 2016 and 2015, the Company's subsidiaries domiciled in the Russian Federation applied the standard Russian income tax rate of 20%, except for applicable regional tax relief. The income tax rates applicable for subsidiaries incorporated in other jurisdictions may vary from 20% and are calculated according to local regulations.

Temporary differences between these consolidated financial statements and tax records gave rise to the following deferred income tax assets and liabilities:

	CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31,		CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEARS, ENDED DECEMBER 31,	
	2016	2015 (restated)	2016	2015
Short-term accounts receivable	7	5	2	2
Property, plant and equipment	10	8	2	—
Short-term accounts payable and accrued liabilities	9	8	—	(4)
Other current liabilities	20	23	(3)	(8)
Long-term loans and borrowings and other financial liabilities	5	6	(1)	3
Long-term provisions	10	9	—	(3)
Tax loss carry forward	29	96	(69)	28
Other	14	9	4	5
Less: deferred tax liabilities offset	(82)	(139)	—	—
Deferred tax assets	22	25	(65)	23
Inventories	(10)	(2)	(4)	2
Property, plant and equipment	(503)	(442)	(13)	(21)
Mineral rights	(326)	(255)	7	8
Intangible assets	(5)	(8)	3	—
Investments in associates and joint ventures	(9)	(7)	(2)	(1)
Other	(14)	(7)	(7)	6
Less: deferred tax assets offset	82	139	—	—
Deferred tax liabilities	(785)	(582)	(16)	(6)
Deferred income tax (expense)/benefit			(81)	17
Net deferred tax liabilities	(763)	(557)		
Recognized in the consolidated balance sheet as following				
Deferred tax assets	22	25		
Deferred tax liabilities	(785)	(582)		
Net deferred tax liabilities	(763)	(557)		

The reconciliation of net deferred tax liabilities is as follows:

	2016	2015 (RESTATED)
As of January 1	(557)	(570)
Deferred income tax (expense)/benefit, recognized in the consolidated statement of profit or loss	(81)	17
Acquisition of subsidiaries and shares in joint operations (Note 7)	(127)	(9)
Deferred tax expenses recognized in other comprehensive income	2	(3)
Reclassification to assets held for sale	—	8
As of December 31	(763)	(557)

The reconciliation between tax expense and the product of accounting profit multiplied by the 20% tax rate for the years ended December 31 is as follows:

	2016	2015
Income before income tax	317	460
Income tax at statutory rate of 20%	63	92
Increase/(decrease) resulting from:		
Effect of change in unrecognized deferred tax assets	6	23
Effect of income tax rates in other jurisdictions	4	3
Effect of special tax treatments	3	3
Effect of income tax relief	(16)	(18)
Effect of equity share in profits of associates and joint ventures	(3)	(1)
Effect of sale of shares in subsidiaries and investments in associates and joint ventures	38	(2)
Effect of restructuring of joint ventures	(6)	—
Effect of tax on intercompany dividends	7	—
Effect of prior period adjustments	1	—
Effect of non-taxable income and non-deductible expenses	19	4
Income tax	116	104

Unrecognized deferred tax assets in the consolidated balance sheet for the years ended December 31, 2016 and 2015 amounted to RUB 39 billion and RUB 37 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.

In 2014 certain amendments were introduced in Russian tax legislation in respect of the profit of controlled foreign companies and income of foreign entities. According to these changes undistributed profit of foreign subsidiaries recognized as controlled foreign companies may form an additional tax base for Rosneft and for certain Russian subsidiaries holding investments in foreign entities. In particular, undistributed 2015 profits of controlled foreign companies are included in the Company's tax base as of December 31, 2016 and recorded in the tax declaration. The consequences of taxation of controlled foreign companies are accounted for within current and deferred tax liabilities.

18. NON-CONTROLLING INTERESTS

Non-controlling interests include:

	AS OF DECEMBER 31, 2016		2016		AS OF DECEMBER 31, 2015		2015	
	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	Non-controlling interest in net income		
PJSC Bashneft Oil Company	39.67	172	3	—	—	—		
JSC Vankorneft	49.90	141	13	—	—	—		
LLC Taas-Yuriakh Neftegazodobycha	49.90	92	2	20.00	31	—		
OJSC Groznetgaz	49.00	3	—	49.00	3	—		
JSC Russian Regional Development Bank (VBRR)	1.66	2	1	15.33	1	—		
OJSC Rosneft Sakhalin	45.00	2	—	45.00	2	—		
CJSC TZK Sheremetyevo	25.10	1	—	25.10	1	—		
SIA ITERA Latvija	—	—	—	34.00	2	1		
Non-controlling interests in other entities	various	4	1	various	3	—		
Total non-controlling interests		417	20		43	1		

In May 2016 the Company sold a 15% share in its subsidiary JSC Vankorneft to Oil and Natural Gas Corporation Videsh Limited for a consideration of RUB 72 billion.

In October 2016 the Company sold a 23.9% share in JSC Vankorneft to a consortium of Indian companies, including Oil India Ltd, Indian Oil Corporation and Bharat Petroresources (the "Consortium"). As of December 31, 2016, the Company received a base payment of RUB 106 billion. The agreement provides for the final settlement.

In October 2016 the Company sold an 11% share in JSC Vankorneft to a subsidiary of Oil and Natural Gas Corporation Videsh Limited. As of December 31, 2016, the Company received a base payment of RUB 49 billion. The agreement provides for the final settlement.

In October 2016 the Company sold a 29.9% share in its subsidiary LLC Taas-Yuryakh Neftegazodovycha to the Consortium for a consideration of RUB 73 billion.

In October 2016 the Company acquired 50.0755% of shares in PJSC Bashneft Oil Company for a total consideration of RUB 330 billion. The non-controlling interest recognized at the acquisition date, including the outcome of the voluntary offer to acquire PJSC Bashneft Oil Company ordinary shares held by minority shareholders, amounted to RUB 169 billion (Note 7).

In November 2015 the Company sold a 20% share in LLC Taas-Yuriakh Neftegazodobycha to BP Russian Investments Ltd for a consideration of RUB 55 billion.

The summarized financial information of subsidiaries that have material non-controlling interests is provided below. This information is based on amounts before inter-company eliminations.

SUMMARIZED STATEMENT OF COMPREHENSIVE INCOME FOR 2016:	PJSC BASHNEFT OIL COMPANY*	JSC VANKORNEFT	LLC TAAS-YURIAKH NEFTEGAZODOBYCHA
Revenues	168	299	25
Costs and other income and expenses	(161)	(202)	(19)
Income before income tax	7	97	6
Income tax expense	—	(16)	(1)
Net income	7	81	5
incl. attributable to non-controlling interests	3	13	2

1. From the acquisition date.

SUMMARIZED STATEMENT OF COMPREHENSIVE INCOME FOR 2015:	PJSC BASHNEFT OIL COMPANY	JSC VANKORNEFT	LLC TAAS-YURIAKH NEFTEGAZODOBYCHA
Revenues	—	372	22
Costs and other income and expenses	—	(294)	30

SUMMARIZED STATEMENT OF COMPREHENSIVE INCOME FOR 2015:	PJSC BASHNEFT OIL COMPANY	JSC VANKORNEFT	LLC TAAS-YURIAKH NEFTE-GAZODOBYCHA
Income before income tax	—	78	52
Income tax expense	—	(16)	(2)
Net income	—	62	50
incl. attributable to non-controlling interests	—	—	—

SUMMARIZED BALANCE SHEET AS AT DECEMBER 31, 2016:	PJSC BASHNEFT OIL COMPANY	JSC VANKORNEFT	LLC TAAS-YURIAKH NEFTEGAZODOBYCHA
Current assets	137	99	12
Non-current assets	820	266	189
Total assets	957	365	201
Current liabilities	119	35	7
Non-current liabilities	282	36	27
Equity	556	294	167
Total equity and liabilities	957	365	201
incl. non-controlling interests	172	141	92

SUMMARIZED BALANCE SHEET AS AT DECEMBER 31, 2015:	PJSC BASHNEFT OIL COMPANY	JSC VANKORNEFT	LLC TAAS-YURIAKH NEFTEGAZODOBYCHA
Current assets	—	97	9
Non-current assets	—	456	161
Total assets	—	553	170
Current liabilities	—	207	7
Non-current liabilities	—	284	25
Equity	—	62	138
Total equity and liabilities	—	553	170
incl. non-controlling interests	—	—	31

19. EARNINGS PER SHARE

For the years ended December 31 basic and diluted earnings per share comprise the following:

	2016	2015
Net income attributable to shareholders of Rosneft	181	355
Weighted average number of issued common shares outstanding (millions)	10,598	10,598
Total basic and diluted earnings per share (RUB)	17.08	33.50

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	AS OF DECEMBER 31,	
	2016	2015
Cash on hand and in bank accounts in RUB	25	39
Cash on hand and in bank accounts in foreign currencies	153	393
Deposits and other cash equivalents in RUB	609	124
Other	3	3
Total cash and cash equivalents	790	559

Cash accounts denominated in foreign currencies represent primarily cash in U.S. dollars. Deposits and other cash equivalents (Note 39) are interest bearing and denominated primarily in RUB. Restricted cash comprises the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 2 billion as of December 31, 2016 and 2015.

21. OTHER SHORT-TERM FINANCIAL ASSETS

Other short-term financial assets comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
FINANCIAL ASSETS AVAILABLE-FOR-SALE		
Bonds and promissory notes	116	46
Stocks and shares	187	129
FINANCIAL ASSETS HELD-TO-MATURITY		
Bonds	2	1

	AS OF DECEMBER 31,	
	2016	2015
LOANS AND ACCOUNTS RECEIVABLE		
Loans granted	4	3
Loans issued to associates	22	2
Notes receivable, net of allowance	55	83
Loans granted under reverse repurchase agreements	2	—
Deposits and certificates of deposit	55	714
HELD-FOR-TRADING FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		
Corporate bonds	2	5
State bonds	2	3
Total other short-term financial assets	447	986

As of December 31, 2016 and 2015 available-for-sale bonds and notes comprise the following:

TYPE OF SECURITY	2016			2015		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
State and municipal bonds	65	7.5-14.15%	October 2017- March 2030	2	8.0-14.5%	October 2017 - January 2025
Corporate bonds	31	3.72-12.85%	January 2017- September 2032	6	3.72-17.0%	January 2016 - September 2032
Promissory notes	20	11.7%	December 2021	38	10.25%-11.1%	September 2019 - September 2020
Total	116			46		

As of December 31, 2016 and 2015 held-to-maturity bonds comprise the following:

TYPE OF SECURITY	2016			2015		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
Corporate bonds	1	5.38-6.0%	February 2017 - April 2017	1	5.3-8.8%	February 2016 - April 2017
State and municipal bonds	1	7.94-12.1%	June 2017 - November 2019	—		
Total	2			1		

As of December 31, 2016, notes receivable include corporate notes receivable that are denominated in euro with a nominal interest rate of 2.845% p.a. and maturity through April 2017, as well as discounted corporate notes receivable that are denominated in U.S. dollars with a rate of return of 4.5% p.a. and maturity through February 2017.

As of December 31, 2015, notes receivable include corporate notes receivable that are denominated in euro with a nominal interest rate of 2.843% p.a. and maturity through April 2016, as well as corporate notes receivable that are denominated in U.S. dollars with a nominal interest rate of 4.357% p.a. and maturity through August 2016.

As of December 31, 2016, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 47 billion and earn interest ranging from 1.1% to 4.0% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 7 billion and bear interest rates ranging from 9.9% to 14.0% p.a.

As of December 31, 2015, deposits and certificates of deposit denominated in U.S. dollars amount to RUB 696 billion and earn interest ranging from 0.94% to 4.3% p.a. Deposits and certificates of deposit denominated in RUB amount to RUB 18 billion and bear interest rates ranging from 8.15% to 14.0% p.a.

As of December 31, 2016 and 2015 trading securities comprise the following:

TYPE OF SECURITY	2016			2015		
	Balance	Interest rate p.a.	Date of maturity	Balance	Interest rate p.a.	Date of maturity
Corporate bonds	2	5.38-11.7%	February 2017 - September 2032	5	5.375-11.3%	February 2016 - September 2032
State and municipal bonds	2	2.5-10.9%	April 2017 - August 2023	3	6.9-10.9%	November 2016 - February 2036
Total	4			8		

22. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	AS OF DECEMBER 31,	
	2016	2015
Trade receivables	437	318
Banking loans to customers	49	33
Other accounts receivable	29	37
Total	515	388
Allowance for doubtful accounts	(30)	(21)
Total accounts receivable, net of allowance	485	367

The allowance for doubtful accounts is recognized at each balance sheet date based on estimates of the Company's management regarding the expected cash inflows to repay accounts receivable. The Company recognized an allowance for doubtful accounts for all significant past due accounts receivable as of December 31, 2016 and 2015. As of December 31, 2016 and 2015 accounts receivable were not pledged as collateral for loans and borrowings provided to the Company.

23. INVENTORIES

Inventories comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
Crude oil and gas	67	62
Petroleum products and petrochemicals	137	99
Materials and supplies	79	58
Total	283	219

Petroleum products and petrochemicals include those designated both for sale and for own use.

For the years ended December 31:

	2016	2015
Cost of inventories recognized as an expense during the period	795	690

The cost of inventories recognized as an expense during the period is included in Production and operating expenses, Cost of purchased oil, gas, petroleum products and refining costs, and General and administrative expenses in the consolidated statement of profit or loss.

24. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
Value added tax and excise receivable	166	144
Prepayments to suppliers	64	58
Settlements with customs	29	31
Profit and other tax payments	23	29
Other	11	9
Total prepayments and other current assets	293	271

Settlements with customs primarily represent export duties related to the export of crude oil and petroleum products (Note 11).

25. PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

	EXPLORATION AND PRODUCTION	REFINING AND DISTRIBUTION	CORPORATE AND OTHER UNALLOCATED ACTIVITIES	TOTAL
Cost as of January 1, 2015	5,768	1,465	105	7,338
Depreciation, depletion and impairment losses as of January 1, 2015	(1,423)	(281)	(26)	(1,730)
Net book value as of January 1, 2015	4,345	1,184	79	5,608
Prepayments for property, plant and equipment as of January 1, 2015	6	47	5	58
Total as of January 1, 2015	4,351	1,231	84	5,666
COST				
Acquisition of subsidiaries (Note 7)	4	44	—	48
Additions	518	184	14	716
Disposals	(34)	(6)	(6)	(46)
Reclassification from assets held for sale	—	(194)	—	(194)
Foreign exchange differences	99	27	7	133
Cost of asset retirement (decommissioning) obligations	27	—	—	27
As of December 31, 2015 (restated)	6,382	1,520	120	8,022
DEPRECIATION, DEPLETION AND IMPAIRMENT LOSSES				
Depreciation and depletion charge	(365)	(78)	(8)	(451)
Disposals and other movements	17	2	—	19
Impairment of assets	(4)	—	—	(4)
Reclassification to assets held for sale (Note 8)	—	79	—	79
Foreign exchange differences	(70)	(10)	(1)	(81)
As of December 31, 2015	(1,845)	(288)	(35)	(2,168)
Net book value as of December 31, 2015 (restated)	4,537	1,232	85	5,854
Prepayments for property, plant and equipment as of December 31, 2015	9	27	6	42
Total as of December 31, 2015 (restated)	4,546	1,259	91	5,896
COST				
Acquisition of subsidiaries (Note 7)	671	255	12	938
Additions	652	109	36	797
Disposals and other movements	(41)	(19)	(16)	(76)

	EXPLORATION AND PRODUCTION	REFINING AND DISTRIBUTION	CORPORATE AND OTHER UNALLOCATED ACTIVITIES	TOTAL
Foreign exchange differences	(73)	(10)	(6)	(89)
Cost of asset retirement (decommissioning) obligations	22	—	—	22
As of December 31, 2016	7,613	1,855	146	9,614
DEPRECIATION, DEPLETION AND IMPAIRMENT LOSSES				
Depreciation and depletion charge	(399)	(81)	(8)	(488)
Disposals and other movements	25	4	6	35
Impairment of assets	(1)	(1)	—	(2)
Foreign exchange differences	54	2	1	57
As of December 31, 2016	(2,166)	(364)	(36)	(2,566)
Net book value as of December 31, 2016	5,447	1,491	110	7,048
Prepayments for property, plant and equipment as of December 31, 2016	21	16	5	42
Total as of December 31, 2016	5,468	1,507	115	7,090

The cost of construction in progress included in property, plant and equipment was RUB 1,570 billion and RUB 1,273 billion as of December 31, 2016 and 2015, respectively.

The depreciation charge for the years ended December 31, 2016 and 2015 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 13 billion and RUB 6 billion, respectively.

The Company capitalized RUB 64 billion (including RUB 64 billion in capitalized interest expense) and RUB 99 billion (including RUB 48 billion in capitalized interest expense) of expenses on loans and borrowings in 2016 and 2015, respectively.

During 2016 and 2015 the Company received government grants for capital expenditures in the amount of RUB 8 billion and RUB 11 billion, respectively. Grants are accounted for as a reduction of additions in the Exploration and production segment.

Exploration and evaluation assets

Exploration and evaluation assets included in the Exploration and production segment, including mineral rights to unproved properties, comprise the following:

	2016	2015
Cost as of January 1	251	246
Impairment losses as of January 1	(13)	(10)
Net book value as of January 1	238	236
COST		
Acquisition of subsidiaries (Note 7)	7	—
Capitalized expenditures	27	12
Reclassified to development assets	(18)	(13)
Expensed	(5)	(1)
Utilization of impairment reserve	(13)	—
Foreign exchange differences	(5)	7
As of December 31	244	251
IMPAIRMENT LOSSES		
Utilization/(accrual) of impairment reserve	13	(3)
As of December 31	—	(13)
Net book value as of December 31	244	238

Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 99 billion and RUB 59 billion as of December 31, 2016 and 2015, respectively, and included in Property, plant and equipment.

26. 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, 2015	27	37	64	215
Amortization as of January 1, 2015	(8)	(7)	(15)	—
Net book value as of January 1, 2015	19	30	49	215
Cost				
Additions	7	—	7	—
Acquisition of subsidiaries (Note 7)	—	—	—	16
Disposals	(1)	(7)	(8)	(1)
Foreign exchange differences	3	—	3	—
As of December 31, 2015 (restated)	36	30	66	230
AMORTIZATION				
Amortization charge	(3)	(2)	(5)	—
Disposal of amortization	—	3	3	—
Foreign exchange differences	(1)	—	(1)	—

	RIGHTS FOR LAND LEASE	OTHER INTANGIBLE ASSETS	TOTAL INTANGIBLE ASSETS	GOODWILL
As of December 31, 2015 (restated)	(12)	(6)	(18)	—
Net book value as of December 31, 2015 (restated)	24	24	48	230
COST				
Additions	—	19	19	—
Acquisition of subsidiaries (Note 7)	—	3	3	—
Disposals	(1)	(4)	(5)	—
Foreign exchange differences	(1)	—	(1)	—
As of December 31, 2016	34	48	82	230
AMORTIZATION				
Amortization charge	(2)	(5)	(7)	—
Disposal of amortization	—	1	1	—
Foreign exchange differences	1	—	1	—
As of December 31, 2016	(13)	(10)	(23)	—
Net book value as of December 31, 2016	21	38	59	230

The Company performs its annual goodwill impairment test as of October 1 of each year. The impairment test is carried out at the beginning of the fourth quarter of each year using the data that was appropriate at that time. The excess of fair value over identified net assets comprised RUB 1,662 billion and RUB 367 billion for the Exploration and production and Refining and distribution segments, respectively. As a result of the annual test, no impairment of goodwill was identified in 2016 and 2015.

Goodwill acquired through business combinations is allocated to the relevant groups of cash generating units that are its operating segments – the Exploration and production segment and the Refining and distribution segment. In assessing whether goodwill has been impaired, the current values of the operating segments (including goodwill) were compared with their estimated value in use.

	AS OF DECEMBER 31,	
	2016	2015 (restated)
Goodwill		
Exploration and production	76	76
Refining and distribution	154	154
Total	230	230

The Company has estimated the value in use of the operating segments using a discounted cash flow model. Future cash flows have been adjusted for risks specific to each segment and discounted using a rate that reflects current market assessments of the time value of money and the risks specific to each segment, for which the future cash flow estimates have not been adjusted.

The Company's business plan, approved by the Company's Board of Directors, is the primary source of information for the determination of the operating segments' value in use. The business plan contains internal forecasts of oil and gas production, refinery throughputs, sales volumes of various types of refined products, revenues, operating and capital expenditures. As an initial step in the preparation of these plans, various assumptions, such as oil prices, natural gas prices, refining margins, petroleum product margins and cost inflation rates, are set. These assumptions take into account existing prices, U.S. dollar and RUB inflation rates, other macroeconomic factors and historical trends, as well as market volatility.

In determining the value in use for each of the operating segments, twelve-year period cash flows calculated on the basis of the Company management's forecasts have been discounted and aggregated with the segments' terminal value. The use of a forecast period longer than five years originates from the industry's average investment cycle. In determining the terminal value of the Company's segments in the post-forecast period the Gordon model was used.

Key assumptions applied to the calculation of value in use

Discounted cash flows are most sensitive to changes in the following factors:

- The discount rate
The discount rate calculation is based on the Company's weighted average cost of capital adjusted to reflect the pre-tax discount rate and amounts to 13.4% p.a. in 2016 (13.1% p.a. in 2015).
- The estimated average annual RUB / U.S. dollar exchange rate
The average annual RUB / U.S. dollar exchange rate applied was as follows: RUB 66.0 for 2017 and RUB 62.5 from 2018 onwards.
- Oil and petroleum products prices
The forecasted Urals oil price applied was as follows: RUB 3,168 per barrel for 2017 and RUB 3,313 per barrel from 2018 onwards. The Company's petroleum products price forecasts with regard to the main sales destinations are based on these oil prices with a weighted average price of petroleum products (excluding petrochemicals) of RUB 26.3 thousand per tonne, RUB 27.5 thousand per tonne, RUB 28.1 thousand per tonne and RUB 29.1 thousand per tonne for 2017, 2018, 2019 and from 2020 onwards, respectively.
- Production volumes
Estimated production volumes were based on detailed data for the fields and take into account the field development plans approved by management through the long-term planning process. The model has used average rates of operation decline equal to the natural rates of production decline for the existing assets provided that there is no production drilling. These rates were 8.0% of annual decline for the period after 2028.

The effects of changes in key assumptions are as follows:

Changes in the pre-tax weighted average cost of capital – the long-term increase in the weighted average cost of capital above 14.7% may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment's goodwill impairment.

Changes in oil and petroleum products prices – the long-term decrease in oil prices below RUB 3,059 per barrel for the period 2017 onwards may have a significant effect on the discounted cash flows of the Refining and distribution segment and may lead to the segment's goodwill being impaired. A similar effect can be caused by a long-term decrease (in the forecast period from 2017 onwards) in the weighted average price of petroleum products (excluding petrochemicals) below RUB 27.8 thousand per tonne with oil prices at forecast levels.

Changes in tax regime – Russian oil industry tax regime has a significant influence on the rate of return of the Refining and distribution segment's refining operations. In case the current tax regime remains unchanged in the long-term perspective, there is a possibility the estimated discounted cash flows will decrease resulting in a goodwill impairment of the segment.

As of December 31, 2016 and 2015 the Company did not have any intangible assets with indefinite useful lives. As of December 31, 2016 and 2015 no intangible assets have been pledged as collateral.

27. OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
Bonds	1	4
Bank deposits	494	112
Financial assets available for sale:		
Shares of OJSC INTER RAO UES	5	1
Shares of OJSC Russian Grids	2	1
Shares of AS Latvijas Gaze, ASE esti GAAS	—	4
Shares of SARAS S.p.A.	—	16
Shares of CJSC Modern Shipbuilding Technology	4	4
Long-term loans issued to associates and joint ventures	287	360
Long-term loans	12	4
Loans to employees	—	1
Other	3	3
Total other long-term financial assets	808	510

In 2016, the Company entered into US dollar and euro deposit contracts with interest rates ranging from 0.36% to 2.0% p.a. up to 2022 for a total amount equivalent to RUB 400 billion at the reporting date.

Pursuant to contracts, long-term loans issued to associates and joint ventures are mostly US\$ denominated, have a maturity of three to nine years, and bear interest rates ranging from 4% to 15.1% p.a. In 2014 the Company provided a long-term loan to one of its joint ventures in the amount of US\$ 4 billion (RUB 226 billion at the CBR official exchange rate at the date of loan issuance), earning interest of 3.5% to 6% p.a. and maturing in 5 years.

As of December 31, 2016 and 2015, there were no overdue long-term financial assets for which no impairment provision was created.

As of December 31, 2016 and 2015, shares were impaired in the amount of RUB 0 billion and RUB 1 billion, respectively.

No long-term financial assets were pledged as collateral as of December 31, 2016 and 2015.

As of December 31, 2016 and 2015, no long-term financial assets were received by the Company as collateral.

28. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures comprise the following:

NAME OF INVESTEE	COUNTRY	THE COMPANY'S SHARE AS OF DECEMBER 31, 2016, %	AS OF DECEMBER 31,	
			2016	2015
JOINT VENTURES				
Rosneft Shell Caspian Vent.	Russia	51.00	1	1
Taihu Ltd (OJSC Udmurtneft)	Cyprus	51.00	41	29
Lanard Holdings Ltd	Cyprus	50.00	18	18
CJSC Arktikshelfneftegaz	Russia	50.00	2	2
LLC National Oil Consortium	Russia	80.00	24	29
OJSC NGK Slavneft	Russia	49.94	149	144
TNK Trading International S.A.	Switzerland	50.00	6	4
SIA ITERA Latvija	Latvia	66.00	3	—
Petroperija S.A., PetroMonagas S.A.	Venezuela	40.00	41	15
PETROVICTORIA S.A.	Venezuela	40.00	26	31
NVGRES Holdings Limited (NVGRES LLC)	Cyprus	25.01	6	5
RN Pechora	Russia	50.10	8	8
ASSOCIATES				
Petrocas Energy International Limited	Cyprus	49.00	8	10
CJSC Purgaz	Russia	49.00	39	48
Other associates	various	various	21	9
INITIAL PAYMENTS FOR SHARES IN ASSOCIATES				
Essar Oil Limited	India	—	18	—
Total associates and joint ventures			411	353

The equity share in profits/(losses) of associates and joint ventures comprises the following:

	THE COMPANY'S SHARE AS OF DECEMBER 31, 2016, %	SHARE IN INCOME/(LOSS) OF EQUITY INVESTEES	
		2016	2015
Taihu Ltd	51.00	10	12
OJSC NGK Slavneft	49.94	5	1
CJSC Purgaz	49.00	1	(6)
National Oil Consortium LLC	80.00	(1)	(6)
PetroMonagas S.A.	40.00	2	5
Saras S.p.A.	12.00	—	2

	THE COMPANY'S SHARE AS OF DECEMBER 31, 2016, %	SHARE IN INCOME/(LOSS) OF EQUITY INVESTEEES	
		2016	2015
TNK Trading International S.A.	50.00	6	3
Other	various	3	(2)
Total equity share in profits of associates and joint ventures		26	9

The unrecognized share of losses of associates and joint ventures comprises the following:

NAME OF INVESTEE	AS OF DECEMBER 31,	
	2016	2015
LLC Veninest	2	2
LLP Adai Petroleum Company	6	6
Boqueron S.A.	1	1
Total unrecognized share of losses of associates and joint ventures	9	9

Financial information of significant associates and joint ventures as of December 31, 2016 and 2015 is presented below:

TAIHU LTD	AS OF DECEMBER 31,	
	2016	2015
Cash and cash equivalents	10	1
Accounts receivable	12	23
Other current assets	2	2
Other non-current assets	86	83
Total assets	110	109
Short-term loans and borrowings	(3)	(26)
Income tax liabilities	—	(1)
Other current liabilities	(14)	(13)
Long-term loans and borrowings	—	—
Deferred tax liabilities	(6)	(6)
Other non-current liabilities	(7)	(6)
Total liabilities	(30)	(52)
Net assets	80	57
The Company's share, %	51.00	51.00
The Company's total share in net assets	41	29

TAIHU LTD	AS OF DECEMBER 31,	
	2016	2015
Revenues	101	109
Finance income	—	6
Finance expenses	(1)	(1)
Depreciation, depletion and amortization	(5)	(5)
Other expenses	(70)	(78)
Income before income tax	25	31
Income tax	(5)	(7)
Net income	20	24
The Company's share, %	51.00	51.00
The Company's total share in net income	10	12

The Company's share of the currency translation effect amounted to an income of RUB 2 billion and a loss of RUB 4 billion for the years ended December 31, 2016 and 2015, respectively, which was included in foreign exchange differences in the translation of foreign operations in the consolidated statement of other comprehensive income for 2016 and 2015.

OJSC NGK SLAVNEFT	AS OF DECEMBER 31,	
	2016	2015
Cash and cash equivalents	4	8
Accounts receivable	11	5
Other current assets	11	11
Other non-current assets	425	418
Total assets	451	442
Short-term loans and borrowings	(27)	(27)
Tax liabilities	(23)	(15)
Other current liabilities	(23)	(26)
Long-term loans and borrowings	(43)	(55)

OJSC NGK SLAVNEFT	AS OF DECEMBER 31,	
	2016	2015
Deferred tax liabilities	(17)	(14)
Other non-current liabilities	(19)	(16)
Total liabilities	(152)	(153)
Net assets	299	289
The Company's share, %	49.94	49.94
The Company's total share in net assets	149	144

OJSC NGK SLAVNEFT	AS OF DECEMBER 31,	
	2016	2015
Revenues	215	224
Finance income	2	2
Finance expenses	(7)	(5)
Depreciation, depletion and amortization	(52)	(50)
Other expenses	(141)	(163)
Gain before income tax	17	8
Income tax	(6)	(6)
Net income	11	2
The Company's share, %	49.94	49.94
The Company's total share in net income	5	1

Initial payment for shares in Essar Oil Limited

In October 2016 the Company signed an agreement to acquire a 49% stake in Essar Oil Limited (hereinafter – "EOL"). As a result of the acquisition, the Company will receive a stake in a modern oil refinery in the Asia-Pacific region in Vadinare, India, which has integrated infrastructure. The EOL business also includes a large network of petrol stations in India operating under the Essar brand. The initial payment amounted to US\$ 300 million (RUB 19 billion at the CBR official exchange rate at the date of the transaction).

Investments in Venezuela

In May 2016 the Company increased its stake in the Petromonagas joint venture with the state oil company of Venezuela Petróleos de Venezuela SA (hereinafter – "PDVSA") from 16.7% to 40%. The share of PDVSA was reduced to 60%. The cost of the additional share acquisition was US\$ 500 million (RUB 33 billion at the CBR official exchange rate at the date of the transaction).

29. OTHER NON-CURRENT NON-FINANCIAL ASSETS

Other non-current non-financial assets comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
Long-term advances issued	83	6
Other	1	2
Total other non-current non-financial assets	84	8

In May 2016 the Company made an advance payment of US\$ 500 million (RUB 32 billion at the CBR official exchange rate at the date of the transaction) to PDVSA under a crude oil purchase agreement. In November 2016 the Company made two advance payments to PDVSA, of US\$ 500 million and US\$ 205 million (RUB 32 billion and RUB 13 billion, respectively, at the CBR official exchange rate at the date of the transactions). In December 2016 the Company made a new advance payment of US\$ 280 million (RUB 18 billion at the CBR official exchange rate at the date of the transaction) under the PDVSA crude oil purchase contract.

30. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

FINANCIAL LIABILITIES	AS OF DECEMBER 31,	
	2016	2015
Accounts payable to suppliers and contractors	337	263
Voluntary offer to acquire PJSC Bashneft Oil Company shares (Note 7)	50	—
Salary and other benefits payable	80	63
Banking customer accounts	41	69
Dividends payable	—	1
Other accounts payable	22	26
Total financial liabilities	530	422
NON-FINANCIAL LIABILITIES		
Short-term advances received	53	54
Total accounts payable and accrued liabilities	583	476

In 2016 current accounts payable were settled within 50 days (2015: 44 days) on average. Interest rates on banking customer accounts range from 0.00% to 2.00% p.a. Trade and other payables are non-interest bearing.

31. LOANS AND BORROWINGS AND OTHER FINANCIAL LIABILITIES

Loans and borrowings comprise the following:

	Currency	AS OF DECEMBER 31,	
		2016	2015
LONG-TERM			
Bank loans	RUB	173	41
Bank loans	US\$, euro	1,107	1,741
Bonds	RUB	321	138
Eurobonds	US\$	337	483
Customer deposits	RUB	5	6
Customer deposits	US\$, euro	5	2
Borrowings	RUB	31	5
Borrowings	Euro	1	—
Promissory notes payable	US\$	—	3
Other borrowings	US\$	613	383
Other borrowings	RUB	16	15
Less: current portion of long-term loans and borrowings		(720)	(561)
Long-term loans and borrowings		1,889	2,256
Finance lease liabilities		22	31
Other long-term financial liabilities		4	—
Less: Current portion of long-term finance lease liabilities		(1)	(4)
Total long-term loans and borrowings and other financial liabilities		1,914	2,283
SHORT-TERM			
Bank loans	RUB	103	100
Bank loans	US\$, euro	21	—
Customer deposits	RUB	61	30
Customer deposits	US\$, euro	5	19
Borrowings	US\$	33	—
Other borrowings	RUB	516	—
Other borrowings	US\$	94	222
REPO	RUB	15	—
Current portion of long-term loans and borrowings		720	561
Short-term loans and borrowings and current portion of long-term loans and borrowings		1,568	932
Current portion of long-term finance lease liabilities		1	4
Other short-term financial liabilities		4	—
Short-term liabilities related to derivative financial instruments		98	104
Total short-term loans and borrowings and other financial liabilities		1,671	1,040
Total loans and borrowings and other financial liabilities		3,585	3,323

Long-term loans and borrowings

Long-term bank loans comprise the following:

CURRENCY	INTEREST RATE P.A.	MATURITY DATE	AS OF DECEMBER 31,	
			2016	2015
US\$	LIBOR + 1.00% – LIBOR + 3.25%	2017 – 2029	1,081	1,665
EUR	EURIBOR + 0.35% – EURIBOR + 2.40%	2017 – 2020	27	79
RUB	7.50% – 13.30%	2017 – 2021	173	41
Total			1,281	1,785
Debt issue costs			(1)	(3)
Total long-term bank loans			1,280	1,782

Long-term bank loans from foreign banks to finance special-purpose business activities denominated in US\$ are partially secured by oil export contracts. If the Company fails to make timely debt repayments, the terms of such contracts normally provide the lender with the express right of claim to contractual revenue in the amount of the late loan repayments, which the purchaser generally re-mits directly through transit currency accounts with the lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 24 billion and RUB 27 billion as of December 31, 2016 and 2015, respectively, and is included in Trade receivables of purchasers and customers.

In March 2013, the Company drew down four long-term unsecured loans from a group of international banks for a total of US\$ 31 billion to finance the acquisition of TNK-BP. Two of these four loans were fully repaid in previous years. As of December 31, 2016 the total debt and accrued interest under those loans raised under floating rates and due to mature in December 2017 and February 2018, respectively, amounted to US\$ 2.34 billion (RUB 142 billion at the CBR official exchange rate as of December 31, 2016).

In the first quarter of 2016, the Company drew down funds under long-term floating rate unsecured loans from a Russian bank for a total amount of RUB 100 billion repayable in the first quarter of 2021.

In the second quarter of 2016, the Company drew down funds under a long-term fixed rate loan from a Russian bank for an amount of RUB 13 billion repayable in the second quarter of 2021.

In the second quarter of 2016, the Company fully repaid a long-term floating rate loan from a group of international banks for an amount of RUB 32 billion (at the CBR official exchange rate on the transaction date).

Certain RUB denominated loans were acquired through the PJSC Bashneft Oil Company and JSC Targin acquisitions (Note 7).

Non-convertible interest-bearing RUB denominated bearer bonds in circulation comprise the following:

	SECURITY ID	DATE OF ISSUE	TOTAL VOLUME IN RUB BILLIONS	COUPON (%)	AS OF DECEMBER 31,	
					2016	2015
Bonds	04, 05	October 2012	20	8.6%	20	20
Bonds	07, 08	March 2013	30	8.0%	31	31
Bonds	06, 09, 10	June 2013	40	7.95%	40	40
SE Bonds*	60-05, 60-06	December 2013	40	7.95%	11	11
SE Bonds	60-01, 60-07	February 2014	35	8.90%	36	36
SE Bonds	60-02, 60-03, 60-04					
	60-09*	December 2014	65	10.90%**	56	—
SE Bonds*	60-08, 60-10					
	60-11, 60-12, 60-13					
	60-14	December 2014	160	10.90%**	—	—
SE Bonds*	60-15, 60-16					
	60-17, 60-24	December 2014	400	11.40%**	—	—
SE Bonds*	60-18, 60-19, 60-20					
	60-21, 60-22, 60-23					
	60-25, 60-26	January 2015	400	10.10%**	—	—
SE Bonds*	001P-01	December 2016	600	10.10%**	—	—
SE Bonds	001P-02	December 2016	30	9.39%**	30	—
SE Bonds	001P-03	December 2016	20	9.50%**	20	—
Bashneft SE Bonds	04	February 2012	10	9.50%**	—	—
	06, 08	February 2013	15	8.65%**	15	—
	07, 09	February 2013	15	8.85%**	16	—
	60-05***	May 2014	10	10.70%	—	—
	60-03***, 60-04***	May 2015	10	12.00%	—	—
	60-07***	June 2015	5	12.10%	—	—
	60-02***	May 2016	10	10.50%	—	—
	60-06, 60-08	May 2016	15	10.90%**	16	—
	60-09	October 2016	5	9.30%**	5	—
	60-10, 001P-01R, 001P-02R	December 2016	25	9.50%**	25	—
Total long-term RUB bonds					321	138

* On the reporting date these issues are partially used as an instrument for other borrowings under repurchase agreements

** For the coupon period effective as of December 31, 2016

*** For the coupon period effective as of day of early repurchase

All of the above bonds are issued with a maturity period of 6 or 10 years with quarterly and semi-annual coupon payments, respectively. All the bonds (excluding 001P-03) 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 bonds were acquired through the PJSC Bashneft Oil Company acquisition (Note 7).

In the fourth quarter of 2016 the Company performed certain operations in respect of bonds which were acquired through the PJSC Bashneft Oil Company acquisition: full repayment on schedule (series 01, 02, and 03) with a combined face value of RUB 5.3 billion; early redemption of non-convertible series 60-05 and 60-02 with a combined face value of RUB 20 billion, and the placement of four series of long-term non-convertible certified bonds (60-09, 60-10, 001P-01R, 001P-02R) with a combined face value of RUB 30 billion, maturity periods of 7, 8 and 10 years, and semi-annual coupon payments at a fixed rate. For bonds series 001P-01R and 001P-02R early repurchase at the request of the bond holder is not allowed, as set out in the respective offering documents.

Corporate Eurobonds comprise the following:

	COUPON RATE (%)	CURRENCY	MATURITY	AS OF DECEMBER 31,	
				2016	2015
Eurobonds (Series 1)	3.149%	US\$	2017	61	74
Eurobonds (Series 2)	4.199%	US\$	2022	123	147
Eurobonds (Series 2)	7.500%	US\$	2016	—	76
Eurobonds (Series 4)	6.625%	US\$	2017	50	61
Eurobonds (Series 6)	7.875%	US\$	2018	70	86
Eurobonds (Series 8)	7.250%	US\$	2020	33	39
Total long-term Eurobonds				337	483

In the fourth quarter of 2012, the Company raised funds through the placement of two Eurobonds in the total amount of US\$ 3.0 billion. The Eurobonds were placed in two tranches at par: one in the amount of US\$ 1.0 billion (RUB 60.7 billion at the CBR official exchange rate as of December 31, 2016) with a coupon of 3.149% p.a. and maturity in March 2017, and the other in the amount of US\$ 2.0 billion (RUB 121.3 billion at the CBR official exchange rate as of December 31, 2016) with a coupon of 4.199% p.a. and maturity in March 2022. The funds received were used for general corporate purposes.

Eurobonds of the second, fourth, sixth, seventh and eighth series were assumed through the acquisition of TNK-BP.

In the third quarter of 2016, the Company fully repaid Eurobonds (Series 2) with a face value of US\$ 1.0 billion (RUB 63.2 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

Customer long-term deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2016, RUB denominated deposits bear interest rates ranging from 5.70% to 10.00% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.01% to 2.30% p.a.

As of December 31, 2016, the Company had met its obligations in relation to other long-term floating rate borrowings under repurchase agreements, and had entered into new agreements due to mature in 2017 and the first quarter of 2018. As of December 31, 2016 the liabilities of the Company under those transactions amounted to the equivalent of RUB 629 billion (at the CBR official exchange rate as of December 31, 2016). 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, 2016 and 2015 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

Short-term loans and borrowings

In the first quarter of 2016, the Company fully repaid short-term floating rate loans raised from a Russian bank in the total amount of RUB 100 billion.

In the second quarter of 2016, the Company drew down funds under a short-term floating rate loan from a Russian bank for an amount of RUB 9 billion.

In the fourth quarter of 2016, the Company drew down funds under a short-term floating rate loan from a Russian bank for an amount of RUB 90 billion.

Customer short-term deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, denominated in RUB and foreign currencies. As of December 31, 2016, RUB denominated deposits bear interest rates ranging from 0.01% to 10.20% p.a. and deposits denominated in foreign currencies bear interest rates ranging from 0.01% to 2.55% p.a.

As of December 31, 2016, the Company had fully met its obligations in relation to other short-term floating rate borrowings under repurchase agreements raised in 2015, and had entered into new long-term and short-term agreements. As of December 31, 2016 the short-term liabilities of the Company under those transactions amounted to the equivalent of RUB 610 billion (at the CBR official exchange rate as of December 31, 2016). Own corporate bonds were used as an instrument for those transactions.

In the fourth quarter of 2016, the Company (its subsidiary bank) received funds under short-term REPO transactions and reported them as secured debt. As of December 31, 2016 liabilities under those transactions were RUB 15 billion. As of December 31, 2016 the fair value of securities under those transactions was RUB 16.5 billion.

Throughout 2016 the Company was current on payments under loan agreements and interest payments.

Finance leases

Repayments of finance lease obligations comprise the following:

	AS OF DECEMBER 31, 2016		
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	5	(3)	2
From 1 to 5 years	15	(10)	5
Over 5 years	24	(9)	15
Total	44	(22)	22

	AS OF DECEMBER 31, 2015		
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	8	(4)	4
From 1 to 5 years	23	(14)	9
Over 5 years	33	(15)	18
Total	64	(33)	31

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 25) comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
Buildings	4	—
Plant and machinery	12	12
Vehicles	16	21
Total cost	32	33
Less: accumulated depreciation	(11)	(9)
Total net book value of leased property	21	24

Liabilities related to derivative financial instruments

Short-term liabilities related to derivative financial instruments include liabilities related to cross-currency rate swaps.

In accordance with its foreign currency and interest rate risk management policy the Company enters into cross-currency rate swaps to sell US\$. The transactions balance the currency of revenues and liabilities and reduce the overall interest rates on borrowings.

The cross-currency rate swaps are recorded in the consolidated balance sheet at fair value. The measurement of the fair value of the transactions is based on a discounted cash flow model and consensus forecasts of foreign currency rates. The consensus forecasts include forecasts of the major international banks and agencies. The Bloomberg system is the main information source for the model.

Derivative financial instruments comprise the following:

ISSUE DATE	EXPIRY DATE	NOMINAL AMOUNT AS OF DECEMBER 31, 2016		INTEREST RATE TYPE	FAIR VALUE OF THE LIABILITIES AS OF DECEMBER 31,		
		US\$ million	RUB billion*		2016	2015	
Swaps	2012	2017	641	39	floating	18	21
Swaps	2013	2018	2,138	130	floating	56	59
Swaps	2014	2019	1,010	61	floating	24	24
Total			3,789	230		98	104

* the equivalent nominal amount at the CBR official exchange rate as of December 31, 2016.

32. OTHER SHORT-TERM TAX LIABILITIES

Other short-term tax liabilities comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
Mineral extraction tax	115	63
VAT	69	49
Excise duties	25	15
Personal income tax	2	1
Property tax	9	8
Other	2	2
Total other tax liabilities	222	138

33. PROVISIONS

	ASSET RETIREMENT OBLIGATIONS	ENVIRONMENTAL REMEDIATION PROVISION	LEGAL, TAX AND OTHER CLAIMS	TOTAL
AS OF JANUARY 1, 2015, INCLUDING	83	35	25	143
Non-current	80	24	3	107
Current	3	11	22	36
Provisions charged during the year (Note 41)	11	4	9	24
Increase/(decrease) in the liability resulting from:				
Changes in estimates	(10)	(2)	(15)	(27)
Changes in the discount rate	26	1	—	27
Reclassification to assets held for sale (Note 8)	—	—	(3)	(3)
Foreign exchange differences	5	—	—	5
Unwinding of discount	10	3	—	13
Utilized	(2)	(6)	(3)	(11)
AS OF DECEMBER 31, 2015, INCLUDING	123	35	13	171
Non-current	119	23	1	143
Current	4	12	12	28
Provisions charged during the year (Note 41)	6	4	5	15
Increase/(decrease) in the liability resulting from:				
Changes in estimates	3	4	(3)	4
Changes in the discount rate	13	—	—	13
Foreign exchange differences	(5)	—	—	(5)
Unwinding of discount	12	3	—	15
Acquisition of subsidiaries (Note 7)	28	3	1	32
Utilized	(2)	(8)	(3)	(13)
AS OF DECEMBER 31, 2016, INCLUDING	178	41	13	232
Non-current	174	28	1	203
Current	4	13	12	29

Asset retirement (decommissioning) obligations represent an estimate of the costs of liquidating wells, the reclamation of sand pits, slurry ponds, and disturbed lands, and the dismantling of pipelines and power transmission lines. The budget for payments under asset retirement obligations is prepared on an annual basis. Depending on the current economic environment the entity's actual expenditures may vary from the budgeted amounts.

34. PREPAYMENT UNDER LONG-TERM OIL AND PETROLEUM PRODUCTS SUPPLY AGREEMENTS

During 2013-2014 the Company entered into a number of long-term crude oil and petroleum products supply contracts which involve the receipt of prepayment. The total minimum delivery volume approximates 400 million tonnes. The crude oil and petroleum product prices are calculated based on current market prices. The prepayment is settled through physical deliveries of crude oil and petroleum products.

Deliveries of oil and petroleum products that reduce the prepayment amounts started to be made in 2015. The Company considers these contracts to be regular-way contracts which were entered into for the purpose of the delivery of a non-financial item in accordance with the Company's expected sale requirements.

	2016	2015
As of January 1	1,905	967
Acquisition of subsidiaries (Note 7)	58	—
Received	—	1,027
Reimbursed	(122)	(89)
Total prepayment on long-term oil and petroleum products supply agreements	1,841	1,905
Less current portion	(255)	(120)
Long-term prepayment as of December 31	1,586	1,785

The offset amounts under these contracts were RUB 122 billion and RUB 89 billion (US\$ 3.85 billion and US\$ 2.86 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date) for 2016 and 2015, respectively.

35. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprise the following:

	AS OF DECEMBER 31,	
	2016	2015
Shelf project liabilities	23	26
Liabilities for investing activities	7	12
Liabilities for joint operation contracts in Germany	10	—
Other	3	2
Total other non-current liabilities	43	40

36. PENSION BENEFIT OBLIGATIONS**Defined contribution plans**

The Company makes payments to the State Pension Fund of the Russian Federation. These payments are calculated by the employer as a percentage of salary expense and are expensed as accrued. The Company also maintains a defined contribution corporate pension plan to finance the non-state pensions of its employees. Pension contributions recognized in the consolidated statement of profit or loss were as follows:

	2016	2015
State Pension Fund	43	39
NPF Neftegarant	5	5
Total pension contributions	48	44

37. SHAREHOLDERS' EQUITY**Common shares**

As of December 31, 2016 and 2015:

AUTHORIZED COMMON SHARES	
quantity, millions	10,598
amount, billions of RUB	0.6
ISSUED AND FULLY PAID SHARES	
quantity, millions	10,598
amount, billions of RUB	0.6
Nominal value of 1 common share, RUB	0.01

Since 2011 the Company distributed dividends in the amount of at least 25% of IFRS net income attributable to the Company's shareholders. In 2016 the Company paid dividends for 2015 in the amount of 35% of IFRS net income attributable to the Company's shareholders. In December 2016 the dividend policy was amended accordingly. In compliance with Russian legislation the dividends are distributed from the net profit of PJSC Rosneft Oil Company calculated in accordance with Russian accounting standards.

On June 17, 2015, the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2014 in the amount of RUB 87 billion, or RUB 8.21 per share. The dividends were paid in the third quarter of 2015.

On June 15, 2016, the Annual General Shareholders' Meeting approved dividends on the Company's common shares for 2015 in the amount of RUB 125 billion, or RUB 11.75 per share.

During the second quarter of 2015, additional paid-in capital of the Company decreased by RUB 1 billion as a result of the acquisition of non-controlling interests in subsidiaries.

During the fourth quarter of 2015, additional paid-in capital of the Company increased by RUB 15 billion as a result of the disposal of a 20% interest in a subsidiary (Note 18).

During the second and fourth quarters of 2016, additional paid-in capital of the Company increased by RUB 29 billion and RUB 67 billion as a result of the disposal of interest in a subsidiary (Note 18).

38. 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, 2016			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Current assets				
Held-for-trading	2	2	—	4
Available-for-sale	77	226	—	303
NON-CURRENT ASSETS				
Available-for-sale	—	11	—	11
Derivative financial instruments	—	—	—	—
Total assets measured at fair value	79	239	—	318
Derivative financial instruments	—	(98)	—	(98)
Total liabilities measured at fair value	—	(98)	—	(98)

	FAIR VALUE MEASUREMENT AS OF DECEMBER 31, 2015			
	Level 1	Level 2	Level 3	Total
ASSETS:				
Current assets				
Held-for-trading	4	4	—	8
Available-for-sale	2	173	—	175
NON-CURRENT ASSETS				
Available-for-sale	—	26	—	26
Derivative financial instruments	—	—	—	—
Total assets measured at fair value	6	203	—	209
Derivative financial instruments	—	(104)	—	(104)
Total liabilities measured at fair value	—	(104)	—	(104)

The fair value of financial assets available for sale, held-for-trading financial assets at fair value through profit or loss and derivative financial instruments included in Level 2 is measured at the present value of future estimated cash flows, using inputs such as market interest rates and market quotes of forward exchange rates.

The carrying value of cash and cash equivalents and derivative financial instruments recognized in these consolidated financial statements equals their fair value. The carrying value of accounts receivable, accounts payable, loans issued and other financial assets, financial leases and other financial liabilities recognized in these consolidated financial statements approximates their fair value.

There were no transfers of financial liabilities between Level 1 and Level 2 during the period.

	CARRYING VALUE		FAIR VALUE (LEVEL 2)	
	As of December 31,		As of December 31,	
	2016	2015	2016	2015
Financial liabilities				
Financial liabilities at amortized cost:				
Loans and borrowings with a variable interest rate	(2,004)*	(2,441)	(1,792)*	(2,137)
Loans and borrowings with a fixed interest rate	(1,453)	(748)	(1,469)	(777)

* including financial instruments designated as hedging instruments with a carrying value of RUB 107 billion and a fair value of RUB 96 billion.

39. 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 2016 and 2015 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 36).

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	
	2016	2015
Oil, gas, petroleum products and petrochemicals sales	595	443
Support services and other revenues	3	2
Finance income	23	11
Other income	—	17
	621	473

Costs and expenses		
	2016	2015
Production and operating expenses	11	4
Cost of purchased oil, gas, petroleum products and refining costs	161	131
Pipeline tariffs and transportation costs	443	447
Other expenses	13	11
Financial expenses	4	62
	632	655

Other operations		
	2016	2015
Acquisition of subsidiaries	330	—
Proceeds from sale of subsidiaries stock	—	46
Loans received	125	1
Loans repaid	(2)	(4)
Loans and borrowings issued	(30)	(13)
Deposits placed	(47)	(155)
Deposits repaid	109	—

Settlement balances		
	AS OF DECEMBER 31,	
	2016	2015
ASSETS		
Cash and cash equivalents	549	316
Accounts receivable	80	62
Prepayments and other current assets	36	36
Other financial assets	588	480
Assets held for sale	—	26
	1,253	920
LIABILITIES		
Accounts payable and accrued liabilities	47	42
Loans and borrowings and other financial liabilities	352	190
Liabilities associated with assets held for sale	—	44
	399	276

Transactions with joint ventures
Crude oil is purchased from joint ventures at Russian domestic market prices.

Revenues and income		
	2016	2015
Oil, gas, petroleum products and petrochemicals sales	24	13
Support services and other revenues	5	3
Finance income	22	18
	51	34

Costs and expenses		
	2016	2015
Production and operating expenses	5	3
Cost of purchased oil, gas, petroleum products and refining costs	213	168
Pipeline tariffs and transportation costs	11	8
Other expenses	4	3
	233	182

Other operations		
	2016	2015
Loans received	7	—
Loans repaid	(9)	(4)
Loans and borrowings issued	(25)	(21)
Repayment of loans and borrowings issued	17	—

Settlement balances		
	AS OF DECEMBER 31,	
	2016	2015
ASSETS		
Accounts receivable	9	19
Prepayments and other current assets	1	1
Other financial assets	306	320
	316	340
LIABILITIES		
Accounts payable and accrued liabilities	29	25
Loans and borrowings and other financial liabilities	8	2
	37	27

Transactions with associates		
Revenues and income		
	2016	2015
Oil, gas, petroleum products and petrochemicals sales	67	12
Support services and other revenues	3	—
Finance income	1	1
	71	13

Costs and expenses		
	2016	2015
Production and operating expenses	5	1
Cost of purchased oil, gas, petroleum products and refining costs	9	6
Other expenses	8	3
	22	10

Settlement balances		
	AS OF DECEMBER 31,	
	2016	2015
ASSETS		
Accounts receivable	8	2
Other financial assets	4	14
	12	16
LIABILITIES		
Accounts payable and accrued liabilities	6	1
	6	1

Transactions with non-state pension funds		
Costs and expenses		
	2016	2015
Other expenses	5	5

Settlement balances		
	AS OF DECEMBER 31,	
	2016	2015
Liabilities		
Accounts payable and accrued liabilities	1	1
	1	1

Compensation to key management personnel
For the purpose of these consolidated financial statements key management personnel include members of the Management Board of PJSC Rosneft Oil Company and members of the Board of Directors. Short-term gross benefits of the Management Board members, taking into account personnel rotation, including payroll and bonuses, totaled RUB 2,884 million and RUB 2,884 million in 2016 and 2015, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 395 million and RUB 376 million, respectively). Short-term gross benefits for 2016 are disclosed in accordance with the Russian securities law on information disclosure. There were no post-employment, severance or share-based benefits paid. On June 15, 2016, the Annual General Shareholders Meeting approved remuneration to the following members of the Company's Board of Directors for the period of their service in the following amounts: Mr. Andrey Akimov – US\$ 560,000 (RUB 37.0 million at the CBR official exchange rate on June 15, 2016); Mr. Matthias Warnig – US\$ 580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Oleg Vnyugin – US\$ 580,000 (RUB 38.3 million at the CBR official exchange rate on June 15, 2016); Mr. Donald Humphreys – US\$ 550,000 (RUB 36.3 million at the CBR official exchange rate on June 15, 2016). Remuneration does not include compensation of travel expenses. No remuneration was paid to members of the Board of Directors who are state officials (Andrey Belousov and Alexander Novak) or to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

On June 17, 2015, 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\$ 530,000 (RUB 28.6 million at the CBR official exchange rate on June 17, 2015); Mr. Andrey Bokarev – US\$ 530,000 (RUB 28.6 million at the CBR official exchange rate on June 17, 2015); Mr. Matthias Warrig – US\$ 580,000 (RUB 31.3 million at the CBR official exchange rate on June 17, 2015); Mr. Nikolai Laverov – US\$ 580,000 (RUB 31.3 million at the CBR official exchange rate on June 17, 2015); Mr. Alexander Nekipelov – US\$ 660,000 (RUB 35.7 million at the CBR official exchange rate on June 17, 2015); Mr. Donald Humphreys – US\$ 580,000 (RUB 31.3 million at the CBR official exchange rate on June 17, 2015); Mr. Artur Chilingarov – US\$ 530,000 (RUB 28.6 million at the CBR official exchange rate on June 17, 2015). 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.

40. KEY SUBSIDIARIES

NAME	COUNTRY OF INCORPORATION	CORE ACTIVITY	2016		2015	
			Preferred and common shares (%)	Voting shares (%)	Preferred and common shares (%)	Voting shares (%)
EXPLORATION AND PRODUCTION						
PJSC Orenburneft	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00
JSC Samotlorneftegaz	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00
JSC Tumenneftegaz	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00
PJSC Verkhnechonskneftegaz	Russia	Oil and gas development and production	99.94	99.94	99.94	99.94
JSC Vankorneft	Russia	Oil and gas development and production	50.10	50.10	100.00	100.00
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	52.39	61.59	–	–
REFINING, MARKETING AND DISTRIBUTION						
JSC RORC	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Angarsk Petrochemical Company	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Novokuybyshev Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
LLC RN-Komsomolsky Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Syzran Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Achinsk Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Kuybyshev Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
PJSC Saratov Oil Refinery	Russia	Petroleum refining	85.48	91.13	85.48	91.13
JSC PCEC	Russia	Marketing and distribution	100.00	100.00	100.00	100.00
JSC RN-Stolitsa	Russia	Marketing and distribution	100.00	100.00	100.00	100.00
Rosneft Trading S.A.	Switzerland	Marketing and distribution	100.00	100.00	100.00	100.00
Rosneft Trade Limited	Cyprus Republic	Marketing and distribution	100.00	100.00	100.00	100.00
OTHER						
JSC RN Holding	Russia	Holding company	100.00	100.00	100.00	100.00
LLC Neft-Aktiv	Russia	Investing activity	100.00	100.00	100.00	100.00
Rosneft Finance S.A.	Luxemburg	Finance services	100.00	100.00	100.00	100.00
JSC Russian Regional Development Bank (VBRR)	Russia	Banking	98.34	98.34	84.67	84.67

41. CONTINGENCIES

Russian business environment

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 government.

The Russian economy has been negatively impacted by a decline in oil prices and sanctions imposed on Russia by a number of countries. Ruble interest rates remain high. The combination of the above has resulted in reduced access to capital, a higher cost of capital and uncertainty regarding economic growth, which could negatively affect the Group's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

Guarantees and indemnities issued

An unconditional unlimited guarantee in favor of the Government and municipal authorities of Norway is effective in respect of the Company's operations on the Norwegian continental shelf. That guarantee fully covers all potential ongoing environmental liabilities of RN Nordic Oil AS. A parent company guarantee is required by Norwegian legislation and is an essential condition for licensing the operations of RN Nordic Oil AS on the Norwegian continental shelf jointly with Statoil ASA.

The Company's agreements with Eni S.p.A, Statoil ASA and the ExxonMobil Oil Corporation under the Russian Federation shelf exploration program contain mutual guarantees provided in 2013 and 2014 that are unconditional, unlimited and open-ended, and also provide that the partners will pay a commercial discovery bonus to the Company.

The partnership agreement with the ExxonMobil Oil Corporation for difficult to extract oil reserves in Western Siberia contains mutual guarantees that are unconditional, unlimited and open-ended, and provides for production bonus payments to the Company starting from the launch of commercial production.

In the fourth quarter of 2015 in accordance with the cooperation agreement on difficult to extract oil reserves with Statoil ASA, both parties issued parent guarantees on the discharging of the mutual liabilities of their related parties. These guarantees are unconditional, unlimited and open-ended.

In order to facilitate flexible terms and conditions for supplies and payments within hydrocarbon trading contracts, in 2016 the Company issued sureties to banks covering the period up to the year 2022 and totaling euro 9 billion. As of the period-end the probability of events triggering settlement of sureties was assessed as remote.

In course of investing activities, the Company issued sureties to third parties up to the equivalent amount of RUB 103 billion at the CBR official exchange rate as of December 31, 2016. As of the period-end the Company assesses the probability of settlement as remote.

Legal claims

Since 2006, the Company has been involved in legal proceedings arising from claims brought by Yukos Capital S.a.r.l. seeking to collect a debt of RUB 12.9 billion allegedly due pursuant to arbitral awards rendered under four loan agreements from OJSC Yuganskneftegaz (Rosneft's legal predecessor); by Glendale Group Ltd. seeking to collect ca. RUB 3.53 billion in principal, interest, default interest and expenses allegedly due under 8 promissory notes issued by OJSC Yuganskneftegaz; and by Yukos International (UK) B.V. in relation to losses of up to US\$ 333 million plus interest allegedly inflicted by a freezing order issued by an Amsterdam court in 2008. The aforementioned disputes were disclosed in detail in the Company's previous quarterly reports.

In March 2015, PJSC Rosneft Oil Company and a group of its subsidiaries entered into a Settlement Agreement with, inter alia, Yukos Capital S.a.r.l., Yukos International (UK) B.V., and Financial Performance Holdings B.V. (the legal successor of Glendale Group Ltd.) that terminated the aforementioned disputes. Pursuant to the terms and conditions of the Agreement, PJSC Rosneft Oil Company and the aforementioned companies withdrew all mutual claims and dismissed the legal proceedings. The Agreement does not envisage any cash or other payments from PJSC Rosneft Oil Company or its subsidiaries.

On December 31, 2015, First National Petroleum Corporation ("FNPC") initiated arbitration proceedings under the Rules of the Arbitration Institute of the Stockholm Chamber of Commerce against OJSC Tyumenneftegaz ("TNG"), a subsidiary of the Company, seeking compensation of losses in the amount more than US\$ 260 million (RUB 15.8 billion at the CBR official exchange rate on December 31, 2016) plus interest and arbitration costs for alleged breach of the agreement between FNPC and TNG to incorporate a joint venture "Tumtex" on the territory of the Russian Federation. The hearings are scheduled for March-April 2017.

On March 7, 2011, Norex Petroleum Limited ("Norex") filed a lawsuit against OJSC Tyumen Oil Company, a predecessor of OJSC TNK-BP Holding, subsequently renamed JSC RN Holding, TNK-BP Limited and certain other defendants for the recovery of damages in the amount of US\$ 1.5 billion (RUB 91 billion at the CBR official exchange rate on December 31, 2016) and compensation for moral damages caused by the allegedly illegal takeover of the shares of CJSC Corporation Yugraneft owned by Norex by the said entities. The lawsuit was accepted by the Supreme Court of the State of New York (the court of first instance). On September 17, 2012, the Court dismissed Norex's action holding that it was time-barred. Norex filed an appeal against this judgment.

On April 25, 2013, the New York Appeal Department confirmed that the dismissal of Norex's claim was justified. On May 28, 2013, Norex filed a motion for leave to appeal the decision affirming the lower court's dismissal of Norex's complaint with the New York Court of Appeals.

On June 27, 2014 the New York Court of Appeals issued a decision satisfying Norex's complaint and sent the case for retrial. On August 25, 2015 the Supreme Court of the State of New York dismissed Norex's lawsuit. On September 29, 2015 Norex filed a request to appeal to the Appeals Board of the Supreme Court of the State of New York. On June 29, 2016 (the last day of the period allowed for appeal) Norex filed grounds of appeal which did not contain any objections against the dismissal of the lawsuit in relation to OJSC Tyumen Oil Company (JSC RN Holding) and TNK-BP Limited or reasons on which the dismissal was grounded. The proceedings under the lawsuit in relation to the said companies of the Company were dismissed.

In October-November 2014 former shareholders of JSC RN Holding filed a lawsuit against the Company claiming recovery of damages caused by the improper (in the plaintiffs' view) assessment of the shares' value in the course of their repurchase in accordance with the Federal Law On Open Joint Stock Companies. The claims were dismissed by Decision of the Arbitrazh Court of the Tumen Region dated November 25, 2015 which was upheld by a decision of the appeal instance court dated September 9, 2016. In January 2017 the cassation instance court left the decisions of the lower courts unchanged.

The amount and timing of any outflow related to the above claims cannot be estimated reliably.

Rosneft and its subsidiaries are involved in other litigation which arises from time to time in the course of their business activities. Management believes that the ultimate result of that litigation will not materially affect the performance or financial position of the Company.

Taxation

Legislation and regulations regarding taxation in Russia continue to evolve. Various legislative acts and regulations are not always clearly written and their interpretation is subject to the opinions of the local, regional and national tax authorities. 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 a misstatement of a tax liability is revealed as a result of an inspection, penalties and fines to be paid might be material in reference to the tax liability misstatement.

Effective January 1, 2012, the rules for defining market prices for fiscal control purposes were changed and the list of entities that could be recognized as interdependent entities and the list of managed deals were expanded. Due to the absence of law enforcement precedents based on the new rules and certain contradictions in the provisions of the new law, these rules cannot be considered clear and precise. To eliminate significant risks posed to the consolidated financial statements by related party transactions, the Company has developed methods for pricing major types of controlled transactions between related parties. The Company also researches databases to determine the market price levels (ROIs) for the controlled transactions annually.

As part of the new regime for fiscal control over the pricing of related party transactions in 2012-2016 the Company and the Federal Tax Service have signed a pricing agreement 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 by the rules of transfer pricing for 2012-2013 and these periods are closed to the tax control measures. For subsequent periods the Company has provided sufficient explanations to the Russian Federal Tax Service and the regional tax authorities to the extent necessary for the completed transactions. The Company believes that risks concerning related party transactions in 2016 and earlier will not have a material effect on its financial position or results of operations.

In line with the consolidated income tax taxpayer institute enacted in 2012 the Company created a consolidated group of taxpayers which included Rosneft and its 21 subsidiaries from January 1, 2012. Rosneft became the responsible taxpayer of the group. Since January 1, 2016, under the terms of the agreement the number of members of the consolidated group of taxpayers has been 63 (51 in 2015).

In 2014, amendments to tax legislation were adopted aimed at fiscal stimulation of the Russian economy via deoffshorization, and they took effect on January 1, 2015. In particular, these amendments embedded in Russian tax legislation the concepts of actual right to income, fiscal residence of legal entities, and income tax rules for controlled foreign companies. The Company's management has accounted for these amendments in the current and deferred income tax estimates (Note 17).

During the reporting period, the tax authorities continued their inspections of Rosneft and some of its subsidiaries for the fiscal years 2012-2016. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service in pre-court and court appeals.

The Company's management does not expect the results of the inspections to have a material impact on the Company's consolidated balance sheet or results of operations.

Overall, management believes that the Company has paid or accrued all taxes that are applicable. For taxes other than income tax, where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate of the probable outflow of resources that will be required to settle these liabilities. Potential liabilities that management has identified at the reporting date as those that can be subject to different interpretations of tax laws and regulations are not accrued in the consolidated financial statements.

Capital commitments

The Company and its subsidiaries are engaged in ongoing capital projects for the exploration and development of production facilities and the modernization of refineries and the distribution network. The budgets for these projects are generally set on an annual basis.

The total amount of contracted but not yet performed deliveries related to the construction and acquisition of property, plant and equipment amounted to RUB 641 billion and RUB 421 billion as of December 31, 2016 and 2015, respectively.

Environmental liabilities

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as identified. Potential liabilities, that could arise as a result of changes in existing regulations or the regulation 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 interim condensed consolidated financial statements.

Other matters

In November 2016, the Company and Beijing Gas Group signed a legally binding share sale agreement relating to 20% shares in PJSC Verkhnechonskneftegaz. As of the date of these consolidated financial statements the parties were in the process of obtaining the necessary regulatory approvals to complete the transaction.

42. EVENTS AFTER THE REPORTING PERIOD

In January 2017 the Company sold its 12% share in Saras S.p.A to institutional investors. The consideration amounted to euro 175 million (RUB 11 billion at the CBR official exchange rate at the transaction date).

43. 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:	
	2016	2015 (restated)
Oil and gas properties related to proved reserves	7,369	6,131
Oil and gas properties related to unproved reserves	244	251
Total capitalized costs	7,613	6,382
Accumulated depreciation and depletion	(2,166)	(1,845)
Net capitalized costs	5,447	4,537

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:

	2016	2015 (restated)
Acquisition of properties – proved oil and gas reserves	664	4
Acquisition of properties – unproved oil and gas reserves	17	8
Exploration costs	30	16
Development costs	621	506
Total costs incurred	1,332	534

The results of operations relating to oil and gas production are presented below**Consolidated subsidiaries and joint operations**

For the years ended December 31:

	2016	2015
Revenue	2,525	2,485
Production costs (excluding production taxes)	(317)	(278)
Selling, general and administrative expenses	(100)	(100)
Exploration expense	(14)	(13)
Depreciation, depletion and amortization	(392)	(359)
Taxes other than income tax	(1,073)	(1,139)
Income tax	(131)	(120)
Results of operations relating to oil and gas production	498	476

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, 2016 and 2015 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 2017 and 2058, and the licenses for the most important deposits expire between 2017 and 2044. 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 a 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 gas reserves and changes thereto for the years ended December 31, 2016 and 2015 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; gas production data was recalculated from cubic meters to barrels of oil equivalent ("boe") using an average ratio).

Consolidated subsidiaries and joint operations

	2016	2015
	million boe	million boe
Beginning of year	40,359	40,607
Revisions of previous estimates	1,169	761
Extensions and discoveries	1,038	691
Improved recovery	29	—
Purchase of new reserves	2,388	—
Sale of reserves	(10)	—
Production	(1,756)	(1,700)
End of year	43,217	40,359
of which:		
Proved reserves under PSA Sakhalin 1	279	276
Proved reserves of assets in Canada	3	4
Proved reserves of assets in Vietnam	20	19
Proved developed reserves	20,015	19,068
Minority interest in total proved reserves	1,881	118
Minority interest in proved developed reserves	1,327	48

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**

	2016	2015
Future cash inflows	85,996	80,084
Future development costs	(5,410)	(3,975)
Future production costs	(45,667)	(42,578)
Future income tax expenses	(5,857)	(6,145)
Future net cash flows	29,062	27,386
Discount for estimated timing of cash flows	(18,718)	(17,636)
Discounted value of future cash flows as of the end of year	10,344	9,750

Share of other (minority) shareholders in discounted value of future cash flows**Consolidated subsidiaries and joint operations**

	UOM	2016	2015
Share of other (minority) shareholders in discounted value of future cash flows	RUB billion	727	50

Changes therein relating to proved oil and gas reserves

Consolidated subsidiaries and joint operations

	2016	2015 (RESTATED)
Discounted value of future cash flows as of the beginning of year	9,750	9,282
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	(1,035)	(968)
Changes in price estimates, net	(607)	366
Changes in estimated future development costs	(1,042)	(636)
Development costs incurred during the period	621	506
Revisions of previous reserves estimates	271	184
Increase in reserves due to discoveries, less respective expenses	248	167
Net change in income taxes	289	(79)
Accretion of discount	975	928
Net changes due to purchases of oil and gas fields	876	—
Net changes due to sales of oil and gas fields	(2)	—
Discounted value of future cash flows as of the end of year	10,344	9,750

Company's share in costs, inventories and future cash flows of the joint ventures and associates

	UOM	2016	2015
Share in capitalized costs relating to oil and gas producing activities (total)	RUB billion	197	208
Share in results of operations for oil and gas producing activities (total)	RUB billion	17	2
Share in estimated proved oil and gas reserves	million boe	2,192	1,932
Share in estimated proved developed oil and gas reserves	million boe	1,206	1,130
Share in discounted value of future cash flows	RUB billion	619	424

APPENDIX 2

KEY RISK FACTORS

TYPE	RISK DESCRIPTION	RISK MANAGEMENT MEASURES
INDUSTRY-WIDE RISKS		
Related to crude oil, gas and petroleum product prices	Crude oil, gas and petroleum product prices are the key factor affecting Rosneft's financial and, indirectly, operational performance. Prices for the Company's products depend mainly on the global market environment and the supply and demand balance in some regions of Russia. Rosneft's ability to control its own product prices is significantly limited. A fall in oil, gas or petroleum product prices has an adverse impact on Rosneft's performance and financial position. A decrease in prices may result in less profitable oil and gas production by the Company, which will in turn entail a reduction of Rosneft's effective reserves and financial viability of exploration.	Rosneft has sufficient capability to redistribute its commodity flows in case of a significant price difference between the domestic and international markets. Furthermore, the Company can promptly reduce its CAPEX and OPEX to fulfill its commitments in case of a sharp decline in oil, gas and petroleum product prices. Besides, the negative impact of the price risk on the Company's financial performance is partially offset by changes in FX rates (natural hedge effect).
Related to the dependency on monopolistic providers of oil, gas and petroleum product transportation services and their tariffs	Rosneft depends on monopolistic providers of oil, gas and petroleum product transportation services and cannot control the infrastructure they operate and payments they charge. PJSC Transneft is a national monopoly providing oil and petroleum product transportation services via its trunk pipelines. During its cooperation with Transneft, the Company has not incurred any substantial loss due to failures or leaks in Transneft's pipelines. However, any serious failure in Transneft's pipeline operation or limited access to Transneft's capacities may disrupt oil and petroleum product transportation and adversely impact Rosneft's performance and financial position. Like other Russian oil producers, Rosneft is required to pay for transportation services provided by Transneft. Transneft's charges for pipeline transportation of oil and petroleum products are set by the tariff regulator. Transneft periodically increases charges for the use of its network. These increases in tariffs result in higher costs for the Company, which adversely impacts its performance and financial position. Similar risks may result from the use of Gazprom's pipeline system. The Company is also dependent on railway transportation of its oil and petroleum products. OJSC Russian Railways (RZD) is a national monopoly rendering railway transportation services. RZD tariffs are subject to anti-monopoly control, and traditionally they tend to grow. Further increases in tariffs entail higher costs of oil and petroleum product transportation and may have a negative effect on the Company's performance and financial position.	Rosneft takes into account the negative impact of changes in the natural monopolies' tariffs for hydrocarbon transportation when planning the Company's future business operations. Decisions to change transportation flows and optimize the schedule of the Company's product supply via the Russian oil and gas pipeline system are made depending on the degree of the risk impact.
Related to geographical and climatic conditions	The regions where Rosneft operates have a stable climate and generally are not exposed to natural calamities and disasters. However, abnormally low temperatures in winter in some northern regions can make the operation of the Company's oil-producing sites more difficult. Delays at export terminals can be caused by climatic characteristics of their locations. Rosneft exports some oil via its own marine terminals and Transneft-controlled terminals. Petroleum products are exported via its marine terminals in Tuapse (Krasnodar Territory) and Nakhodka (Primorsky Territory). Export via the terminals on the Black Sea to Mediterranean ports may be limited by the capacity of the Bosphorus and weather conditions on the Black Sea (storms) in fall. Complex ice conditions in winter may require the shutdown of export terminals on the Baltic Sea and in De-Kastri (Khabarovsk Territory). Any long delay in export terminal operation may have a negative effect on the Company's performance and financial position.	Rosneft has the capability to redistribute commodity flows taking into account climatic conditions, including the use of alternatives for oil and petroleum product transshipment, as well as the shipment schedule adjustment.
Related to the sale of gas produced by the Company	The key factor that may have a negative impact on the Company's gas sales consists in the failure to take the required amount of gas on the part of consumers. Natural gas sales are also affected by the following factors: Non-compliance with the current requirements of PJSC Gazprom for the quality of gas sent to the gas transportation system, which may entail the risk of restriction of the volume of gas accepted by the transportation system due to qualitative characteristics, as well as penalties imposed by Gazprom. Risk that Gazprom may restrict the amount of the Company's gas accepted by the transportation system to the undistributed amount.	The Company diversifies its consumer portfolio to ensure that gas consumption targets are met, and makes claims to ensure efficient cash receipt for the sold gas. Risks related to the quality of gas sent to the gas transportation system can be mitigated by implementing technical measures to raise the quality of gas to meet the set standards. The Company continuously monitors conditions and ensures non-discriminating access to Gazprom's gas transportation system. The Company has also developed an action plan to mitigate the risk of restricted access to the gas transportation system, including changes in gas supply schedules, redistribution of volumes among various consumers and alternative arrangements for gas supply to consumers via third-party producers.
Related to the actual amount of reserves	Data on oil and gas reserves are mere estimates and inevitably involve uncertainty. The actual amount of reserves may significantly differ from these estimates. Data on oil and gas reserves provided in this report are estimates based mainly on the results of analytical work performed by DeGolyer&MacNaughton, Rosneft's independent consultant on oil production technology. The oil production process involves subjective evaluation of underground oil and natural gas reserves which cannot be accurately measured. Valuation and assessment of the volume of economically recoverable oil and gas reserves, production volumes, future cash inflows, as well as expense periods for reserve development inevitably depend on a number of variables and assumptions. Many of the assumptions used for the valuation of reserves do not depend on the Company and may eventually turn out to be false. Estimation of reserves and the use of alternative calculation systems according to the Russian classification system inevitably involve a high degree of uncertainty. The accuracy of estimation of any reserves and resources depends on the quality of available information and interpretation of data on oil production technology and geological data. Post-evaluation exploration drilling, data interpretation, testing and production may require significant upward or downward adjustment of estimates of Rosneft's reserves and resources. Moreover, different specialists responsible for estimation of reserves and resources may evaluate reserves and cash inflows differently using the same data. Actual production volumes, revenue, and costs related to reserves and resources might significantly differ from the estimate. There is also an element of uncertainty related to the Russian reserve classification system. This system takes into account geological factors only and ignores the economic feasibility of production.	Rosneft is a global leader in terms of oil reserves and has extensive resources, which minimizes any risk of lower oil production as a result of future reappraisal of reserves.

TYPE	RISK DESCRIPTION	RISK MANAGEMENT MEASURES
	Prospecting drilling also entails multiple risks, including the risk of oil and gas companies' failure to find oil or gas pay zones. The Company prospects for hydrocarbons in different geographical regions, including areas with unfavorable climatic conditions and high costs. There is often uncertainty over well drilling, infrastructure and operation costs. Therefore, Rosneft may incur additional costs or will have to downscale, suspend, or terminate drilling due to many factors. They include unforeseen geological conditions; abnormally high or low formation pressure; unforeseen heterogeneity within geological formations; equipment breakdown or accidents; unfavorable weather conditions; shortage or delay in the delivery of drilling rigs and equipment. If Rosneft cannot conduct efficient exploration or acquire assets with proved reserves, its proved reserves will decrease as it produces oil and gas and developed fields are depleted. The Company's future production depends greatly on successful discovery, acquisition and development of oil- and gas-bearing fields. If Rosneft's attempts fail, it will have fewer proved reserves and will reduce its hydrocarbon production, which will in turn have an adverse effect on the Company's performance and financial position.	
Related to competition	There is strong competition in the oil and gas industry. Rosneft mainly competes with other leading Russian oil and gas companies to: <ul style="list-style-type: none"> obtain exploration and development licenses at auctions and during bidding procedures held by Russian authorities; acquire other Russian companies that might hold licenses or existing assets related to hydrocarbon production; engage leading independent services companies with limited service capacity; purchase equipment for capital construction projects in case of shortage; hire the most skilled and experienced staff; acquire existing retail outlets and land plots to establish new retail outlets; purchase or gain access to refining capacities. The Company is one of the industry leaders in Russia and globally, which significantly improves its competitive position. It has an extensive new project portfolio to maintain and improve its competitive standing in the future. As Rosneft sells its products in the domestic and international markets, it faces risks of stiffer competition.	The following measures are taken to minimize risks during the sale of petroleum products in the highly competitive domestic market: <ul style="list-style-type: none"> The Company plans its refining capacity utilization based on market forecasts to prevent excess stockpiling of individual types of petroleum products; It promptly re-distributes regional commodity flows in the domestic market and between the domestic market and export taking into account the current oil refining and petroleum product mix and availability of the Company's own marketing and distribution facilities and contractors covering almost all Russian regions; The Company rebuilds its refineries to satisfy the growing demand for high-octane gasoline and low-sulfur petroleum products, which will help increase refinery throughput and conversion rates; The Company maintains a focus on the development of own filling stations and facilities that meet the latest European requirements as the most stable sector for petroleum product sales in the domestic market, which is less exposed to spontaneous price changes and declines in demand. Additionally, to capture new clients, especially corporate customers, a system for petroleum product delivery via filling stations using electronic cards is being implemented on a wide scale, together with a filling station service system accepting the cards issued by other market players. The most effective measures in response to stiffer competition risks in the foreign crude oil and petroleum product market include geographical diversification, which helps redistribute products between regions.
HSE risks	The Company's HSE risks are connected with: <ul style="list-style-type: none"> emergencies, incidents, fires and other contingencies characterized by damaging of operated facilities and equipment and deviation from the preset process parameters; damage caused to health of workers, counterparties and visitors, as well as to the population of adjacent territories; negative impact on the environment in the course of production and commercial operations; imposition of punitive sanctions and suspension of facilities' operation, as well as loss of business reputation and lowering of stakeholders' credibility level in case of non-compliance with applicable statutory requirements in the field of HSE. 	Rosneft has its own HSE management system, which combines resources and procedures needed for both prevention of and response to harmful events. Principles and approaches used at all the stages of facilities' lifecycle are designed to ensure the effective HSE risk management in accordance with applicable requirements to safe conduct of processes and operation of the facilities with allowance for existing advanced technologies.
COUNTRY AND REGIONAL RISKS		
Related to the country and region of operation	Rosneft operates in all federal districts of the Russian Federation. Regional development prospects and potential social and economic risks are outlined in the Program of Medium-Term Social and Economic Development of the Russian Federation. The Company believes that the risk of military conflicts, civil unrest, strikes and announcement of a state of emergency in the regions where it operates is insignificant. The Company notes the impact of risks related to changes in foreign policy on its operations. It also faces operational risks outside the Russian Federation. It is exposed to higher political, economic, social and legal risks in developing economies as compared to more developed countries. Risks related to operation in such countries are in many respects similar to or may be higher than in Russia, including due to possible changes in foreign policy.	In case of any risks related to the political, economic or social situation in Russia as a whole or in individual regions, or any risks related to global economic instability, the Company will make every effort to limit their negative effect. Its actions will depend on a specific situation and will be determined on a case-by-case basis. In case of an adverse impact of country-related and regional changes on its operations, the Company plans to take the following measures aimed at maintaining its operations: <ul style="list-style-type: none"> make every effort to maintain the projects that are currently being developed with its support; closely cooperate with the executive authorities of the Russian Federation and its constituent entities and municipal governments; optimize and reduce costs.
FINANCIAL RISKS		
Currency risks	A significant portion of Rosneft's gross revenue comes from oil and petroleum product exports. Therefore, fluctuations in ruble exchange rates impact the Company's financial and business performance, which is a currency risk factor.	The Company identifies and manages currency risks by using an integrated approach enabling the use of natural (economic) hedging. For the purposes of short-term currency risk management, the Company selects a foreign currency for free cash balances from among the Russian ruble, the US dollar and other foreign currencies. The Company's active currency risk management practices also involve the use of derivative and non-derivative instruments to mitigate the potential impact of FX fluctuations on the indicators of the Company's consolidated financial statements.

TYPE	RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Changes in interest rates	As a major borrower, Rosneft is exposed to risks related to changes in interest rates. Part of the Company's loan portfolio consists of USD and euro loans. An interest rate on most of these loans is based on LIBOR and EURIBOR interbank lending rates. An increase in these interest rates may result in higher debt service fees for Rosneft. Growth of borrowing costs for the Company may have a negative effect on its solvency and liquidity. As at end of 2016, the Company had the following credit ratings assigned by leading rating agencies: Moody's (Ba1), S&P (BB+).	The Company analyzes exposure to interest rate changes, including the development of various scenarios to assess the influence of interest rate changes on financial indicators.
Inflation	Inflation rates in the Russian Federation significantly impact the Company's performance.	When planning its business operations, Rosneft takes into account the impact of the inflation rate on its financial performance, including the impact on the cost of procured materials and equipment, as well as changes in contractors' fees. The Company develops measures to mitigate the risk, including the search for alternative contractors and suppliers of materials and equipment.
LEGAL RISKS		
Related to inspections by regulators	In 2016, due diligence checks were conducted at a number of Group Companies in the upstream segment to assess their compliance with the requirements of environmental legislation and subsoil laws. The checks did not reveal any serious violations which might lead to business interruption, large fines or other negative consequences for the Company. Following the checks, the Company started to implement an action plan to ensure full compliance with legal requirements. In addition, in October 2016, an inspection was conducted at the refineries of PJSOC Bashneft; it revealed a number of violations committed during the previous periods. Based on the findings of the inspection, an action plan was developed and is being implemented to eliminate the violations.	Rosneft regularly monitors compliance with legal requirements; it takes into account the findings of inspections conducted by government bodies in its operations; it plans its operations taking into account detected violations, including those revealed during audits, and seeks to prevent such violations in the future.
Related to changes in FX regulation	Rosneft is actively involved in foreign trade. Some of the Company's assets and liabilities are denominated in foreign currencies. Therefore, government FX regulation impacts the Company's financial and business operations. On the whole, there were no significant amendments to Russian currency laws that could impact Rosneft's operations in the reporting period.	Rosneft regularly monitors changes in laws on FX regulation and control and rulings by supreme courts and assesses legal precedents.
Related to changes in tax legislation	Rosneft is a major taxpayer, and its operations are based on the principles of good faith and transparency of information for the tax authorities. The Company pays VAT, excise tax, income tax, mineral extraction tax, property tax, land tax, as well as other taxes and duties. There remains a tendency towards frequent changes in tax legislation. Major amendments to tax legislation made in 2016 and affecting Rosneft's operations include the following: <ul style="list-style-type: none"> · Pursuant to Federal Law No. 34-FZ on Amendments to Article 193 of Part Two of the Tax Code of the Russian Federation dated February 29, 2016, as from April 1, 2016, the rates of excise on certain petroleum products (motor gasoline, straight run gasoline, diesel fuel, middle distillates) set for 2016 and 2017 were increased by an average of 25-30%; · Pursuant to Federal Law No. 401-FZ on Amendments to Parts One and Two of the Tax Code of the Russian Federation and Individual Laws of the Russian Federation dated November 30, 2016; · For the purpose of income tax, for the period from 2017 through 2020, tax loss carryforward is restricted to no more than 50% of the tax base for the current reporting (taxable) period excluding previous years' losses carried forward (at the same time, the ten-year limit on the carryforward of losses incurred after January 1, 2007 was abolished); · The potential deduction of losses incurred by some members of a consolidated group of taxpayers (CGT) from profit earned by other members of the CGT during the reporting (taxable) period was restricted to no more than 50% of the profit earned by profit-making members of the CGT; · The potential deduction of losses incurred by a CGT during previous taxable periods (before January 1, 2017) from its profit was restricted to no more than 50% of the consolidated tax base of the CGT for the current taxable period; · As from January 1, 2017, the rates of excise on certain petroleum products (motor gasoline, straight run gasoline, diesel fuel, middle distillates) were increased; · The coefficient used in 2017 for the calculation of the amount of excise duties if received straight run gasoline is used for petrochemical production using chemical conversion processes specified in paragraph 15 of Article 200 of the Tax Code of the Russian Federation was reduced from 1.74 to 1.7; · A new coefficient (Kk) was included in the formula for the calculation of mineral extraction tax on oil, which essentially leads to an increase in the rate of mineral extraction tax on oil by a fixed amount set at 306 for 2017, 357 for 2018, 428 for 2019 and 0 as from 2020; · Restrictions were imposed on exemptions from property tax stipulated in paragraph 24 (with regard to property located in the Russian sector of the Caspian Sea) and paragraph 25 of Article 381 of the Tax Code of the Russian Federation (as from January 1, 2018, these exemptions shall apply in federal subjects of Russia only if the federal subjects of Russia have adopted the relevant law); · With regard to tax arrears accumulated starting from October 1, 2017, a progressive scale of penalties was introduced for organizations (starting from the 31st calendar day of delay in tax payments, a penalty amounting to 1/150 of the refinancing rate of the Bank of Russia shall be payable). <p>The likelihood of the occurrence of risks related to amendments to tax laws that came into force in the reporting period is assessed as low.</p>	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 specialists regularly take part in various working groups considering legislative initiatives in the sphere of tax legislation.

TYPE	RISK DESCRIPTION	RISK MANAGEMENT MEASURES
Related to changes in customs regulation	Rosneft is actively involved in foreign trade. Therefore, the Company is exposed to risks related to amendments to laws on government regulation of foreign trade and customs laws governing the procedure for the movement of goods across a customs border, determination and use of customs procedures, determination, enactment and collection of customs duties. On the whole, there were no significant amendments to Russian customs laws that could impact Rosneft's operations in the reporting period. At the meeting of the Supreme Eurasian Economic Council of the Eurasian Economic Union (EAEU) on December 26, 2016, heads of four EAEU member states signed the Agreement on the Customs Code of the EAEU. The Customs Code of the EAEU is scheduled to come into force in 2017. Key changes in customs regulation include a simplification of customs procedures, a shorter duration of customs operations and a switchover to electronic operations; giving priority to electronic technologies, including automated release of goods with the use of information systems; and a reduction in the number of documents confirming information provided during customs declaration.	Rosneft continuously monitors amendments to customs laws, evaluates and forecasts the degree of the potential impact of such amendments on its operations; the Company's specialists regularly take part in various working groups drafting customs laws. Rosneft's specialists participated in the development of the Customs Code of the Eurasian Economic Union within working groups and expert groups at various platforms of the Eurasian Economic Commission and the federal government bodies of the Russian Federation to improve customs administration procedures.
Related to changes in anti-trust laws	Rosneft has a significant share on the Russian wholesale gasoline, diesel fuel, jet fuel and fuel oil market. Therefore, the Company has to meet additional requirements aimed at protecting competition and might face risks related to amendments to anti-trust laws. On January 5, 2016, amendments to the Federal Law on Protection of Competition came into force. They include the following amendments that affect the Company's operations: <ul style="list-style-type: none"> · A rule was introduced stipulating that if an entity holding a share above 70% on the commodity market misused its dominant position, the Government of the Russian Federation may set the rules for non-discriminating access to commodities sold by this entity; · Consent must be obtained from the antitrust authority to sign agreements on joint operations between competitors in the Russian Federation if the total value of their assets exceeds the threshold set by law. <p>The likelihood of the occurrence of risks related to amendments to anti-trust laws that came into force in the reporting period is assessed as low.</p>	Rosneft continuously monitors amendments to anti-trust legislation and rulings by supreme courts and assesses legal precedents. In case of any legal precedents, Rosneft applies to government bodies for explanations and recommendations for implementing the specific regulations and submits proposals for updating anti-trust legislation.
Related to statutory regulation of subsoil use	Subsoil use is the core area of the Company's business; therefore, significant changes in subsoil laws may affect the Company's operations. However, during the reporting period, there were no major changes in the laws on subsoil use that might affect the Company's operations.	The Company performs operations related to subsoil use in accordance with subsoil laws under issued licenses. The Company continuously monitors amendments to subsoil laws and assesses the latest legal precedents. Plans for obtaining subsoil licenses and conducting day-to-day operations related to subsoil use are developed taking into account the latest trends in statutory regulation in this sphere.
Related to statutory regulation of land use	As a land user, Rosneft is exposed to risks related to changes in land legislation. However, during the reporting period, there were no major changes in legislation in this sphere that might have a negative impact on the Company's operations.	Rosneft regularly monitors amendments to the applicable legislation, rulings by supreme courts and assesses legal precedents. In case of any legal precedents Rosneft also submits proposals for updating the legislation and applies to government bodies for explanations and recommendations for implementing the specific regulations.
Related to environmental protection and industrial safety	Amendments to laws on industrial safety and environmental protection made during the reporting period are minor. The likelihood of the occurrence of risks related to amendments that came into force in the reporting period is assessed as low.	Rosneft has implemented a health, safety and environment management system that comprises resources and procedures required for preventing hazardous events and responding to them. The principles and approaches followed at all stages of the life cycle of industrial facilities are designed to enable continuous improvement of the system and effective management of HSE risks in accordance with applicable requirements for process safety and safe operation of industrial facilities, taking into account existing state-of-the-art technologies. The Company continuously monitors amendments to laws on environmental and industrial safety and takes into account legal precedents in its operations.
Related to ongoing court proceedings in which the Company is involved	In October and November 2014, former shareholders of JSC RN Holding lodged claims against Rosneft for compensation of losses exceeding RUB 342 mln caused by inaccurate (according to the plaintiffs) share valuation during the mandatory buyout. On November 25, 2015, the court of first instance dismissed the claims; on September 9, 2016, the court of appeal upheld the ruling. In January 2017, the court dismissed the plaintiffs' writs of appeal. During the reporting period, Rosneft was involved in a number of other court proceedings which began during its operations. However, the outcome of such court proceedings will not have a significant effect on the Company's performance or financial position, nor are they related to governance or shareholders' interest in the issuer.	Rosneft regularly monitors rulings by supreme courts and assesses legal precedents created in district arbitration courts; it actively uses such precedents when protecting its rights and legal interests in court and when settling any legal issues arising during its operations. Therefore, risks related to changes in court practice are considered minor.
US and EU sanctions	In 2014, the US and the EU imposed a number of sectoral sanctions. The sanctions regime imposes restrictions on the provision of new funding by US and EU entities to a number of sanctioned entities specified in US and EU regulations and on the performance of work and provision of goods and services that might be used by certain entities in Russia for deep-water oil exploration and production, oil exploration and production in the Arctic and shale oil extraction.	The Company takes these sanctions into account in its operations and continuously monitors them in order to minimize their negative impact.

APPENDIX 3

REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

This Report on Compliance with the Principles and Recommendations of the Corporate Governance Code (hereinafter referred to as the Report) has been prepared in the form prescribed by the Bank of Russia and in accordance with the recommendations provided by the Bank of Russia in Letter No. IN-06 52/8 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 dated February 17, 2016, taking into account special characteristics specified in paragraph 70.4 of Regulations No. 454-P on Disclosure of Information by Issuers of Issue-Grade Securities dated December 30, 2014 approved by the Bank of Russia on December 30, 2014.

The Report reflects the status of the Company's compliance with the corporate governance principles formulated by the Bank of Russia (Column 1 of the table below). Compliance with each principle is assessed based on the Company's compliance with each of the criteria listed by the Bank of Russia (Column 2 of the table below):

- The status "complied with" is indicated only if the Company meets all criteria for assessing compliance with a corporate governance principle (in accordance with the recommendations of the Bank of Russia, no explanation is given in the Report in this case);
- Otherwise the status "complied with in part"/"not complied with" is indicated. (In this case, comments are provided outlining in what respect the Company does not comply with the criteria; an explanation of the root causes, key factors and (or) circumstances is given, and a brief description is provided of alternative corporate governance mechanisms used by the Company instead of recommended mechanisms or its plans for the improvement of corporate governance.)

The Report was considered by the Board of Directors of Rosneft at the meeting held on April 24, 2017 (Minutes No. 25 dated April 27, 2017) as part of the Annual Report for 2016. The Board of Directors confirms that the information provided in this Report regarding the Company's compliance with the principles and recommendations set out in the Bank of Russia Code in 2016 is comprehensive and accurate.

The Group's corporate governance system is based on the requirements of Russian legislation, the Listing Rules of PJSC Moscow Exchange, principles and recommendations of the Bank of Russia Code, international standards in corporate conduct and business ethics, and the principles of openness and transparency.

In the reporting year, the Company carried out an assessment of compliance with the recommendations of the Bank of Russia Code. The assessment was carried out using a critical approach based on the methodology for self-assessment of corporate governance quality in state-owned companies¹ recommended by the Federal Agency for State Property Management (Rosimushchestvo). This involves an analysis and assessment of the Company's compliance with the recommendations with regard to corporate governance principles set out in the Bank of Russia Code (Part B). The assessment methodology involved benchmarking the Company's practices against detailed recommendations provided in Part B² of the Code. Findings of the analysis showed that Rosneft observed most of the recommendations of the Bank of Russia: Rosneft's corporate governance complies with 89.7% of recommendations of the Code, which is 1.6% higher than the 2015 indicator and significantly higher than the minimum threshold (65%) recommended by Rosimushchestvo.

In 2016, the Company continued the work commenced in 2015 and aimed at incorporating the measures stipulated by the Road Map for Implementation of Recommendations of the Bank of Russia Code in the Company's operations. The Company's Board of Directors reviewed the status of its implementation as of December 2016 and expressed a positive opinion on progress in this sphere; they also revised the deadline for the implementation of individual measures. A detailed description of material aspects of the corporate governance model and practice and information on the Company's compliance with the recommendations of the Corporate Governance Code of the Bank of Russia are provided in the section "Key principles and improvement of the corporate governance system in 2016" and in this Appendix.

1. Approved by Order No. 306 of the Federal Agency for State Property Management dated August 22, 2014
2. Part B of the Corporate Governance Code contains a total of 356 recommendations.

NO.	CORPORATE GOVERNANCE PRINCIPLES	CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	STATUS ¹ OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	EXPLANATIONS ² CONCERNING FAILURE TO MEET THE CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE
1.1	THE COMPANY SHOULD TREAT ALL SHAREHOLDERS EQUALLY AND FAIRLY WHEN THEY EXERCISE THEIR RIGHT TO PARTICIPATE IN THE MANAGEMENT OF THE COMPANY.			
1.1.1	The Company has created the best possible conditions for the shareholders to participate in the General Shareholders' Meeting and conditions required for forming an informed opinion on the items of the agenda of the Meeting, aligning the shareholders' actions, and opportunities for them to express their opinion on matters under consideration.	<p>1. 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.</p> <p>2. The Company provides a freely available communication channel such as a Hotline, email or an Internet forum allowing the shareholders to express their opinions and send questions regarding the agenda during the preparation for the General Shareholders' Meeting. Actions in question had been taken by the Company before every General Shareholders' Meeting that took place during the reporting period.</p>	<p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</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.	<p>1. The notification of the General Shareholders' Meeting is posted on the Company's website at least thirty days before the date of the meeting.</p> <p>2. 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.</p> <p>3. Shareholders have been given access to the information on persons who had proposed agenda items and nominated candidates to the Board of Directors and the Company's Audit Commission.</p>	<p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part 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.	<p>1. During the reporting period, shareholders were given an opportunity to ask members of the Company's executive bodies and members of the Company's Board of Directors questions in the run-up to the Annual General Shareholders' Meeting and during the meeting itself.</p> <p>2. The position of the Board of Directors (including dissenting opinions included in the minutes) on each agenda item of the General Shareholders' Meetings held in the reporting period was included in the materials for the General Shareholders' Meeting.</p> <p>3. The Company provided authorized shareholders with access to the list of persons eligible for participation in the General Shareholders' Meeting, starting from the date when this list was received by the Company; this applies to all such meetings in the reporting period.</p>	<p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p>	
1.1.4	A shareholder's right to demand that the General Shareholders' Meeting be convened, nominate candidates to governing bodies and propose agenda items for the General Shareholders' Meeting was exercised without unnecessary difficulties.	<p>1. In the reporting period, shareholders were given an opportunity to propose agenda items for the Annual General Shareholders' Meeting for at least sixty days after the end of the respective calendar year.</p> <p>2. In the reporting period, the Company did not reject proposals regarding agenda items or candidates nominated to the Company's bodies because of misprints and other minor drawbacks in a shareholder's proposal.</p>	<p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p>	
1.1.5	Each shareholder could freely exercise his or her right to vote in the way that is the easiest and most convenient for him or her.	1. An internal document (internal policy) of the Company contains provisions whereby each participant of the General Shareholders' Meeting may request a copy of the ballot filled in by him/her and certified by the Company's ballot committee before the end of the respective meeting.	x Complied with Complied with in part Not complied with	
1.1.6	The procedure for holding the General Shareholders' Meeting established in the Company provides all persons present at the meeting with equal opportunities for expressing their opinions and asking questions.	<p>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.</p> <p>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.</p> <p>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.</p>	<p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p>	

- 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.
- Explanations are given for each criterion for assessing compliance with a corporate governance principle if the Company meets only some of the criteria or none of them. If the Company has indicated the status "complied with", no explanations are required.

NO.	CORPORATE GOVERNANCE PRINCIPLES	CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	STATUS ¹ OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	EXPLANATIONS ² CONCERNING FAILURE TO MEET THE CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE
1.2	THE SHAREHOLDERS ARE GIVEN EQUAL AND EQUITABLE OPPORTUNITIES TO RECEIVE A SHARE OF THE COMPANY'S PROFITS BY RECEIVING DIVIDENDS.			
1.2.1	The Company has developed and implemented a transparent and clear mechanism for determining the amount of dividends and their payment.	<p>1. The Company has developed and disclosed the dividend policy approved by the Board of Directors.</p> <p>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.</p>	<p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p>	
1.2.2	The Company does not make a decision on dividend payment if such a decision is economically unfeasible and may create a misleading impression as to the Company's operations, despite its formal compliance with the legislation.	1. The Company's dividend policy clearly stipulates financial/economic circumstances under which the Company should not pay dividends.	x Complied with Complied with in part Not complied with	
1.2.3	The Company does not allow a deterioration in terms of dividend rights of existing shareholders.	1. The Company did not take any actions causing deterioration in terms of dividend rights of existing shareholders in the reporting period.	x Complied with Complied with in part Not complied with	
1.2.4	The Company aims to ensure that shareholders do not have any other ways to receive 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.	x Complied with Complied with in part Not complied with	
1.3	THE CORPORATE GOVERNANCE SYSTEM AND PRACTICES SHOULD ENSURE EQUITABLE TREATMENT OF ALL SHAREHOLDERS OWNING SHARES OF ONE CLASS (TYPE), INCLUDING MINORITY (SMALL) SHAREHOLDERS AND FOREIGN SHAREHOLDERS, AND EQUAL TREATMENT OF THEM BY THE COMPANY.			
1.3.1	The Company has created conditions necessary for ensuring that its governing bodies and controlling persons treat each shareholder fairly, including preventing abuse on the part of large shareholders with respect to minority shareholders.	1. In the reporting period, management of potential conflicts of interest of major shareholders was efficient, and the Board of Directors paid due attention to conflicts between the shareholders, if any.	x Complied with Complied with in part Not complied with	
1.3.2	The Company does not take any actions which cause or may cause artificial redistribution of corporate control.	1. There were no quasi-treasury shares in the Company or they did not participate in voting in the reporting period.	x Complied with Complied with in part Not complied with	
1.4	SHAREHOLDERS ARE PROVIDED WITH RELIABLE AND EFFECTIVE METHODS OF REGISTERING OWNERSHIP OF SHARES AND AN OPPORTUNITY TO FREELY AND QUICKLY DISPOSE OF THEIR SHARES.			
1.4.1	Shareholders are provided with reliable and effective methods of registering ownership of shares and an opportunity to freely and quickly dispose of their shares.	1. The quality and reliability of activities carried out by the Company's Registrar and related to keeping a register of security holders meet the needs of the Company and its shareholders.	x Complied with Complied with in part Not complied with	
2.1	THE BOARD OF DIRECTORS IS RESPONSIBLE FOR THE STRATEGIC MANAGEMENT OF THE COMPANY; IT FORMULATES THE BASIC PRINCIPLES AND APPROACHES TO THE DEVELOPMENT OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM, SUPERVISES THE WORK OF THE COMPANY'S EXECUTIVE BODIES AND PERFORMS OTHER CORE FUNCTIONS.			
2.1.1	The Board of Directors is responsible for making decisions related to the appointment and dismissal of executive bodies, including due to improper performance of their functions. The Board of Directors also ensures that the Company's executive bodies act in accordance with the approved development strategy and the Company's key areas of business.	<p>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.</p> <p>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.</p>	<p>x Complied with Complied with in part Not complied with</p> <p>x Complied with Complied with in part Not complied with</p>	
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.	x Complied with Complied with in part Not complied with	

NO.	CORPORATE GOVERNANCE PRINCIPLES	CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	STATUS ¹ OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	EXPLANATIONS ² CONCERNING FAILURE TO MEET THE CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE
2.1.3	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.	x 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 and 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).	x 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.	x Complied with Complied with in part Not complied with	
2.1.6	The Board of Directors plays a key role in ensuring the Company's transparency, timely and complete disclosure of information by the Company and free access to the Company's documents for shareholders.	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.	x 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.	x Complied with Complied with in part Not complied with	
2.2	THE BOARD OF DIRECTORS IS ACCOUNTABLE TO THE COMPANY'S SHAREHOLDERS.			
2.2.1	Information on the performance of the Board of Directors is disclosed and provided to shareholders.	1. The Annual Report of the Company for the reporting period includes information on attendance of meetings of the Board of Directors and Committees by individual directors. 2. The Annual Report includes information on the main results of performance assessment of the Board of Directors carried out in the reporting period.	x Complied with Complied with in part Not complied with	
2.2.2	The Chairman of the Board of Directors is available for communication with the Company's shareholders.	1. The Company has a transparent procedure enabling shareholders to send their questions and opinions on them to the Chairman of the Board of Directors.	x Complied with Complied with in part Not complied with	
2.3	THE BOARD OF DIRECTORS IS AN EFFECTIVE AND PROFESSIONAL GOVERNING BODY OF THE COMPANY ABLE TO MAKE OBJECTIVE INDEPENDENT JUDGMENTS AND MAKE DECISIONS IN THE INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS.			
2.3.1	Only persons having an impeccable business and personal reputation and the knowledge, skills and experience required for making decisions within the competence of the Board of Directors and for efficient performance of its functions are elected to the Board of Directors.	1. The Company's procedure for performance assessment of the Board of Directors also includes evaluation of the professional qualifications of members of the Board of Directors. 2. In the reporting period, the Board of Directors (or the Nomination Committee) assessed candidates for the Board of Directors from the point of view of experience, knowledge, business reputation, lack of conflict of interest, etc.	x Complied with Complied with in part Not complied with	
2.3.2	Members of the Board of Directors are elected under a transparent procedure enabling shareholders to obtain information about the candidates which is sufficient to form an opinion about their personal and professional qualities.	1. In all cases when the agenda of a General Shareholders' Meeting held in the reporting period included election to the Board of Directors, the Company provided its shareholders with biographical details of all candidates for the Board of Directors, results of their assessment carried out by the Board of Directors (or its Nomination Committee), as well as information on whether the candidate met the criteria of independence in accordance with recommendations No. 102 - 107 of the Code and the written consent of the candidates for election to the Board of Directors.	x Complied with Complied with in part Not complied with	

NO.	CORPORATE GOVERNANCE PRINCIPLES	CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	STATUS ¹ OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	EXPLANATIONS ² CONCERNING FAILURE TO MEET THE CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE
2.3.3	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.	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.	x Complied with Complied with in part Not complied with	
2.3.4	The number of members of the Company's Board of Directors makes it possible to organize its work most effectively, including the opportunity to form Board Committees, as well as gives the Company's substantial minority shareholders an opportunity to elect a candidate for whom they vote to the Board of Directors.	1. As part of assessment of the Board of Directors carried out in the reporting period, the Board of Directors considered whether the number of its members met the needs of the Company and promoted the interests of its shareholders.	x Complied with Complied with in part Not complied with	
2.4	AN ADEQUATE NUMBER OF INDEPENDENT DIRECTORS SIT ON THE BOARD OF DIRECTORS.			
2.4.1	A person shall be qualified as an "Independent Director" if he or she has sufficient professional skills, experience and independence to form his/her own opinion, is able to make objective and fair judgments independently of the executive bodies of the Company, individual groups of shareholders or other stakeholders. At the same time, it should be noted that under normal circumstances a candidate (an elected member of the Board of Directors) associated with the Company, its major shareholder, major counterparty, competitor or the government cannot be considered independent.	1. In the reporting period, all independent members of the Board of Directors met all independence criteria specified in recommendations No. 102-107 of the Code or were recognized as independent by the Board of Directors.	x Complied with Complied with in part Not complied with	
2.4.2	The Company assesses whether candidates for the Board of Directors meet the independence criteria, and a regular analysis is carried out to determine whether independent members of the Board of Directors meet the independence criteria. When carrying out the assessment, content should prevail over form.	1. In the reporting period, the Board of Directors (or the Nomination Committee) formed an opinion on the independence of each candidate nominated to the Board of Directors and provided the shareholders with the relevant statement. 2. In the reporting period, the Board of Directors (or the Nomination Committee) considered the independence of the current members of the Board of Directors who are specified in the Annual Report as Independent Directors of the Company at least once. 3. The Company has developed procedures stipulating the actions to be taken by a member of the Board of Directors if he or she ceases to be independent, including the obligation to inform the Board of Directors of it in a timely manner.	x Complied with Complied with in part Not complied with	
2.4.3	Independent directors comprise at least one third of the elected members of the Board of Directors.	1. Independent directors comprise at least one third of the membership of the Board of Directors.	x Complied with Complied with in part Not complied with	
2.4.4	Independent directors play a key role in preventing internal conflicts in the Company and in significant corporate actions taken by the Company.	1. Independent directors (who have no conflict of interest) make a preliminary assessment of significant corporate actions involving potential conflict of interest and submit the results of this assessment to the Board of Directors.	x Complied with Complied with in part Not complied with	

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2.5	THE CHAIRMAN OF THE BOARD OF DIRECTORS ENSURES THAT THE FUNCTIONS ASSIGNED TO THE BOARD OF DIRECTORS ARE PERFORMED AS EFFICIENTLY AS POSSIBLE.			
2.5.1	The Board of Directors is chaired by an Independent Director, or a Senior Independent Director is selected from among elected Independent Directors to coordinate the activities of the Independent Directors and communicate with the Chairman of the Board of Directors.	1. The Chairman of the Board of Directors is an Independent Director or a Senior Independent Director has been selected from among Independent Directors ¹ . 2. The role, rights and duties of the Chairman of the Board of Directors (and, if applicable, of the Senior Independent Director) are properly specified in the Company's internal documents.	Complied with Complied with in part x Not complied with	In accordance with Decree No. 738 of the Government of the Russian Federation, when electing the Chairman of the Board of Directors, members of the Board of Directors representing the interests of the government shall vote according to the directives of the Government of the Russian Federation, thus expressing the shareholder's will, which may not be affected by the Company. A.R. Belousov, a professional attorney, has been elected Chairman of the Board of Directors of Rosneft in accordance with the directives of the Government of the Russian Federation. The Board of Directors of the Company does not include the position of the Senior Independent Director. In addition, performance of recommended duties of the Senior Independent Director could adversely affect the exercise of the rights of other members of the Board of Directors, including Independent Directors, since coordination of interaction could be viewed by other Independent Directors as infringement of their rights (the right to communicate, submit requests, obtain information, etc.).
2.5.2	The Chairman of the Board of Directors creates a constructive atmosphere at the meetings, facilitates open discussion of agenda items and supervises the implementation of resolutions adopted by the Board of Directors.	1. The performance of the Chairman of the Board of Directors was evaluated as part of the procedure for assessing the performance of the Board of Directors in the reporting period.	x Complied with Complied with in part Not complied with	
2.5.3	The Chairman of the Board of Directors takes necessary measures to ensure timely provision of the members of the Board of Directors with information required to adopt resolutions on agenda items.	1. The duty of the Chairman of the Board of Directors to take measures to ensure timely provision of the members of the Board of Directors with materials on agenda items of the meeting of the Board of Directors is stipulated in the Company's internal documents.	x Complied with Complied with in part Not complied with	
2.6	MEMBERS OF THE BOARD OF DIRECTORS ACT REASONABLY AND IN GOOD FAITH IN THE INTERESTS OF THE COMPANY AND ITS SHAREHOLDERS ON THE BASIS OF SUFFICIENT INFORMATION, EXERCISING DUE DILIGENCE AND CARE.			
2.6.1	Members of the Board of Directors adopt resolutions taking into account all available information, with no conflict of interest, ensuring equal treatment of the Company's shareholders, and within the limits of standard business risk.	1. The Company's internal documents stipulate that a member of the Board of Directors shall inform the Board of Directors if there is a conflict of interest in relation to any issue on the agenda of the meeting of the Board of Directors or a Board Committee prior to discussion of that issue. 2. The Company's internal documents stipulate that a member of the Board of Directors shall refrain from voting on any issue in relation to which he/she has a conflict of interest. 3. The Company has established a procedure which allows the Board of Directors to obtain professional advice on issues within its competence at the expense of the Company.	x Complied with Complied with in part Not complied with x Complied with Complied with in part Not complied with x Complied with Complied with in part Not complied with	
2.6.2	The rights and responsibilities of the members of the Board of Directors are clearly worded and set out in the Company's internal documents.	1. The Company has adopted and published an internal document which clearly determines the rights and responsibilities of the members of the Board of Directors.	x 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.	x Complied with Complied with in part Not complied with x Complied with Complied with in part Not complied with	

1. Please specify which of the two alternative approaches provided for by the principle is used by the Company and explain the reasons for selecting this approach.

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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.	x Complied with Complied with in part Not complied with x Complied with Complied with in part Not complied with	
2.7	MEETINGS OF THE BOARD OF DIRECTORS, PREPARATION FOR THEM AND PARTICIPATION OF THE MEMBERS OF THE BOARD OF DIRECTORS IN THE MEETINGS ENABLE EFFICIENT WORK OF THE BOARD OF DIRECTORS.			
2.7.1	Meetings of the Board of Directors are held when necessary, given the scale of the Company's operations and challenges facing the Company at any given time.	1. The Board of Directors held at least six meetings in the reporting year.	x 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.	x 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.	x 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 x 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.
2.8	THE BOARD OF DIRECTORS ESTABLISHES COMMITTEES FOR PRELIMINARY CONSIDERATION OF THE MOST IMPORTANT ISSUES RELATED TO THE COMPANY'S BUSINESS.			
2.8.1	An Audit Committee consisting of Independent Directors has been established for preliminary consideration of any issues related to the monitoring of the Company's financial and business operations.	1. The Board of Directors has formed the Audit Committee consisting of Independent Directors only. 2. The Company's internal documents set out the duties of the Audit Committee, including those specified in Recommendation 172 of the Code. 3. At least one member of the Audit Committee who is an Independent Director has experience in and knowledge of preparation, analysis, evaluation and audit of financial statements. 4. Meetings of the Audit Committee were held at least once a quarter in the reporting period.	x Complied with Complied with in part Not complied with	
2.8.2	A Remuneration Committee consisting of Independent Directors and chaired by an Independent Director who is not the Chairman of the Board of Directors has been established for preliminary consideration of any issues related to the establishment of an efficient and transparent remuneration practice.	1. The Board of Directors has formed the Remuneration Committee consisting of Independent Directors only. 2. The Chairman of the Remuneration Committee is an Independent Director who is not the Chairman of the Board of Directors. 3. The Company's internal documents set out the duties of the Remuneration Committee, including those specified in Recommendation 180 of the Code.	Complied with x Complied with in part Not complied with	The principle is not complied with as not only Independent Directors are included in the HR and Remuneration Committee of the Board of Directors. The Board of Directors has established the HR and Remuneration Committee, whose duties include those assigned by the Corporate Governance Code (CGC) to the Nomination Committee and the Remuneration Committee. Taking into account: · the number of members of the Company's Board of Directors (9 persons); · the fact that three committees have been formed (the Audit Committee, the HR and Remuneration Committee, the Strategic Planning Committee); · recommendations and restrictions imposed by the CGC (stipulating that the number of committee members should total at least 3 persons, stipulating the maximum number of committees which a member of the Board of Directors may sit on, the minimum number of Independent Directors on the committee (2 persons), and the need for creating the committees based on the relevant expert competencies of the members of the Board of Directors), implementation of the CGC principle of independence of all members of the HR and Remuneration Committee is deemed impossible.

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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.	<p>1. The Board of Directors has established the Nomination Committee (or another committee performs its duties specified in Recommendation 186 of the Code¹) consisting mostly of Independent Directors.</p> <p>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.</p>	<p>Complied with</p> <p>x Complied with in part</p> <p>Not complied with</p>	<p>The Board of Directors has established the HR and Remuneration Committee, whose duties also include those assigned by the CGC to the Nomination Committee.</p> <p>Taking into account:</p> <ul style="list-style-type: none"> the number of members of the Company's Board of Directors (9 persons); the fact that three committees have been formed (the Audit Committee, the HR and Remuneration Committee, the Strategic Planning Committee); recommendations and restrictions imposed by the CGC (stipulating that the number of committee members should total at least 3 persons, stipulating the maximum number of committees which a member of the Board of Directors may sit on, the minimum number of Independent Directors on the committee (2 persons), and the need for creating the committees based on the relevant expert competencies of the members of the Board of Directors), <p>implementation of the CGC principle of independence of most members of the Committee is deemed impossible.</p>
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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<p>1. Committees of the Board of Directors are chaired by Independent Directors.</p> <p>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.</p>	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p> <p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
2.9 THE BOARD OF DIRECTORS ARRANGES A PERFORMANCE ASSESSMENT OF THE BOARD OF DIRECTORS, ITS COMMITTEES AND MEMBERS.				
2.9.1	Performance assessment of the Board of Directors is aimed at evaluating the performance of the Board of Directors, its Committees and members, determining whether their work meets the Company's development needs, intensifying the work of the Board of Directors and identifying opportunities for the improvement of its performance.	<p>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.</p> <p>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.</p>	<p>Complied with</p> <p>x Complied with in part</p> <p>Not complied with</p>	Results of self-assessment conducted in 2016 were considered by the Board of Directors on December 16, 2016 by absentee voting.
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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	

1. If the duties of the Nomination Committee are performed by another Committee, please specify its name.

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3.1	THE COMPANY'S CORPORATE SECRETARY FACILITATES EFFICIENT ONGOING COMMUNICATION WITH SHAREHOLDERS, COORDINATES THE COMPANY'S EFFORTS AIMED AT PROTECTING THE SHAREHOLDERS' RIGHTS AND INTERESTS AND SUPPORTS EFFICIENT WORK OF THE BOARD OF DIRECTORS.			
3.1.1	The Corporate Secretary has knowledge, expertise and qualification sufficient for performing his or her duties; he or she must also have an excellent reputation and enjoy shareholders' confidence.	1. The Company has adopted and disclosed an internal document: the Regulations on the Corporate Secretary. 2. Biographical details of the Corporate Secretary are provided on the Company's website and in the Annual Report; they are as detailed as those of the members of the Board of Directors and the Company's executive officers.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
4.1	THE AMOUNT OF REMUNERATION PAID BY THE COMPANY IS SUFFICIENT FOR ATTRACTING, MOTIVATING AND RETAINING EMPLOYEES WHO HAVE THE COMPETENCE AND QUALIFICATION REQUIRED BY THE COMPANY. REMUNERATION IS PAID TO MEMBERS OF THE BOARD OF DIRECTORS, EXECUTIVE BODIES AND OTHER KEY EXECUTIVES OF THE COMPANY IN ACCORDANCE WITH THE REMUNERATION POLICY ADOPTED BY THE COMPANY.			
4.1.1	Remuneration paid by the Company to members of the Board of Directors, executive bodies and other key executives is sufficient to motivate them to work efficiently, enabling the Company to attract and retain competent and qualified specialists. At the same time, the Company avoids paying remuneration that is larger than necessary and seeks to prevent an unreasonably large gap between the amounts of remuneration paid to the said persons and the Company's employees.	1. The Company has adopted an internal document (documents): a policy (policies) on remuneration of the members of the Board of Directors, executive bodies and other key executives, which clearly defines approaches to remuneration of the said persons.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	
4.2	THE SYSTEM OF REMUNERATION FOR THE MEMBERS OF THE BOARD OF DIRECTORS ENSURES THAT THE DIRECTORS' FINANCIAL INTERESTS ARE ALIGNED WITH THE LONG-TERM FINANCIAL INTERESTS OF SHAREHOLDERS.			
4.2.1	The Company pays fixed annual remuneration to the members of the Board of Directors. The Company does not pay remuneration for participating in individual meetings of the Board of Directors or Committees under the Board of Directors. The Company does not offer 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.	<p>x Complied with</p> <p>Complied with in part</p> <p>Not complied with</p>	

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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 x Complied with in part Not complied with	Rosneft's Regulations on Remuneration and Compensations to the Members of the Board of Directors of Rosneft recommend that the members of the Board of Directors do not sell the majority of the Company's shares that they hold (50% or more shares in the Company received by a member of the Board of Directors) and do not use any hedging instruments within 1 (one) year after resigning from the Board of Directors. The road map for incorporating the recommendations of the Bank of Russia's Code in the Company's operations involves formalization of the Company's policy with regard to the ownership of the Company's shares, shares and ownership interest in the authorized capital of Group Companies.
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.	x Complied with Complied with in part Not complied with	
4.3	THE SYSTEM OF REMUNERATION FOR MEMBERS OF EXECUTIVE BODIES AND OTHER KEY EXECUTIVES OF THE COMPANY ENSURES THAT THE REMUNERATION IS LINKED TO THE COMPANY'S PERFORMANCE AND REFLECTS THEIR PERSONAL CONTRIBUTION TO THIS PERFORMANCE.			
4.3.1	Remuneration paid to members of executive bodies and other key executives of the Company is determined in such a way as to ensure a reasonable and 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.	x 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 x Not complied with	The road map for incorporating the recommendations of the Bank of Russia's Code in the Company's operations stipulates that the HR and Remuneration Committee of the Board of Directors should consider and evaluate the viability of the long-term incentive plan taking into account the business model, planning horizons, objectivity of long-term indicators, expected motivation efficiency and the costs of implementation of this program.
4.3.3	The amount of compensation (the golden parachute) paid by the Company in the event of early dismissal of members of executive bodies or key executives on the Company's initiative and in the absence of wrongdoings on their part does not exceed twice the size of the 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.	x Complied with Complied with in part Not complied with	
5.1	THE COMPANY HAS CREATED AN EFFECTIVE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM AIMED AT PROVIDING REASONABLE ASSURANCE THAT THE COMPANY WILL ACHIEVE ITS GOALS.			
5.1.1	The Board of Directors has established the principles of and approaches to organizing a risk management and internal control system in the Company.	1. Functions of the Company's various governing bodies and divisions within the risk management and internal control system are clearly defined in internal documents/the relevant policy of the Company approved by the Board of Directors.	x 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.	x Complied with Complied with in part Not complied with	

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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.	x 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.	x Complied with Complied with in part Not complied with	
5.2	THE COMPANY ORGANIZES INTERNAL AUDIT IN ORDER TO MAKE AN INDEPENDENT AND SYSTEMATIC ASSESSMENT OF THE RELIABILITY AND PERFORMANCE OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM AND THE CORPORATE GOVERNANCE PRACTICE.			
5.2.1	To conduct internal audit, the Company has created a separate unit or has engaged an independent third-party organization. Functional and administrative accountability of the internal audit unit is delineated. The internal audit unit is functionally accountable to the Board of Directors.	1. To conduct internal audit, the Company has created a separate unit responsible for internal audit which is functionally accountable to the Board of Directors or the Audit Committee, or an independent third-party organization has been engaged following the same accountability principles.	x 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.	x Complied with Complied with in part Not complied with	
6.1	THE COMPANY AND ITS OPERATIONS ARE TRANSPARENT TO SHAREHOLDERS, INVESTORS AND OTHER STAKEHOLDERS.			
6.1.1	The Company has developed and implemented an information policy ensuring effective communication between the Company, its shareholders, investors and other stakeholders.	1. The Board of Directors has approved the Company's information policy developed taking into account the recommendations of the Code. 2. The Board of Directors (or one of its Committees) considered issues related to the Company's compliance with its information policy at least once in the reporting period.	x Complied with Complied with in part Not complied with	The Regulations on Information Policy have been approved by the Board of Directors of the Company. According to the road map for incorporating the recommendations of the Bank of Russia's Code in the Company's operations, a review of the Regulations is scheduled for 2017. The Code of the Bank of Russia does not specify how often the Board of Directors should consider issues related to the Company's compliance with its information policy.
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.	x Complied with Complied with in part Not complied with	

NO.	CORPORATE GOVERNANCE PRINCIPLES	CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	STATUS ¹ OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	EXPLANATIONS ² CONCERNING FAILURE TO MEET THE CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE
6.2	THE COMPANY DISCLOSES COMPREHENSIVE, UP-TO-DATE AND ACCURATE INFORMATION ON THE COMPANY IN A TIMELY MANNER TO ENSURE THAT ITS SHAREHOLDERS AND INVESTORS ARE ABLE TO MAKE INFORMED DECISIONS.			
6.2.1	The Company discloses information in accordance with the principles of regularity, consistency and promptness, as well as availability, accuracy, comprehensiveness and comparability of disclosed data.	<p>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.</p> <p>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.</p> <p>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.</p>	x Complied with Complied with in part Not complied with	
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.	<p>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.</p> <p>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.</p>	x Complied with Complied with in part Not complied with	
6.2.3	Being one of the most important means of communication with shareholders and other stakeholders, the Annual Report contains information enabling an assessment of the Company's performance during the year.	<p>1. The Company's Annual Report contains information on the key aspects of its operations and its financial results.</p> <p>2. The Company's Annual Report contains information on environmental and social aspects of its operations.</p>	x Complied with Complied with in part Not complied with	
6.3	THE COMPANY PROVIDES EQUAL AND EASY ACCESS TO INFORMATION AND DOCUMENTS AT THE SHAREHOLDERS' REQUEST.			
6.3.1	The Company provides equal and easy access to information and documents at the shareholders' request.	1. The Company's information policy stipulates that shareholders must be granted easy access to information, including information on legal entities controlled by the Company, at the shareholders' request.	x Complied with Complied with in part Not complied with	
6.3.2	When the Company provides information to shareholders, a reasonable balance is maintained between the interests of individual shareholders and those of the Company, as the Company is interested in maintaining confidentiality of important commercial information which may have a material effect on its competitiveness.	<p>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.</p> <p>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.</p>	x Complied with Complied with in part Not complied with	
7.1	ACTIONS THAT HAVE OR MAY HAVE A SUBSTANTIAL IMPACT ON THE COMPANY'S SHARE CAPITAL STRUCTURE AND FINANCIAL POSITION AND, ACCORDINGLY, ON THE SHAREHOLDERS' POSITION (SIGNIFICANT CORPORATE ACTIONS) ARE TAKEN ON EQUITABLE TERMS SAFEGUARDING THE RIGHTS AND INTERESTS OF THE SHAREHOLDERS AND OTHER STAKEHOLDERS.			
7.1.1	Significant corporate actions include reorganization of the Company, purchase of 30 or more percent of the Company's voting shares (acquisition), making major transactions, an increase or reduction of the authorized capital of the Company, listing and delisting of the Company's shares, as well as other actions that may result in a significant change of shareholders' rights or infringement of their interests. The Company's Charter provides a list (criteria) of transactions or other actions constituting significant corporate actions, and such actions fall within the competence of the Company's Board of Directors.	<p>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.</p> <p>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.</p>	x Complied with Complied with in part Not complied with	

NO.	CORPORATE GOVERNANCE PRINCIPLES	CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	STATUS ¹ OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE	EXPLANATIONS ² CONCERNING FAILURE TO MEET THE CRITERIA FOR ASSESSMENT OF COMPLIANCE WITH A CORPORATE GOVERNANCE PRINCIPLE
7.1.2	The Board of Directors plays a key role in making decisions or recommendations with regard to significant corporate actions; the Board of Directors relies on the opinion of Independent Directors of the Company.	1. The Company has established a procedure whereby Independent Directors express their opinions on significant corporate actions before their approval.	x Complied with Complied with in part Not complied with	
7.1.3	When making significant corporate actions affecting the rights and legitimate interests of shareholders, equal conditions are provided for all shareholders of the Company, and in case of 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.	<p>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.</p> <p>2. During the reporting period, all significant corporate actions were approved prior to their implementation.</p>	x Complied with Complied with in part Not complied with	
7.2	THE COMPANY ENSURES THAT SIGNIFICANT CORPORATE ACTIONS ARE TAKEN IN A MANNER THAT ENABLES THE SHAREHOLDERS TO RECEIVE FULL INFORMATION ON SUCH ACTIONS, PROVIDES THEM WITH AN OPPORTUNITY TO INFLUENCE SUCH ACTIONS AND GUARANTEES THAT THEIR RIGHTS ARE OBSERVED AND PROPERLY PROTECTED WHEN SUCH ACTIONS ARE TAKEN.			
7.2.1	Information on significant corporate actions is disclosed, and an explanation of the reasons, conditions and consequences of such actions is provided.	1. During the reporting period, the Company promptly and thoroughly disclosed information on its significant corporate actions, including the rationale and timing of such actions.	x Complied with Complied with in part Not complied with	
7.2.2	The rules and procedures for the implementation of significant corporate actions are set forth in the Company's internal documents.	<p>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.</p> <p>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.</p> <p>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.</p>	x Complied with Complied with in part Not complied with	The Regulations on the Board of Directors of Rosneft stipulate that members of the Board of Directors must refrain from participating in decision-making on any matter in case of a conflict of interest. Similar obligations have been imposed for members of executive bodies by the Regulations on the Collective Executive Body (the Management Board) of Rosneft and the Regulations on the Sole Executive Body (the Chief Executive Officer) of Rosneft. This obligation and the notion of a conflict of interest cover all possible types and causes of interest of members of governing bodies. The Company takes measures to determine the actual affiliation of the Company's senior managers pursuant to Instruction No. VP-P13-9308 of the Chairman of the Government of the Russian Federation dated December 11, 2011 and Rosneft's internal orders.

APPENDIX 4

INFORMATION ON COMPLIANCE WITH INSTRUCTIONS GIVEN BY THE PRESIDENT OF THE RUSSIAN FEDERATION AND THE GOVERNMENT OF THE RUSSIAN FEDERATION

Information on compliance with instructions given by the President of the Russian Federation and the Government of the Russian Federation

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1. CORE/NON-CORE ASSET DIVESTMENT

1.1. NON-CORE ASSET DIVESTMENT PROGRAM

Subclause "j" Clause 1 of Instruction of the President of the Russian Federation No. Pr-3668 dated Subparagraph j of Paragraph 1 of Instructions No. Pr-3668 of the President of the Russian Federation dated December 6, 2011
Subparagraph c of Paragraph 2 of Decree No. 596 of the President of the Russian Federation dated May 7, 2012 on the Long-Term State Economic Policy Directives No. 4863p-P13 of the Government of the Russian Federation dated July 7, 2016
Instructions No. ISH-P13-6768 of the First Deputy Prime Minister of the Russian Federation Igor Shuvalov

Rosneft has been 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 inefficient asset divestment program in accordance with the Policy on Corporate Property Management (Minutes No. 39 dated June 30, 2014) and the Standard for Management of Non-Core and Inefficient Assets (Minutes No. 11 dated January 10, 2012) specially developed by the Company and approved by the Board of Directors. The program stipulates the key principles for managing non-core and inefficient assets, the relevant procedures, stages and deadlines for their fulfillment. The Company annually defines assets conforming to the criteria of non-core and inefficient assets and performs their appraisal, technical audit, and economic and legal expert analysis. On September 30, 2016, Rosneft's Board of Directors approved the updated Registers of Non-Core and Inefficient Assets Scheduled to Be Divested in 2016-2021 (Minutes No. 7 dated October 3, 2016). The Registers of Non-Core and Inefficient Assets of Rosneft and the Group Companies are maintained and updated on a regular basis in compliance with the non-core and inefficient asset divestment program. In the reporting year, the Company:

1. Approved the updated Registers of Non-Core and Inefficient Assets (872 assets, including pipelines and power transmission lines mothballed due to production shutdown; apartments; garages; non-residential buildings, structures and industrial facilities not demanded in operations; shares/interest in business entities). The company also accomplished measures to prepare the assets for divestment;
2. Sold its shares (stakes) in 9 Group Companies and other business entities; closed the transaction for sale of 2 non-core real estate units;
3. Liquidated 21 legal entities in which the Company had an equity interest (8 foreign entities among them, including for the deoffshorization purposes).

The funds earned within the non-core and inefficient asset divestment program will contribute to the Company's investment program and accomplishment of its strategic objectives. A reduction in the sale value on non-core assets compared to 2015 was due to the low book value of property put up for sale and a decrease in demand for illiquid assets amid a shortage of available cash.

INFORMATION ON NON-CORE ASSET DIVESTMENT BY ROSNEFT IN 2016

No.	Asset name	Asset identification number (if applicable)	Account entry on the asset at the reporting date preceding its sale	Account entry (with respect to analytics) with information about the proceeds from and expenditure on asset disposal (91.1xxx/91.2xxx)	Book value, RUB '000	Actual sale value, RUB '000	Deviation of actual sale value from book value (RUB '000)	Causes of deviation of actual sale value from book value
1	49 ordinary shares of CJSC Orentrans		1170	1915321101/ 1911321001	9.9	3,087.0	3,077.1	Share sale at the negotiated price
2	6,000 ordinary shares of OJSC Sanatoriy Prometey		1240	91.02	11.0	8.6	-2.4	Share sale at the negotiated price
3	1,890,489 ordinary shares of OJSC BaikalInvestBank		1240	91.01	9,800.0	21,000.0	11,200.0	Share sale at the negotiated price
4	452 ordinary shares of OJSC Germes-Planeta		1170	91.01/91.02	2.2	18.1	15.9	Share sale at the negotiated price
5	10% of Dorpromgranit LLC		Line 6 "Net investments in securities and other financial assets available for sale" according to form 0409806 "Balance sheet"	70601810200002390201	1.0	18,840.0	18,839.0	Share sale at the negotiated price
6	6,993,000 ordinary shares of OJSC Commercial Bank Solidarnost		1240	91.02	0.001	0.001	0.0	
7	100% of TK- Region LLC		1170	91.01/91.02	20,525.0	50,000.0	29,475.0	Share sale at the negotiated price
8	11 ordinary shares of OJSC YATEC		1170	91.01/91.02	0.260	0.173	-0.1	Share sale at the negotiated price
9	26% of Avtosoyuz LLC		1170	91.01/91.02	2.2	4,000.0	3,997.8	Share sale at the negotiated price
10	Non-residential building (control room)	Reported in the accounting records on the account 41.01 "Current inventory"	1210	90.01/90.02	2,294.8	3,823.2	1,528.4	Asset sale at market value
11	Non-residential building (garage)	Reported in the accounting records on the account 41.01 "Current inventory"	1210	90.01/90.02	1,365.6	2,265.6	900.0	Asset sale at market value
TOTAL					34,011.9	103,042.7	69,030.8	

2. PROCUREMENT OF GOODS, WORKS AND SERVICES

2.1. APPROVAL OF THE REGULATIONS ON PROCUREMENT. PROCUREMENT TRANSPARENCY IMPROVEMENT

Federal Law No. 223-FZ on Procurement of Goods, Works and Services by Certain Types of Legal Entities Instructions No. ISH-P13-8685 of the Government of the Russian Federation dated December 17, 2012 Directives No. 2793p-P13 of the Government of the Russian Federation dated April 19, 2016 Directives No. 7704p-P13 of the Government of the Russian Federation dated October 11, 2016

Rosneft's Board of Directors adopted the decision to approve the revised version of the Company's Regulations on Procurement of Goods, Works and Services (the Regulations are available on the corporate website and in the Integrated Information System (<http://zakupki.gov.ru>), which: Set the corporate procurement principles: information transparency and availability, equality, justice, non-discrimination, no unwarranted restrictions of competition among procurement participants, target and cost-efficient expenditure of funds, prevention of corruption or any other abuse in the course of procurement:

- Describe key elements of the process of procurement of works, goods and services, including the procedure for preparation and performance of procurements and the procedure for concluding and performing relevant contracts;
- Stipulates the provisions regulating participation of small and medium-sized enterprises (SMEs) in procurement;
- Provide for the option of online procurement.

The Company has developed standards for procurement of goods, works and services setting maximum prices for the relevant goods, works and services and the requirements for their quantity, consumer properties and other characteristics. The list of products regulated by the corporate standards is published on the Company's official website. Besides, the Company exercises control over the compliance with the effective standards and annually monitors procurement results subject to the standards.

Pursuant to Directives No. 7704p-P13 of the Government of the Russian Federation dated October 11, 2016, the Company's Regulations on Procurement of Goods, Works and Services provide for the option to stipulate the procedure for payment for goods, work or a service (clause 10.5.1) in procurement documents, which allows application of the factoring mechanism. Album of forms "Standard Procurement Documents" (Block 2 "Information Card") provides for establishing the procedure for payment for goods, work or a service for a particular procurement transaction, including factoring.

2.2. ENSURING EFFICIENCY OF PROCUREMENT FROM SMALL AND MEDIUM-SIZED ENTERPRISES, INCLUDING PROCUREMENT OF INNOVATIVE AND HI-TECH PRODUCTS

Order of the Government of the Russian Federation dated May 29, 2013 Directives of the Government of the Russian Federation No. 6362p-P13 dated October 24, 2013 and No. 7377p-P13 dated October 7, 2013 Directives of the Government of the Russian Federation dated June 16, 2016

The Company has implemented comprehensive measures aimed to improve the efficiency of procurement, including:

- Establishment and continuous operation of the Advisory Council; the information about its work is available on Rosneft's website (<http://zakupki.rosneft.ru/consult/>);
- Development and approval of internal documents:
 - the Company's Regulations on Procurement of Goods, Works and Services (revised version);
 - Rosneft's Regulations on the Work of the Advisory Council Performing Social Audit of Efficiency of Procurement from Small and Medium-Sized Enterprises;
 - the Company's Regulations on the Procedure and Rules for Operation of the Single Point of Contact System for Introducing Innovative Products;
 - the Company's Classification Principles Objects of Innovative Activities setting uniform rules and criteria for classifying the Company's goods, works and services as innovations subject to Order No. 1618 of the Ministry of Industry and Trade of the Russian Federation dated November 1, 2012;
 - the Company's Methodological Guidelines on Product Life Cycle Assessment establishing the procedure for applying the "product life cycle cost" assessment criterion;
- Amendment of the Company's local procurement regulations as regards stipulation of the specifics of SME participation in the Company's procurement procedures;
- Organization of acceptance of proposals with innovative solutions coming from potential counterparties, including SMEs, through the single point of contact system on Rosneft's website (http://www.rosneft.ru/science_and_innovation/);
- Development and approval of the Innovative Products Procurement Plan for 2016-2020 (available in the Integrated Information System (<http://zakupki.gov.ru>));
- Approval and introduction of KPIs for the Company's top managers, including the share of procurement from SMEs (in 2016, the total value of contracts concluded by the Company with SMEs, including contracts concluded by the Group Companies on behalf of Rosneft, totaled RUB 108.9 bln. The value of contracts concluded with SMEs as a result of procurement procedures involving only SMEs totaled RUB 18.7 bln, or 13.39 % of the estimate basis);
- Initiation in 2016 of procurement transactions with a total value of RUB 1.08 trln on the TEK-Torg Electronic Trading Platform (ETP Section of Rosneft) to increase the number of online procurement procedures (procurements comply with the requirements of Federal Law No. 223-FZ of the Russian Federation dated July 18, 2011). All centralized competitive procurement (except for small purchases) is performed via the ETP;
- Introduction in 2016 of the index characterizing the dynamics of lending to SMEs into the list of performance indicators of the President of the Russian Regional Development Bank and the RRDB Senior Vice President supervising the work with corporate customers of the RRDB, with at least 10 % weight in the general KPI structure.

2.3. INCREASE OF PROCUREMENT OF RUSSIAN MANUFACTURED PRODUCTS

Instructions of the President of the Russian Federation based on the results of the meeting of the Presidium of the State Council of the Russian Federation dated February 20, 2009 Subparagraph 4 of paragraph 1 of List No. Pr-2821 of Instructions of the President of the Russian Federation dated December 5, 2014 Instructions No. AD-P9-9176 of the Government of the Russian Federation dated December 8, 2014 Directives No. 1346p-P13 of the Government of the Russian Federation dated March 5, 2015 Directives No. 3425p-P13 of the Government of the Russian Federation dated June 1, 2015 Directives No. 4972p-P13 of the Government of the Russian Federation dated July 11, 2016

The Company's Board of Directors developed and approved the strategy (list of measures) (Minutes No. 35 dated June 5, 2015) for scheduled and phased replacement of procurement of foreign products (works, services) for procurement of Russian products (works, services) having equivalent technical characteristics and consumer properties, that are used to implement investment projects and carry out daily operations, based on the economic and technological feasibility principles. These measures, as well as measures for greater access for SMEs were included into Rosneft's Long-Term Development Program in 2015. In 2016, the Long-Term Development Program was updated and approved by Rosneft's Board of Directors on October 13, 2016 (Minutes No. 10).

The Company's Regulations on Procurement of Goods, Works and Services contain section 15.1 "Priority of Russian Goods, Works and Services Provided by Russian Entities, Special Characteristics of SME Participation in Procurement" stipulating:

- the priority of Russian goods, works and services provided by Russian persons in cases and according to the procedure established by the effective legislation;
- the customer's right to apply the relevant priorities and specifics if those have been directly declared in procurement documents or the relevant standards are directly stipulated in the effective legislation. In addition, the Company has developed and is implementing the Program for Import Substitution and Localization of Manufacture of Equipment for Rosneft's Purposes.

The Company's Regulations on Procurement of Goods, Works and Services fully comply with the requirements of Directives of the Government of the Russian Federation No. 3425p-P13 dated June 1, 2015 and No. 4972p-P13 dated July 11, 2016, enable the Company to conclude long-term contracts for supply of any products and provide for procurement of Russian competitive software required for Rosneft's operations.

3. DIVIDEND CALCULATION

Order No. 774-p of the Government of the Russian Federation dated June 29, 2006 (as reworded by Order No. 2083-p of the Government of the Russian Federation dated November 12, 2012)

Pursuant to the Dividend Policy approved by the Board of Directors, when determining the dividend amount recommended to the General Meeting of Shareholders the Board of Directors shall take into account net profit calculated based on Rosneft's financial statements prepared according to the requirements of the Russian Accounting Standards (RAS) and based on Rosneft's consolidated financial statements prepared according to the IFRS. Rosneft's Board of Directors shall determine the recommended dividend payout based on Rosneft's year-end financial results. The target dividend payout is at least 35% of Rosneft's IFRS net profit, with the target frequency of Rosneft's dividend payments of at least twice a year.

4. ANNUAL REPORT STRUCTURE

Decree No. 1214 of the Government of the Russian Federation dated December 31, 2010 on Improving the Procedure for Managing Open Joint-Stock Companies in Federal Ownership and Federal State Unitary Enterprises Directives No. 2007p-P13 of the Government of the Russian Federation dated April 6, 2015 Paragraph 2 of Minutes No. ISH-P13-47pr of the meeting convened by First Deputy Prime Minister of the Russian Federation Igor Shuvalov dated June 2, 2015 Directives No. 5024p-P13 of the Government of the Russian Federation dated July 31, 2015

Rosneft's 2016 Annual Report was prepared in accordance requirements for annual report content stipulated by Regulations No. 454-P of the Bank of Russia dated December 30, 2014, based on a sample structure of an annual report of a joint-stock company in federal ownership approved by Decree No. 1214 of the Government of the Russian Federation dated December 31, 2010 (as reworded by Decree No. 1211 of the Government of the Russian Federation dated November 10, 2015) and the requirements of Directives of the Government of the Russian Federation No. 2007p-P13 dated April 6, 2015 and No. 5024-P13 dated July 31, 2015. The following should be pointed out with regard to individual elements of the suggested structure of the annual report of a joint-stock company whose shares are owned by the federal government:

- In accordance with paragraph 70.3 of Regulations No. 454-P of the Bank of Russia dated December 30, 2014, the list of major transactions and related-party transactions concluded by Rosneft in 2016 is available on Rosneft's official website at: <https://www.rosneft.ru/Investors/information/transactions/> (paragraphs 10, 11)
- In 2016, Rosneft received no subsidies from the federal budget (paragraph 13)

5. STRATEGY DEVELOPMENT AND UPDATING, EFFICIENCY, LONG-TERM PLANNING

5.1. DEVELOPMENT AND APPROVAL OF THE INNOVATIVE DEVELOPMENT PROGRAM

Subparagraph b of paragraph 1 of List No. Pr-307 of Instructions of the President of the Russian Federation dated February 7, 2011 Directives No. 1221p-P13 of the Government of the Russian Federation dated March 24, 2011 Address to the Federal Assembly of the Russian Federation dated November 12, 2010 Minutes Mo. 1 of the meeting of the Government Commission on High Technology and Innovation dated January 30, 2012 List No. Pr-2086 of Instructions the President of the Russian Federation dated December 27, 2013 Reference on the materials of the meeting of the Government of the Russian Federation dated January 30, 2014, minutes No. 3 Directives No. 1471p-P13 and 1472p-P13 of the Government dated March 3, 2016

In accordance with subparagraph b of paragraph 1 of List No. Pr-307 of Instructions of the President of the Russian Federation dated February 7, 2011 and directives of the Government of the Russian Federation, the Resolution of the Board of Directors of Rosneft dated October 31, 2016 approved the Innovative Development Program of Rosneft for years 2016-2020 with an outlook until 2030. The structure of the Program complies with the requirements for the programs of innovative development of joint-stock partially government-owned companies, government-owned corporations and federal state unitary enterprises in accordance with the recommendations approved by the decision of the Government committee for high technologies and innovations. The main directions, key performance indicators and arrangements of the Innovative Development Program are integrated into the updated Long Term Development Program of Rosneft approved on October 13, 2016 under the resolution of Rosneft's Board of Directors. An integrated KPI for innovative activities was included in the list of KPIs of Rosneft's senior managers, including the CEO. The integrated KPI for innovative activities was also included in the KPI list of the long-term development program.

5.2. METHODS OF INVESTMENT PROJECT ACCOUNTING

Paragraph 5 of Decree No. 1516 of the Government of the Russian Federation dated December 30, 2015 Directives No. 1659p-P13 of the Government of the Russian Federation dated March 15, 2016

An internal document was developed in the Company that prescribes the methods of investment projects accounting and sets the rules for forming, maintaining and introducing amendments to the list of investment projects, based on the Rules for the Selection of Investment Projects to be Included in the Register of Investment Projects and for the Maintenance of the Register of Investment Projects approved by Decree No. 1516 of the Government of the Russian Federation on Approval of the Rules for the Selection of Investment Projects to be Included in the Register of Investment Projects and for the Maintenance of the Register of Investment Projects dated December 30, 2015

5.3. DEVELOPMENT AND APPROVAL OF THE JSC STRATEGY

Recommendations for the Development of Innovative Development Programs approved under the resolution of the Government Commission on High Technology and Innovation dated August 3, 2010, minutes No. 4 Paragraph 2 of clause 2 of minutes No. ISH-P13-98pr of the meeting convened by the First Deputy Chairman of the Government of the Russian Federation Igor Shuvalov dated October 3, 2013 Subparagraphs 32 and 34 of paragraph 1 of instructions No. Pr-3086 of the President of the Russian Federation dated December 27, 2013 Instructions No. DM-P13-9024 of the Government of the Russian Federation dated December 30, 2013 Directives No. 4955p-P13 of the Government of the Russian Federation of July 17, 2014 Directives No. 3984p-P13 of the Government of the Russian Federation dated June 24, 2015 Key events 6.2-6.4 of the Action Plan Aimed at Increasing Labor Productivity approved by Decree No. 1250-r of the Government of the Russian Federation dated July 9, 2014 Directives No. 7389p-P13 of the Government of the Russian Federation dated October 31, 2014 Paragraph 2.3 of section 1 of minutes No. 4 of the meeting of the Military and Industrial Commission under the Government of the Russian Federation dated April 25, 2014 Directives No. 3666p-P13 of the Government of the Russian Federation dated June 11, 2015

Rosneft's development strategy was approved by the Company's Board of Directors on December 9, 2014 (minutes No. 12). Strategic development targets of the Company are published on the official website of Rosneft. The Long-Term Development Program of OJSC "Rosneft" (hereafter - LTDP) was originally established in 2014 pursuant to instructions No. Pr-3086 of the President of the Russian Federation Vladimir Putin dated December 27, 2013 and directives No. 4955-P13 of the Government of the Russian Federation dated July 17, 2014. On December 9, 2014 (minutes No. 12) the Board of Directors approved the LTDP. Rosneft's Standard for the Audit of Implementation of the LTDP and the Company's Regulations on the KPI System of the Company The labor contract of the Rosneft's CEO includes the obligation to ensure performance of the approved Strategy and Long-Term Development Program of the Company. Starting from 2015, the Company annually prepares the report on the LTDP implementation in the prior period, and the audit of its implementation is performed with the involvement of an independent auditor. The information on the audit results is reviewed annually by the Company's Board of Directors and is presented at the annual General shareholders meeting. The LTDP is updated annually. In 2016, the LTDP update involved describing certain measures aimed at achieving long-term goals in greater detail and updating measures developed pursuant to the Directives of the Russian Government (No. 4955p-P13 dated July 17, 2014, No. 7558-P13 dated November 12, 2014, No. 1346p-P13 dated March 5, 2015 and No. 2303p-P13 dated April 16, 2015, No. 7389p-P13 dated October 31, 2014, No. 1472p-P13 dated April 3, 2016, No. 4531p-P13 dated June 28, 2016, No. 4750p-P13 dated July 4, 2016); the LTDP includes a set of measures to increase labor productivity, information on the main parameters of demand for human resources and a separate section on measures for the development of the Far East. The efficiency increase indicators aimed at the implementation of lean production are an integral part of the existing key efficiency indicators system for top managers and the heads of business units of the Company. The LTDP is connected with the key provisions of the state programs of the Russian Federation along the lines of business of the Company. The updated Long-Term Development Program was approved by the Board of Directors of the Company (minutes No. 10 dated October 17, 2016). The key information and provisions of Rosneft's Strategy as well as the results of its implementation in 2016 are represented in the Section of the ___ Annual report. The information of the LTDP implementation control system and on the results of the LTDP implementation audit for 2016 is represented in the Section of the ___ Annual report.

Subparagraph B of paragraph 2 of Instructions No. Pr-1627 of the President of the Russian Federation dated July 1, 2014
 Instructions of the Government of the Russian Federation No. ISH-P8-6196 dated August 15, 2014, No. OG-P8-5496 dated July 22, 2014
 Directives No. 7439p-P13 of the Government of the Russian Federation dated November 5, 2014
 Directives No. 4531p-P13 of the Government of the Russian Federation dated June 28, 2016

5.4. DEVELOPMENT OF INTERNAL REGULATIONS

Instructions No. Pr-3013 of the President of the Russian Federation dated December 27, 2014
 Instructions of the Government of the Russian Federation No. ISH-P13-1818 dated March 23, 2015, No. ISH-P13-4148 dated June 24, 2015
 Directives No. 3984p-P13 of the Government of the Russian Federation dated June 24, 2015

In accordance with the guidelines approved by the Government of the Russian Federation (No. ISH-P13-4148 dated June 24, 2015), the Company has developed, approved and implemented the following:

- Company Policy on Internal Audit;
- Company Policy on Improving Operating and Investment Performance;
- Company Policy on Internal Control and Risk Management;
- Company Policy on Onshore Oil Production;
- Company Policy on Hydrocarbon Offshore Exploration and Production;
- Company Policy on the Gas Business;
- Company Standard for the Corporate-Wide Risk Management System;
- Company Regulations on the Procedure for Developing (Updating) and Implementing the Innovative Development Program of Rosneft;
- Company Regulations on the Procedure and Rules for Operation of the Single-Contact System for introducing innovative products*;
- Company Standard for the Management of Efficiency of Innovative Activities;
- Company Standard for the Quality Management System of the Research and Design Complex. Quality Guidelines;
- Regulations on the Petroleum Product Quality Management System

The instructions the directives have been performed by Rosneft in full. Report on the implementation of the directives has been sent to the Federal Agency for State Property Management on January 13, 2016

Paragraph 2 of minutes No. ISH-P-13-47pr of the meeting convened by the First Deputy Chairman of the Government of the Russian Federation Igor Shuvalov dated June 2, 2015
 Directives No. 5024p-P13 of the Government of the Russian Federation dated July 31, 2015

Under the resolution of the Company's Board of Directors adopted pursuant to Directives No. 5024p-P13 of the Government of the Russian Federation dated July 31, 2015, in accordance with methodological guidelines approved by order No. 400R-AU of the Ministry of Economic Development dated December 22, 2015 pursuant to instruction No. ISH-P13-5231 of the Government of the Russian Federation dated July 31, 2015, on February 8, 2016, the following documents were approved by the Management Board of the Company and came into force:

- Company Regulations on the Procedure for the Charitable Activities of Rosneft and Group Companies;
- Company Regulations on the Sponsorship Activities of Rosneft and Group Companies.

Information stipulated by the directives of the Russian Government is posted on a quarterly basis on the Interdepartmental Portal for State Property Management.

5.5. OPTIMIZATION OF PERFORMANCE OF INTEGRATED ENTITIES

Paragraph 4 of Minutes No. RD-P13-45pr of the meeting convened by the Deputy Chairman of the Government of the Russian Federation Dmitry Rogozin dated June 15, 2012
 Paragraph 1 of Instructions No. Pr-1032 of the President of the Russian Federation dated May 7, 2014, Instructions No. ISH-P13-3464 of the Government of the Russian Federation dated May 13, 2014, Instructions No. Pr-2821 of the President of the Russian Federation dated December 5, 2014
 Directives of the Government of the Russian Federation No. 5110p-P13 dated August 8, 2014, No. 1796p-P13 dated March 26, 2015

Centralization of the treasury function of the Group Companies of Rosneft has been implemented since 2005 through the creation of the Integrated Treasury based on the financial department of the Company and the corporate bank OJSC Russian Regional Development Bank. The current business processes and corporate treasury systems have been approved by the Ministry of Finance of Russia. Business processes pertaining to financial solvency management, budgeting and financial operation acceptance of the Group's Companies are confirmed by the respective policies and local regulations of the Company.

5.6. INCORPORATION OF THE RECOMMENDATIONS OF THE BANK OF RUSSIA CORPORATE MANAGEMENT CODE INTO THE COMPANY'S OPERATIONS

Instructions No. DM-P36-46pr of the Government of the Russian Federation dated August 28, 2014
 Instructions No. ISH-P13-5859 of the Government of the Russian Federation dated July 31, 2014
 Directives No. 5667p-P13 of the Government of the Russian Federation dated September 2, 2014
 Directives No. 989p-P13 of the Government of the Russian Federation dated February 20, 2015

According to the analysis of Rosneft's corporate management standards and the provisions of the Bank of Russia Corporate Management Code, the Company has developed and approved the Activity plan for the introduction of the key provisions of the Code (the Roadmap). During 2016 the Company has performed systematic work on its implementation. The basic principles of Rosneft's corporate management system are set out in Rosneft's Corporate Management Code and comply with the acknowledged best world standards. On December 16, 2016, the Board of Directors of Rosneft reviewed the status of the implementation of the Road Map and revised the deadline for the implementation of individual measures. The information on compliance with the principles and recommendations of the Bank of Russia Corporate Management Code, including the list of recommendations that have not been reflected in the Company's internal documents and the comments explaining why the Company cannot implement these recommendations, as well as the description of alternative mechanisms and instruments of corporate management is disclosed in the annual report of the Company.

5.7. INCLUSION OF A CLAUSE ON THE POSSIBILITY OF SETTLEMENT IN RUBLES INTO NEW EXPORT CONTRACTS

Subparagraph 1 of paragraph 1 of minutes No. 7 of the meeting of the National Financial Stability Board dated April 10, 2015
 Directives No. 4807p-P13 of the Government of the Russian Federation dated July 23, 2015

The possibility of payments settlement in rubles is foreseen by the most agreements of the Group's Companies dealing with the sales of oil products to contractors registered on the territory of the CIS countries. The work on including the condition about the possibility of settlement in rubles with other non-resident contractors is performed considering the assessment of the risk of losing clients and of decrease of the sales volumes (the refusal of clients because of extra costs caused by currency conversion), and the risks connected with the devaluation of Russian ruble which may lead to the decrease of total revenue from exporting oil products.

5.8. ENSURING OF THE COMPANY'S ENERGY EFFICIENCY

Instructions of the Government of the Russian Federation dated June 19, 2008
 Federal Law No. 261-FZ on Energy Conservation and Improvement of Energy Efficiency; Part 2 of Article 15 of Chapter 4, Article 25 of Chapter 7
 Order No. 182 of the Ministry of Energy of the Russian Federation dated April 19, 2010

Rosneft has developed and annually updates the five-year Energy Conservation Program of Rosneft. On December 16, 2016, the Board of Directors of Rosneft approved the Energy Conservation Program of Rosneft for 2017-2021.

5.9. PROVISION OF CORPORATE ENVIRONMENTAL RESPONSIBILITY MECHANISMS

Subparagraph m of paragraph 1 of List No. Pr-1640 of Instructions of the President of the Russian Federation dated June 6, 2010

The Resolution of Rosneft's Board of Directors dated August 7, 2012 approved the "Procedure for the Application of Voluntary Environmental Responsibility Mechanisms and Obligatory Regular Publication of Non-Financial Sustainability Reports of Rosneft. Rosneft has a corporate system of optional liability insurance. The Company uses the optional liability insurance for causing harm to the environment as an instrument of risk management which helps to transfer the financial loss resulting from the occurrence of insurable risks to insurance companies.

6. WORK OF THE GOVERNING AND SUPERVISORY

6.1. ENSURING TRANSPARENCY OF THE COMPANY'S FINANCIAL AND BUSINESS OPERATIONS

Instructions of the Government of the Russian Federation No. VP-P13-9308 dated December 28, 2011, No.IS-P13-80 dated January 12, 2012, No. IS-P13-127 dated January 13, 2012, No. VP-P24-1269 dated March 5, 2012.
 Article 92 of Federal Law No. 208-FZ, on Joint-Stock Companies dated December 26, 1995
 Chapter VIII of Order No. 11-46/pz-n of the FFMS of Russia on Approval of the Regulations on Disclosure of Information by Issuers of Issue-Grade Securities dated October 4, 2011
 Order No. 208 of the Ministry of Economic Development of the Russian Federation on Approval of Information Disclosure Procedure for Joint-Stock Companies in Federal (Municipal) Ownership and Federal State (Municipal) Unitary Enterprises dated May 11, 2011
 Paragraph 7 of clause 2 of minutes No. ISH-P13-98pr of the meeting called by the First Deputy Chairman of the Government of the Russian Federation Igor Shuvalov dated October 3, 2013
 Instructions No. Pr-113 of the President of the Russian Federation dated January 17, 2012.
 Instructions of the Government of the Russian Federation No. VP-P13-459 dated January 27, 2012 and No. ISH-P13-7501 dated December 7, 2012

Rosneft is governed by the principles of financial and business transparency, prevention of any conflict of interest among the Company management (including among members of the governance bodies) and the Company, and other cases of abuse of office. Pursuant to the UN Convention against Corruption dated October 31, 2003 and ratified by the Russian Federation in 2006, as well as in the follow-up to the Federal Law On Anti-Corruption Enforcement, regulations aimed at transparency enhancement and anti-corruption enforcement are applied in Rosneft as an international public company, including the Policy on Countering Involvement in Corruption Practices and the Corporate Fraud Prevention Policy. Pursuant to the above corporate regulations, a list of positions has been approved which specifies officials who shall provide the Company with data on their income, property and estate liabilities, both with regard to themselves and with regard to their spouses and minority age children. The aforementioned list includes the positions of the Chairman of the Management Board, Vice Presidents, Chief Accountant, Heads of Departments and their deputies, Heads of Divisions and their deputies, directors of subsidiaries and their deputies. The core executives of the Company shall file asset and income disclosure in full and in a timely manner both with regard to themselves and members of their families to the government authorities. Advanced level of corporate governance and information openness are the key priorities of Rosneft business. The Company is consistently demonstrating leadership in terms of the amount of disclosed messages related to corporate business.

6.2. REMUNERATION OF THE COMPANY'S MANAGEMENT AND EMPLOYEES, DEVELOPMENT OF THE KPI SYSTEM

Instructions No. Pr-825 of the President of the Russian Federation dated April 6, 2009
 Instructions of the Government of the Russian Federation No. VP-P13-1823 dated April 6, 2009, No. VP-P13-2099 dated April 20, 2009, No. VZ-P13-4252 dated July 28, 2009, No. ISH-P13-2232 dated April 8, 2010, No. KA-P13-8297 dated December 4, 2010
 Paragraph 3 of clause 2 of minutes No. ISH-P13-98pr of the meeting convened by the First Deputy Chairman of the Government of the Russian Federation Igor Shuvalov dated October 3, 2013
 Paragraphs 4 and 5 of Instructions No. Pr-1474 of the President of the Russian Federation dated July 5, 2013
 Instructions No. ISH-P13-2043 of the Government of the Russian Federation dated March 27, 2014
 Directives No. 3984p-P13 of the Government of the Russian Federation dated June 24, 2015
 Instructions No. Pr-2821 of the President of the Russian Federation dated December 5, 2014
 Instructions No. DM-P13-9024 of the Government of the Russian Federation dated December 4, 2014
 Directives No. 2303p-P13 of the Government of the Russian Federation dated April 16, 2015

The corporate top management incentive system based on KPI performance has been in place since 2009. Regulation on annual bonus payment to the top managers and the heads of independent structural divisions of Rosneft was brought into action. Rosneft's KPI system includes:

- financial and economic indicators (EBITDA, ROACE, TSR, debt burden coefficient (net debt / EBITDA), cost saving indicators);
- industry-wide indicators (production volume, hydrocarbon reserve replacement, light product yield, innovation activity integrating efficiency indicator, etc.)

KPIs for the Company's top management are developed according to the guidelines of the Company's Development Strategy and Long-Term Development Program. The following activities were performed in Rosneft in 2011 to meet the Instructions of the Government of the Russian Federation:

- amendment of the Regulation on annual bonus payment to the top managers and the heads of independent structural divisions of Rosneft;
- enactment of the Rosneft Regulation on annual bonus payment to middle managers, specialists and employees of the Company administration;
- enactment of the Rosneft Regulation on annual bonus payment to the Rosneft General Director and CEOs of the Group companies.

The Regulations provide for annual bonus payment upon results of the relevant collective (for the activities of Rosneft and its blocks) and individual KPI performance by each top manager. KPIs for each category of managers are approved by the administration of the Company (the Board of Directors, the Management Board, the Chief Executive Officer of Rosneft) on an annual basis. The rest of the employees of Rosneft's administration get their bonus according to the collective performance indicators in Rosneft, blocks and estimation of personal productivity (work contribution coefficient).

- approval of the Company's Regulation on KPI System.

Target KPI values for top management and the results of their implementation are annually approved by the Board of Directors according to recommendations of the HR and Remuneration Committee under the Board of Directors. The labor contract of Rosneft's President includes the obligation to ensure performance of the approved Strategy and Long-Term Development Program of the Company.

6.3. LIABILITY INSURANCE FOR INDEPENDENT DIRECTORS REPRESENTING THE INTERESTS OF THE RUSSIAN FEDERATION

Instructions No. Pr-2206 of the President of the Russian Federation dated August 3, 2011

Taking into account the scale of Rosneft's projects, materiality and significance of delivered transactions, as well as wide use of foreign law for project deal structuring and Rosneft stock trading at international exchanges, the Company is providing liability insurance to the Company management members, including independent members of the Board of Directors. Insurance is intended to compensate the Company, its shareholders, creditors and other parties the damage caused by unintentional erroneous actions (inaction) of the insured persons in the course of management activities.

As endorsed by the General Shareholders Meeting on June 27, 2014 are identical to the previously applied contract, and the total liability insurance coverage amount (indemnity limit) is USD 150 mln (for the insurance period from July 10, 2014 through July 10, 2017), with USD 1 mln of a special additional limit for each independent director and USD 6 mln of additional coverage for all independent directors.

7. CONTROL, AUDIT, ANTI-CORRUPTION**7.1. INVESTMENT PROJECT AUDIT**

Instructions No. ISH-P9-8314 of the First Deputy Chairman of the Government of the Russian Federation Igor Shuvalov dated November 19, 2013
Directives No. 2988p-P13 of the Government of the Russian Federation dated May 30, 2013

The Company implements the key principles of performing process and price audit of investment projects, adjusted to the industry specifics and the Company's business model.

On November 16, 2015, the Board of Directors approved the Company Policy on Operating and Investment Efficiency Improvement. The Policy and a number of other internal documents related to investment and project management determine the procedure for supervision over investment project implementation at all stages of its life cycle, from initiation through completion. The Company's business processes include performance of the expert review of investment and project solutions. Depending on the type of such project it includes:

- multiple factor analysis of projects in terms of technical and process efficiency and investment appeal, performed by the specific collective bodies (technical and process expert councils and investment committees);
- independent evaluation by external experts;
- evaluation of project documents in relevant state institutions.

7.2. ACCESSION TO THE ANTI-CORRUPTION CHARTER

Section IV of minutes No. 53-OF of the meeting of the Ministry of Economic Development of the Russian Federation dated May 24, 2013

The Company supports the decision on adoption of the Anti-Corruption Charter of the Russian Business and rigorously adheres to anti-corruption principles determined by federal laws and Decrees of the President of the Russian Federation.

8. 10 PERCENT COST REDUCTION

Directives No. 4750p-P13 of the Government of the Russian Federation dated July 4, 2016

A set of measures (list of measures) aimed at achieving reduction of operating expenses (costs) in 2016 by no less than 10% (taking into account the necessity of the execution of the activities specified in Directives No. 2303p-P13 of the Government of the Russian Federation dated April 16, 2015) is updated and included in the Long-Term Development Program of Rosneft approved by Rosneft's Board of Directors on October 13, 2016.

APPENDIX 5

INFORMATION ON BASIC INTERNAL REGULATIONS THAT SERVE AS A BASIS FOR THE PREPARATION OF THE CURRENT ANNUAL REPORT, INCLUDING KEY INTERNAL DOCUMENTS REGULATING THE INTERNAL AUDIT FUNCTION AND THE FUNCTIONING OF THE IC&RMS

This Annual Report has been prepared based on the following local (internal) regulations of Rosneft:

- Charter;
- Corporate Governance Code;
- Code of Business Ethics and Corporate Conduct;
- Regulations on the General Shareholders' Meeting of Rosneft;
- Regulations on the Board of Directors of Rosneft;
- Regulations on the Audit Committee of the Board of Directors of Rosneft;
- Regulations on the HR and Remuneration Committee of the Board of Directors of Rosneft;
- Regulations on the Strategic Planning Committee of the Board of Directors of Rosneft;
- Regulations on Remuneration and Compensations to the Members of the Board of Directors of Rosneft;
- Regulations on the Procedure for the Organization and Work of the Board Committees of Rosneft;
- Regulations on the Collective Executive Body (Management Board) of Rosneft;
- Regulations on the Sole Executive Body (Chief Executive 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.

APPENDIX 6

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF ROSNEFT OIL COMPANY FOR THE YEAR ENDED 31 DECEMBER 2016

INDEPENDENT AUDITOR'S REPORT

To the shareholders and the Board of Directors of PJSC Rosneft Oil Company

We have audited the accompanying financial statements of PJSC Rosneft Oil Company which consist of the balance sheet as at 31 December 2016, the income statement for 2016 and appendices thereto.

Audited entity's responsibility for the financial statements

The management of PJSC Rosneft Oil Company is responsible for the preparation and fair presentation of these financial statements in accordance with rules on the preparation of financial statements established in the Russian Federation and for the internal control system relevant to the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on the fairness of these financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. Audit procedures selection depends on the auditor's judgment based on the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control system relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control system. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of PJSC Rosneft Oil Company as at 31 December 2016, its financial performance and its cash flows for 2016 in accordance with rules on the preparation of financial statements established in the Russian Federation.

Other matters

The accompanying financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than the Russian Federation. Accordingly, the accompanying financial statements are not designed for those who are not informed about accounting principles, procedures and practices in the Russian Federation.

D.E. Lobachev

Chief Executive
Ernst & Young LLC
22 February 2017

Details of the audited entity

Name: PJSC Rosneft Oil Company
Record made in the Unified State Register of Legal Entities on 19 July 2002; State Registration Number 1027700043502.
Address: Russia, 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.

Details of the auditor:

Name: Ernst & Young LLC
Record made in the Unified 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 the Self-regulated Organization of Auditors "Russian Audit Union" (Association) ("SRO RSA"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 11603050648.

BALANCE SHEET AT 31 DECEMBER 2016

Rosneft Oil Company
Monetary unit kRUB

EXPLANATORY NOTE	ITEM	LINE CODE	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
	ASSETS				
	I. Non-current assets				
5	Intangible assets	1110	23 214 357	20 933 757	20 276 532
7	Research and development results	1120	3 344 717	2 514 742	2 595 082
6	Intangible exploration assets	1130	78 528 809	74 650 436	64 928 439
6	Tangible exploration assets	1140	11 326 829	11 338 131	10 015 844
4	Fixed assets	1150	1 058 799 579	1 003 328 496	956 824 133
	Income-bearing investments in tangible assets	1160	—	—	—
10	Financial investments	1170	5 492 046 642	3 945 699 651	3 816 440 204
20	Deferred tax assets	1180	68 252 970	120 214 709	73 523 479
8	Other non-current assets	1190	33 202 633	34 679 041	38 320 987
	Total for Section I	1100	6 768 716 536	5 213 358 963	4 982 924 700
	II. Current assets				
9	Inventories	1210	113 017 735	107 207 260	114 414 155
9	Value-added tax on purchased assets	1220	57 272 596	51 445 066	56 191 201
14,7	Accounts receivable	1230	1 523 299 152	2 025 601 916	1 847 735 638
	including:				
	Accounts receivable expected to be settled within 12 months after the reporting date	1231	806 591 911	891 163 442	858 676 950
	Accounts receivable expected to be settled in over 12 months after the reporting date	1232	716 707 241	1 134 438 474	989 058 688
10	Financial investments (other than cash equivalents)	1240	899 267 309	1 637 719 899	645 291 444
11	Short-term derivative financial instruments at fair value through profit or loss	1241	—	—	—
11	Long-term derivative financial instruments at fair value through profit or loss	1242	—	—	—
13	Cash and cash equivalents	1250	584 223 460	402 389 690	127 975 011
	Other current assets	1260	7 604 682	12 151 470	13 614 675
	including:				
	Unbilled accrued revenue under construction contracts	1261	—	—	—
	Total for Section II	1200	3 184 684 934	4 236 515 301	2 805 222 124
	BALANCE	1600	9 953 401 470	9 449 874 264	7 788 146 824
	LIABILITIES				
	III. Equity and reserves				
1,18	Share capital (pooled capital, charter capital, partners' contributions)	1310	105 982	105 982	105 982
18	Treasury shares	1320	—	—	—
18	Revaluation of non-current assets	1340	15	15	15
18	Additional capital (without revaluation)	1350	113 279 280	113 244 694	113 261 430
18	Reserve capital	1360	5 299	5 299	5 299
12	Other funds and reserves	1365	(348 012 103)	(471 888 054)	(398 110 282)
19	Retained earnings (uncovered loss)	1370	1 767 708 786	1 792 963 117	1 640 545 004
	Total for Section III	1300	1 533 087 259	1 434 431 053	1 355 807 448
	IV. Non-current liabilities				
15	Loans and borrowings	1410	4 338 773 620	4 081 526 948	3 230 812 633
21	Deferred tax liabilities	1420	78 948 226	69 693 400	58 997 819
23	Provisions	1430	50 403 366	40 469 001	37 705 894
	Long-term derivative financial instruments at fair value through profit or loss	1440	—	—	—
15	Other liabilities	1450	1 550 012 639	1 784 929 682	886 778 534
	Total for Section IV	1400	6 018 137 851	5 976 619 031	4 214 294 880
	V. Current liabilities				
15	Loans and borrowings	1510	525 561 253	494 337 961	864 389 446
14,17	Accounts payable	1520	1 753 787 381	1 416 028 642	1 197 024 178
	Deferred income	1530	1 874 814	1 571 330	144 815
23	Provisions	1540	22 943 218	22 443 697	19 212 252
11	Short-term derivative financial instruments at fair value through profit or loss	1545	97 633 864	104 081 673	136 952 201
	Other liabilities	1550	375 830	360 877	321 604
	Total for Section V	1500	2 402 176 360	2 038 824 180	2 218 044 496
	BALANCE	1700	9 953 401 470	9 449 874 264	7 788 146 824

INCOME STATEMENT FOR THE 2016 REPORTING YEAR

Rosneft Oil Company
Monetary unit kRUB

EXPLANATORY NOTE	ITEM	LINE CODE	FOR JANUARY-DECEMBER	
			2016	2015
19,25	Revenue	2110	3 930 139 846	3 831 094 945
19	Cost of sales	2120	(2 846 770 153)	(2 612 932 721)
19	Oil and gas reserves exploration and estimation expenses	2130	(27 496 713)	(17 007 609)
	Gross income (loss)	2100	1 055 872 980	1 201 154 615
19	Selling expenses	2210	(955 153 203)	(1 018 103 482)
19	General and administrative expenses	2220	(66 238 766)	(66 251 075)
	Operating income (loss)	2200	34 481 011	116 800 058
19	Income from equity participation in other entities	2310	387 278 254	440 667 780
19	Interest receivable	2320	165 880 088	140 152 094
15,19	Interest payable	2330	(358 112 121)	(327 398 599)
19	Gains from changes in the fair value of derivative financial instruments	2333	6 447 809	111 422 887
19	Losses from changes in the fair value of derivative financial instruments	2334	(448)	(74 488 087)
16,19	Other income	2340	271 739 796	143 439 564
12,16,19	Other expenses	2350	(423 334 926)	(377 310 911)
19	Income (loss) before tax	2300	84 379 463	173 284 786
	Current income tax	2410	45 706 344	47 768 608
20	Including permanent tax assets (liabilities)	2421	97 160	119 534 206
20	Change in deferred tax liabilities	2430	(9 254 826)	(10 695 581)
20	Change in deferred tax assets	2450	(51 961 739)	46 691 230
	Other	2460	30 366 972	(17 635 788)
	Tax on prior year income	2461	(667 626)	836 088
	Imputed income tax	2464	—	—
	Income tax re-distribution within consolidated taxpayer group	2465	65 610	(27 434)
12	Tax effect of the results of other operations not included in net income (loss) for the period	2466	30 968 988	(18 444 442)
21	Net income (loss)	2400	99 236 214	239 413 255
	FOR REFERENCE			
	Result of the revaluation of non-current assets not included in net income (loss) for the period	2510	—	—
12,16,18	Result from other operations not included in net income (loss) for the period	2520	123 910 537	(73 794 508)
	Comprehensive income for the period	2500	223 146 751	165 618 747
21	Basic earnings (loss) per share, RUB per share	2900	9,36	22,59

Chief Executive Officer of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet
(Contract No. 100015/09724D dated 1 November 2016)

V.A. Surkov

« » 2017

STATEMENT OF CHANGES IN CAPITAL FOR THE 2016 REPORTING YEAR

Rosneft Oil Company
Monetary unit kRUB

1. CHANGES IN EQUITY								
ITEM	LINE CODE	SHARE CAPITAL	TREASURY SHARES	ADDITIONAL CAPITAL	RESERVE CAPITAL	OTHER FUNDS AND RESERVES	RETAINED EARNINGS (UNCOVERED LOSS)	TOTAL
EQUITY AT 31 DECEMBER 2014	3100	105 982	—	113 261 445	5 299	(398 110 282)	1 640 545 004	1 355 807 448
FOR THE 2015 REPORTING YEAR								
Total increase in equity:	3210	—	—	15 722	—	—	239 429 153	239 444 875
Including:	3211	x	x	x	x	x	239 413 255	239 413 255
Net income								
Revaluation of property	3212	x	x	—	x	—	x	—
Earnings directly increasing equity	3213	x	x	15 722	x	—	15 898	31 620
Additional issue of shares	3214	—	—	—	x	—	x	—
Increase in the par value of shares	3215	—	x	—	x	—	—	x
Legal entity reorganization	3216	—	—	—	—	—	—	—
Total decrease in equity:	3220	—	—	(32 458)	—	(73 777 772)	(87 011 040)	(160 821 270)
Including:	3221	x	x	x	x	x	—	—
Loss								
Revaluation of property	3222	x	x	—	x	—	x	—
Expenses directly decreasing equity	3223	x	x	(32 458)	x	(73 777 772)	x	(73 810 230)
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	(87 011 040)	(87 011 040)
Change in additional capital	3230	x	x	—	x	—	—	x
Change in reserve capital	3240	x	x	x	—	x	—	x
Equity at 31 December 2015	3200	105 982	—	113 244 709	5 299	(471 888 054)	1 792 963 117	1 434 431 053
FOR THE 2016 REPORTING YEAR								
Total increase in equity:	3310	—	—	34 586	—	123 875 951	99 274 258	223 184 795
Including:								
Net income	3311	x	x	x	x	x	99 236 214	99 236 214
Revaluation of property	3312	x	x	—	x	—	x	—
Earnings directly increasing equity	3313	x	x	34 586	x	123 875 951	38 044	123 948 581
Additional issue of shares	3314	—	—	—	x	—	x	—
Increase in the par value of shares	3315	—	x	—	x	—	—	x
Legal entity reorganization	3316	—	—	—	—	—	—	—
Total decrease in equity:	3320	—	—	—	—	—	(124 528 589)	(124 528 589)
Including:								
Loss	3321	x	x	x	x	x	—	—
Revaluation of property	3322	x	x	—	x	—	x	—
Expenses directly decreasing equity	3323	x	x	—	x	—	x	—
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	(124 528 589)	(124 528 589)
Change in additional capital	3330	x	x	—	x	—	—	x
Change in reserve capital	3340	x	x	x	—	x	—	x
Equity at 31 December 2016	3300	105 982	—	113 279 295	5 299	(348 012 103)	1 767 708 786	1 533 087 259

Chief Executive Officer of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet
(Contract No. 100015/09724D dated 1 November 2016)

V.A. Surkov

« » 2017

STATEMENT OF CHANGES IN CAPITAL
FOR THE 2016 REPORTING YEAR (CONTINUATION)Rosneft Oil Company
Monetary unit kRUB

2. ADJUSTMENTS DUE TO A CHANGE IN ACCOUNTING POLICY AND CORRECTION OF ERRORS

ITEM	LINE CODE	AT 31 DECEMBER 2014	CHANGE IN EQUITY FOR 2015		AT 31 DECEMBER 2015
			THROUGH NET INCOME (LOSS)	THROUGH OTHER FACTORS	
TOTAL EQUITY					
Before adjustments	3400	1 355 807 448	239 413 255	(160 789 650)	1 434 431 053
Adjustment due to:					
Changes in the accounting policy	3410	—	—	—	—
Correction of errors	3420	—	—	—	—
After adjustments	3500	—	239 413 255	(160 789 650)	1 434 431 053
Including:					
Retained earnings (uncovered loss):					
Before adjustments	3401	1 355 807 448	239 413 255	(86 995 142)	1 792 963 117
Adjustment due to:					
Changes in the accounting policy	3411	1 640 545 004	—	—	—
Correction of errors	3421	—	—	—	—
After adjustments	3501	—	239 413 255	(86 995 142)	1 792 963 117
Other equity items that have been adjusted: (By items)					
Before adjustments	3402	1 640 545 004	—	(73 794 508)	(358 532 064)
Adjustment due to:					
Changes in the accounting policy	3412	(284 737 556)	—	—	—
Correction of errors	3422	—	—	—	—
After adjustments	3502	(284 737 556)	—	(73 794 508)	(358 532 064)

3. NET ASSETS

ITEM	LINE CODE	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Net assets	3600	1 533 087 259	1 434 431 053	1 355 814 561

Chief Executive Officer of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet
(Contract No. 100015/09724D dated 1 November 2016)
« » 2017

V.A. Surkov

STATEMENT OF CASH FLOWS FOR THE 2016 REPORTING YEAR

Rosneft Oil Company
Monetary unit kRUB

ITEM	LINE CODE	FOR 2016	FOR 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Total proceeds	4110	3 933 465 761	5 725 793 303
Including:			
From the sale of products, goods, work and services	4111	3 345 934 925	4 709 414 133
Lease payments, license payments, royalties, commissions and other similar payments	4112	139 891 031	125 157 453
From resale of financial investments	4113	—	—
Other proceeds	4119	447 639 805	891 221 717
Total cash disbursements	4120	(4 062 032 493)	(4 451 267 732)
Including:			
Payments to suppliers (contractors) for raw materials, work and services	4121	(3 048 104 337)	(3 258 900 354)
Payroll-related payments	4122	(34 320 027)	(27 737 080)
Interest on debt obligations	4123	(217 184 734)	(219 080 002)
Income tax	4124	—	(2 137 733)
Exploration costs	4128	(14 874 936)	(10 499 340)
Other payments	4129	(747 548 459)	(932 913 223)
Net cash flows from operating activities	4100	(128 566 732)	1 274 525 571
CASH FLOWS FROM INVESTING ACTIVITIES			
Total proceeds	4210	2 708 964 418	1 795 255 507
Including:			
From sale of non-current assets (except for financial investments)	4211	103 976	397 631
From sale of shares (interests) in other entities	4212	226 851 288	6 973 058
From repayment of loans issued and sale of debt securities (receivables from other parties)	4213	1 940 068 747	1 378 019 323
Dividends, interest on debt financial instruments and similar proceeds from equity participation in other entities	4214	531 553 941	397 968 793
Other proceeds	4219	10 386 466	11 896 702
Total payments	4220	(2 812 136 435)	(2 463 384 926)
Including:			
Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	4221	(166 146 373)	(125 986 501)
Purchase of shares (interests) in other entities	4222	(682 888 624)	(169 119 011)
Purchase of debt securities (receivables from other parties), provision of loans to other parties	4223	(1 879 642 564)	(2 103 528 398)
Interest on debt obligations included in the value of the investment asset	4224	—	—
Exploration assets	4228	(21 187 788)	(20 856 545)
Other payments	4229	(62 271 086)	(43 894 471)
Net cash flows used in investing activities	4200	(103 172 017)	(668 129 419)
CASH FLOWS FROM FINANCING ACTIVITIES			
Total proceeds	4310	2 098 509 356	2 037 853 494
Including:			
Loans and borrowings received	4311	1 448 520 533	1 637 853 504
Cash contributions of shareholders (participants)	4312	—	—
Issue of shares, increase in interests	4313	—	—
Issue of bonds, promissory notes and other debt securities, etc.	4314	649 988 823	399 999 990
Other proceeds	4319	—	—
Total payments	4320	(1 533 246 277)	(2 420 311 078)
Including:			
Payments to shareholders (participants) due to the buyback of shares (interests) in the entity or due to their withdrawal	4321	—	—
Dividends and other distributions of income among shareholders (participants)	4322	(122 030 855)	(86 989 905)
Repayment (redemption) of promissory notes and other debt securities, repayment of loans and borrowings	4323	(1 411 215 422)	(2 333 321 173)
Other payments	4329	—	—
Net cash flows from financing activities	4300	565 263 079	(382 457 584)
Net cash flows for the reporting period	4400	333 524 330	223 938 568
Balance of cash and cash equivalents at the beginning of the reporting period	4450	402 389 690	127 975 011
Balance of cash and cash equivalents at the end of the reporting period	4500	584 223 460	402 389 690
Effect of changes in the exchange rate of foreign currency to the ruble	4490	(151 690 560)	50 476 111

Chief Executive Officer of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet
(Contract No. 100015/09724D dated 1 November 2016)
« » 2017

V.A. Surkov

EXPLANATORY NOTES TO THE BALANCE SHEET AND THE INCOME STATEMENT OF PJSC ROSNEFT OIL COMPANY FOR THE 2016 REPORTING YEAR

These Explanatory Notes to the balance sheet and the income statement constitute an integral part of the financial statements of PJSC Rosneft Oil Company for the 2016 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 2016.

1. ENTITY AND TYPES OF ACTIVITY

Company description

Public joint-stock company Rosneft Oil Company (hereinafter, the "Company") was established in accordance with Decree No. 327 of the President of the Russian Federation, On Priority Measures for Improving the Activities of Oil Companies, dated 1 April 1995 and pursuant to Resolution No. 971 of the Government of the Russian Federation, On the Transformation of State Enterprise Rosneft into Open Joint-Stock Company Rosneft Oil Company, dated 29 September 1995. On 8 July 2016, the Company was transformed into public joint-stock company.

The Company is a legal entity that operates on the basis of its Charter and the laws of the Russian Federation.

Location of the Company: Russian Federation, Moscow

Address of the Company specified in the Unified State Register of Legal Entities:

26/1 Sofiyskaya 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 PJSC Rosneft Oil Company that served as of 31 December 2016 was formed by the decision of the General Shareholders' Meeting of the Company held on 15 June 2016.

As of 31 December 2016, the Board of Directors of PJSC Rosneft Oil Company comprised:

Andrey Igorevich Akimov	Member of the Board of Directors of PJSC Rosneft Oil Company, Chairman of the Management Board of Joint-stock Company Gazprombank
Andrey Removich Belousov	Chairman of the Board of Directors of PJSC Rosneft Oil Company, Assistant to the President of the Russian Federation
Matthias Warnig	Deputy Chairman of the Board of Directors of PJSC Rosneft Oil Company, non-executive director, Executive Director of Nord Stream 2 AG (Switzerland)
Oleg Vyacheslavovich Viyugin	Member of the Board of Directors of PJSC Rosneft Oil Company, non-executive director, member of the Board of Directors of PJSC B&N Bank, professor of the Finance Department of the Economic Faculty of the Federal State Autonomous Educational Institution of Higher Professional Education National Research University Higher School of Economics
Robert Dudley	Member of the Board of Directors of PJSC Rosneft Oil Company, Director and a member of the Board of Directors, Chairman of the Executive Committee of the Board of Directors, CEO of BP Group
Guillermo Quintero	Member of the Board of Directors of PJSC Rosneft Oil Company
Alexander Valentinovich Novak	Member of the Board of Directors of PJSC Rosneft Oil Company, Ministry of Energy of the Russian Federation
Igor Ivanovich Sechin	Chief Executive Officer, Chairman of the Management Board, Deputy Chairman of the Board of Directors of PJSC Rosneft Oil Company
Donald Humphreys	Member 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, and the Regulation on the Calculation and Payment of Remuneration and Compensations for Expenses to the Members of the Board of Directors of the Company, remuneration to the members of the Board of Directors during the period when they perform their duties is paid on the basis of a decision of the General Shareholders' Meeting.

On 15 June 2016, the annual General Shareholders' Meeting (unnumbered minutes dated 20 June 2016) approved remuneration to the following members of the Board of Directors of the Company for the period during which they performed their duties:

Andrey Igorevich Akimov: USD 560,000

Matthias Warnig: USD 580,000

Oleg Vyacheslavovich Viyugin: USD 580,000

Donald Humphreys: USD 550,000

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 2016, the Company fulfilled its obligation and paid remuneration to the above members of the Board of Directors of PJSC Rosneft Oil Company for the period during which they performed their duties.

In 2016, no remuneration was paid to the members of the Board of Directors of PJSC Rosneft Oil Company, namely Andrey Removich Belousov, a government official, Aleksandr Valentinovich Novak, who held a public office, and Igor Ivanovich Sechin, the Chairman of the Board of PJSC Rosneft Oil Company for performing their duties as the members of the Board of Directors of PJSC Rosneft Oil Company. In 2016, no remuneration was paid either to the members of the Board of Directors of PJSC Rosneft Oil Company, who are representatives of the shareholder of PJSC Rosneft Oil Company (BP company), namely Robert Dudley and Guillermo Quintero, who filed an application for remuneration for performing their duties as the members of the Board of Directors of PJSC Rosneft Oil Company.

Sole executive body of the Company

Chief Executive Director of PJSC 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 PJSC Rosneft Oil Company dated 30 April 2015 (Minutes No. 32 of the Board of Directors' meeting 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 2016, members of the Management Board of the Company included:

1.	Igor Ivanovich Sechin	Chief Executive Director, Chairman of the Management Board, Deputy Chairman of the Board of Directors of PJSC Rosneft Oil Company
2.	Gennady Ivanovich Bukaev	Vice President, Head of the Internal Audit Function of PJSC Rosneft Oil Company
3.	Yuri Ivanovich Kalinin	Deputy Chairman of the Management Board, Vice President for HR and Social Policy at PJSC Rosneft Oil Company
4.	Didier Casimiro	Vice President for Refining, Petrochemical, Commerce and Logistics at PJSC Rosneft Oil Company
5.	Petr Ivanovich Lazarev	Financial Director of PJSC Rosneft Oil Company
6.	Eric Maurice Liron	First Vice President of Rosneft Oil Company in charge of production
7.	Yury Anatolyevich Narushevich	Vice President for Internal Services at PJSC Rosneft Oil Company
8.	Runje Zeljko	Vice President for Offshore Projects at PJSC Rosneft Oil Company
9.	Andrey Nikolaevich Shishkin	Vice President for Energy, Localization and Innovations at PJSC Rosneft Oil Company
10.	Oleg Vladimirovich Feoktistov	Vice-President, Head of Security Service of PJSC Rosneft Oil Company.

The Board of Directors of Rosneft Oil Company made the following decisions with respect to the Management Board of the Company:

- On 9 June 2016, Larisa V. Kalanda and Svyatoslav I. Slavinsky early terminated their powers as the members of the Management Board (Minutes No. 19 of the meeting of the Board of Directors dated 10 June 2016);
- On 1 July 2016, Gennady I. Bukaev, Vice President, Head of the Internal Audit Function of PJSC Rosneft Oil Company, was appointed the member of the Management Board for three (3) years (Minutes No. 3 of the meeting of the Board of Directors dated 4 July 2016);
- On 30 September 2016, Vasily N. Yurchenko early terminated his powers as the member of the Management Board and Oleg V. Feoktistov, Vice President, Head of Security Service of PJSC Rosneft Oil Company was appointed a member of the Management Board of PJSC Rosneft Oil Company for three (3) years (Minutes No. 7 of the meeting of the Board of Directors dated 3 October 2016);
- On 16 December 2016, it was agreed that members of the Management Board of PJSC Rosneft Oil Company could hold concurrently positions in management bodies (be members of the management bodies) of other entities during the term of their power as the members of the Management Board of PJSC Rosneft Oil Company (Minutes No. 16 of the meeting of the Board of Directors dated 19 December 2016). No remuneration, bonuses or other compensations were paid to the members of the Management Board of the Company for their involvement in the management bodies of Rosneft subsidiaries.

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 2016, the Audit Commission of the Company comprised:

Chairman of the Audit Commission:

Zakhar Borisovich Sabantsev	Head of the Banking Sector Monitoring, Consolidation and Analytics Unit of the Financial Policy Department of the Ministry of Finance of the Russian Federation (Russian Ministry of Finance).
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Audit Committee members:

1.	Viktor Viktorovich Mamin	Director of the Department for Corporate Governance, Price Environment, Audit and Control Activities in Energy Sector of the Ministry of Energy of the Russian Federation;
2.	Alexey Anatolievich Afonyashin	Head of the Long-term Strategy Department of PJSC Gazprom Neft;
3.	Sergey Ivanovich Poma	Vice President, Deputy Chairman of the Management Board of the National Association of Securities Market Participants (NAUFOR, a self-regulatory non-profit organization)
4.	Oleg Sergeevich Zenkov	

On 15 June 2016, the annual General Shareholders' Meeting (unnumbered minutes dated 20 June 2016) approved remuneration to Sergey Ivanovich Poma, the member of the Audit Committee of the Company, in the amount of RUB 220,000 for the period during which he performed his duties. As of 31 December 2016, the Company fulfilled its obligation and paid remuneration to S.I. Poma.

Structure of the Company's share capital*

Information about the shareholders of PJSC Rosneft Oil Company as of 31 December 2016 is presented below:

- JSC ROSNEFTGAS held 5,299,088,910 common shares in PJSC Rosneft Oil Company, representing 50.00000001% of the total number of common shares and the share capital of the Company.
- BP Russian Investments Limited held 2,092,900,097 common shares in PJSC Rosneft Oil Company, representing 19.75% of the total number of common shares and share capital of the Company.
- QHG Shares Pte. Ltd held 2,066,727,473 common shares in PJSC Rosneft Oil Company, representing 19.50% of the total number of common shares and share capital of the Company.
- Non-banking Credit Organization Closed Joint-Stock Company National Settlement Depository (NSD) was the nominee for 1,098,600,619 common shares in PJSC Rosneft Oil Company, representing 10.37% of the total number of common shares and the share capital of the Company (the nominee is the central depository).
- Other legal entities with a share of less than 1% were the holders of and the nominees for 1,492,677 common shares in PJSC Rosneft Oil Company, representing 0.01% of the total number of common shares and the share capital of the Company.
- Individuals held 39,256,385 common shares in PJSC Rosneft Oil Company, representing 0.37% of the total number of common shares and the share capital of the Company.
- The Russian Federation, acting through the Federal Property Management Agency, held 1 common share in PJSC Rosneft Oil Company, representing 0.00000009% of the total number of common shares and the share capital of the Company.
- 111,655 common shares in PJSC Rosneft Oil Company, representing 0.01% of the total number of common shares and the share capital of the Company were recorded in the account for unidentified persons.

* Information is based on the data of Rosneft 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), 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. Surveying 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.

11. Arranging and holding mobilization training and civil defense events, working with state secrets and protecting them.
At the end of 2016, the average headcount of the Company was 4,270 persons, up 187 persons year on year. The increase in the headcount was due to implementation of the Internal Audit centralization project.

2. BASIS OF PREPARATION

The accounting records are maintained in accordance with Federal Law No. 402-FZ, On Accounting, dated 6 December 2011, 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 (as amended on 30 December 1999, 24 March 2000, 18 September 2006, 26 March 2007, 25 October 2010 and 24 December 2010), and applicable Accounting Statements. The Company's financial statements for the 2016 reporting year were prepared in accordance with the Law and Accounting Statements.

3. 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 2016 are reflected below in the respective Explanatory Notes to the balance sheet and the income statement for the 2016 reporting year.

Information on changes in the accounting policy effective from 1 January 2017

Changes in the accounting policy effective from 1 January 2017 are due to the development of new accounting methods, application of which results in improving information on accounting items and changes in the Russian legislation, namely:

- Decision was taken on capitalization of expenditures related to construction of appraisal/exploration wells for 3D seismic surveys to determine the coordinates of appraisal/exploration wells at the subject license block in the cost: 3D/4D seismic surveys in support of the exploration are capitalized in the cost of appraisal/exploration wells subject to certain conditions, namely, expenditures for conducting 3D/4D seismic surveys in support of the exploration drilling may be capitalized taking into account the principle of prudence if such work may be directly correlated with determining the coordinates of the appraisal/exploration wells at the subject license block, the drilling of which is planned.
- The approach to classification of production enhancement expenses as capitalized and current costs depending on the production enhancement effects achieved is reviewed and the rule for capitalization of costs for well recompletion and for transfer of the wells to another horizon and commingling in case of successful production enhancement is determined.
- The Company's fixed assets are classified based on All-Russian Classifier of Legal Forms in the version effective from 2017.

4. 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 Resolution No. 359 of the State Committee of the Russian Federation for Standardization, Methodology and Certification dated 26 December 1994 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 at the beginning and at the end of the period was RUB 512,950 million and RUB 496,991 million.

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

The main groups of fixed assets have the following useful lives:

- Buildings — 30 to 100 years
- Structures — 10 to 15 years
- Machinery and equipment — 5 to 7 years

Assets with a value of not more than RUB 40,000 per unit have been recorded and reported as inventories since 1 January 2014. To ensure the safety of the assets during production or operation, the Company makes arrangements to control their movements.

Fixed assets include the following assets (irrespective of their value):

- Land plots
- Buildings
- Structures
- Transfer devices
- Downhole equipment
- Vehicles

Items to be leased out are recorded and reported within fixed assets, irrespective of their value.

Fixed assets are reported in the balance sheet at their net book value.

Fixed assets are not revalued following the completion of the mandatory revaluation of fixed assets in accordance with the Resolutions of the Russian Government.

Table 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	DISPOSED	DEPRECIATION CHARGE	HISTORICAL COST	ACCUMULATED DEPRECIATION	
									HISTORICAL COST
Total fixed assets	2016	1,128,692,889	561,636,609	142,741,499	1,777,846	1,377,947	127,929,960	1,269,656,542	688,188,622
	2015	1,017,237,664	445,305,511	113,553,441	2,098,216	1,452,781	117,783,879	1,128,692,889	561,636,609
Buildings and structures	2016	964,171,509	471,510,902	136,782,723	933,609	641,508	112,188,219	1,100,020,623	583,057,613
	2015	861,514,798	372,912,951	104,447,753	1,791,042	1,199,273	99,797,224	964,171,509	471,510,902
Machinery, equipment, vehicles	2016	160,365,518	88,679,047	5,883,161	821,556	714,598	15,554,544	165,427,123	103,518,993
	2015	151,679,986	71,108,447	8,918,497	232,965	182,795	17,753,395	160,365,518	88,679,047
Total other fixed assets	2016	4,155,862	1,446,660	75,615	22,681	21,841	187,197	4,208,796	1,612,016
	2015	4,042,880	1,284,113	187,191	74,209	70,713	233,260	4,155,862	1,446,660
Including fixed assets that are not depreciated	2016	2,328,069	—	130	—	—	—	2,328,199	—
	2015	2,328,789	—	—	720	—	—	2,328,069	—

The historical cost of fixed assets as of 31 December 2016 amounted to RUB 1,269,657 million. It increased in comparison with 2015, as new assets were put into operation. Fixed assets that were put into operation amount to RUB 142,741 million.

Table 2 Information on fixed assets requiring state registration (kRUB)

	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Fixed assets whose title has not yet been registered	273,619,549	252,799,313	260,170,117
Including fixed assets whose registration documents have not yet been accepted by the state authorities	259,762,811	251,518,608	253,970,461

Table 3 Information on the use of fixed assets (kRUB)

GROUP OF FIXED ASSETS	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Total assets leased out (historical cost), including	1,130,104,258	1,033,294,250	917,937,906
Buildings	46,382,575	45,422,791	42,441,273
Structures	929,580,685	838,692,221	737,371,853
Mothballed fixed assets (historical cost)	38,985,450	29,629,845	21,745,044
Total fixed assets leased (contract or cadastral value), including	65,320,361	62,186,922	53,019,747
Land plots	56,962,241	55,319,378	48,571,323
Other fixed assets	8,358,120	6,867,544	4,448,424
Change in the value of fixed assets as a result of supplementary construction, retrofitting, refurbishment, or partial liquidation	18,380,733	18,466,682	16,305,272

Table 4 Information on capital investments in progress (kRUB)

CAPITAL INVESTMENTS IN PROGRESS BY TYPE OF ASSET	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Equipment for installation	16,143,044	19,318,500	23,631,453
Construction in progress, including	442,705,424	405,039,886	347,192,735
Advances issued for construction, acquisition, manufacturing of fixed assets (net of VAT)	30,617,797	48,125,961	60,878,375
Other assets	18,483,191	11,913,830	14,067,792
Total	477,331,659	436,272,216	384,891,980

In 2016, the value of work performed under capital construction projects amounted to RUB 195,242 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 6,819 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.

5. 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 180,662
 - Patents with a historical cost of kRUB 57,731
 - Digital forest management maps with a historical cost of kRUB 917

- Exclusive right to know-how with a historical cost of kRUB 3,239
- 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:

Trademarks	5 to 10 years
Patents	5 to 25 years
Exclusive rights to computer software and databases	2 to 10 years
Oil and gas production licenses *	1 to 173 years
Geological exploration and production licenses (mixed license) *	10 to 176 years
Other mineral licenses (for the construction of underground gas storage facilities, the production of conventional mineral resources and the abstraction of underground water)	3 to 25 years

* Provided that the production of mineral resources in the license area is commercially viable

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	HISTORICAL COST	ACCUMULATED AMORTIZATION	DISPOSED	AMORTIZATION CHARGE	HISTORICAL COST
Total intangible assets:	2016	21,669,549	2,330,753	3,085,957	3,775	3,757	1,610,871	24,751,731	3,937,867
	2015	20,512,505	1,116,129	1,201,432	44,388	44,348	1,258,972	21,669,549	2,330,753
Trademarks	2016	10,824	5,454	7,426	—	—	1,404	18,250	6,858
	2015	7,917	4,283	2,907	—	—	1,171	10,824	5,454
Patents	2016	573,050	19,363	57,731	—	—	77,073	630,781	96,436
	2015	37,404	6,298	535,646	—	—	13,065	573,050	19,363
Exclusive rights to computer software and databases	2016	1,144,683	956,993	180,662	3,756	3,756	124,985	1,321,589	1,078,222
	2015	922,023	814,063	264,759	42,099	42,099	185,029	1,144,683	956,993
Oil and gas production licenses (including mixed exploration and production licenses issued after commercial viability is confirmed)	2016	19,708,086	1,224,000	2,574,085	19	1	1,345,318	22,282,152	2,569,317
	2015	19,469,444	237,644	238,716	74	34	986,390	19,708,086	1,224,000
Other licenses	2016	807	505	110	—	—	48	917	553
	2015	810	475	—	3	3	33	807	505
Information received as the result of drilling the offshore appraisal and exploration wells abandoned as successful due to technological reasons	2016	38,482	122	—	—	—	1,242	38,482	1,364
	2015	—	—	38,482	—	—	122	38,482	122
Results of 3D and 4D seismic surveys at sites after commercial viability has been confirmed	2016	—	—	261,787	—	—	23,940	261,787	23,940
	2015	—	—	—	—	—	—	—	—
Other intangible assets	2016	193,617	124,316	4,156	—	—	36,861	197,773	161,177
	2015	74,907	53,366	120,922	2,212	2,212	73,162	193,617	124,316

Table 6 Information on intangible assets created by the Company (kRUB)

HISTORICAL COST BY GROUP OF INTANGIBLE ASSETS	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Total, including	2,143,751	1,904,958	1,027,942
Patents	624,389	566,658	31,012
Exclusive rights to computer software and databases	1,321,589	1,144,683	922,023
Other	197,773	193,617	74,907

Table 7 Information on investments in progress made to create intangible assets (kRUB)

INVESTMENTS IN PROGRESS	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Total investments in the creation of individual intangible assets, including by types:	2,400,493	1,594,961	880,156
Trademarks	25,806	19,751	1,043
Patents	4,933	1,010	321
Exclusive rights to computer software and databases	1,037,638	734,256	387,902
3D and 4D seismic surveys	1,286,118	829,705	453,290
Other intangible assets	45,998	10,239	37,600

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 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Total, including	6,348,270	5,789,962	9,144,588
Non-exclusive rights to software programs, rights of access to information resources, trademarks with Olympic symbols	6,348,270	5,789,962	9,144,588

Table 9 Information on fully amortized intangible assets (kRUB)

INTANGIBLE ASSETS	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Total, including	1,025,668	971,283	637,822
Trademarks	535	26	26
Patents	243	243	243
Exclusive rights to computer software and databases	973,669	918,537	598,680
Oil and gas production licenses	521	854	164
Other licenses	61	64	64
Other	50,639	51,559	38,645

6. OIL AND GAS RESERVES EXPLORATION AND EVALUATION 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 mineral rights for oil and gas reserves (geological exploration licenses, geological exploration and production licenses)
 - Costs related to drilling appraisal/exploration wells
 - Capitalized exploration and evaluation costs lead to the creation of exploration assets:
 - Exploration/appraisal wells – tangible exploration assets
 - Licenses – intangible exploration assets
 - Expenses related to the construction of offshore appraisal/exploration wells abandoned as successful in the license areas that did not prove to be commercially viable to recover oil and gas are capitalized as follows:
 - Expenses related to the construction of offshore appraisal/exploration wells abandoned as successful are initially recognized as tangible exploration assets and then transferred to intangible exploration assets in the event that the discovery of hydrocarbon reserves is confirmed and there is a possibility that these reserves will be approved by the State Committee on Reserves both with regard to the well (current reserves estimation) and the subsurface area (reserves estimation based on geological results of the well).
 - Until the decision on commercial viability has been reached, expenses related to the construction of offshore appraisal/exploration wells abandoned as successful are recognized as intangible exploration assets in the form of information received as the result of drilling the offshore appraisal/exploration wells.
- As of the reporting date, the Company annually tests exploration assets for any indication of impairment when making the decision on the commercial viability of oil and gas production in a licensed area. Impairment testing is performed by field (licensed area). Where there is evidence of impairment, the Company writes down the exploration assets to carrying value of the licenses and wells 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 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, 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 IN HISTORICAL COST OVER THE PERIOD		AT THE END OF THE PERIOD	
		HISTORICAL COST	ACCUMULATED IMPAIRMENT LOSSES	ADDITIONS	DISPOSED	HISTORICAL COST	ACCUMULATED IMPAIRMENT LOSSES
Tangible exploration assets	2016	11,338,131	—	16,247,350	16,540,015	11,045,466	4,632
	2015	10,087,080	71,236	14,665,097	13,414,046	11,338,131	—

GROUPS OF LICENSES	PERIOD	AT THE BEGINNING OF THE PERIOD		CHANGES IN HISTORICAL COST OVER THE PERIOD		AT THE END OF THE PERIOD	
		HISTORICAL COST	ACCUMULATED IMPAIRMENT LOSSES	ADDITIONS	DISPOSED	HISTORICAL COST	ACCUMULATED IMPAIRMENT LOSSES
Intangible exploration assets, including	2016	77,478,781	2,828,345	8,029,975	6,979,721	78,529,035	226
	2015	64,928,636	197	12,564,944	14,799	77,478,781	2,828,345
License to use subsurface resources with the right of extraction	2016	43,107,687	2,828,153	6,039,570	5,814,932	43,332,325	65
	2015	42,337,678	44	770,053	44	43,107,687	2,828,153
License to use subsurface resources without the right of extraction	2016	349	192	30	103	276	161
	2015	320	153	38	9	349	192
Information on the results of drilling of successfully liquidated appraisal/exploration wells	2016	33,184,382	—	1,990,375	—	35,174,757	—
	2015	22,582,574	—	10,601,808	—	33,184,382	—
Costs related to acquiring of mineral rights for oil and gas reserves	2016	1,186,363	—	—	1,164,686	21,677	—
	2015	8,064	—	1,193,045	14,746	1,186,363	—

Information on exploration assets as of 31 December 2016 is disclosed in line 1140 "Tangible exploration assets", including advances issued of RUB 246 million and materials of RUB 40 million intended for creating tangible exploration assets in the balance sheet (Form No. 1).

The disposal of tangible exploration assets in 2016 was mainly due to the writing-down of costs related to the construction of appraisal/exploration wells which did not produce oil flow (dry wells) totaling RUB 10.671 million, reclassification of wells from exploration assets, totaling RUB 3,869 million, to capital investments in progress related to fixed assets, transfer of the value of information received as a result of drilling the offshore appraisal/exploration wells, totaling RUB 1,990 million, to intangible exploration assets.

As of the reporting date in 2016, impairment of intangible exploration assets amounted to RUB 4.6 million.

Increase in intangible exploration assets in 2016 was mainly due to the capitalization of information received as a result of offshore appraisal/ exploration drilling in the amount of RUB 1,990 million.

As of the reporting date in 2016, impairment of intangible exploration assets amounted to RUB 0.2 million.

7. RESEARCH AND DEVELOPMENT RESULTS

Research and development results include costs incurred during the stage of development of R&D work in progress (recorded as investments in non-current assets) and completed (recognized as intangible assets/R&D).

The Company's costs are recognized in the accounts as R&D in progress if all of the following conditions are met:

- R&D contracts indicate that in the course of work new scientific knowledge is expected to be produced and/or used (information which is unknown, given the current level of technology)
- It is assumed that the positive result of R&D activities will create an opportunity for future economic benefits
- It is assumed that the positive completion of R&D activities will make it possible to demonstrate the use of its results in production for management requirements
- The amount of expenses can be defined and confirmed

When R&D projects are developed in-house, the related costs are capitalized from the beginning of the project stage if the Company is able to demonstrate:

- The technical feasibility of developing such R&D projects
- Its intention and ability to develop and use an R&D project
- How the R&D project is likely to generate economic benefits
- The availability of sufficient technical, financial and other resources to complete the development of and use the R&D projects
- The ability to reliably measure costs related to the development of the R&D project

R&D projects developed in-house include:

- R&D projects developed by Company employees in the course of performing their job duties
- R&D projects resulting from contractor work under contracts in respect of which the Company bears the risk of negative results

R&D costs incurred at the research stage are not capitalized and are recognized as expenses relating to ordinary activities or other expenses depending on the purpose of the research.

R&D costs are written off to expenses relating to ordinary activities on the first day of the month following the month in which the actual use of the obtained results began.

Upon the completion of R&D activities, in the event of a positive result, the costs related to R&D in progress form the value of R&D project. In the event of a negative result, R&D costs are written off to other expenses.

The R&D project value is written off on a monthly basis using the straight-line method in the amount of 1/12 of the annual amount.

In the event that the use of an R&D project is suspended, the related costs in the form of a monthly write-off amount are to be recognized as other expenses during the period for which the use of the R&D project has been suspended.

Where the Company early terminates using the results of R&D activities in accordance with Order "On writing off R&D expenses", R&D expenses are taken to other expenses.

The write-off period for R&D costs is determined by the Company based on the expected period of use of the results from these activities. This period may not exceed 5 years.

This period for most significant R&D deliverables is as follows:

- Technology for production of a set of additives for hydraulic oils 5 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	DISPOSED	PART OF THE VALUE WRITTEN OFF TO EXPENSES	HISTORICAL COST	PART OF THE VALUE WRITTEN OFF TO EXPENSES
R&D	2016	263,525	19,206	23,077	21,849	29,737	264,753	48,712
	2015	201,031	631	221,453	158,959	19,416	263,525	19,206

Changes in R&D project value written-off in the amount of kRUB 0.2 million in 2016 and kRUB 0.8 million in 2015 were made in the course of reclassifying R&D projects to intangible assets at net book value upon receipt of protection documents.

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 EXPENDED AS UNSUCCESSFUL	RECOGNIZED AS INTANGIBLE ASSETS, R&D OR FIXED ASSETS	COSTS FOR THE PERIOD	COSTS EXPENDED AS UNSUCCESSFUL	RECOGNIZED AS INTANGIBLE ASSETS, R&D OR FIXED ASSETS	
Costs of R&D in progress	2016	2,270,423	978,479	43,805	—	76,421	3,128,676	
	2015	2,394,682	807,390	—	—	931,649	2,270,423	

8. 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 deferred expenses, fixed assets and tangible exploration assets retirement obligations (discounted) (hereinafter – the ARO asset), and other assets.

Other non-current assets are valued based on actual costs, except for ARO assets that are subject to accounting estimates. Deferred expenses are included in other non-current assets when their write-off period exceeds 12 months after the reporting date.

Deferred expenses relating to several periods are written off using the straight-line method.

Non-current assets include fixed assets and tangible exploration assets retirement obligations (discounted).

The amount of the ARO assets (with regard to sites or facilities which, when abandoned, require disposal of materials and/or remediation of a land plot) is determined based on the estimated costs at the reporting date, which the Company is expected to incur when dismantling fixed assets and remediating natural resources on occupied land plots.

The ARO asset is depreciated using the unit of production method. The rate is applied to the book value at the beginning of the reporting month and reserves in denominator are adjusted to the production volume from the beginning of the year to the beginning of the reporting month.

The ARO asset related to tangible exploration retirement at the fields where it is not confirmed that the production is commercially viable is not depreciated.

Table 13 Information on other non-current assets (kRUB)

OTHER NON-CURRENT ASSETS BY TYPE	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Deferred expenses with the write-off period exceeding 12 months - total	5,498,510	4,234,168	3,016,936
including:			
Software	5,103,217	3,627,501	2,594,189
Rights to use Olympic symbols	—	211,374	422,747
Catalyzes	395,293	395,293	—
ARO asset	27,513,978	30,329,710	35,163,938
Additional borrowing costs (long-term)	190,145	115,163	140,113
Total	33,202,633	34,679,041	38,320,987

9. 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.

Dispatched finished products and dispatched 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 dispatched 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 compare certain consignments of finished products and goods recognized in accounting records before the sale of consignments to which they relate.

The amounts of input VAT 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 upon accounting for the acquired/ produced straight-run gasoline, benzene, orthoxylene, paraxylene during their refining subject to appropriate certificate under which the VAT refund has not been claimed.

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 2016	AT 31 DECEMBER 2015
Input value added tax claimed	50,817,300	44,205,770
Excise duty assessed upon accounting for straight-run gasoline, benzene, orthoxylene, paraxylene	6,455,296	7,239,296

Table 15. Information on inventories (kRUB)

INVENTORIES BY TYPE	AT 31 DECEMBER 2016		AT 31 DECEMBER 2015		AT 31 DECEMBER 2014	
	COST	ALLOWANCE FOR IMPAIRMENT	COST	ALLOWANCE FOR IMPAIRMENT	COST	ALLOWANCE FOR IMPAIRMENT
Total	113,063,448	(45,713)	107,241,362	(34,102)	114,473,644	(59,489)
Raw and other materials	14,568,793	(28,754)	12,005,826	(10,195)	12,906,302	(14,964)
Costs related to work in progress	9,056,282	x	9,536,322	x	7,555,253	x
Finished products and goods	89,438,373	(16,959)	85,699,214	(23,907)	94,012,089	(44,525)

An increase in the value of inventories was mainly due to higher oil balances shipped to buyers, oil in transit for refining and balances with refineries. In 2014-2016, inventories were not pledged.

Table 16 Information on the movements in allowances for their impairment in the reporting period (kRUB)

MOVEMENTS IN ALLOWANCE		
ALLOWANCE BALANCE AT OF 31 DECEMBER 2015	ALLOWANCE REVERSED/ADJUSTED FOR THE REPORTING PERIOD	ALLOWANCE BALANCE AT OF 31 DECEMBER 2016
34,102	11,611	45,713

10. FINANCIAL INVESTMENTS

Financial investments are initially recognized at their actual costs. Subsequently, financial investments whose market value can be determined are remeasured at market value; and financial investments whose market value cannot be determined are not remeasured, but tested for impairment. When a sustained material decline in the value of financial investments is supported by impairment tests, the Company creates (adjusts) an allowance for impairment of such financial investments as at the last day of the quarter (last day of the reporting year). As of 31 December 2016, the allowance for impairment of financial investments amounts to RUB 26,870 million.

The valuation of financial investments whose market value can be determined is adjusted to the current market value on a quarterly basis. The valuation adjustment is recorded within other income (expenses). In general, the current market value may be determined if the relevant quotations are available in the securities market. In this case, the current market value of financial investments is their market value determined as appropriate by an organizer of the trade in the securities market.

Financial investments in the form of shares of PJSC 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 of the value of the majority shareholding since they are easily manipulated by stock players.

The historical cost of debt securities whose current market value cannot be determined is not adjusted for the difference between the historical cost and nominal value. Debt securities and loans issued are not measured at present value.

At disposal of assets recognized as financial investments, for which the current market value is determined, the value of such assets is based on their most recent valuation.

Financial investments whose current market value cannot be determined are measured at historical cost of each unit disposed.

Deposits with the maturity period not exceeding 91 days are not considered to be financial investments and are recorded within cash in the financial statements.

Short-term debts related to financial investments are reclassified to long-term debts in cases when the payment terms envisaged by the agreement are revised and increased to exceed 365 days after the reporting date.

Long-term debts related to financial investments are reclassified to short-term debts when the term to maturity under the agreement remains 365 days or less after the reporting date.

The value of all financial investments previously remeasured at market value is recorded at the current market value as of the reporting date. The Company did not record financial investments carried at market value with undetermined market value at the reporting date.

The Company did not record financial investments pledged or transferred to third parties (except for sale).

From 1 January 2016, contributions to assets and other types of investments 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 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Total	6,391,313,951	5,583,419,550	4,461,731,648
Long-term investments - total	5,492,046,642	3,945,699,651	3,816,440,204
Units and shares (interest), including:	3,033,910,399	2,491,390,235	2,395,855,245
Shares (interest) of subsidiaries and associates	3,029,208,915	2,334,540,809	2,180,986,328
Long-term loans issued	1,836,738,528	1,184,279,012	1,248,105,908
Other long-term financial investments	621,397,715	270,030,404	172,479,051
Short-term investments — total	899,267,309	1,637,719,899	645,291,444
Short-term loans issued	575,449,953	702,770,801	65,310,081
Deposits	47,459,830	686,478,240	501,028,860
Promissory notes and bonds received	79,413,940	81,084,602	17,829,983
Accounts receivable acquired under the assignment agreements	27,557	72,043	87,782
Other short-term financial investments	196,916,029	167,314,213	61,034,738

The change in the 2016 long-term financial investments from RUB 3,945,700 million to RUB 5,492,047 million was mainly due to the acquisition of shares and increase in interests and investments in share capitals of subsidiaries and associates in the amount of RUB 694,668 million; increase in loans issued in the amount of RUB 652,460 million, including due to issue and debt reclassification; change in other financial investment in the amount of RUB 351,367 million mainly due to placement of long-term deposits.

In 2016, changes mainly occurred in investments into shares and interest of subsidiaries and associates:

- According to Instruction of the Government of the Russian Federation dated 10 October 2016, PJSC Rosneft Oil Company finalized corporate events on preparation and acquisition of the state stock of Bashneft, totaling 50.0755% of the company's share capital. On 12 October 2016, PJSC Rosneft Oil Company performed its obligations under the agreement for 88,951,379 shares of Bashneft in the amount of RUB 329.69 billion in full.
- In May 2016, the Company closed the deal to sell 15% interest in Oil and Natural Gas Corporation Videsh Limited, a subsidiary of JSC Vankorneft. The transaction amounted to RUB 72 billion.
- In October 2016, the Company closed the deal to sell 23.9% interest in JSC Vankorneft to the consortium of companies comprising Oil India Limited, Indian Oil Corporation and Bharat Petroresources (the "Consortium"). As of 31 December 2016, the base payment of RUB 106 billion was received. The terms of transaction also provide for a final payment.
- In May 2016, the Company closed the deal to sell 11% interest in Oil and Natural Gas Corporation Videsh Limited, a subsidiary of JSC Vankorneft. As of 31 December 2016, the base payment of RUB 49 billion was received. The terms of transaction also provide for a final payment.
- In December 2016, Rosneft Oil Company and PJSC Sistema closed the deal to purchase 100% interest in JSC Targin (oil company). The cost of acquisition amounted to RUB 4.1 billion.

Long-term shares include investments whose market value can be determined. The difference between the current market value at the reporting date and the assessment (as of 31 December 2016) of long-term financial investments whose market value can be determined is RUB 2,517 million (income). The amount of income was taken to the financial result and recorded as other income.

The change in the 2016 short-term financial investments from RUB 1,637,720 million to RUB 899,267 million was mainly due to decrease in the loans issued by RUB 127,321 million due to repayment and reclassification of debt; closure of short-term deposits in the amount of RUB 639,018 million and increase in investments in other short-term investments.

Short-term bonds include investments whose market value can be determined. The difference between the current market value at the reporting date and the assessment (as of 31 December 2016) of short-term financial investments whose market value can be determined is RUB 623 million (expense). The amount of expense was taken to the financial result and recorded as other expenses.

11. 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.

Table 18 Information on the deals with derivative financial instruments

ISSUED, YEAR	REPAID, YEAR	NOMINAL AMOUNT AT 31 DECEMBER 2016		INTEREST RATE TYPE	FAIR VALUE OF A LIABILITY AT 31 DECEMBER (kRUB)		
		USD, MILLION	RUB, MILLION*		2016	2015	
Swaps	2012	2017	641	38,881	Floating	18,246,990	21,109,026
Swaps	2013	2018	2,138	129,685	Floating	55,828,532	59,346,442
Swaps	2014	2019	1,010	61,263	Floating	23,558,342	23,626,205
Total			3,789	229,829		97,633,864	104,081,673

* equivalent of the nominal amount at the CBR official exchange rate as of 31 December 2016.

12. INFORMATION ON HEDGING TRANSACTIONS

Cash flow hedging of the Company's future exports

Hedging transactions are operations (set of operations) with term transaction financial instruments (including those of different types), performed to minimize (compensate) adverse effects, fully or partially, caused by the loss incurred, income deficiency, decrease in revenue, decrease in market value of the property, including property rights (rights of claim), increase in the Company's liabilities due to change in price, interest rate, currency exchange rate, including the rate of the foreign currency to the rate of the currency of the Russian Federation, or another indicator (set of indicators) of a hedged item (items).

In the reporting year, the Company performed transactions to hedge the cash flows of the Company's future exports due to foreign currency risks attributed to export revenue denominated in foreign currency mainly in US dollars. The Company raises borrowings in the same currency as the forecasted revenue to economically hedge the foreign currency risk exposure.

On 1 October 2014, the Company designated part of its USD-denominated borrowings as a hedging instrument for export revenue which is likely to be received.

A portion of the future monthly export revenue expected to be received in US dollars over the period from January 2015 through December 2020 was designated as hedged item. The nominal amounts of the hedged item and the hedging instrument are equal. To the extent that a change in the foreign currency rate impacts the hedging instrument, the effects were recorded in Other funds and reserves in accordance with the Company's accounting policies; subsequently these effects shall be transferred into profit or loss of the period, in which the hedged revenue is recognized.

According to the foreign currency risk management strategy of the Company, export revenue shall be hedged in the amount of net monetary position denominated in US dollars. The Company regularly aligns the nominal amount of hedging and net monetary position in US dollars. As of 31 December 2016, the nominal amount totaled USD 1,763 million (RUB 107 billion at the CBR exchange rate as of 31 December 2016).

Table 19 Information on the foreign exchange differences related to exchange risk management tools recognized in the other funds and reserves (kRUB)

INDICATOR	2016	2015	2014
Recognized in Other funds and reserves at the beginning of the year	(471,888,054)	(398,110,282)	—
Foreign exchange differences arising on exchange risk management tools (before tax)	7,751,412	(215,285,867)	(497,637,852)
Foreign exchange differences realized on exchange risk management tools (before tax)	147,093,527	123,063,653	—
Other tax effect*	(30,968,988)	18,444,442	99,527,570
Recognized in Other funds and reserves at the end of the year	(348,012,103)	(471,888,054)	(398,110,282)

* The difference between the accounting profit (loss) and the taxable profit (loss) resulted from recognitions of hedging transactions. Other tax effect is recognized in line 2466 of the income statement.

The forecast of reclassification of the accumulated losses from revaluation of the exchange risk management tools recognized in other funds and reserves into profit or loss as of 31 December 2016 is presented below:

Table 20 (RUB, million)

YEAR	2017	2018	2019	2020	TOTAL
Reclassifications	145,620	145,620	145,620	(1,845)	435,015
Income tax	(29,124)	(29,124)	(29,124)	369	(87,003)
Total net of income tax	116,496	116,496	116,496	(1,476)	348,012

The expected reclassification is calculated using the CBR exchange rate as of 31 December 2016 and may be different when actual exchange rates are used in the future.

13. 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 the Company's cash (kRUB)

CASH	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Cash	106,388,455	331,889,690	127,975,011
including restricted cash	10,475	—	—
Deposits with the maturity period not exceeding 91 days and other cash equivalents	477,835,005	70,500,000	—

14. ACCOUNTS RECEIVABLE AND PAYABLE

Accounts receivable and payable are accounted for and recorded in financial statements in accordance with the respective existing agreements.

Accounts receivable from suppliers and contractors include advances issued that are recorded in the balance sheet less VAT deductible or deducted at the reporting date in accordance with the Tax Code of the Russian Federation. VAT on advances (deductible but not claimed for deduction at the reporting date) is recorded in the balance sheet within other current assets.

Accounts payable to suppliers and contractors include advances received that are recorded in the balance sheet less VAT on advances received.

Accounts receivable include non-income-bearing financial investments within 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.

Table 22 Information on accounts receivable (kRUB)

ACCOUNTS RECEIVABLE BY TYPE	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Accounts receivable — total	1,523,299,152	2,025,601,916	1,847,735,638
Long-term accounts receivable	716,707,241	1,134,438,474	989,058,688
Including:			
Buyers and customers	109,262	—	—
Advances paid	398,706	347,614	411,972
Other debtors, including	716,199,273	1,134,090,860	988,646,716

ACCOUNTS RECEIVABLE BY TYPE	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Loans issued to the companies within PJSC Rosneft Oil Company Group	488,106,822	1,030,781,711	849,508,635
Interest on long-term loans, promissory notes	209,946,805	85,938,787	127,565,240
Short-term accounts receivable	806,591,911	891,163,442	858,676,950
Including:			
Buyers and customers	329,312,013	201,528,043	257,556,527
Advances paid	36,203,998	41,263,661	60,548,729
Other debtors, including	441,075,900	648,371,738	540,571,694
Due from the budget and state non-budgetary funds	64,394,983	59,835,376	96,626,391
Loans and promissory notes issued to the companies within PJSC Rosneft Oil Company Group	60,493,379	117,536,411	30,973,719
Interest (discount) on deposits, loans, promissory notes	80,044,209	140,571,358	23,471,675
Settlements under commission agreements, other accounts receivable	85,276,864	88,272,216	208,894,597

As of 31 December 2015, the Company's accounts receivable amounted to RUB 2,025,602 million, including the provision for doubtful debts in the amount of RUB 13,210 million. In 2016, accounts receivable decreased by RUB 502,303 million and amounted to RUB 1,523,299 million as of 31 December 2016, including the provision for doubtful debts in the amount of RUB 14,843 million. The accounts receivable decreased primarily due to the decrease in the outstanding non-interest bearing loans issued to the companies within PJSC Rosneft Oil Company Group due to their repayment and reclassification.

Table 23 Information on accounts payable (kRUB)

ACCOUNTS PAYABLE BY TYPE	AT 31 DECEMBER 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Accounts payable — total	1,753,787,381	1,416,028,642	1,197,024,178
Suppliers and contractors	1,064,165,761	719,514,866	613,735,328
Payables to the Company's employees	12,612	5,631	46,597
Payables to the budget and non-budgetary funds	52,200,917	34,931,985	63,957,612
Advances received	316,474,647	217,812,613	147,035,386
Settlements under commission agreements, other accounts payable	320,933,444	443,763,547	372,249,255

As of 31 December 2015, the Company's accounts payable amounted to RUB 1,416,029 million. In 2016, accounts payable increased by RUB 337,758 million and amounted to RUB 1,753,787 million as of 31 December 2016. The increase in accounts payable was primarily attributable to settlements with the companies within PJSC Rosneft Oil Company Group for purchased products and operator services relating to production and processing.

15. 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 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 January-February 2016, the Company used funds of long-term unsecured loans raised from a Russian bank in the total amount of RUB 100 billion bearing a floating interest rate and maturing in the first quarter of 2021.

In the second quarter 2016, the Company raised a short-term loan with a floating rate in the amount of RUB 9 billion from a Russian bank.

In the first quarter 2016, the Company repaid in full short-term loans with a floating rate in the total amount of RUB 100 billion raised from a Russian bank.

In December 2016, a long-term loan received from a group of international banks under a floating rate was repaid in full.

In December 2016, the Company raised a short-term loan with a fixed rate in the total amount of RUB 90 billion from a Russian bank.

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 81 million.

Total interest of RUB 67,927 million was accrued on the Company's loans for the reporting period. Interest payable on loans decreased by RUB 990 million year-on-year.

Interest capitalized in the cost of investment assets created (acquired) was RUB 2,045 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 1,990 million.

Table 24 Information on long-term and short-term loans and borrowings (kRUB)

LOANS AND BORROWINGS BY TYPE	BALANCE AT 31 DECEMBER 2015	RECEIVED (ACCRUED)	REPAID (PAID)	RECLASSIFIED	BALANCE AT 31 DECEMBER 2016
Long-term loans and borrowings	4,081,526,948	2,027,291,284	1,334,195,117	(435,849,495)	4,338,773,620
Including					
Long-term loans	1,342,350,598	100,000,000	190,413,919	(294,748,615)	957,188,064
Long-term borrowings	1,460,171,460	1,226,861,733	1,136,302,757	(66,235,307)	1,484,495,129
Long-term interest accrued under loan and borrowing agreements	84,334,163	50,108,501	7,478,441	134,427	127,098,650
Long-term promissory notes issued	3,567,226	—	—	—	3,567,226
Long-term interest accrued on promissory notes	1,103,501	321,050	—	—	1,424,551
Long-term bonds issued	1,190,000,000	650,000,000	—	(75,000,000)	1,765,000,000
Short-term loans and borrowings	494,337,961	333,365,679	737,991,882	435,849,495	525,561,253
Including					

LOANS AND BORROWINGS BY TYPE	BALANCE AT 31 DECEMBER 2015	RECEIVED (ACCRUED)	REPAID (PAID)	RECLASSIFIED	BALANCE AT 31 DECEMBER 2016
Short-term loans	100,000,000	99,184,572	100,184,572	—	99,000,000
Short-term borrowings	4,676,577	26,093,359	32,073,926	66,235,307	64,931,317
Current portion of long-term loans and borrowings	369,092,735	—	400,126,908	294,748,615	263,714,442
Current portion of long-term interest accrued under loan and borrowing agreements	1,441,148	57,207,279	57,483,650	—	1,164,777
Short-term interest accrued under loan and borrowing agreements	3,073,003	10,112,759	10,330,226	(134,427)	2,721,109
Short-term bonds issued	—	—	—	75,000,000	75,000,000
Interest accrued on bonds issued (coupon income)	16,054,498	140,767,710	137,792,600	—	19,029,608

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	
					2016	2015
Bonds	04,05	October 2012	20,000	8.6%	20,000	20,000
Bonds	07,08	March 2013	30,000	8.0%	30,000	30,000
Bonds	06,09,10	June 2013	40,000	7.95%	40,000	40,000
Exchange-traded bonds	60-05, 60-06	December 2013	40,000	7.95%	40,000	40,000
SE Bonds	60-01, 60-07	February 2014	35,000	8.90%	35,000	35,000
SE Bonds	60-02, 60-03, 60-04, 60-08, 60-09, 60-10, 60-11, 60-12, 60-13, 60-14	December 2014	225,000	10.90%*	225,000	225,000
SE Bonds	60-15, 60-16, 60-17, 60-24	December 2014	400,000	11.40%*	400,000	400,000
SE Bonds	60-18, 60-19, 60-20, 60-21, 60-22, 60-23, 60-25, 60-26	January 2015	400,000	10.10%*	400,000	400,000
SE Bonds	001P-01	December 2016	600,000	10.10%*	600,000	—
SE Bonds	001P-02	December 2016	30,000	9.39%	30,000	—
SE Bonds	001P-03	December 2016	20,000	9.50%	20,000	—
Total long-term RUB-denominated bonds					1,840,000	1,190,000

* For the coupon period valid as of 31 December 2016

Bond series 60-15, 60-16, 60-17, 60-24, 60-18, 60-19, 60-20, 60-21, 60-22, 60-23, 60-25, 60-26 and all other bond series have maturities of six and ten years, respectively. Coupon payments are made every three months for bond series 60-15, 60-16, 60-17, 60-24, 60-18, 60-19, 60-20, 60-21, 60-22, 60-23, 60-25, 60-26, 001P-01 and every six months for all other bond series. The bonds, except for 001P-03 series, offer an early purchase/buyback option exercisable upon demand of their holders at the time determined in the bond issue documents. In addition, the issuer may, at any time and at its own discretion, early purchase/buy back the bonds before maturity upon a specific decision of the company, and may further put these bonds in circulation.

Early purchase/buyback of the bonds does not mean their repayment.

On 24 July 2012, the Company issued and sold 40 promissory notes with a nominal value RUB 274 million each and a total amount of RUB 10,976 million, which have consecutive (quarterly) maturity dates over a ten-year period, and bear an interest rate of 9% p.a. These promissory notes were partly paid in 2012 to 2015.

The repayment schedule of long-term promissory notes issued as of 31 December 2016 is as follows:

Table 26 The repayment schedule of long-term promissory notes issued as of 31 December 2016 (RUB, million)

2017	—
2018	—
2019	549
2020	1,098
2021 and after	1,920
Total long-term amount payable:	3,567

The repayment schedule of long-term loans and borrowings, and bonds issued as of 31 December 2016 is as follows:

Table 27 The repayment schedule of long-term loans and borrowings, and treasury bonds as of 31 December 2016 (RUB, million)

2017	263,715
2018	331,399
2019	309,714
2020	904,792
2021 and after	2,735,778
Total long-term amount payable:	4,545,398

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	None
83,815	69,755	None

Long-term USD-denominated bank loans raised from a foreign bank to finance special-purpose business activities are partially secured by crude oil export contracts.

As of 31 December 2016, guarantees and sureties issued by the Company totaled RUB 388,999 million. Distribution of the items pledged as collateral by type of pledge is presented in the table below.

Table 29 Information on items pledged as collateral by type of pledge (RUB, million)

ITEMS PLEDGED AS COLLATERAL	SHARE IN THE TOTAL COLLATERAL AMOUNT, %
Revenue from sales of oil and oil products	4.80
Sureties	95.20

In 2013, PJSC Rosneft Oil Company's 2012 agreements with Eni S.p.A, Statoil ASA and the ExxonMobil Oil Corporation took effect, which are part of the Company's cooperation in the development of the Russian continental shelf. These agreements stipulate that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite, and that the partners shall pay commercial discovery bonuses to PJSC Rosneft Oil Company.

In the second quarter of 2013, PJSC Rosneft Oil Company provided an unconditional, unlimited and indefinite guarantee (surety) to the government of Norway and Norwegian government authorities which fully covers the contingent obligations of RN Nordic Oil AS that this company may incur as a result of its operations on the Norwegian continental shelf. Provision by the parent company of a guarantee to cover RN Nordic Oil's obligations arising from environmental risks is an imperative requirement of Norwegian legislation and is a prerequisite for RN Nordic Oil AS to be granted a license for operating on the Norwegian continental shelf jointly with Statoil.

In the second quarter of 2014, PJSC Rosneft Oil Company's 2013 agreements with the ExxonMobil Oil Corporation took effect as part of cooperation in the implementation of seven new projects on the Russian continental shelf. These agreements also stipulate that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite, and that the partner shall pay a commercial discovery bonus to PJSC Rosneft Oil Company.

The cooperation between PJSC Rosneft Oil Company and the ExxonMobil Oil Corporation to develop tight oil and gas reserves in Western Siberia is governed by an agreement stipulating that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite and the partner shall pay to PJSC Rosneft Oil Company a bonus for each barrel of oil extracted after the start of commercial production.

In the fourth quarter of 2015, the Agreement of parent guarantees between PJSC Rosneft Oil Company and Statoil ASA entered into force in order to ensure execution of liabilities by its associates within the guarantees provided by each of the project partners to its counterparty under the project contractual documentation.

Table 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
Other long-term liabilities, including:	1,784,929,682	4,739,659	239,656,702	1,550,012,639
Long-term prepayment under crude oil and oil product supply contracts	1,784,929,682		239,656,702	1,545,272,980

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 oil and oil products price shall be based on current market quotes. Prepayment is settled through physical deliveries of crude oil and oil products.

From 1 January 2015, scheduled oil supplies started under the long-term contracts that provide for prepayments. The Company considers these contracts to be regular contracts signed for the supply of goods in the ordinary course of business.

From 1 January 2015, scheduled oil supplies started under the long-term contracts that provide for prepayments. In 2016 and 2015, offset of prepayments under these contracts amounted to RUB 120 billion and RUB 89 billion (USD 3.82 billion and USD 2.86 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 2016, liabilities totaling RUB 4.7 billion are reclassified to long-term accounts payable under the agreements, the terms of which provide for repayment of the reserved amounts in one year and later.

16. 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
2016	60.66
2015	72.88
2014	56.26
2013	32.73

For financial reporting purposes, foreign exchange differences are all operations of translation of the value of assets and liabilities denominated in foreign currency to be recorded as other income or other expenses. In the reporting period, total (balanced) amount of all operations of translation of the value of assets and liabilities denominated in foreign currency amounted to RUB 52,798 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 47 million and foreign exchange losses of RUB 41.5 million.

Foreign exchange differences related to the Company's discontinued operations outside the Russian Federation recorded before in the additional capital are included in the Company's financial result as other expenses: foreign exchange gains of RUB 26 million and foreign exchange losses of RUB 55 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 12).

Currency conversion transactions are recorded in the income statement in other income and other expenses on a net basis; only foreign exchange gains or losses are recognized as income (expense).

Table 32 Income and expenses from dealing in foreign currency (kRUB)

INCOME AND EXPENSES	FOR THE 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
Income	9,673,893	19,762,892
Expenses	(5,027,173)	(150,138,051)
Total income and expense balance recorded in the income statement as other income / expense	4,646,720	(130,375,159)

17. TAX PAYABLES

The Company's tax liabilities are recorded in accounting using the periodicity convention.

In 2016, the rates of the main taxes were as follows:

- Income tax – 20%
- Value added tax – 18%

Since 2012, the Russian tax legislation allows calculating income tax on a consolidated basis within a consolidated taxpayer group. Therefore, the Company's main entities were combined into the consolidated taxpayer group. In 2016 as compared to 2015, the number of participants of the consolidated taxpayer group with PJSC Rosneft Oil Company as the responsible participant increased from 51 to 63 entities.

The mineral extraction tax to be included in the cost of products, goods, work and services sold amounted to RUB 414,101 million in 2016; RUB 450,435 million in 2015.

In 2016, the accrued export duty amounted to RUB 572,226 million; in 2015: RUB 660,077 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 2016	AT 31 DECEMBER 2015	AT 31 DECEMBER 2014
Receivables from the budget and state non-budgetary funds – total	64,394,983	59,835,376	96,626,391
Value added tax (VAT)	57,558,838	45,647,489	54,462,735
Income tax	4,674,516	13,307,620	42,033,002
Other taxes and levies receivable	2,125,224	839,002	112,449
Receivables from state non-budgetary funds	36,405	41,265	18,205
Payables to the budget and state non-budgetary funds – total	52,200,917	34,931,985	63,957,612
Mineral extraction tax	44,438,484	25,947,941	29,100,332
Income tax	121,336	—	31,896,657
Excise tax	5,325,782	6,233,998	—
Property tax	2,183,230	2,552,887	2,166,381
Other taxes and levies payable	131,122	195,645	792,963
Payables to state non-budgetary funds	963	1,514	1,279

Current taxes and levies receivable increased by RUB 4,560 million from 31 December 2015 year on year mainly due to increase in the amount of VAT recoverable from the budget as of the end of the fourth quarter of 2016.

Taxes and levies payable increased by RUB 17,269 million from 31 December 2015 primarily due to increase in the mineral tax rate in December 2016 year on year.

As of 31 December 2016, 2015 and 2014, the Company did not have any overdue taxes and levies payable.

According to provisions of Chapter 14, Tax Control, of the Russian Tax Code, desk-top and field audits of tax and levy payers and tax agents may cover three calendar years preceding the year in which a decision to hold the tax audit is taken. The Company's management believes that the results of tax audits will not have a material impact on the Company's financial position because tax liabilities are estimated in accordance with requirements of the tax legislation.

18. EQUITY

Share capital

As of 31 December 2016, 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 2015, the reserve capital is fully formed and amounts to RUB 5,299 million.

As of 31 December 2016, the Company's additional capital amounted to RUB 113,279 million (as of 31 December 2015: RUB 113,245 million).

Treasury shares

In 2016, the Company did not repurchase its shares.

Net assets

As of 31 December 2016, the Company's net assets amount to RUB 1,533,087 million. The net assets decreased by RUB 98,656 million or 7% as compared to the prior balance sheet date (RUB 1,434,431 million). As of 31 December 2016, the Company's net assets exceed its share capital by RUB 1,532,981 million.

19. INCOME AND EXPENSES, RETAINED EARNINGS

Revenue from sales of goods, work and services is recognized as and when the goods are shipped, work is performed and services are rendered, and settlement documents are presented to customers (clients). To ensure timely provision of primary documents to the accounting department, if necessary, the Company uses the accrual methodology in accordance with Accounting Statement 9/99. Revenues of an Organization, provided that the criteria for revenue recognition are met. In this case, revenue is recognized based on updates provided by Company's business units.

The Company applies a method that involves calculating the 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 good) are recognized in selling expenses.

The use of profit is recognized in accounting records and financial statements in the year following the reporting years pursuant to the decision of the shareholders' meeting. A portion of the profit, which was not paid as dividends pursuant to the decision of the shareholders, is recognized in the financial statements in retained earnings. If this profit is used for capital investments, the total balance of the retained earnings is not decreased.

As of 31 December 2016, retained earnings of prior years amounted to RUB 1,668,473 million. As of 31 December 2015, this amount was RUB -1,792,963 million. Changes in the profit of prior years resulted mainly from accrued dividends in the amount of RUB 124,529 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 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
Revenue (net) from the sale of goods, work, services (net of value added tax)	3,930,139,846	3,831,094,945
Including: Sales of principal goods/products	2,983,156,877	3,185,557,660
Trading and procurement	943,485,679	639,508,667
Intermediation	3,497,290	6,028,618
Cost of goods, products, work and services sold	(2,846,770,153)	(2,612,932,721)
Including: Principal activities	(2,169,860,896)	(2,166,834,263)
Trading and procurement	(676,909,257)	(446,098,458)
Oil and gas reserves exploration and estimation expenses	(27,496,713)	(17,007,609)
Gross profit	1,055,872,980	1,201,154,615
Selling expenses	(955,153,203)	(1,018,103,482)
General and administrative expenses	(66,238,766)	(66,251,075)

INDICATOR	FOR THE 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
Profit (loss) from the sale of goods, work, and services	34,481,011	116,800,058
Profit (loss) from other income and expenses	49,898,452	56,484,728
Including:		
Interest receivable	165,880,088	140,152,094
Interest payable,	(358,112,121)	(327,398,599)
including:		
Expenses on unwinding of the ARO asset discount	(3,480,275)	(3,409,695)
Income from interests in other entities	387,278,254	440,667,780
Gains from changes in the fair value of derivative financial instruments	6,447,809	111,422,887
Losses from changes in the fair value of derivative financial instruments	(448)	(74,488,087)
Gains from the sale and other disposal of other property,	228,867,748	21,434,684
including:		
Gains from the sale of short-term securities	418,180	13,868,107
Gains from the sale of long-term securities	226,851,288	6,973,058
Losses from the sale and other disposal of other property,	(172,870,442)	(19,686,069)
including:		
Cost of disposed short-term securities	(418,167)	(13,931,424)
Losses from the sale of long-term securities	(168,846,301)	(313,052)
Other income,	42,872,048	122,004,880
including:		
Translation differences	—	38,487,421
Difference between the carrying value, financial investments of shares (interests) as a contribution to the share capital and their market value	13,323,324	—
Other expenses	(250,464,484)	(357,624,842)
including:		
Recognition of the deferred effect of hedging as other expenses	(147,093,527)	(123,063,653)
Translation differences	(52,798,402)	—

Table 35. Allocation of the Company's expenses recognized in the income statement by type (kRUB)

INDICATOR	FOR THE 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
Material costs	3,257,348,112	3,048,645,113
Payroll	17,631,083	15,666,233
Social charges	3,197,339	3,190,032
Depreciation and amortization	124,222,899	114,883,206
Oil and gas reserves exploration and estimation expenses	27,496,713	17,007,609
Other expenses*, including: MET	465,762,689	514,902,694
Total by type of expenses	3,895,658,835	3,714,294,887
Balances of work in progress, finished goods, etc.	86,907,924	83,147,591
Total expenses related to ordinary activities**	3,895,658,835	3,714,294,887

* translation of effect from revision of accounting estimates on the ARO assets is included in other costs

** including general, administrative and selling expenses.

20. 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	120,214,709	30,916,654	82,878,393	68,252,970
Deferred tax liability	69,693,400	18,207,984	8,953,158	78,948,226
Permanent tax asset	x	92,240,539	x	x
Permanent tax liability	x	92,143,379	x	x

In 2016, contingent income tax expense amounted to RUB 16,876 million, and in 2015 - to RUB 34,657 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 prior period tax losses of the Company, which were used to reduce income tax in the reporting (tax) period.

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	601,073,545	154,583,270	414,391,965	341,264,850
Taxable temporary differences	348,467,000	91,039,920	44,765,790	394,741,130
Positive permanent differences	x	461,202,695	x	x
Negative permanent differences	x	460,716,895	x	x

21. 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 2016, the Company's net income amounted to RUB 99,236 million, and net earnings per share amounted to RUB 9.36.

In the first half of 2017, the Board of Directors will provide recommendations on the amount of dividends on the Company's shares for 2016.

Based on the Company's result for 2015, the annual shareholders' meeting that took place on 15 June 2016 (unnumbered meeting minutes of 20 June 2016) decided that dividends should be paid on PJSC Rosneft Oil Company's ordinary shares in the amount of RUB 124,529 million or RUB 11.75 per share. As of 31 December 2016, the Company paid dividends in the amount of RUB 124,500 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.

22. SUBSEQUENT EVENTS

There were no economic events that have had or may have an effect upon the financial position, cash flows or operating results of the Company.

23. CONTINGENCIES, PROVISIONS**Contingent assets and contingent liabilities**

1. According to Order No. 694/14 dated 5 November 2014, the Federal Anti-Monopoly Service in Russia commenced proceedings against PJSC Rosneft Oil Company, PJSC Bashneft, and PJSC Lukoil based on Article 11.4 of Federal Law "On the Protection of Competition" due to identifying the signs of agreement at exchange auctions on the basis of Ufa refineries during the period from June to October 2014. The proceedings are currently suspended.

2. In October-November 2014, former shareholders of JSC RN Holding filed claims against PJSC Rosneft Oil Company for losses incurred as a result of an incorrect (in the plaintiffs' view) valuation of shares under a compulsory buyout. According to the decision of the court of first instance, which was upheld in the court of appeals, the claims were dismissed. The plaintiffs filed cassation appeals against the lower instance courts' rulings.

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 Provisions (kRUB)

DESCRIPTION	PROVISION	PERIOD	BALANCE AT THE BEGINNING OF THE PERIOD	ARISEN (ACCRUED) FOR THE REPORTING PERIOD	PROVISION DEBITED TO EXPENSES OR ACCOUNTS PAYABLE	PROVISION WRITTEN OFF AS EXCESSIVE OR NOT MEETING THE RECOGNITION CRITERIA	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	
PROVISIONS GENERATED FROM EXPENSES ON REGULAR ACTIVITIES — TOTAL, INCLUDING TYPES OF PROVISIONS:									
Total:			2016	24,276,136	14,806,373	14,008,251	376,585	1,272,865	25,970,538
			2015	22,299,088	15,328,317	12,619,680	374,819	(356,770)	24,276,136
Provision for annual year-end bonuses	Planned amount of annual year-end bonuses to employees, with insurance contributions at the effective interest rate		2016	13,224,971	10,415,296	10,645,584	—	—	12,994,683
			2015	12,990,646	10,290,915	10,056,590	—	—	13,224,971

DESCRIPTION	PROVISION	PERIOD	BALANCE AT THE BEGINNING OF THE PERIOD	ARISEN (ACCRUED) FOR THE REPORTING PERIOD	PROVISION DEBITED TO EXPENSES OR ACCOUNTS PAYABLE	PROVISION WRITTEN OFF AS EXCESSIVE OR NOT MEETING THE RECOGNITION CRITERIA	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
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	2016	2,233,108	3,181,152	2,503,256	—	—	2,911,004
		2015	1,696,655	2,596,954	2,060,501	—	—	2,233,108
Environmental provisions	Formed on all environmental obligations. The estimation is made by place of occurrence. Recognized at present value.	2016	8,146,124	760,100	850,344	—	1,272,865	9,328,745
		2015	7,578,588	1,402,346	478,040	—	(356,770)	8,146,124
Provisions for legal claims	Provisions are recognized separately for each legal claim	2016	671,933	449,825	9,067	376,585	—	736,106
		2015	33,199	1,038,102	24,549	374,819	—	671,933
PROVISIONS FORMED FROM THE INCREASED COST OF ASSETS:								
Total:		2016	38,636,562	5,674,768	2,183,936	2,954	5,251,606	47,376,046
		2015	34,619,058	4,740,182	1,695,254	—	972,576	38,636,562
Provision for fixed asset liquidation	Formed on all immovable oil and gas assets. The estimation is made by field. Recognized at present value.	2016	36,305,262	5,106,265	784,948	2,954	5,292,496	45,916,121
		2015	32,338,573	3,798,263	1,016,633	—	1,185,059	36,305,262
Environmental provisions	Obligations to be included in the value of assets (08*)	2016	2,331,300	568,503	1,398,988	—	(40,890)	1,459,925
		2015	2,280,485	941,919	678,621	—	(212,483)	2,331,300

The provision for fixed asset liquidation presented in the column Arisen (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.

24. RELATED-PARTY TRANSACTIONS

In the normal course of its business, PJSC 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.

PJSC 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 PJSC Rosneft Oil Company:

- Subsidiaries (entities consolidated by PJSC Rosneft Oil Company as subsidiaries)
- Associates (legal entities consolidated by PJSC Rosneft Oil Company using the equity method and proportionate consolidation method)
- Main owners (shareholders holding more than 10% of the voting shares, or having significant impact based on other reasons) and state-controlled entities
- Joint venture participants (that are not a legal entity and proportionately consolidated)
- Other related parties

The Cash flows section of the Table is broken down in the event of significant cash flows (more than 10% of any item of the cash flow statement).

Subsidiaries

This section discloses information concerning transactions with those subsidiaries in which PJSC 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 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
SALES REVENUE AND OTHER INCOME		
Oil and gas sales	312,696,352	200,882,324
Petroleum products and petrochemicals sales	979,326,763	635,888,602
Income from leasing out property	136,569,110	126,476,780
Other income	7,382,678	17,818,958
	1,435,974,903	981,066,664
COSTS AND EXPENSES		
Oil and gas purchases	1,224,069,087	1,021,590,647
Petroleum products and petrochemicals purchases	7,979,939	10,384,984
Logistics and transportation	153,914,585	158,912,627
Oil and gas production services	300,600,147	272,020,808
Cost of processing	148,311,793	190,969,372
Leases of assets	155,595	604,690

TRANSACTIONS	FOR THE 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
Insurance expenses	—	354
Other expenses	51,069,241	50,282,101
	1,886,100,387	1,704,765,583
OTHER TRANSACTIONS		
Purchase of fixed assets	24,866	185,161
Loans and borrowings issued	1,433,146,713	1,380,687,997
Repayment of loans and borrowings issued	1,267,959,825	838,285,229
Proceeds from short-term loans and borrowings	3,220,021	131,418
Repayment of short-term loans and borrowings	2,218,959	29,266,653
Proceeds from long-term loans and borrowings	1,192,354,136	1,261,006,008
Repayment of long-term loans and borrowings	934,008,371	1,147,848,680
Deposits placed	304,100,000	3,252,595,000
Deposits repaid	304,100,000	3,252,595,000
Interest receivable	113,147,583	99,235,065
Interest payable	43,969,930	55,928,850
Dividends received	386,089,760	438,578,900
CASH FLOWS		
Cash flows from operating activities		
Proceeds		
From the sale of products, goods, work and services	1,136,879,609	864,291,002
Lease payments, license payments, royalties, commissions and other similar payments	139,436,307	124,643,577
Other proceeds	84,457,197	205,255,587
Payments for/to		
Suppliers (contractors) for raw materials, work and services	(1,702,463,718)	(1,664,008,063)
Exploration costs	(7,653,639)	(5,171,003)
Cash flows from investing activities		
Proceeds		
From sale of non-current assets (except for financial investments)	5,254	389,084
From repayment of loans, receivables from other parties, etc.	1,267,966,689	838,637,313
Dividends, interest on debt financial instruments and similar proceeds from equity participation in other entities	498,027,185	378,187,919
Payments		
Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	(146,948,911)	(105,637,560)
Purchase of shares (interests) in other entities	(352,137,880)	(160,342,748)
Provision of loans to other parties	(1,433,146,713)	(1,380,687,997)
Exploration assets	(6,140,749)	(3,854,893)
Cash flows from financing activities		
Proceeds		
Loans and borrowings received	1,195,574,157	1,261,137,426
Payments		
Repayment of loans and borrowings, repayment (redemption) of promissory notes, etc.	(936,227,330)	(1,179,859,353)

Table 40 Assets and liabilities under transactions with subsidiaries (kRUB)

ASSETS AND LIABILITIES	BALANCE AT 31 DECEMBER 2016	BALANCE AT 31 DECEMBER 2015
ASSETS		
Cash and cash equivalents	25,660,255	21,641,373
Accounts receivable, including	1,138,171,527	1,681,332,549
Long-term accounts receivable	691,018,978	1,103,249,438
Advances issued for capital construction and equipment for installation	17,463,664	35,581,819
Short-term advances issued	3,264,074	5,400,948
Provision for doubtful debts as of the end of the reporting period	3,496,417	5,142,692
Short-term and long-term financial investments,	5,147,239,050	4,013,713,480
Including long-term	4,577,265,874	3,315,521,926
	6,311,070,832	5,716,687,402
LIABILITIES		
Accounts payable	1,344,224,629	1,137,037,561
Short-term and long-term loans and borrowings (including interest),	1,349,156,770	1,185,747,407
Including long-term	1,344,843,620	1,180,913,186
	2,693,381,399	2,322,784,968

Associates

This section discloses information concerning transactions with those associates in which PJSC 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 PJSC Rosneft Oil Company holds significant influence over.

Table 41 Transactions with associates (kRUB)

TRANSACTIONS	FOR THE 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
SALES REVENUE AND OTHER INCOME		
Oil and gas sales	3,027,256	2,487,005
Petroleum products and petrochemicals sales	70,420,007	7,876,580
Income from leasing out property	56,397	26,550
Other income	1,619,743	358,627
	75,123,403	10,748,762
COSTS AND EXPENSES		
Oil and gas purchases	198,774,059	202,254,505
Logistics and transportation	18,992,828	18,603,100
Leases of assets	222,380	214,095
Cost of processing	12,214,885	13,135,606
Other expenses	5,934,250	404,213
	236,138,402	234,611,519
OTHER TRANSACTIONS		
Loans and borrowings issued	1,452,794	3,414,432
Repayment of loans and borrowings issued	18,199,091	7,219
Proceeds from long-term loans and borrowings	20,454,003	23,263,732
Repayment of long-term loans and borrowings	12,527,421	7,033,640
Interest receivable	11,982,689	13,039,916
Interest payable	4,887,336	4,404,392
Dividends received	1,169,410	292,029
CASH FLOWS		
Cash flows from operating activities		
Payments		
Exploration costs	(2,923,772)	(3,892,204)
Cash flows from investing activities		
Payments		
Exploration assets	(10,000,046)	(15,926,188)

Table 42 Assets and liabilities under transactions with associates (kRUB)

ASSETS AND LIABILITIES	BALANCE AT 31 DECEMBER 2016	BALANCE AT 31 DECEMBER 2015
ASSETS		
Accounts receivable, including	27,974,182	20,158,824
Long-term accounts receivable	5,548,491	12,979,917
Short-term advances issued	8,012,360	1,524,593
Provision for doubtful debts as of the end of the reporting period	4,160,603	774,368
Short-term and long-term financial investments,	277,227,200	351,981,945
Including long-term	276,955,243	350,737,262
	305,201,382	372,140,769
LIABILITIES		
Accounts payable	26,724,572	26,248,307
Short-term and long-term loans and borrowings (including interest),	110,605,985	112,818,022
Including long-term	110,605,985	112,818,022
	137,330,557	139,066,329

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 2016 and 2015, short-term compensation to the members of the Management Board taking in account the rotation of the management staff, including salary and bonuses and considering personal income tax, amounted to RUB 2,884 million and RUB 2,884 million, respectively (social insurance contributions paid to the budget of the Russian Federation under the law, which are not income of the members of the Management Board, amounted to RUB 395 million and RUB 376 million, respectively). In 2016, the amount of short-term compensation does not include one-off bonuses paid for realization of major projects (acquisition of the stock of Bashneft, restructuring of asset ownership in Germany, implementation of major projects involving exploration of the Russian shelf and start of well drilling in the Sea of Okhotsk) in view of the corporate awards for 2015 achievements made and compensation of health insurance and transportation expenses. The amount of short-term compensation to members of the Management Board and members of the Board of Directors for 2016 is disclosed in accordance with the Russian legal requirements for disclosure of information by issuers of securities. No post-employment benefits, termination benefits and share-based payments were made.

Main shareholders and state-controlled entities

This section discloses the information about transactions with legal entities that hold more than 10% of the total number of votes, which relate to voting shares, and state-controlled entities.

Table 43 Information on transactions with main shareholders and state-controlled entities (kRUB)

TRANSACTIONS	FOR THE 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
SALES REVENUE AND OTHER INCOME		
Oil and gas sales	169,447,363	144,151,555
Petroleum products and petrochemicals sales	61,283,747	89,766,571
Gains on transactions involving term transaction financial instruments	7,761,178	7,761,178
Other income	1,380,288	11,644,937
	239,872,576	253,324,241
COSTS AND EXPENSES		
Oil and gas purchases	60,866,696	21,555,093
Oil products purchases	3,718,778	2,681,139
Logistics and transportation	322,633,308	284,810,749
Customs duties	559,653,085	685,624,590
Leases of assets	711,977	796,523
Losses from transactions involving term transaction financial instruments	5,157,356	4,029,740
Electricity costs	29,485	27,626
Other expenses	1,727,228	12,926,570
	954,497,913	1,012,452,030
OTHER TRANSACTIONS		
Loans and borrowings issued	6,000,000	6,710,000
Proceeds from short-term loans and borrowings	90,000,000	291,904,714
Repayment of short-term loans and borrowings	100,000,000	286,305,373
Proceeds from long-term loans and borrowings	100,000,000	24,957,640
Repayment of long-term loans and borrowings	—	29,824,680
Deposits placed	9,557,324,915	4,343,852,418
Deposits repaid	9,613,898,560	4,174,771,948
Interest payable	13,909,098	15,223,365
Interest receivable	16,909,286	6,344,055
Dividends received	15,591	967
CASH FLOWS		
Cash flows from operating activities		
Payments to		
Suppliers (contractors) for raw materials, work and services	(995,944,402)	(1,222,422,419)
Cash flows from investing activities		
Proceeds		
From sale of debt securities (receivables from other parties)	397,602,000	338,198,380
Other proceeds	7,761,178	7,761,178
Payments		
Purchase of shares (interests) in other entities	(330,167,622)	—
Purchase of debt securities (receivables from other parties), provision of loans to other parties	(389,881,626)	(437,282,600)
Cash flows from financing activities		
Proceeds		
Loans and borrowings received	190,000,000	316,862,354
Payments		
Dividends and other distributions of income among shareholders (participants)	(108,680,761)	(60,473,353)
Repayment of loans and borrowings	(100,000,000)	(316,130,053)

Table 44 Assets and liabilities under transactions with principal owners and state-controlled entities (kRUB)

ASSETS AND LIABILITIES	BALANCE AT 31 DECEMBER 2016	BALANCE AT 31 DECEMBER 2015
ASSETS		
Cash and cash equivalents	531,291,825	315,700,322
Accounts receivable, including	55,181,477	51,596,175
Long-term accounts receivable	1,404,744	89,680
Advances issued for capital construction and equipment for installation	4,863,843	1,847,659
Short-term advances issued	21,722,578	23,879,051
Provision for doubtful debts as of the end of the reporting period	306,311	305,504
Short-term and long-term financial investments,	497,726,980	470,531,170
Including long-term	469,615,208	88,831,130
	1,084,200,282	837,827,667
LIABILITIES		
Accounts payable	31,336,841	10,682,917
Short-term and long-term loans and borrowings (including interest),	203,087,889	112,725,000
Including long-term	100,000,000	12,500,000
	234,424,730	123,407,917

Joint venture participants

There are no transactions with companies involved in joint activities with PJSC Rosneft Oil Company for the period of 2015-2016.

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 2016 REPORTING YEAR	FOR THE 2015 REPORTING YEAR
SALES REVENUE AND OTHER INCOME		
Other income	324	324
	324	324
COSTS AND EXPENSES		
Expenses under non-state pension agreements	393,194	364,905
	393,194	364,905

Table 46 Assets and liabilities under transactions with other related parties (kRUB)

ASSETS AND LIABILITIES	BALANCE AT 31 DECEMBER 2016	BALANCE AT 31 DECEMBER 2015
Liabilities		
Accounts payable	87,939	—
	87,939	—

In the reporting period, PJSC Rosneft Oil Company mainly used the monetary form of settlements with related parties.

25. SEGMENT INFORMATION

The Company, its subsidiaries and associates (hereinafter, the "Rosneft Oil Company Group") operate as a vertically integrated business. The Rosneft Oil Company Group is principally engaged in the exploration, development, production and sales of oil and gas, as well as the production, transportation and sales of petroleum products in the Russian Federation and abroad. Management information, which is regularly analyzed by those persons with the power to make decisions on resource allocation in the Company and further performance evaluation, is prepared for the business purposes of Rosneft Oil Company Group as a whole. Given the fact that the business of the Company as a legal entity is an integral part of the Group management, management decision-making and resource allocation is performed by the duly authorized persons at the level of Rosneft Oil Company Group; certain management reports reflecting financial performance, the amount of assets and liabilities by segment, which refer only to the Company's operations and are not related to the Group in general, are not prepared for business lines. Therefore, segment information is fully disclosed in the consolidated financial statements of the Rosneft Oil Company Group.

Information on revenue broken down by segment is presented in the explanatory notes below, as this data is provided to the Company's authorized representatives on a regular basis. Segment information was prepared taking into account the economic, foreign currency, credit and price risks the Company may be exposed to.

Table 47 Information on sales revenue by segment (kRUB)

NAME OF THE SEGMENT	NET REVENUE FOR THE REPORTING YEAR		
	TOTAL	EXTERNAL MARKET	DOMESTIC MARKET
Oil	1,889,702,729	1,609,938,321	279,764,408
Gas	160,162,175	—	160,162,175
Oil products and petrochemicals	1,737,277,872	907,750,790	829,527,082
Other sales	142,997,070	—	142,997,070
Total:	3,930,139,846	2,517,689,111	1,412,450,735

Other sales include the sales of other goods, rendering of services, lease of fixed assets, etc.

26. OTHER ASPECTS OF THE COMPANY'S BUSINESS**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 2016 is given below¹.

Table 48 Information on resources used (kRUB)

NO.	ENERGY RESOURCE	AMOUNT
1	Electric energy	30,136
2	Heat energy	3,520

Operating environment in the Russian Federation

In 2016, a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as sanctions imposed on Russia by several countries in 2014 continued to have an adverse effect on the Russian economy. The ruble interest rates remained high as a result of raising the key interest rate by the Central Bank of Russia in December 2014 with an incremental decrease in 2015. The combination of the above factors led to a higher cost of capital, increased inflation and uncertainty regarding further economic growth, which could negatively affect the Company's future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

1. The requirement of Article 22 of Federal Law No. 261-FZ "On Saving Energy and Increasing Energy Efficiency, and on Amendments to Certain Legislative Acts of the Russian Federation" dated 23 November 2009.
In accordance with Article 2 of Federal Law No. 261-FZ, an energy resource is an energy carrier that is used or can be used for both economic and other activities, as well as a type of energy [atomic, heat, electrical, electromagnetic or other type].

**ADDITIONAL
INFORMATION**

GLOSSARY OF TERMS AND ABBREVIATIONS

EBITDA — earnings before interest, taxes, depreciation and amortization.

PRMS — Petroleum Resources Management System, formerly Society of Petroleum Engineers (SPE) PRMS methodology provides a reflection of the total resources available to be managed over the whole life of a field. PRMS guidelines rely to a large extent on continuity of reservoir geology rather than expected production.

ROACE — return on average capital employed. This is calculated as the ratio of net income to average capital employed; average capital employed is calculated as the average sum of total shareholder equity, minority interest, long-term and short-term debt at the beginning and end of a period.

RRR — ratio of total proved reserves added in a given year to that year's production.

SEC (Securities and Exchange Commission) — the U.S. Securities and Exchange Commission. The standard for proved reserves requires that continuity of production be demonstrated.

bbl — barrel (1 bbl = 0.134 metric tons)

boe — barrel of oil equivalent; boe is a measurement of gas by its thermal equivalent in barrels of crude oil.

Probable reserves — reserves that are based on reasonable evidence of producible hydrocarbons within the limits of a structure or reservoir above known or inferred fluid contacts. They have been defined to a lesser degree of certainty than proven reserves because of limited well control and/or the lack of definitive production tests.

Pro forma — data including Bashneft starting from January 1 of the reported period, only for purpose of presentation.

Possible reserves — reserves that may exist but are less well-defined by well control than probable reserves. Possible reserves include: a) reserves based on log interpretation and other evidence of hydrocarbon saturation in zones behind the pipe in existing wells b) possible extensions to proved and probable reserve areas where indicated by geophysical and geological studies c) those to be recovered by enhanced recovery methods where data is insufficient to classify the reserves as proved or probable.

Debt to equity ratio — ratio of a company's net debt to net debt plus total equity.

2D seismic — a seismic survey which produces a two-dimensional image of the subsurface.

Proved reserves — estimated quantities of crude oil, and/or natural gas which, based on geological and engineering data, with reasonable certainty, can be recovered in the future from known reservoirs under existing economic and operating conditions.

Inhibition — the action of treating pipelines with chemicals (inhibitors) to slow down metal corrosion.

Condensate — light hydrocarbons produced with natural gas. Condensate condenses into a liquid at normal temperatures and pressures.

Reserve replacement ratio — ratio of total proved reserves added in a given year to that year's production.

Light gasoline fraction — product of primary oil refining process used as a raw material for isomerization plant or a component of straight-run gasoline

Netback — market natural gas price at market destinations less the cost of pipeline transportation from a field or other gas receiving station.

Organic capital expenditure — capital expenditure excluding acquisitions.

Associated petroleum gas (APG) — a natural gas found with oil, either dissolved into it or as a cap of free gas above it. APG contains significant quantities of ethane, propane, butane and other saturated hydrocarbons. APG can be utilized in two areas: a) energy — to produce power for oilfield purposes; b) petrochemistry — refined to produce dry gas (supplied to main pipeline), natural gasoline, natural gas liquids and liquefied gas for domestic consumption.

Remediation — the action of removing pollution or contaminants from soil, groundwater, sediment or surface water to protect public health and the environment.

Marketable products — products produced for delivery to a consumer (customer), tested and suitable for use in accordance with requirements set forth in the standards (technical specifications), contracts for its realization, having a quality certificate.

3D seismic — a seismic survey which produces a three-dimensional image of the subsurface.

Net debt — long-term and short-term debt less cash and cash equivalents.

ABBREVIATIONS

APG — associated petroleum gas

PRMS — Petroleum Resources Management System

SEC — U.S. Securities and Exchange Commission

2P (reserves) — proved and probable (reserves)

3P (reserves) — proved, probable and possible (reserves)

ESPO pipeline — East Siberia – Pacific Ocean (ESPO) pipeline system between the town of Taishet (Irkutsk Region) and the oil loading port of Kozmino at Nakhodka Bay.

FEFD — Far Eastern Federal District

Refinery — oil refining plant

HSE — health, safety and environment

APG — associated petroleum gas

DGS — dry stripped gas

JV — joint venture

LNG — liquefied natural gas. It is natural gas that has been converted to liquid form by cooling it to the temperature of phase-transition from gaseous form to liquid form. LNG can be transported in case of lack of pipeline infrastructure by gas carrier vessels or motor-vehicle transport.

WLHF — wide light-hydrocarbon fractions

UNITS OF MEASUREMENT

bbl — barrel (1 bbl = 0.134 metric tons)

boe — barrel of oil equivalent

b/d — barrels per day

th. — thousand

mln — million

bln — billion

km — kilometer

lin. km — linear kilometer

sq. km — square kilometer

cub. m — cubic meters

ha — hectare

USD — dollar

RUB — ruble

GENERAL INFORMATION ABOUT ROSNEFT

Date of state registration and registration number of Oil Company Rosneft:

- Date of state registration of the Company as a legal entity: December 7, 1995;
- Number of State Registration Certificate of the Company: 024.537;
- Date of entry in the Uniform State Register of Legal Entities about a legal entity established prior to July 1, 2002: August 12, 2002;
- Series and number of Certificate of Entry in the Uniform State Register of Legal Entities about a legal entity established prior to July 1, 2002: Series 77 No. 004856711;
- Primary State Registration Number under which entry about establishment of the Company is made in the Uniform State Register of Legal Entities: 1027700043502.

Constituent entity of the Russian Federation in whose territory the Company is registered: Moscow.

Main types of operations of the Company: geological prospecting and geological exploration work aimed at oil, gas, coal and other minerals search; extraction, transportation and processing of oil, gas, coal and other minerals and timber; production of oil products, petrochemicals and other products, including electric power, woodworking products, fast moving consumer goods and provision of services to the public; storage and sale (including sale in the domestic market and export sale) of oil, gas, oil products, coal, electric power, woodworking products, and other hydrocarbon and other derivatives.

Pursuant to Decree of the Government of the Russian Federation dated August 20, 2009, No. 1226-r, Rosneft has been included into the list of strategic enterprises charged with implementation of uniform public policy in those branches of economy where such entities operate.

Pursuant to Decree of the President of the Russian Federation dated May 21, 2012, No. 688, Rosneft has been included into the list of strategic enterprises and strategic joint stock companies.

CONTACT DETAILS

Full Name:

Open Joint-Stock Company
Rosneft Oil Company

Abbreviated Name:

OJSC Rosneft Oil Company

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English Version: www.rosneft.com