

**STABILITY  
TECHNOLOGY  
DEVELOPMENT**

**ANNUAL  
REPORT 2015**





# STABILITY



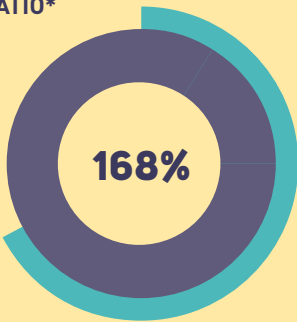
THE WORD'S LARGEST OIL  
AND GAS COMPANY

**11.5** BLN T  
of oil and condensate

**7.5** TCM  
of gas – remaining recoverable  
reserves, category ABC1+C2



PROVED HYDROCARBON  
RESERVES REPLACEMENT  
RATIO\*



\* according to Russian classification

7 new fields and 117 new  
deposits, 821 licenses,  
including 52 offshore licenses

THE BEST EVER INDICATOR  
FOR SUCCESSFUL  
EXPLORATION DRILLING

**84%**

**254** MMTOE

HYDROCARBONS PRODUCTION

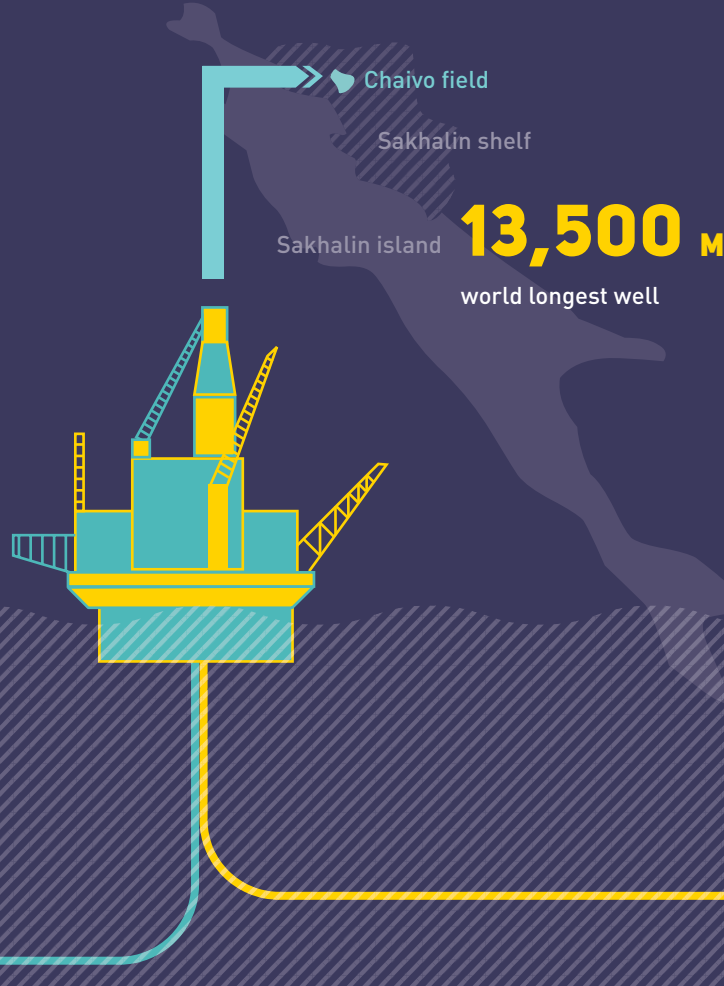
THE WORLD LOWEST  
UNIT OPEX

**2.6** USD/BOE

HORIZONTAL  
WELLS

**30%**

ORLAN RIG



# TECHNOLOGY



## SCIENCE AND INNOVATION

### INNOVATIVE PRODUCT

A joint project with the scientists  
of the biology department of the  
Moscow State University  
Development of a product  
capable of decomposing oil and  
petroleum products at low  
temperatures (including below  
zero temperatures).

### KARA-WINTER-2015

Research expedition  
Kara-winter-2015 – the largest  
Arctic expedition in the last 20 years  
in terms of scope of works



**116.9** BLN RUB

INNOVATION COSTS IN 2015

## LARGE-SCALE REFINERY UPGRADE

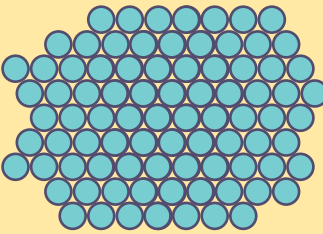
### EURO-5

Launched Euro-5 gasoline and  
diesel fuel production for the  
Russian market

**96.9**  
MMT  
THROUGHPUT  
(RUSSIAN AND  
FOREIGN  
REFINERIES)



APPLICATION OF LOCALLY  
MANUFACTURED CATALYZERS  
FOR REFORMING AND HYDROGEN  
UNITS



# DEVELOPMENT



ZVEZDA SHIP-BUILDING COMPLEX IN THE FAR EAST – THE FIRST LARGE-SCALE SHIPBUILDING YARD IN RUSSIA

**330 THOUSAND TONS**

of metal a year – processing capacity



large-capacity ship-building center



demand for flat steel and quality metal products



regional social and economic programs



new jobs



infrastructure development

**629 BLN RUB**

AMOUNT OF INVESTMENTS

## GAS BUSINESS

**62.5 BCM**

OF GAS PRODUCED IN 2015

**10%**

GROWTH VERSUS 2014

**87.9%**

LEVEL OF BENEFICIAL USE OF GAS

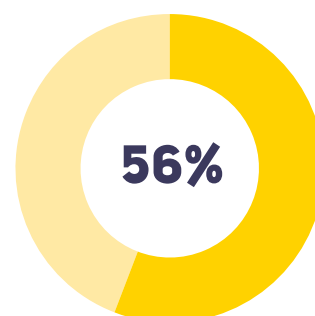
## HIGH-TECH SERVICE DIVISIONS

**223 UNITS**

OWN RIG FLEET



SHARE OF THE IN-HOUSE PRODUCTION DRILLING



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## ANNUAL REPORT WITH INTEGRATED REPORTING ELEMENTS

Rosneft's Annual Report 2015 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 Company financial results and achievements in the area of sustainable development, highlighting the existing relationships among the competitive environment, the Company's, business model, 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.ru](http://www.rosneft.ru)



# MESSAGE OF THE CHAIRMAN OF THE ROSNEFT BOARD OF DIRECTORS



Dear Shareholders!

The past year of 2015 tested stability and sustainability of oil companies, including Rosneft, and I assure you that we have successfully met the challenge.

Despite economic sanctions and shocks in FX rate fluctuations and oil prices the Company demonstrated decent operations performance and managed to successfully implement its investment projects. The hydrocarbon replacement ratio, according to Russian classification, grew to 168% from the volume of production on the territory of the Russian Federation, which made it possible for the Company to maintain long-term production even in such challenging conditions. In this context the Company's operations become the primary factor for providing economic strength of the Russian Federation and maintaining steady

demand for domestic products. Rosneft is a major consumer of goods, works and services among Russian private and publicly owned companies. In 2015 procurement of goods, works and services from third counterparties totaled RUB 1.4 tn.

Large-scale investments to upgrades of our refineries supported compliance with the requirements of the Technical Regulations of the Customs Union with all Rosneft's refineries converted to the production of Euro-5 gasoline and diesel fuels for the Russian market.

Creation of new major ship-building capacities in the Russian Far East is the Company's important investment project. In 2015 Rosneft started construction of the Zvezda ship building center, allowing the first workshops to be put into operation in 2016, to pioneer the first large-block ship building in a Russian shipbuilding yard and



to produce necessary materials and accessories, including those for the Company's Arctic upstream projects. This large-scale construction program in the region, fosters infrastructure development of the Far East of Russia, creates new high efficiency jobs, and facilitates the implementation of regional social and economic initiatives.

Development of innovation technologies is another significant investment for Rosneft. In the area of refineries, we started application of our own locally manufactured catalyzers for reforming and hydrogen units. We made a move to using only domestic catalyzers at our catalyst cracker units.

As for our environmental innovations, the scientists of the biology department of the Moscow State University developed a unique product for the Company — capable of decomposing oil and petroleum products at low temperatures (including subzero temperatures). The product allows for the disposal of offshore and onshore oil pollutions and decontamination of vessels and platforms surfaces.

As a publicly owned company Rosneft adheres to the highest corporate management standards and follows the principles and recommendations of the Code of Corporate Governance of the Bank of Russia to provide the long-term and sustainable development of the Company and protect the interests of its shareholders and investors.

The weighted and responsible investment and financial policy of Rosneft management ensures stringent control over costs and improves liquidity and dividend payments. Our sustainable



**DESPITE ECONOMIC SANCTIONS AND SHOCKS IN FX RATE FLUCTUATIONS AND OIL PRICES THE COMPANY DEMONSTRATED DECENT OPERATIONS PERFORMANCE AND MANAGED TO SUCCESSFULLY IMPLEMENT ITS INVESTMENT PROJECTS».**

**Andrey Belousov,**  
The Chairman of Rosneft Board  
of Directors

performance in 2015 is evidence of the efficiency of the applied strategy and the significance of our priorities. All this makes it possible to rely on Rosneft sustainable development in the future to benefit its shareholders.

**Andrey Belousov,**  
**The Chairman of the Rosneft Board**  
**of Directors**

# MESSAGE OF THE CHAIRMAN OF THE ROSNEFT MANAGEMENT BOARD



Dear Shareholders!

2015 marked a historical milestone for the world's oil and gas industry with the unprecedented "perfect storm" in the global markets that contributed to uncertainty for leading hydrocarbon producers. I would like to highlight that Rosneft not only survived this challenging year but also demonstrated a steady growth in the key operating and financial items against the backdrop of unparalleled price volatility.

Rosneft set another record in hydrocarbon production of more than 254 mmtoe in 2015. We remain the largest public oil company. That achievement was also driven by the implementation of our large-scale strategy to develop our own high-tech services division in order to guarantee fulfillment of production plans and create a competitive environment in terms of pricing and quality of the services. The Company's own drill-

ing fleet grew more than three times to 223 units which helped us to complete more than half of our scope development using own resources in 2015.

The Company is continuing to successfully develop the Sakhalin shelf. In 2015, jointly with our Sakhalin-1 partners, we surpassed our record by drilling the world's longest well, stretching 13.5 thousand meters, using a unique drilling rig.

Performance of our Upstream business is confirmed by another record — in 2015 we managed to significantly reduce the production cost from 3.9 \$/boe to 2.6 per boe.

Rosneft robustly reinforces its positions in the Russian gas market, having increased gas production by 10% to 62.5 bcm in 2015.

I would like to emphasize that our significant achievements in hydrocarbon



production are coupled with strong reserve replacement performance, this ratio having been substantially above 100 % for over ten years.

Importantly, the Company lives up to its debt commitments in the unstable global environment. In 2015, we managed to reduce Rosneft net debt in dollar terms by 47 % year-on-year.

Negative changes in oil prices considerably impacted the competition in the industry. However, I can assure you that Rosneft management will make every effort to protect the interests of its shareholders. Our goal is not only to preserve, but also to expand our presence in our traditional markets. We signed a series of oil supply contracts with our Polish partners in late 2015 and early 2016. These agreements confirm Rosneft's status as a leading oil supplier for major European consumers. At the same time Rosneft increases its presence at the growing Asia-Pacific markets: record contracts with our Indian partners have been signed, number of Chinese customers has been increased.

Our achievements are important because they not only demonstrate the performance of the Company's main asset — which is our people — but also re-confirm the Company's commitment to its strategic goals.

By implementing our investment program we are ensuring meeting our long-term oil supply contract obligations to our partners, we are maintaining Rosneft's leading positions in the market. We are also generating solid cash flows supporting the Company's stability, replenishing the state budget and achieving positive social



**AMID THE GLOBAL MARKET CRISIS, DUE TO HYDROCARBONS PRICE DOWNTURN WE FACED CHALLENGES OVER THE PAST YEARS. NEVERTHELESS I'M PROUD TO SAY THAT THE COMPANY GOT THROUGH THE MARKET VOLATILITY».**

**Igor Sechin**

From the report to Vladimir Putin,  
the President of the Russian Federation,  
Moscow, March 28, 2016

and economic effect in the regions of operation. Therefore, we will continue to intensify our investment in hydrocarbon production and increase financing by more than one third in 2016. Rosneft is a driver for the Russian economy.

In 2015 the Company made sales of USD 45.5 bln which significantly supported the currency market of the Russian Federation and stability of the national currency rate. The cost of Rosneft share price in ruble terms increased by almost 30 % in 2016, Company management will continue to implement a strategy aimed at reinforcing our economic, technology, and professional competencies so that our country can take its rightful place as a leader in the new economic order.

Current global turbulence in markets provides opportunities for growth, and I am confident that Rosneft's highly professional team will be able to efficiently capitalize them!

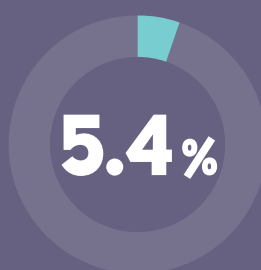
**Igor Sechin,**  
**the Chairman of the Rosneft**  
**Management Board**



# 010203

## ABOUT THE COMPANY

**23** COUNTRIES OF OPERATION



ROSNEFT SHARE IN THE  
GLOBAL OIL PRODUCTION

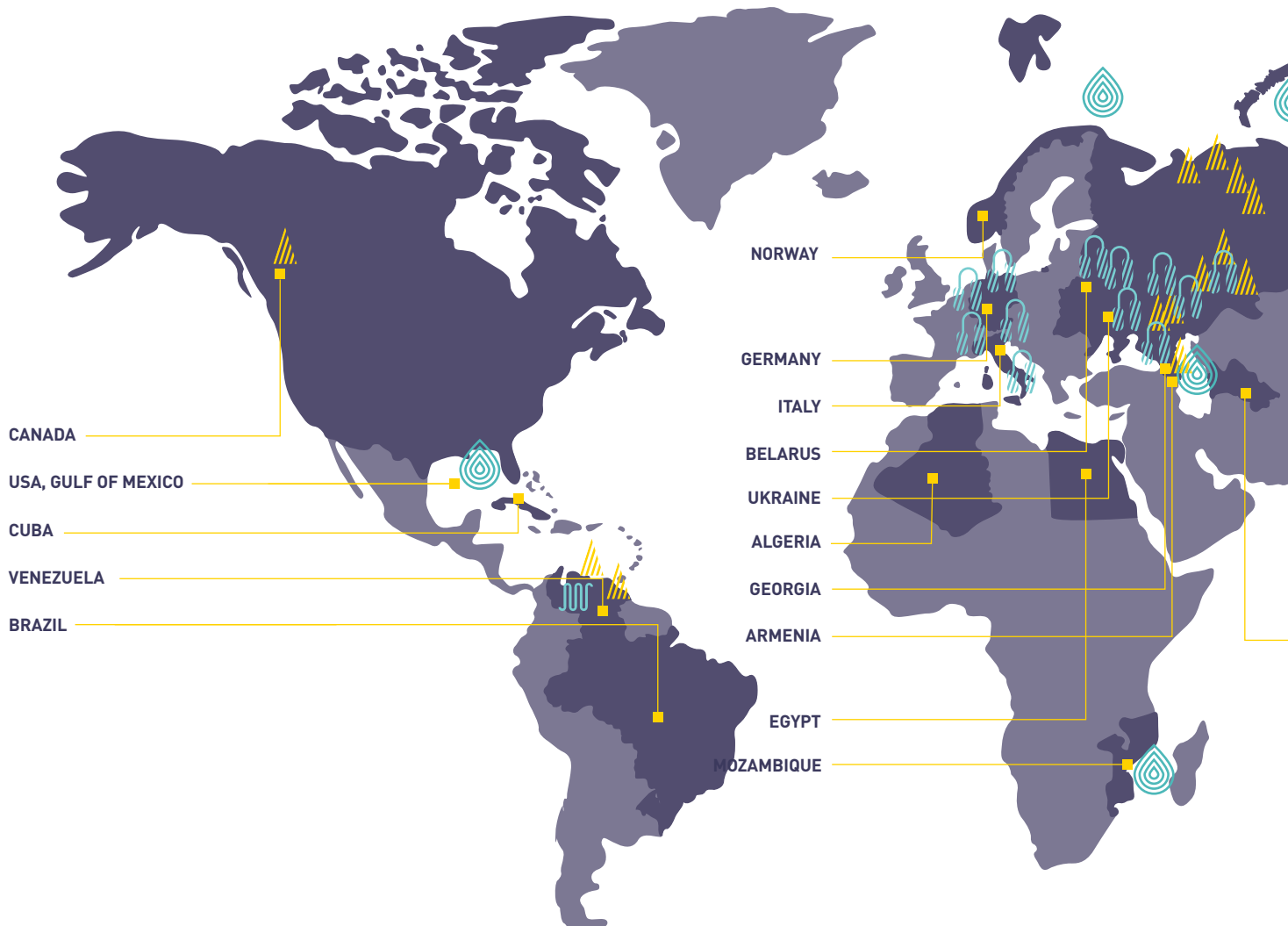


**ROSNEFT IS THE LEADER  
IN RUSSIAN OIL SECTOR  
AND THE LARGEST  
INTERNATIONAL  
PUBLIC OIL COMPANY  
IN TERMS OF RESERVES  
AND PRODUCTION**

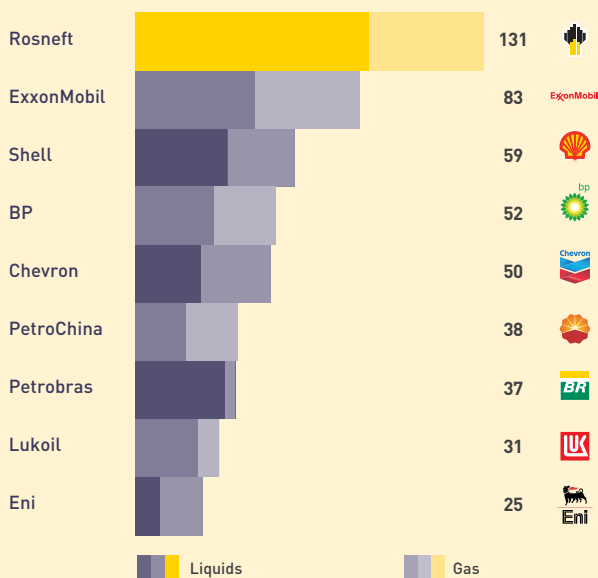




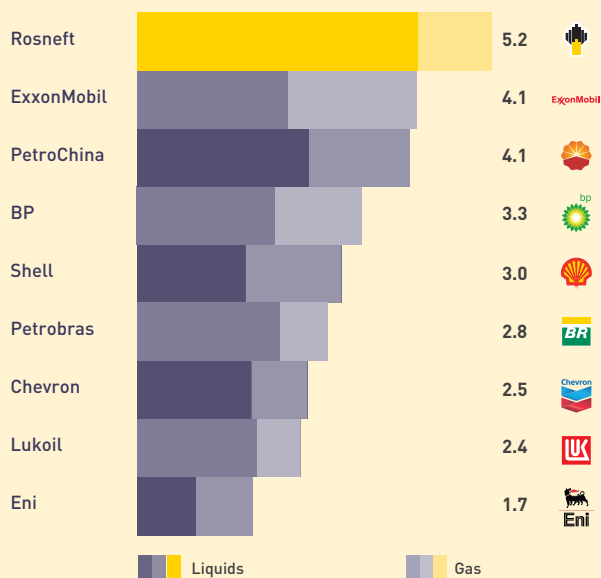
# 1.1. ASSETS AND REGIONS OF OPERATION IN 2015



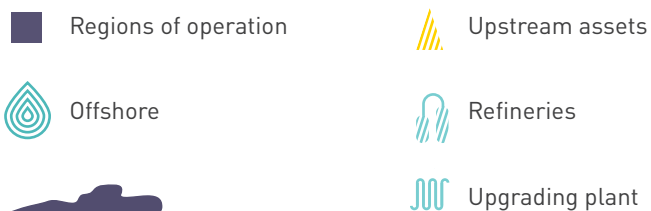
Hydrocarbon reserves, bn boe<sup>1</sup>



Hydrocarbon production, mboe/day



## LEGEND

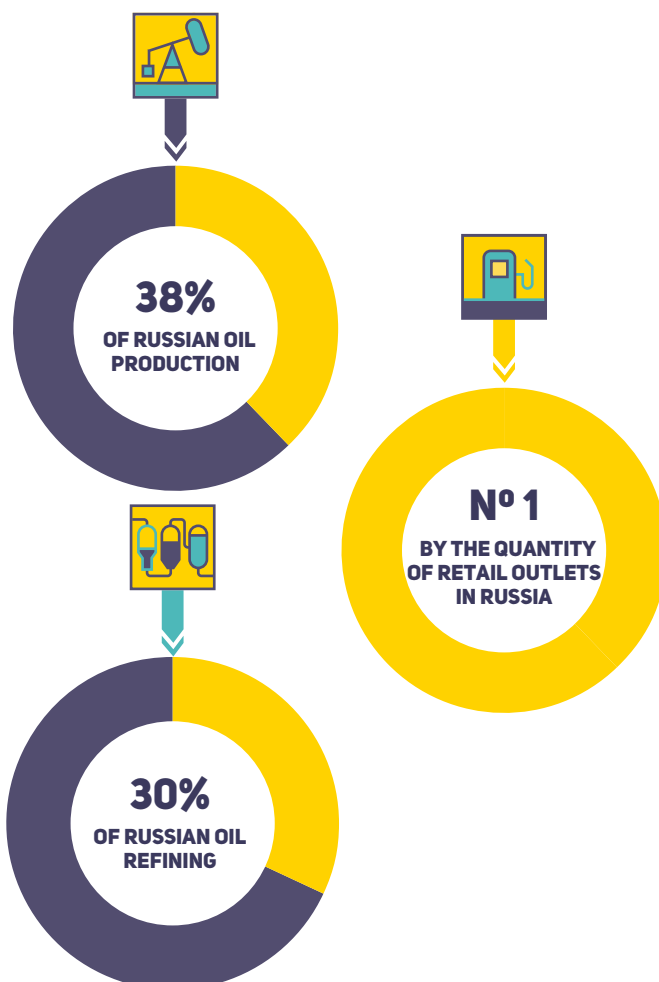


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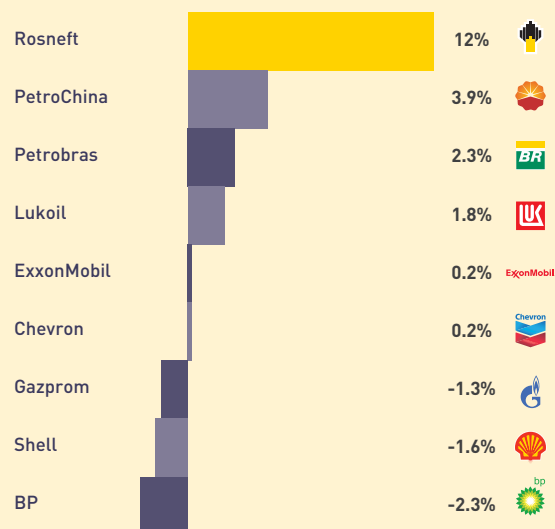
RUSSIAN REGIONS

23

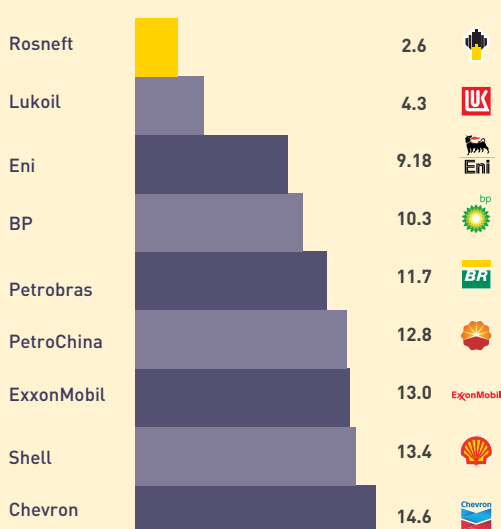
COUNTRIES OF OPERATION



## Average growth of hydrocarbon production from 2005 to 2015



## HC lifting costs<sup>2</sup>



1. Rosneft reserves are given according to Russian classification ABC1+C2 as of 01.01.2016, other companies' reserves are given according to reserves assessment by Wood Mackenzie, including commercial and sub-commercial reserves.

2. Lifting costs of PetroChina per 9 months of 2015.



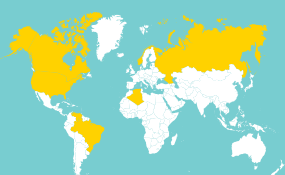
## 1.2. COMPANY STRUCTURE

**ROSNEFT**

### EXPLORATION, PRODUCTION, GAS BUSINESS AND IN-HOUSE SERVICES



#### EXPLORA- TION



##### RUSSIA

The Company performs onshore and offshore exploration in 19 regions and 11 seas of the Russian Federation

##### USA

Neftegaz Holding America Limited

##### BRAZIL

Rosneft Brasil E&P Ltda

##### NORWAY

RN Nordic Oil AS

##### ALGERIA

Gara Tisselit

##### VENEZUELA

Petromiranda S.A.

Petrovictoria S.A.

##### VIETNAM

Rosneft Vietnam B.V.\*

##### VENEZUELA

Petroperija S.A.

Boqueron S.A.

Petromonagas S.A.

##### CANADA

RN Cardium Oil Inc.

\*Upstream.



#### PRODUC- TION



##### TIMAN PECHORA

RN-Severnaya Neft LLC

##### RUSSIAN FAR EAST

RN-Sakhalinmorneftegaz LLC

Sakhalin-1

JSC Elvary Neftegaz

JSC RN Shelf-Dalny-Vostok

##### EAST SIBERIA

PJSC Verkhnechonsk-neftegaz

JSC Vankorneft

PJSC VSNC

Taas-Yuriakh

Neftegazodobycha LLC

JSC Suzun

Tagul'skoye, LLC

##### SOUTH FEDERAL DISTRICT

RN-Krasnodarneftegaz LLC

OJSC Grozneftegaz

OJSC RN Ingushneft

RN-Stavropolneftegaz LLC

PJSC OC Rosneft-Dagneft

JSC Dagneftegaz



#### OIL SERVICES



RN Servis, LLC

RN Burenie, LLC

RN-GRP, LLC

##### VENEZUELA

Precision Drilling de Venezuela

##### WEST SIBERIA

RN-Yuganskneftegaz LLC

RN-Purneftegaz LLC

OJSC Tomskneft VNK

RN-Uvatneftegaz LLC

JSC Samotlorneftegaz

JSC Rospan International

JSC RN-Nyaganneftegaz

OJSC Nizhnevartovskoye Oil Refining Enterprise

JSC Slavneft

Kynsko-Chassinskoye Neftegaz, LLC

JSC Tyumenneftegaz

CJSC Messoyakhanneftegaz

PJSC Varyoganneftegaz

##### CENTRAL RUSSIA

JSC Samaraneftegaz

OJSC Udmurtneft

PJSC Orenburgneft

Buguruslanneft, LLC



#### REFINERY



##### REFINRY ASSETS

###### Oil refining:

JSC Angarskaya Petrochemicals Company

JSC Achinsk Refinery VNK

JSC Novokuibyshev Refinery

JSC Kuibyshev Refinery

RN-Komsomolsk Refinery

JSC Ryazan Oil Refining Company

PJSC Saratov Refinery

JSC Syzran Refinery

RN-Tuapse Refinery LLC

Nizhnevartovsk Refining Holding, LLC

JSC

Slavneft-Yaroslavnesintez

###### Oil plants:

Novokuibyshev oil and additives plant, LLC

PJSC Rosneft – MZ Nefteprodukt

## REFINERY, COMMERCE AND LOGISTICS



### SALES



#### Petrochemicals and catalyzers:

JSC Angara Polymeric Plant

JSC Novokuibyshevsk  
petrochemical company

Novokuibyshevsk catalyzers  
plant, LLC

JSC Angarsk catalyzers and  
organic synthesis plant

#### Gas refining:

JSC Otradnensky gas refinery

JSC Neftegorsky gas refinery

#### GERMANY

Ruhr Oel GmbH

PSK Raffinerie GmbH

#### BELARUS

OJSC Mozyrsky Refinery

#### UKRAIN

JSC LINIK

RN-Nakhodkanefteprodukt LLC

RN-Vostoknefteprodukt LLC

RN-Arkhangelsknefteprodukt  
LLC

PJSC OC Rosneft-  
Kubannefteprodukt

RN-Tuapsenefteprodukt LLC

RN-Krasnoyarsknefteprodukt  
LLC

RN-Novosibirsknefteprodukt  
LLC

RN-Chechennefteprodukt LLC

RN-Ekaterinburgnefteprodukt  
LLC

RN-Chelyabinsknefteprodukt  
LLC

PJSC OC Rosneft-  
Altaineftprodukt

PJSC OC Rosneft-  
Kurgannefteprodukt

PJSC OC Rosneft-  
Smolensknefteprodukt

Kabardino-Balkar Fuel  
Company

OJSC OC Rosneft-Artag

PJSC OC Rosneft-  
Murmansknefteprodukt

JSC RN-Moscow

JSC Bryansknefteprodukt

JSC Voronezhnefteprodukt

JSC Lipetsknefteprodukt

JSC Ulyanovsknefteprodukt

JSC Samaraneftprodukt

PJSC Buryatnefteprodukt

JSC Tambovnefteprodukt

JSC Khakasnefteprodukt VNK

JSC RN-Tver

JSC NC Rosneft-Stavropolye

JSC Rosneft-Karachev-  
Cherkessnefteprodukt

RN-Ingushnefteprodukt LLC

PJSC OC Rosneft-  
Yamalnefteprodukt

RN-Trade, LLC

JSC Uralsevergaz

JSC Belgorodnefteprodukt

JSC Irkutsknefteprodukt

JSC Orelnefteprodukt

JSC Penzaneftprodukt

JSC Tomsknefteprodukt  
RN-Volgograd, LLC

JSC Rostovnefteprodukt

RN-Aero, LLC

NGK Intera, LLC

RN-Bunker, LLC

Zapsibnefteprodukt, LLC

PJSC Kaluganeftprodukt

PJSC Ryazanneftprodukt

JSC Karelianefteprodukt

PJSC Saratovnefteprodukt

JSC RN-Yaroslavl

Kurskobnefteprodukt, LLC

#### MONGOLIA

Rosneft-Mongolia Mergevan  
LLC

#### ARMENIA

Petrol Market, LLC

CJSC Rosneft-Armenia

#### KIRGIZIA

JSC Bishkek oil company

#### GEORGIA

Petrocas Energy International  
Limited

## 1.3. MILESTONE EVENTS IN 2015

### JANUARY

Rosneft started oil production in the Arktun-Dagi field under Sakhalin-1 Consortium.

**4.5 MMT**

ANNUAL PRODUCTION  
ACHIEVED AFTER RAMP-UP

### MARCH

Rosneft closed the transaction involving the acquisition of SANORS Petrochemical Holding. This transaction will boost the development of Rosneft's own import substitution and satisfy growing internal demand for main polymers and other chemicals with competitive quality and technologies in the Russian market.

### APRIL

As a part of Sakhalin-1 Consortium, Rosneft successfully drilled the world's longest well in the Chaivo field.

O-14 production well was drilled towards the edge south-eastern tip of the field from Orlan drilling platform. The well has the longest borehole of 13,500 meters.

Rosneft increases its oil supplies to the Czech Republic. Rosneft and PKN Orlen (Poland) signed an appendix to the contract for oil supply to the Czech Republic in Druzhba oil pipeline from May 1, 2015 through June 30, 2016.

**BY 120,000**

TONS PER MONTH INCREASED  
OIL SUPPLIES TO UNIPETROL  
RPA.



### MAY

Rosneft produced the millionth ton of oil at the Northern tip of the Chaivo field. And it happened only eight months after the first well was drilled in the field from the onshore site in September 2014.

### JUNE

Rosneft and Pirelli are expanding their marketing cooperation. Their agreement provides for further development of a retail chain selling Pirelli products at Rosneft's gas stations. The parties also agreed to continue the implementation of the projects involving the opening of Pirelli flagship tyre center in Russia.

The joint venture of Rosneft, Sberbank Investments, and Pietro Barbaro S.p.A. (JV) signed a legally binding framework agreement for the purchase by JV of ship assets from Pietro Barbaro Group in the Russian Federation (100% in Prime Shipping Group). The purchase of a logistic asset will help Rosneft to strengthen its positions in the cross-river transportation market and improve its operations performance, including oil and petroleum trading results as well as the safety of transportation in tankers.

Rosneft and ChemChina agreed about partnership to supply oil. The contract stipulates the supply of up to 200 thousand tons of oil to the PRC monthly. The contract was signed for a year.

### JULY



Rosneft and Statoil ASA completed pilot drilling in the North Komsomolskoye field. Throughout 2015, the companies jointly drilled two horizontal production wells. Project implementation may help to develop about 600 mmt of reserves in place in the North Komsomolskoye field in the long-term range.

### AUGUST

Rosneft closes the transaction involving the acquisition of Trican Well Service Ltd, Russian oil services company. This transaction will boost Rosneft financial and operating performance with regard to oil yield improvement services, downhole scope, and well cementing.

Rosneft and Japan Drilling Co, Ltd (JDC, Japan) signed an agreement for the provision and operation of HAKURYU-5, offshore drilling rig to be used for drilling of exploration wells under Rosneft's projects in Vietnam. The rig is planned to be used for drilling of two wells at blocks 06.1 and 05.3/11 in the Nam Con Son offshore in Vietnam in 2016.

### SEPTEMBER

On September 4, 2015 within the Eastern Economic Forum Rosneft agreed to sell to ONGC Videsh Ltd. 15% of Vankorneft. The transaction shall be closed upon performing the conditions precedent.





## OCTOBER

Rosneft acquired 100% of Solimoins project. As a result of the transaction Rosneft Brasil shall control 100% shares and get the status of hydrocarbons development project operator in Solimoins basin of the Amazon river (Brazil).

Rosneft and ExxonMobil were called winning bidders in the license round in Mozambique. The positive outlook of prospecting in license areas was confirmed by the analysis conducted by the geological services of both companies.

Rosneft agreed to sell 8.99% in Saras S.p.A. The Company earned over 38% to the initial acquisition price and sets an example of efficient portfolio management and optimization of Rosneft's assets.

## NOVEMBER

Rosneft and EGPC signed an oil product supply agreement. Execution of the agreement will allow Rosneft to be able to significantly expand its cooperation with Egypt and EGPC and strengthen its positions as a petroleum product supplier in North African markets.

Rosneft sold a 20% share in Taas-Yuriakh Neftegazodobysha LLC to BPRIL (a BP plc. Group company). The joint venture will continue to develop Srednebotuobinskoye field, one of the largest oil and gas condensate fields in East Siberia. The shareholders shall jointly take steps to create an infrastructure for further exploration and development reserves in the region.

Rosneft produced the second million ton of oil at the North edge of Chaivo field in 14 months upon putting the first well into operation.

## DECEMBER

In December 2015 Rosneft and Alltech Group completed a joint venture to develop upstream projects in the Nenetsk Autonomous District. Gas monetization is supposed to be performed by means of LNG plant construction. The Company's share in the joint venture amounts to 50.1%.

Rosneft sold a 50% share in Polar Lights Company LLC. The transaction was implemented on the conditions favorable for the Company fully in compliance with Rosneft's strategy aimed at the optimization of its asset portfolio.



Rosneft closed the transaction involving the acquisition of a 16.67% share in a Schwedt refinery from Total. The transaction is an organic element of Rosneft's strategy aimed at expanding its presence in the European key market and moving forward in the value chain.

Large-scale retrofit and upgrade were completed at all Rosneft refineries in 2015 driving the Company's transition to the production of Euro-5 Class gasoline and diesel fuel for the Russian market. The launch of Euro-5 fuel at Rosneft's refineries was driven by the implementation of a large-scale investment program involving refinery upgrades, high professionalism and efficient, well-coordinated efforts of the Company's specialists.

Rosneft and Polski Koncern Naftowy ORLEN S.A. (PKN Orlen) agreed to extend the agreement on oil supply to Poland of February 1, 2013.

Updated business terms and conditions stipulate a three-year extension of the agreement (from February 1, 2016 through January 31, 2019) and an increase of supplies to 25.2 mmt of oil for the whole period.

In December 2015 Rosneft and BP signed a legally binding agreement on Ruhr Oel GmbH (ROG) dissolution under the previously commenced rearrangement of refinery and petrochemical joint venture in Germany. Upon completion of the rearrangement by the end 2016 Rosneft shall become the direct shareholder and increase its share in Bayernoil refinery by 25% (from 12.5%); in MiRO refinery — by 24% (from 12%); in PCK Schwedt refinery — by 54.17% (from 35.42%). Rosneft shall also increase its share in Trans Alpine Line (TAL) from 5.5% to 11%. BP in turn consolidates 100% in Gelsenkirchen refinery and in DHC Solvent Chemie solvents plant.

## POST-REPORTING EVENTS

Rosneft and Grupa Lotos S.A. agreed to extend the agreement on oil supply to Poland of December 20, 2013. The updated business terms and conditions stipulate agreement extension for a year (until December 31, 2017) and a supply increase by 300 thousand tons to 2.7 mmt of oil per year.

**11.1**MMT

P.A. — INCREASE OF OIL SUPPLIES TO POLAND UPON EXTENSION OF THE AGREEMENTS WITH PKN ORLEN AND GRUPA LOTOS

Rosneft and General Electric signed a program on long-term strategic cooperation development.

The document includes a plan of construction of joint venture ship-building, oil/gas and electrical equipment manufacturing plants to ensure their timely construction and start-up.

On March 9, Rosneft Vietnam B.V., a Rosneft Group company, started drilling exploration well PLDD-1X at the Block 06.1 in the offshore in Vietnam. Under the project Rosneft for the first time will become an international offshore drilling project operator and confirm the Company's competences for implementing technically challenging complex offshore drilling programs.

On March 16, 2016 a Rosneft subsidiary and Oil India, Indian Oil and Bharat Petroresources consortium signed an s&p agreement for 29.9% share in Taas-Yuryakh-Neftegazobobysha, LLC. Previously in 2015 Rosneft sold a 20% share to a BP Group company. On March 16, 2016 Rosneft and ONGC Videsh.

ONGC Videsh Ltd. signed Memorandum of Understanding regarding cooperation at Vankor field, providing for potential increase in the Indian company share by 26% of Vankorneft shares and for reviewing potential development of joint operations in sphere of hydrocarbons trading, particularly, signing long-term oil supply agreements. On March 16, 2016 Rosneft and Oil India, Indian Oil and Bharat Petroresources signed master agreement for acquiring up to 23.9% of Vankorneft shares by the Indian group of companies. The companies also signed Memorandum of Understanding regarding cooperation at Vankor cluster (Suzunskoe, Tagulskoe and Lodochnoe fields).

## 1.4. MACROECONOMIC SITUATION IN 2015

The Company's operations in 2015 were significantly impacted by the following key macroeconomic factors:

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

### GLOBAL AND NATIONAL ECONOMY GROWTH RATES

The global economy growth rates slowed down in 2015 to 3.1 % YOY (3.4 % YOY in 2014) due to a slowdown in the economic dynamics of developing countries to 4 % YOY in 2015 4.6 % YOY in 2014). Such slowdown was due to the reduced scope of commodity products export, slowed down growth rate or reduced amount of investments and consumption rates.

The growth rates of developed economies (OECD) being key consumers of resources in the global market (USA, Japan, and Eurozone countries) in 2015 increased by 1.9 % YOY (1.8 % YOY in 2014).

The economic situation in Russia in 2015 was affected by worsening external trade conditions mostly triggered by decreasing oil prices and continued economic sanctions imposed by EU and the United States. Russian GDP in 2015 decreased by 3.7 % YOY.

According to the forecast of the International Monetary Fund (IMF) as of January, 2016, future global GDP growth rates will be faster and will reach 3.4 % YOY in 2016 and 3.6 % YOY in 2017. Growth rates in developed economies are expected at 2.1 % YOY in 2016 and 2017 and those in develop-

ing countries, at 4.3 % YOY and 4.7 % YOY respectively. According to the IMF forecast, 2016 GDP of the Russian Federation is to decline by 1 % YOY (according to the forecast of the Ministry of Economic Development — by 0.7 %); in 2017 the economy is forecasted to grow by 1 % YOY.

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

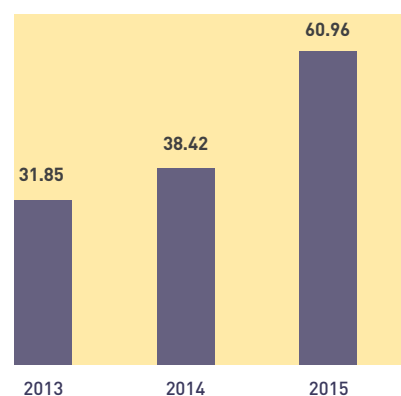
2015 was characterized by the growing imbalance in the global oil market with supply significantly exceeding demand which was a key factor for a decline in the global oil prices in 2015 by more than 47%.

In the context of low global oil prices, Russia, as well as many other countries exporting oil, experienced the devaluation of its national currency. RUB devaluation against USD based on 2015 results amounted to 37.0 % (versus 17.1 % in 2014).

Inflation in Russia remained high: the consumer price index and producer price index in December 2015 was at 12.9 % and at 10.7 % year-on-year, respectively.

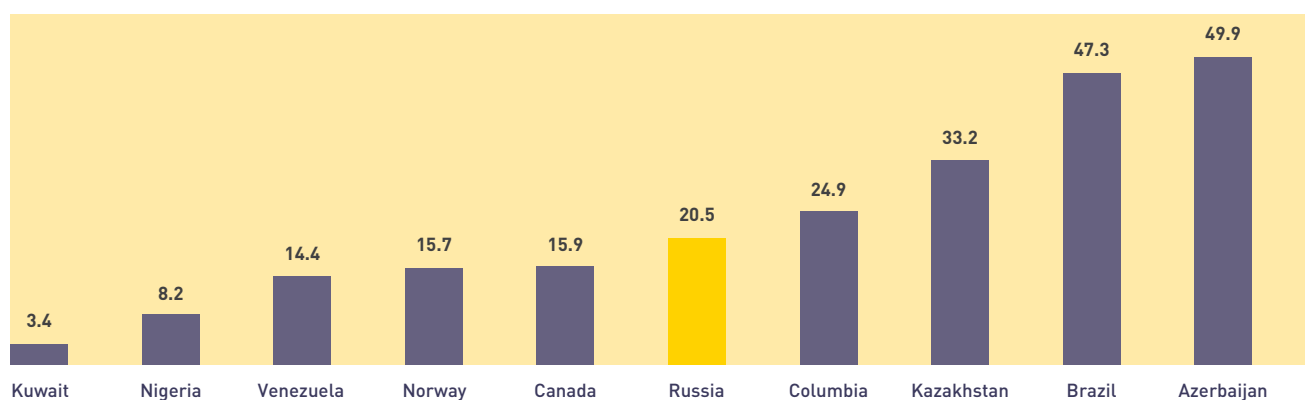
The transportation expenses of oil companies in Russia increased significantly in 2015. The indexation of Transneft tariff rates for main oil pipelines was at 6.5 % YOY and at 7.5 % YOY for oil transportation to eastern regions via the ESPO pipeline. Government-regulated tariff indexation, duties, and charges for cargo transportation and infrastructure services during shipments by Russian Railways in 2015 amounted to 10 % YOY.

### Average nominal USD rate for the period, RUB/\$



Source: the Bank of Russia

**Devaluation of national currencies in countries exporting oil vs USD  
in 2015 (FX rate change as of the year-end), %**



Source: Bloomberg





## 1.5. 2015 OIL AND GAS INDUSTRY OVERVIEW

### GLOBAL OIL INDUSTRY OVERVIEW

Based on 2015 results, the global hydrocarbon liquids (HL) demand<sup>1</sup> reached 94.4 mm bbl/day with 34 % of the global demand concentrated in Asia. According to IEA, the growth rates of global HL demand in 2015 increased by 1.7 % YOY versus 1.0 % YOY in 2014. The demand was mainly supported by Asian countries and predominantly by China, which accounted for 36 % of global HL demand increase in 2015.

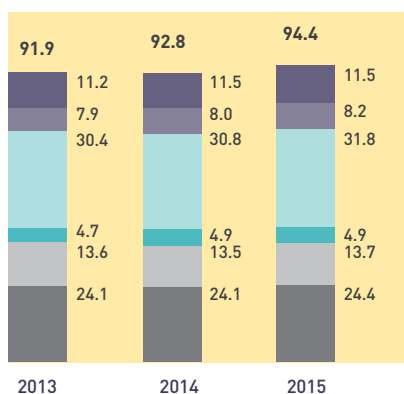
According to IEA, the global HL<sup>2</sup> supply in 2015 amounted to 96.4 mm bbl/day which was 2.8 % above 2014 level. A significant increase in hydrocarbon production worldwide in 2015 was driven by the exponential investment growth driven by high oil prices in 2011–2014.

About 47 % of the demand growth in 2015 was supported by growing production in OPEC countries. In particular, Saudi Arabia declared its intent to increase its own market share

and raised its crude oil production (without gas condensate and other liquefied gases) to 10.1 mm bbl/day (+6 % YOY). Furthermore, the United States significantly contributed to an increase in the global supply with production in 2015 reaching 9.4 mm bbl/day (+8 % YOY) driven by the perceptible growth of shale oil production.

As a result, IEA reported an even higher gap between the global supply and demand in the oil market in 2015 with the supply being 2 mm bbl/day above

### HL demand by region, mm bbl/day



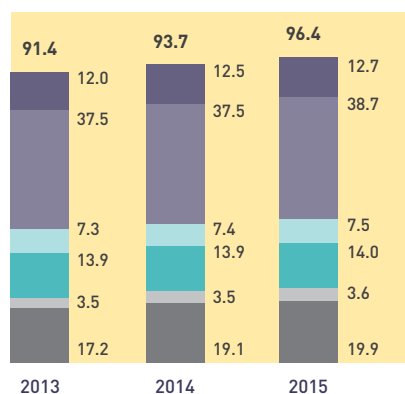
Source: International Economic Association (IEA)

■ America OECD    ■ Asia  
■ Europe OECD    ■ Middle East  
■ Former Soviet Union\*    ■ Other countries

\* Excluding Estonia

\*\* % YOY was calculated based on unrounded values

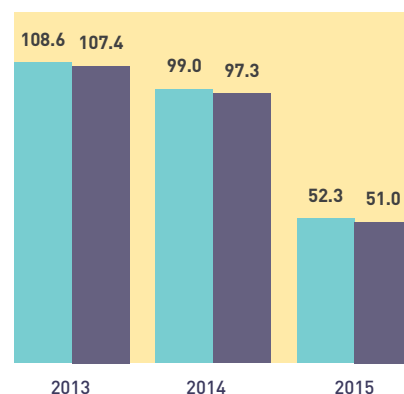
### HL supply by region, mm bbl/day



Source: International Economic Association (IEA)

■ America OECD    ■ Asia  
■ Europe OECD    ■ Middle East  
■ Former Soviet Union\*    ■ Other countries

### Average annual oil prices in the world market



Source: IEA

■ Brent  
■ Urals

1. HL demand is hereinafter understood as oil product consumption; oil consumption as fuel, and consumption of hydrocarbon components produced from non-conventional energy sources (biofuels, GTL, CTL, etc.).
2. HL supply is hereinafter understood as production of crude oil and gas condensate as well as production of hydrocarbon components from non-conventional energy sources (biofuels, GTL, CTL, etc.).
3. According to IEA.

the demand which resulted in a 22 % growth of commercial crude oil stock in OECD countries to 1.2 billion barrels versus the average indicator between 2010 and 2014. The United States accounted for over 57 % increase in commercial stock in OECD countries in 2015. As of January 1, 2015, U. S. commercial inventories reached 482 mm bbl, which was 26 % higher YOY<sup>4</sup>.

IHS forecasts an increase in the global HL5 demand to 95.5 mm bbl/day (+1.3 % YOY) and to 97 mm bbl/day (+1.6 % YOY) in 2016 and 2017, respectively.

Reduced investment of oil and gas companies in 2015 and announced investment cuts in 2016 will mean an insignificant increase in global HL supply to a mere 96.1 mm bbl/day (+0.2 % YOY) in 2016 and to 97 mm bbl/day (+0.9 % YOY) in 2017.

HL demand growth rates being exponential to HL supply will contribute to a gradual reduction in supply surplus in

2016 and a balance between the supply and demand in the global HL market in 2017.

According to IEA forecast, a long-term sustainable growth of the global hydrocarbon liquids demand can be expected by 2030 with average annual growth rates of about 0.6 %. In 2030, the share of HL and natural gas in the global energy consumption structure will be 28 % and 23 % respectively.

According to the current estimates global gas demand grew by 3.1 % in 2015 to make 3.5 tcm. Gas still shows the highest growth among fossil fuels due to growing availability of gas in the form of LNG among the rest, a good number of procurement sources and significant global explored resource potential. Position of many countries for tightening ecological standards, particularly related to CO<sub>2</sub> discharge control also supports the market.

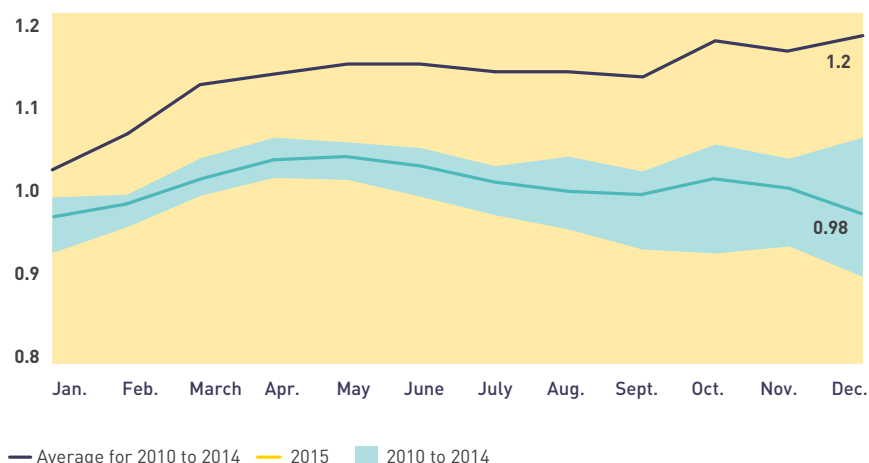
In general LNG market keeps advanced growth rates. In 2015 LNG market

grew by 3.2% to 250 mmt. For the last 10 years export LNG supplies grew by 87 %, provided that export of pipeline gas showed only 6 % growth. This tendency shall maintain and LNG market shall show outstripping growth rates, as forecasted.

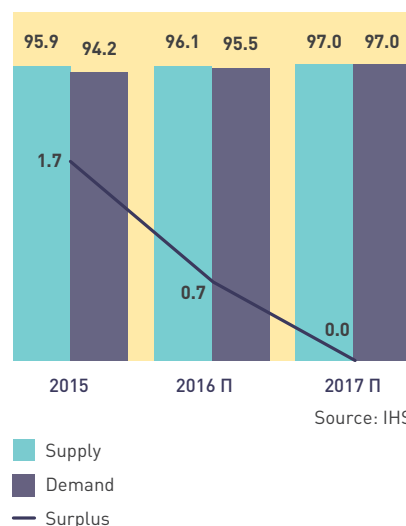
Despite growing demand, competition is accelerating among the suppliers. In the next few years an unprecedented number of LNG projects shall be put into operation. 14 new LNG plants with the total annual capacity of 127 mmt are scheduled for commissioning in 2016-2020. A considerable number of projects are currently expecting the relevant investment decisions. Still, growing competition and complicated conditions cooled down the market. The less efficient projects are postponed or delayed.

Enhanced usage of gas as motor fuel is another important trend, leading to increasing gas demand. Entry into global gas markets is a long-term strategic goal of the Company.

### Commercial crude oil stock in OECD countries, bln bbl/day



### Forecasted global HL supply and demand, mm bbl/day



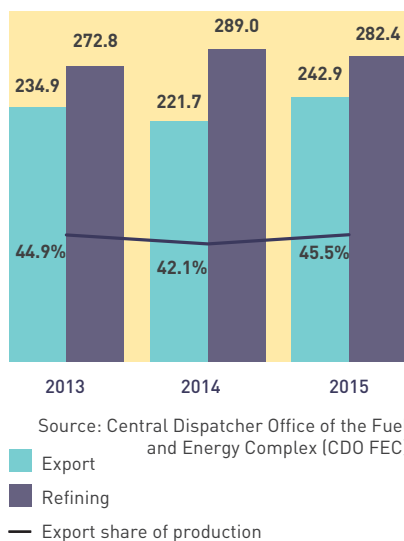
Source: IHS

4. According to the U.S. Energy Information Administration (EIA). Insignificant discrepancy with IEA data.

5. HIS data were used for forecasted global HL supply and demand in 2016-2017 as IEA Oil Market Report covers global demand assessment in 2016 only. HL supply and demand details for 2015 provided by IHS are slightly different than the ones provided by IEA due to the use of different calculation methods.



### Oil and gas condensate export from and refining in Russia, mmt

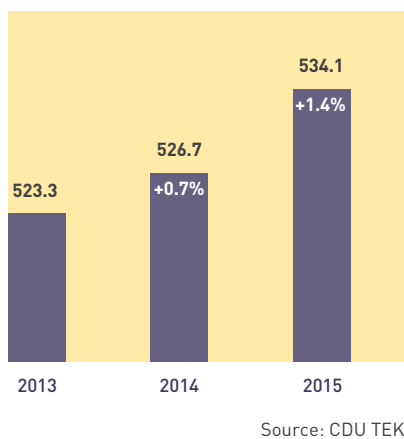


### OVERVIEW OF THE RUSSIAN OIL AND GAS INDUSTRY

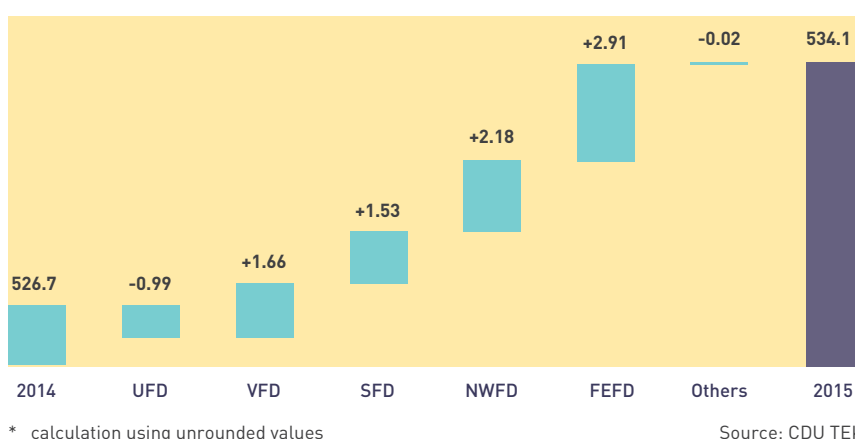
Oil and gas condensate production in Russia in 2015 reached 534.1 mmt, which was 1.4% above the 2014 level. However, the national share in the global HL demand reduced insignificantly to 11.1% versus 11.3% in 2014. Lower oil production volumes in the Ural Federal District, a major producing region (56% of the total production), was offset by higher oil production rates in the Volga (22%), Siberian (9%), Northwestern (6%), and Far Eastern (5%) Federal Districts.

The “big tax maneuver” in the Russian oil industry made oil refining less appealing as compared to oil export in 2015. Despite growing production volumes, oil refining decreased by 2.3% YOY to 282.4 mmt, while oil export increased by 9.6% YOY to 242.9 mmt. Therefore, an average annual export share in oil production based on 2015 results increased to 4.5%, being maximum during the last three years.

### Oil and gas condensate production in Russia, mmt



### Oil and gas condensate production mix by Russian Federal District\*, mmt







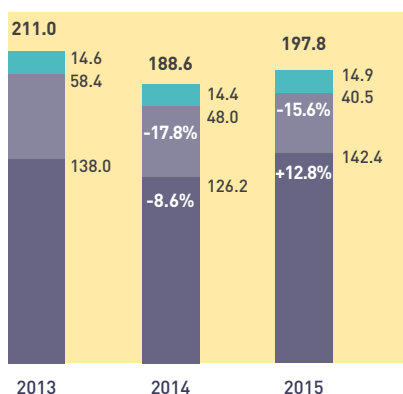
## DOMESTIC GAS MARKET

Despite the reduction of gas consumption in Russia, in 2015 the Company increased gas supplies to the domestic market by 2 bcm vs 2014 and sold over 58 bcm of gas, respectively strengthening its position in the Russian gas market and keeping the second place among independent gas producers with a 16 % market share.

Long-term gas supply agreements portfolio is a competitive advantage

of Rosneft allowing active development of new projects and gas production increase. Gas business in the Russian Federation is characterized by steady cash flow. Continuous upward dynamics of domestic gas price is particularly important in the context of global trade and capital markets volatility. Average gas price in Russia by the end of 2015 was 64 % higher than in the beginning of 2010.

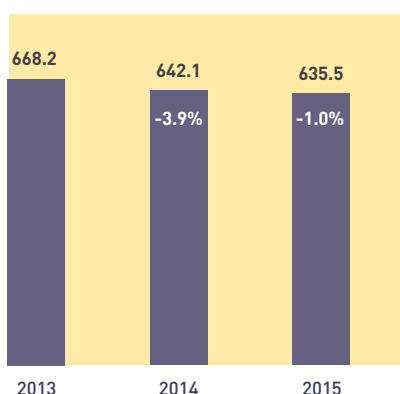
## Natural gas export from Russia, bcm



Sources: Federal Customs Service and IHS

- Overseas
- Neighboring countries
- CIS

## Natural gas production in Russia, bcm

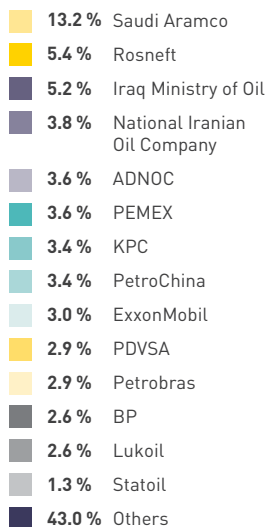
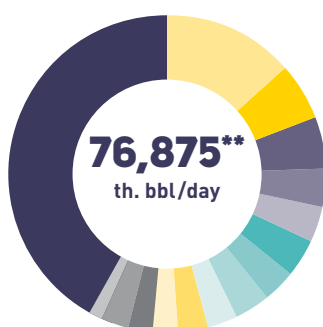


Source: Russian Statistics Agency, Unified Inter-departmental Statistical Information System

\* includes natural gas and associated gas from oil fields

## 1.6. COMPETITIVE ANALYSIS

### Global oil production\*



\* Source: average HL production per day in 2015 according to Wood Mackenzie.

\*\* Source: global oil production in 2015 according to Wood Mackenzie.

### Upstream (hydrocarbons exploration and production)

Rosneft is the largest oil and gas company in Russia and the world's largest holder of hydrocarbon reserves and hydrocarbon liquids producer among other public oil and gas companies. As at December 31, 2015, the proven hydrocarbon reserves of Rosneft approximated 34465 million barrels of oil equivalent (about 4654 MTOE) 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. Rosneft hydrocarbon reserves increased by 488 million barrels of oil equivalent (59 MTOE). The growth of reserves

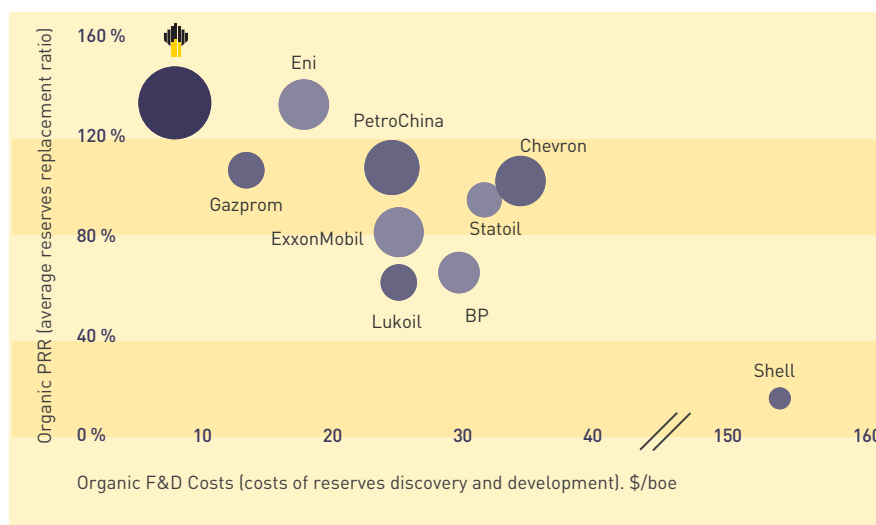
was achieved despite a significant reduction in benchmark oil prices.

The proven hydrocarbon reserves replacement ratio according to SEC classification amounted to 124% (the ratio is based on metric units). According to SEC, Rosneft proven hydrocarbon reserves in 2015 were sufficient for 19 years.

Rosneft leads with volumes and organic growth of reserves among other public oil and gas companies in Russia and abroad by traditionally demonstrating high performance of its prospecting efforts.

**THE COMPANY'S SHARE IN OIL PRODUCTION APPROXIMATES 40% IN THE RUSSIAN FEDERATION AND EXCEEDS 5% GLOBALLY.**

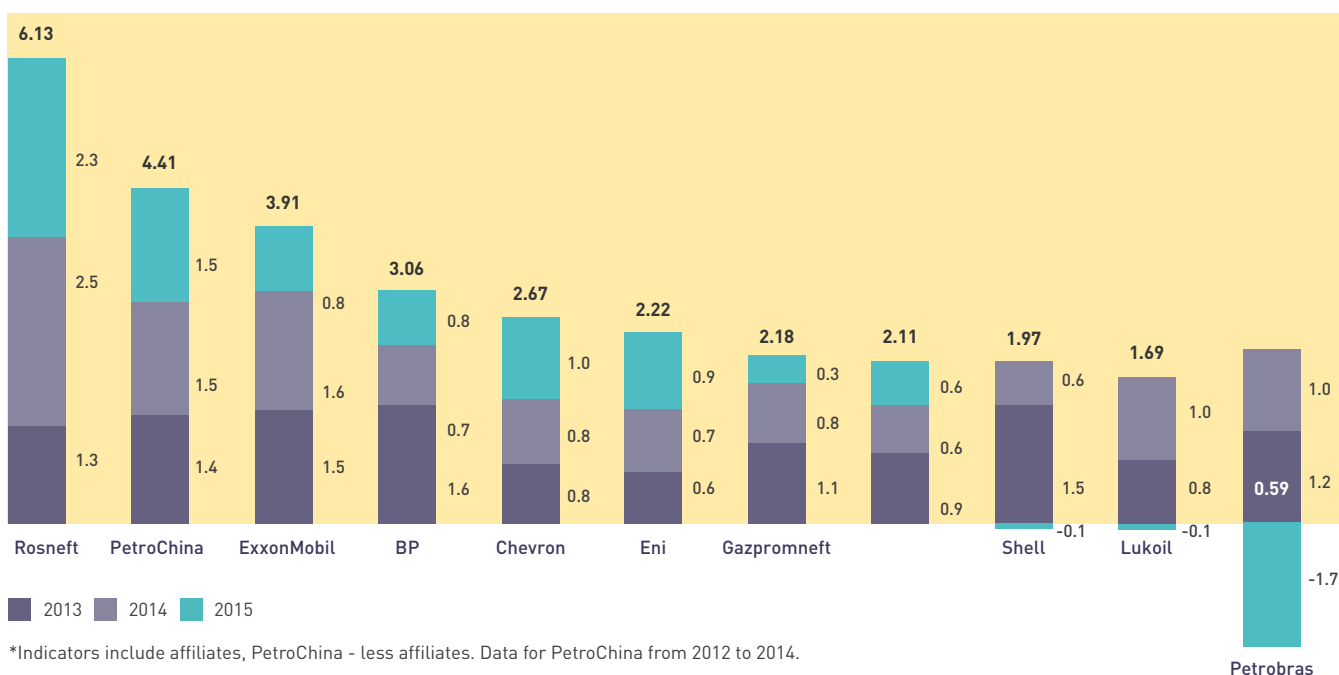
### Replacement of reserves and upstream costs\*



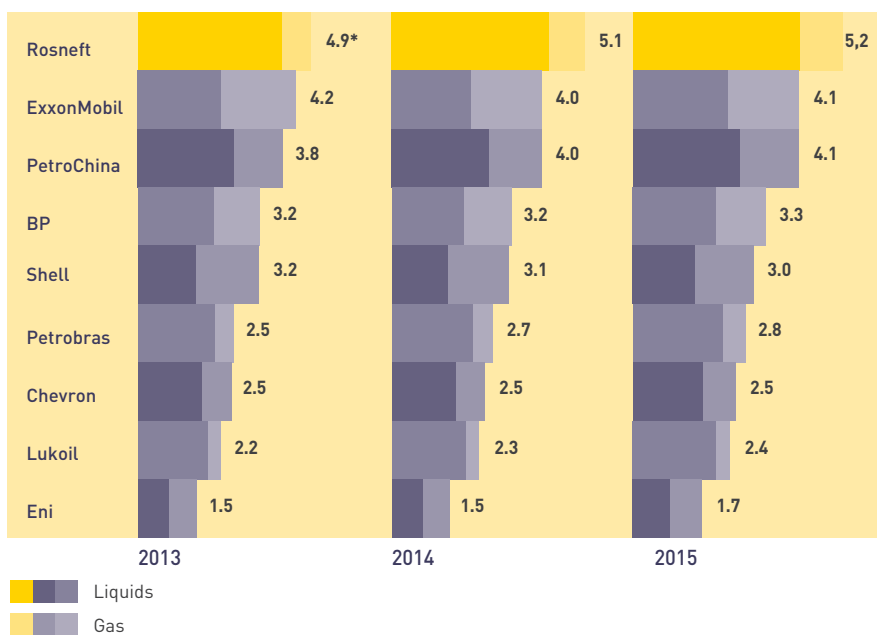
\*Indicators include affiliates, PetroChina - less affiliates. Data for PetroChina from 2013 to 2014.



## Organic growth of reserves (SEC), bln boe

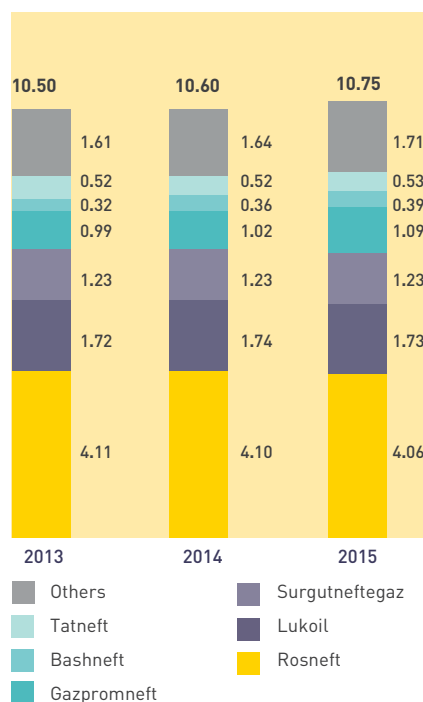


## Hydrocarbons production, mm boe/day



\*Rosneft data for 2013 – standard daily production.

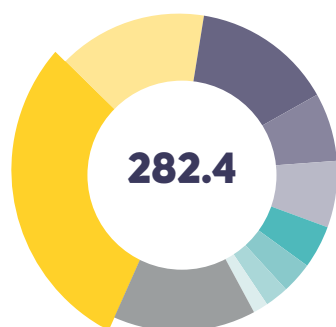
## Oil and gas condensate production in Russia, mm boe/day



\*Rosneft data for 2013 – standard data.



## Structure of oil refinery in the Russian Federation in 2015, mmt\*



84.7	Rosneft
42.0	Lukoil
39.5	Gazpromneft
19.3	Bashneft
18.7	Surgutneftegaz
12.1	Gazprom
8.8	Tatneft
6.7	Novatek
4.2	NNK
40.1	Independent refineries

\*According to CDU TEK.

Rosneft's growth of hydrocarbon production in 2015 in anticipation of launching new projects in 2016–2018 amounted to 1 % (the growth of hydrocarbon production of its international peers in 2014 before the active launch of new projects was as follows: ExxonMobil (-4.5 %), Shell (-3.7 %), BP (-2.4 %), Chevron (-1 %), and Statoil (+0.6 %)).

After the launch of new projects and production growth in new fields in 2015, international oil and gas companies demonstrate a production growth from 2 % (Chevron) to 5 % (Statoil).

Rosneft takes robust efforts to start commercial production in new large fields in East and West Siberia between 2016 and 2020, including Suzunskoye, Tagulskoye, Lodochnoye, Urubcheno-Tokhomskoye, Russkoye, Kharampur (gas deposits) and Kynsko-Chaselskoye license area.

During the development of the aforementioned fields, the Company plans to use new drilling technologies (including drilling

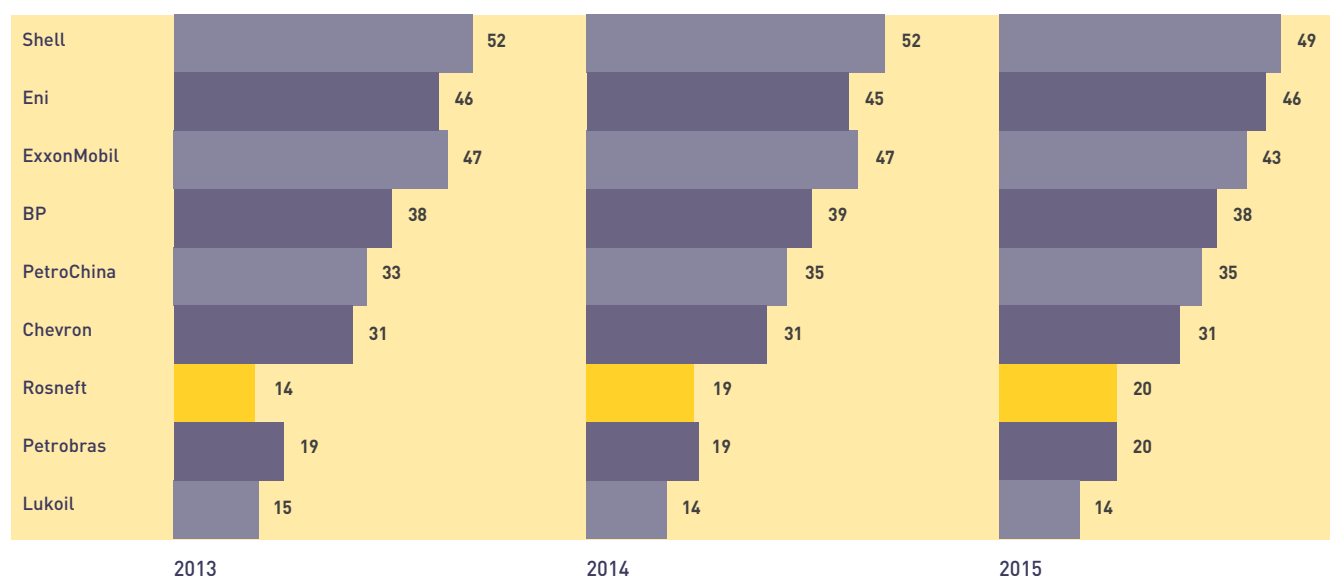
of horizontal wells) that have proven to be, efficient at the Company's producing fields, allowing mid-term development of significant oil and gas reserves, hard-to-recover reserves.

Against the backdrop of the global growth of production and use of gas as the greenest fossil fuel, Rosneft continues to expand the gas share in its asset portfolio and in hydrocarbon production volumes (above 20 %), gradually closing the gap with major international companies (30–50 %).

## Downstream (refinery and sales)

Rosneft is the largest oil and gas refining company in the Russian Federation. Over recent years refinery operations of the Company were focused on covering market demand in quality oil products with support from continuing performance of modernization program. In 2015, the Company completed transition to the production of Euro-5 fuels for the domestic market in line with the requirements of Technical Rules of Procedure.

## Gas share in hydrocarbons production, %



Rosneft is an active player in the oil and petroleum product market in and outside Russia. Crude oil is mainly exported and supplied to own refineries in the Russian Federation and abroad. Crude oil is exported to European, APR and CIS countries, sold in the international market and supplied for refining to the own refineries in the Russian Federation and abroad. The Company is consistently expanding its export volumes under long-term contracts, including oil supplies under contracts with CNPC and direct contracts to Europe.

The Company's main competitors in Russian oil export are Russian vertically integrated companies including LUKOIL, Surgutneftegaz, and Gazprom Neft. There is no direct competition in 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 sea port terminals.

The main competitors supplying other crude oil grades in the export market are such international and national oil

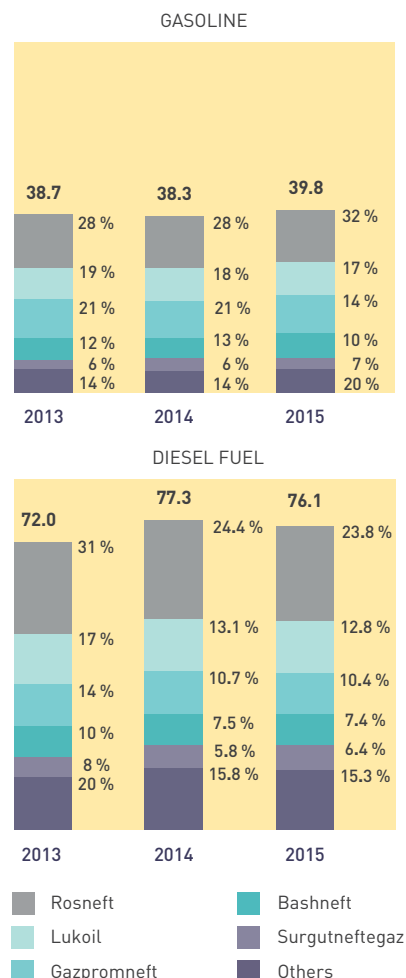
companies as Shell, BP, ExxonMobil, Chevron, Total, Statoil, Saudi Aramco, NIOC, and others. Oil sales to third parties in the domestic market are insignificant, and oil is mainly refined at Rosneft's own refineries.

According to CDU TEK Rosneft share in the wholesales motor gasoline and diesel fuel market of the Russian Federation made 27 % and 30 % respectively in 2015.

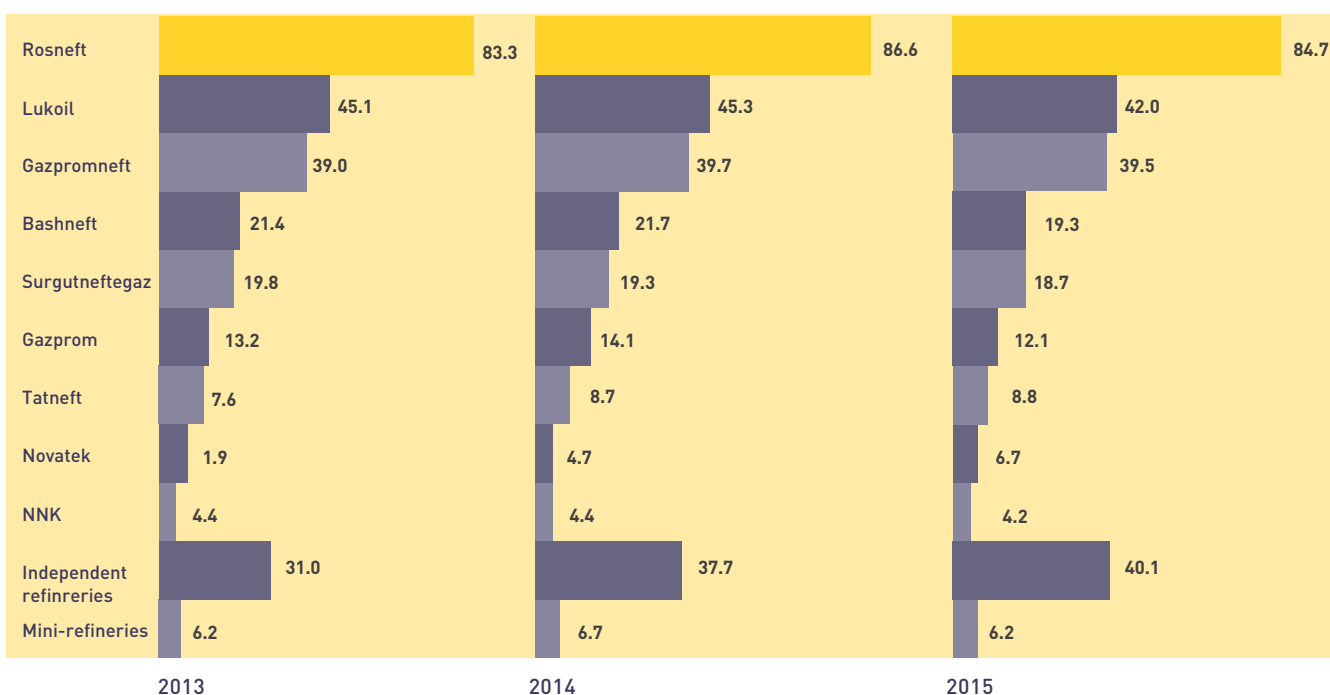
Rosneft has the largest retail chain (2363 gas stations) across Russia. Petroleum products in the domestic market are sold in all federal districts of the Russian Federation. The Company has sufficient own and engaged infrastructure for oil products procurement (oil bases, filling stations) with account for regional markets capacity and consumer demand.

Rosneft trademark is one of the most recognizable in the market in the regions where the Company operates and is associated with decent fuel quality at gas stations which is highly important to remain competitive.

## Motor fuel production in the Russian Federation, mmt



## Oil refinery dynamics in the Russian Federation, mmt



\*According to CDU TEK, MD&A of the companies.

Oil and oil products are exported to European, APR and CIS countries. The Company's presence is being expanded on the back of oil refining at Ruhr Oel refineries in Germany. The Company's main competitors exporting Russian oil are such Russian vertically integrated companies as LUKOIL, Surgutneftegaz, and Gazprom Neft.

The main competitors supplying oil products to the export market are such international and national oil companies like Shell, BP, ExxonMobil, Chevron, Total, Statoil, Saudi Aramco, NIOC, and others.

### Operational and financial performance

Amid continuing oil price reduction, Rosneft demonstrated strong operational, financial, and investment management performance in 2015.

It managed to cut its USD CAPEX in USD terms by 30% y/y while global peers reduced spending by 15 - 20%.

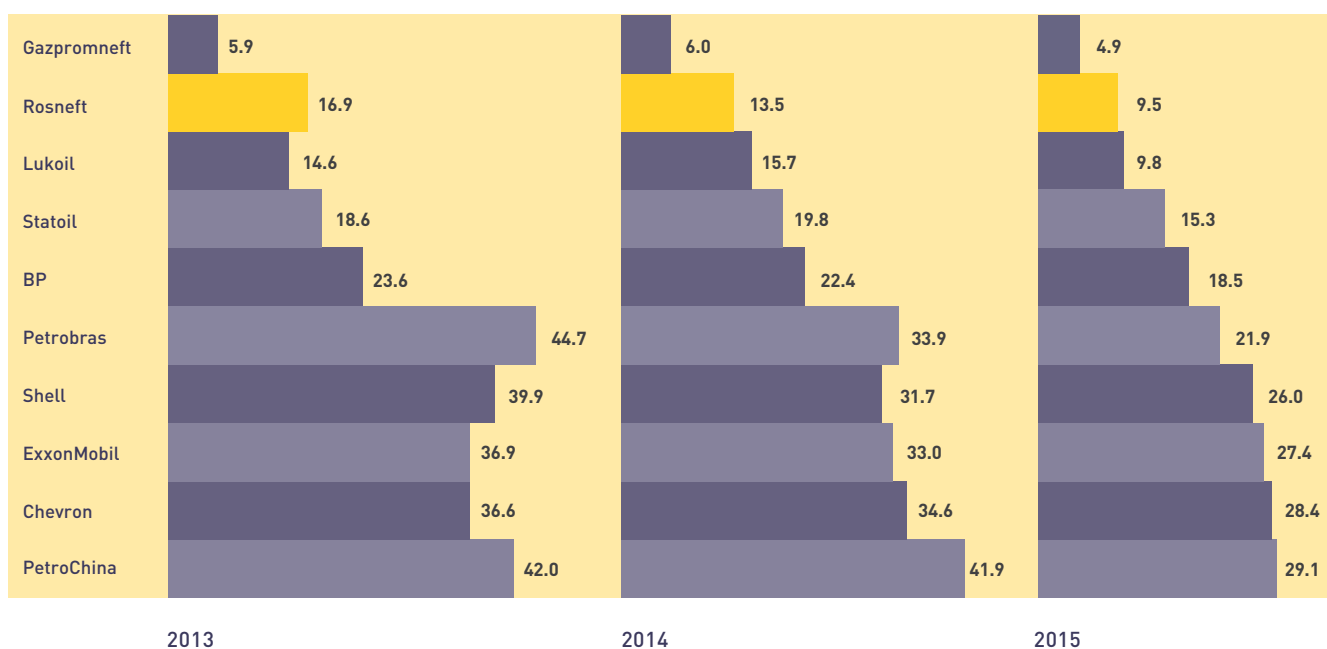
Highly efficient investment in exploration and production helped the Company to maintain oil production and increase gas output by 10 % with the lowest unit CAPEX level in the peer group.

Rosneft has long been a leader in the oil industry in terms of lifting cost. In 2015, the Company almost returned to the 2011 production cost level after successfully integrating new assets acquired in 2013.

With global oil prices decreasing by almost half in 2015, Rosneft minimized the decline in its unit free cash flow by optimizing the capital program structure, maximizing its operational profits, and efficiently managing its

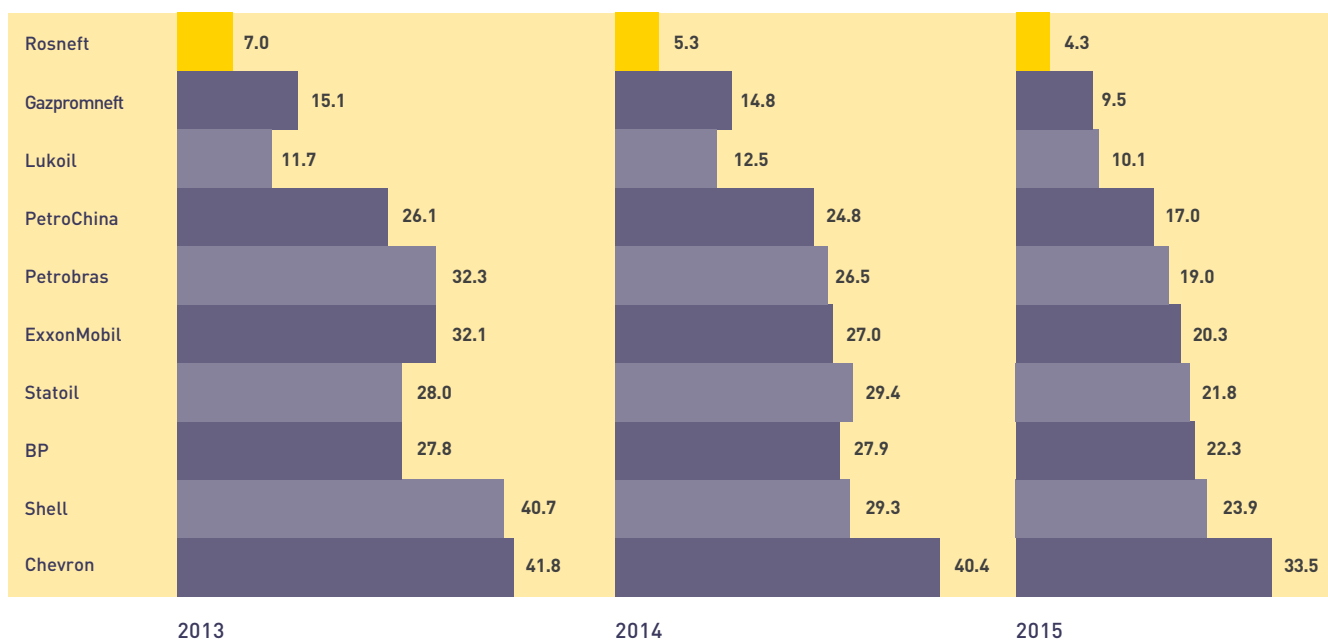
working capital. Therefore, it maintained its leadership among Russian and international companies in this respect and dividend pay out in full.

### CAPEX, Upstream and downstream (majors), bln \$

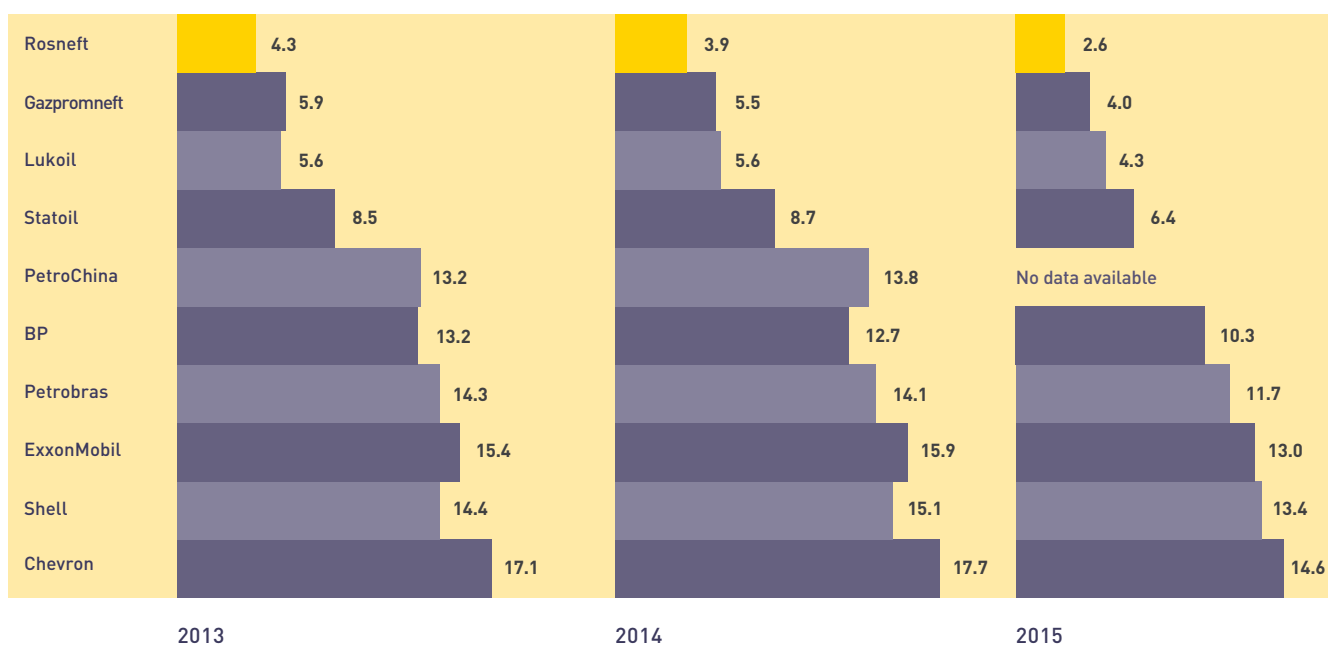




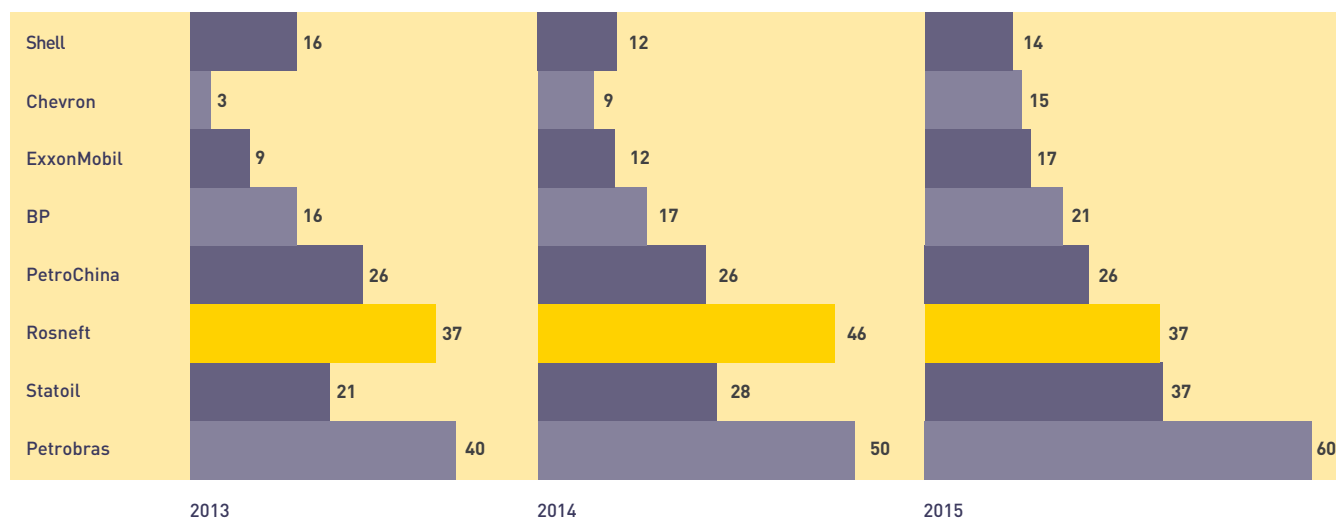
## Unit CAPEX, Upstream \$/boe



## Lifting costs, \$/boe

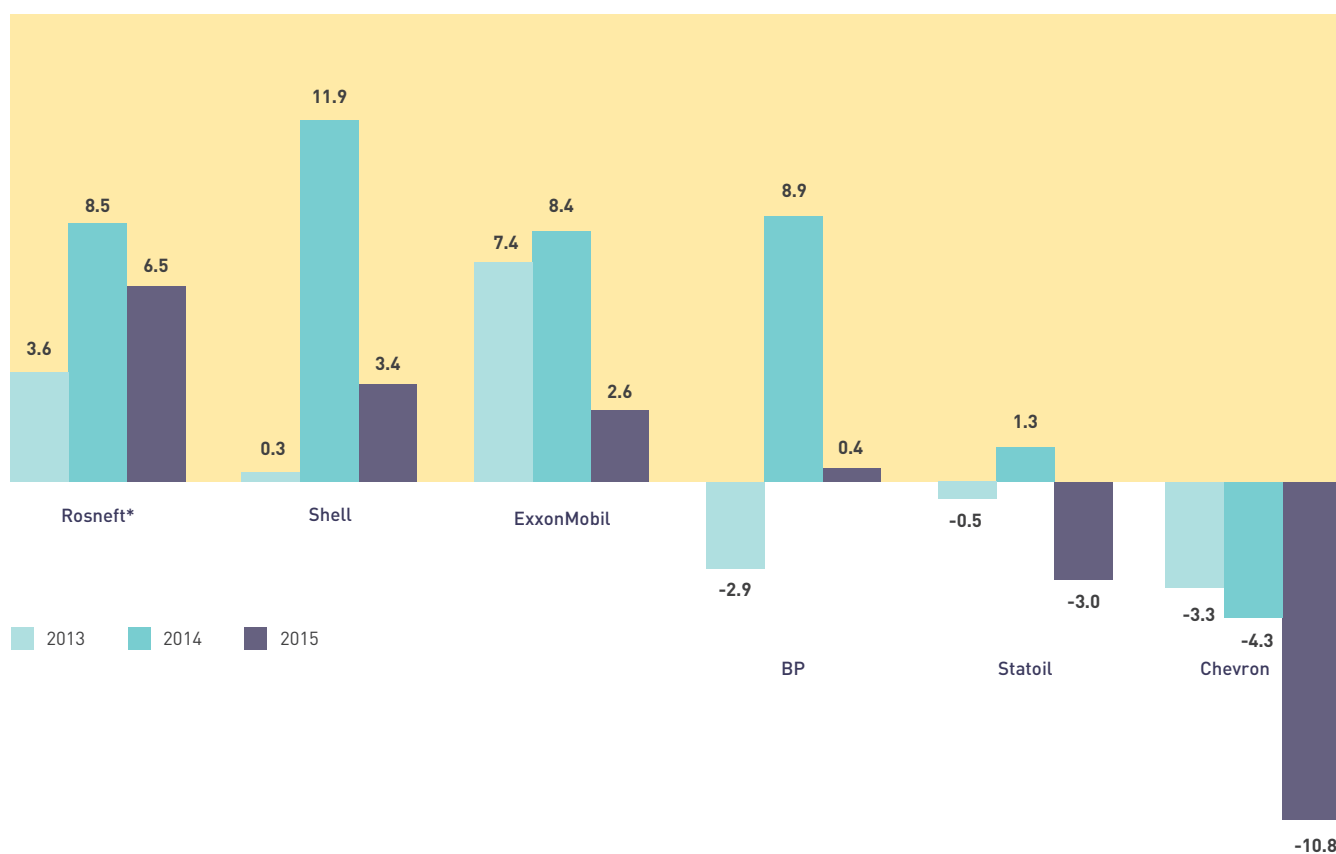


## 2013–2015 Financial leverage\* (gearing): comparative analysis, %



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

## 2013–2015 FCF: comparative analysis (majors), \$/boe



\* Per boe of hydrocarbons production, including affiliates.

## 1.7. OVERVIEW OF SIGNIFICANT TAXATION CHANGES IN THE RUSSIAN FEDERATION



Federal Law No. 366-FZ as of November 24, 2014, introduced the so called "big tax maneuver" in the oil industry which stipulated:

### **Gradual growth in Mineral Extraction Tax (MET) on crude oil and gas condensate**

MET base tax rate was set for 2015 at RUB 766 per ton (instead of old target RUB 530 per ton), and for 2016 and 2017 at RUB 857 and RUB 919 per ton, respectively. An approach to MET tax benefits calculation was changed as well. The tax benefit (Dm) is determined based on a rate of RUB 530 per ton for 2015 (RUB 559 per ton after January 01, 2016) and a series of adjustment factors. It is then subtracted from the overall tax rate determined as the base MET rate multiplied by pricing

coefficient. Therefore, the zero MET rate during oil production for individual regions (the so called tax holidays) and for crude oil with viscosity over 200MPa\*c (but below 10000MPa\*c) was replaced with a discounted rate. However, the zero MET rate will remain for the oil produced from hydrocarbon deposits classified as Bazhenovsk, Abalak, Hadum, and Domanik layers.

MET on gas condensate is calculated taking into account the adjustment factor.

### **Reduction of the maximum export customs duty rates for crude oil and oil products**

In 2015, K coefficient in the formula defining the maximum total export customs duty rate for crude oil is

set at 42%, if average Urals oil price (oil) in the global markets exceeds USD 182.5 per ton {Rate (total) =  $K \times (\text{oil} - 182.5) + 29.2$ }. This is below the previous target coefficient value (57%). K value in 2016 remains at the 2015 level (42%), while it will be reduced to 30% starting from 2017.

Furthermore, the formula defining the maximum discounted customs duty rate for crude oil with special physico-chemical characteristics was changed. The new formula provides for the following determination of the discounted export duty rate: Rate (reduced) (above zero) =  $(\text{oil} - 182.5) \times K - 56.57 - \text{oil} \times 0.14$ . Maximum export customs duty rates were also set by law for certain oil refining products (percentage of the export duty rate for crude oil).



## Reduction of the excise rates on oil products versus previous target excise rates stipulated by law

Types of excisable goods	New excise rates for 2015 (RUB per ton)	Previous target excise rates for 2015 (RUB per ton)
<b>GASOLINE</b>		
non compliant with Classes 3, 4, and 5	7,300	13,332
Class 3	7,300	12,879
Class 4	7,300	10,858
Class 5	5,530	7,750
<b>DIESEL FUEL</b>		
non compliant with Classes 3, 4, and 5	3,450	7,735
Class 3	3,450	7,735
Class 4	3,450	5,970
Class 5	3,450	5,244
Straight run gasoline	11,300	13,502
Motor oils	6,500	9,086
Heating gas oil	3,000	7,735
Jet fuel	2,300	–
Benzene, paraxylene and ortoxtylene	2,300	–

### 2015 coefficients applicable to the accrued amount of excise and determining an increased excise deduction:

- 1.37 for straight run gasoline;
- 2.88 for benzene, ortoxtylene, and paraxylene; and
- 2 for jet fuel.

### Introduction of a “negative excise” for certain oil products

Increased deductions (the so called negative excise) were applied by law to straight run gasoline, benzene, ortoxtylene, paraxylene, jet fuel.

Furthermore, the Russian Tax Code was complemented by the provisions of the Federal Law No.376-FZ as of November 24, 2014, governing the income tax imposed on foreign companies controlled by Russian

entities and foreign entities income. These amendments particularly outline the conditions for determining a controlled foreign company; criteria for taxation procedure and a basis for tax exemption for a controlled foreign company; liability for non-payment (incomplete payment) by a controlling person of the tax accrued on the controlled foreign company's income. The Tax Code was also amended with the definitions of fiscal residence of legal entities and beneficiary owner of income.



Terminal of PJSC Rosneft-Kubannefteprodukt

# 1020304

## MISSION AND STRATEGY

ROSNEFT STRATEGY PLAN SETS THE KEY TARGETS OF LONG-TERM  
DEVELOPMENT THROUGH THE YEAR OF 2030

CORPORATE  
STRATEGY



LONG-TERM  
DEVELOPMENT  
PROGRAM



BUSINESS  
PLAN



PERFORMANCE  
INDICATORS



OPERATING AND FINANCIAL RESULTS





**ROSNEFT MISSION IS EFFICIENT  
UNLOCKING OF RUSSIA'S ENERGY  
POTENTIAL, ENSURING ENERGY  
SECURITY, AND PROPER CARE OF  
NATURAL RESOURCES. ROSNEFT  
IS THE DRIVER OF THE RUSSIAN  
OIL AND GAS INDUSTRY  
DEVELOPMENT AND GUARANTOR  
OF THE EFFICIENT USE OF  
RUSSIA'S UNIQUE RESOURCE  
BASE AND OF NATIONAL ENERGY  
SECURITY**



## 2.1. BUSINESS MODEL

**ROSNEFT BUSINESS MODEL  
ENSURES SHAREHOLDER  
WEALTH GROWTH,  
USING THE COMPANY'S  
COMPETITIVE ADVANTAGES**

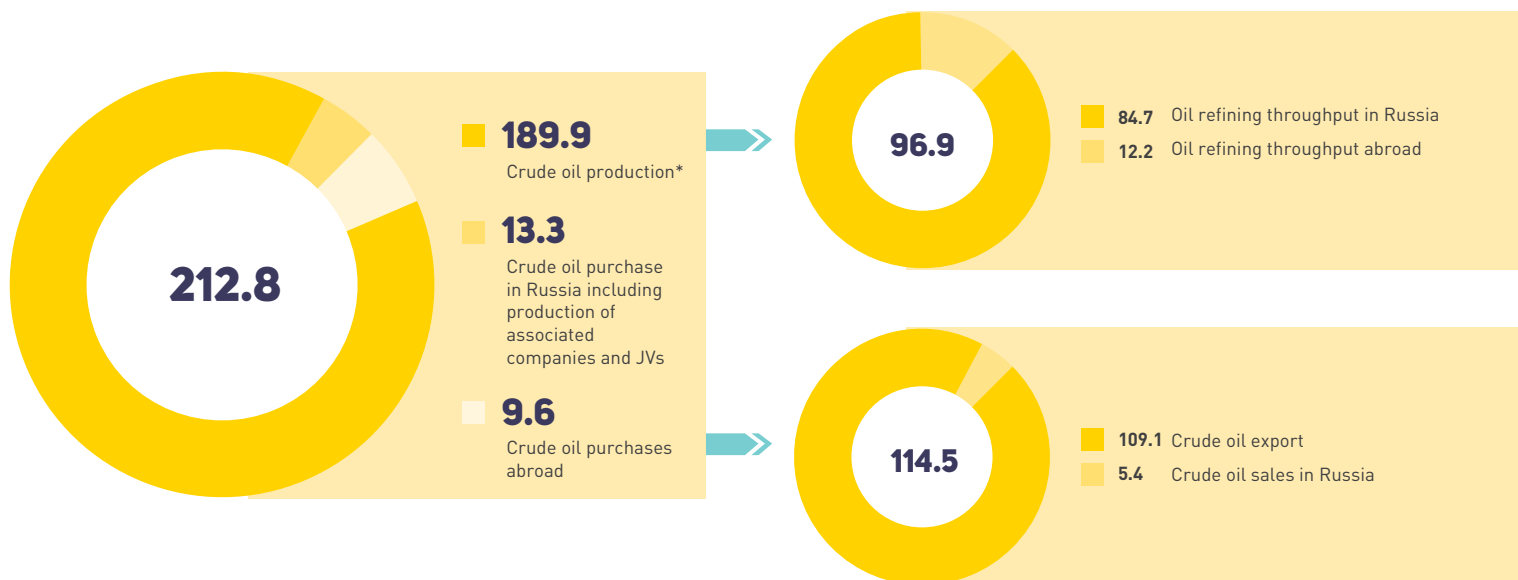


### Competitive advantages and investment appeal:

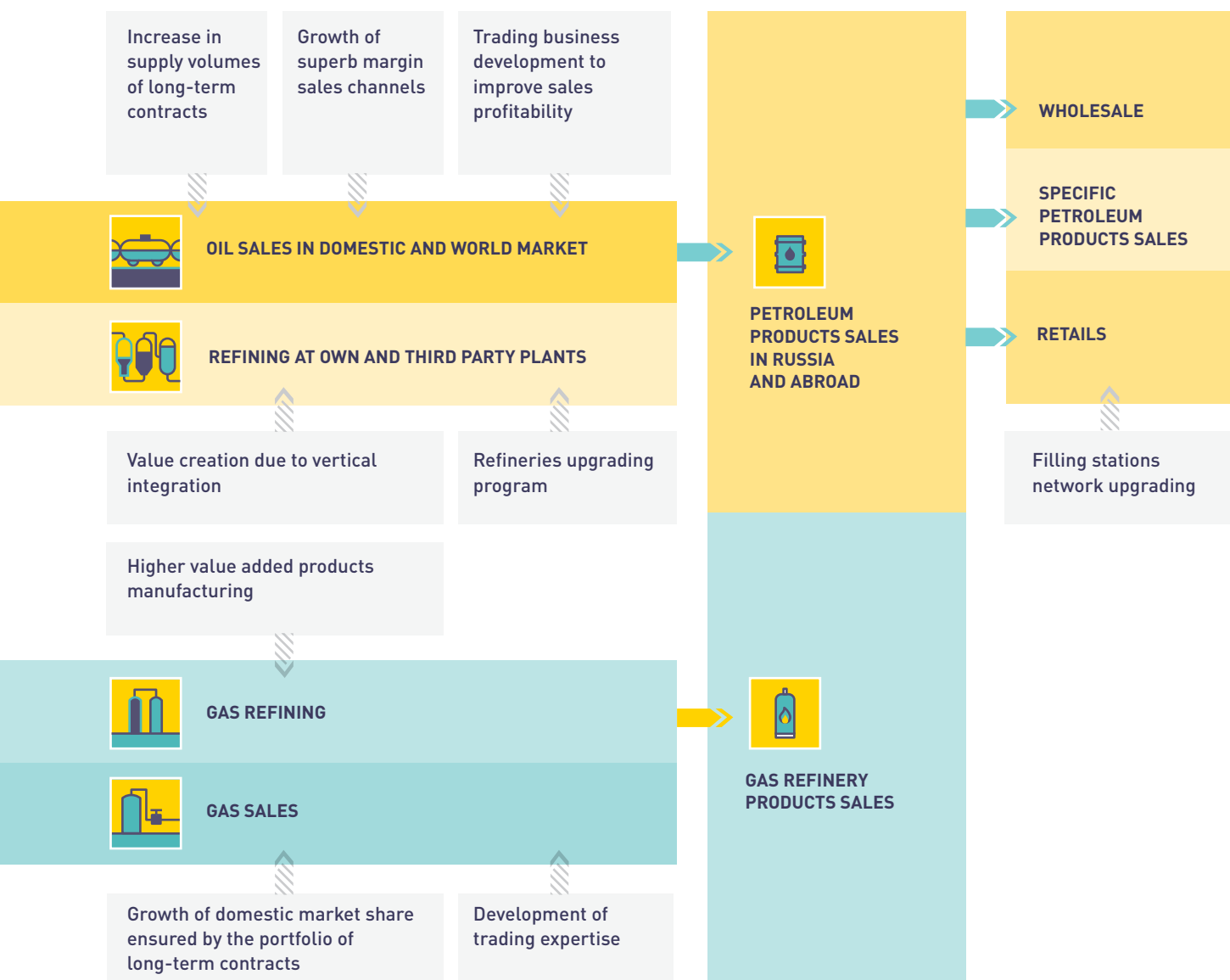
1. First-class resource base in the Russian Federation;
2. The largest public oil producer;
3. Efficient monetization of gas resources;
4. Integrated oil-and-gas business model;
5. Diversified sales channels and growing share of long-term contracts;
6. Perspective offshore resource base in Russia and international business expansion opportunities;
7. Strategic development of oil service and infrastructure;
8. Costs control and high business efficiency.

## ROSNEFT CRUDE OIL, GAS AND OIL PRODUCTS BALANCE

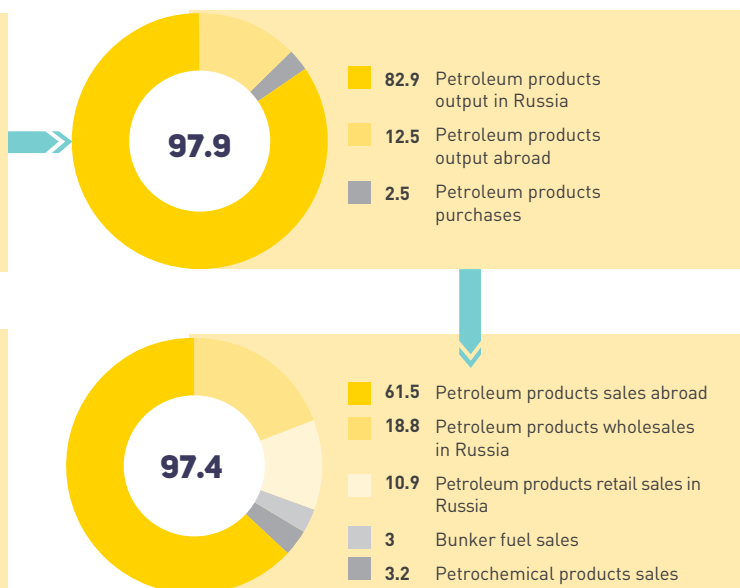
Crude oil resources\*\*, mmt



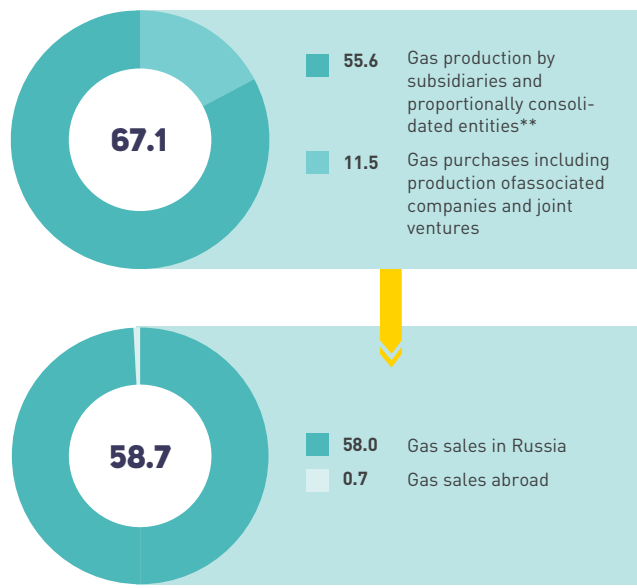
\*Production per subsidiaries and proportionally consolidated entities.



Petroleum products resources,\*\* m tons



Gas resources,\*\* bcm



\*\* 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.



## 2.2. ROSNEFT STRATEGIC GOALS

Rosneft development strategy, approved by the Board of Directors on December 09, 2014 (Minutes No. 12), outlines the key objectives and targets of its long-term development till 2030.

Development strategy execution was assessed in 2015 given the changes in the industry in 2014–2015. Results of the analysis suggested that strategic directions of the Company were up to date. The Company's long-term strategic goals and mission remained unchanged.

### UPSTREAM:

- **Crude oil and Condensate Production:**

efficient maintenance of production at brownfields. Growth driven by the implementation of new projects, development of hard-to-recover reserves and the fields with complex reservoirs. Creation of efficient international upstream portfolio with long-term growth potential.

- **Exploration:**

highly efficient growth in reserves, discovery of reserves for development of new oil and gas producing provinces.

- **Offshore Projects:**

implementation of unique opportunities for hydrocarbons production growth. Value creation and the Company leadership in the offshore oil and gas production.

### GAS BUSINESS:

- Growth of the Company shareholder value due to increase in gas production supported by efficient long-term sales portfolio.

### DOWNSTREAM:

- **Refining:**

- industry efficiency and safety leadership;

- the best refinery configuration that meets market demand and is sustainable in the tax changing environment;
- source of financing for its own development and development of other segments.

- **Commerce and Logistics:**

profit maximization in distribution of products manufactured by other business segments of the Company.

### IN-HOUSE SERVICES:

- Development of oil services business with modern technologies to provide the highest economic and operating efficiency.

### TECHNOLOGY AND LOCALIZATION:

- **Technologies:**

becoming a world class technologically advanced company, development and transfer of best available technologies for new reserve types exploration.

- **Localization:**

localization of technologies, manufacturing of equipment and services, and support of a high multiplier effect in related industries, regions of operation and at the national level.

## 2.3. STRATEGY AND LONG-TERM DEVELOPMENT PROGRAM EXECUTION IN 2015

Business segment	2015 results	Short-term goals	Long-term strategic goals
UPSTREAM			
<b>Exploration and development of resource base</b>	<p>Rosneft continued efficient reserves replacement in 2015. Based on the 2015 results, ABC1 reserves replacement amounted to 429 mmtoe, including an increase in reserves via exploration (oil and gas condensate) — 146 mmt, gas — 159 bcm. Reserves replacement ratio reached 168%.</p> <p>The result of onshore exploration in the Russian Federation was the discovery of seven fields and 117 new deposits including the projects developed with partners.</p>	<p>Priority – exploration program execution to support efficient production.</p> <p>Implementation of license obligations and improvement of quality and volumes of reserves available for the delivery of the Company's strategic projects.</p>	Targeting to 100% reserves replacement ratio.
<b>Onshore production in the Russian Federation (brownfields, development of greenfields non-conventional reserves)</b>	<p>In 2015 over 254 mmtoe of hydrocarbons were produced (38% of oil production in Russia). Rosneft maintains its status as the world's largest public oil and gas company.</p> <p>The Company launched the Labaganskoye field.</p> <p>Rosneft completed large-scale optimization of the current systems in order to improve the efficiency of field development in West Siberia by shifting from conventional directional drilling to drilling of horizontal wells with multi-stage fracturing (MSF GW).</p> <p>Hard-to-Recover reserves production in West Siberian fields (for details see sec. 3, Operating results, p. 54).</p>	<p>Maintained leadership in terms of Upstream unit OPEX and CAPEX.</p> <p>Implementation of operations for maintaining production at brownfields.</p> <p>Launch of Suzun, Tagul, YTM, Russkoye, Naulskoye, East Messoyakha projects, securing supplies under long-term contracts.</p> <p>Start of commercial production of oil at Suzun and East Messoyakha field.</p> <p>Start of commercial production in the Yurubcheno-Tokhomskoye and Kuyumbinskoye fields. Cluster projects are planned to be joined by common infrastructure which is the Kuyumba-Taishet oil pipeline under construction.</p> <p>Development of projects related to non-conventional reserves to explore their potential.</p>	Production and output of hydrocarbons in Russia at 300 mmtoe by 2020.
<b>Offshore</b>	In 2015 the third oil well NC-3 under Northern Chaivo project (9,570 m wellbore depth) was put into operation ahead of schedule.	<p>Focus on high priority projects involving seismic and exploration drilling.</p> <p>Determination of requirements for equipment and technologies for project implementation.</p> <p>Work scoping in relation to onshore support of the Company's offshore projects.</p>	
<b>International projects</b>	In 2015 Rosneft produced 2.4 mmtoe of hydrocarbons outside Russia.	Efficient implementation of current projects aimed at optimizing the current asset portfolio taking into account their investment potential.	

Business segment	2015 results	Short-term goals	Long-term strategic goals
<b>GAS BUSINESS</b>			
<b>Gas business</b>	<p>In 2015 gas production amounted to 62.5 bcm +10 % versus 2014 driven by:</p> <p>increase in natural gas production by JSC Rospan International and growth of associated petroleum gas volumes produced in the Northern Chaivo field by JSC RN-Shelf Far East;</p> <p>intensification of gas production in the Tarasovskoye field by RN-Purneftegaz LLC and an increase in the transportation volumes of refined gas to the unified gas supply system of the Vankor field of JSC Vankroneft;</p> <p>Gas supplies under 2014 long-term contracts to RUSAL, EuroSibEnergo, GAZ Group, and EuroChem were launched in full.</p>	<p>Consistent development of projects aimed at ensuring declared growth of gas production.</p> <p>Production increase driven by the assets and projects in the Yamalo-Nenets Autonomous District such as Rospan, Sibneftegaz, development of the Kynsko-Chaselsky license area, and gas deposits in the Kharampur field.</p> <p>Increasing the efficiency of gas and liquid fractions monetization among the rest by developing NGL and LPG conversion to more premium products.</p>	<p>Gas production is to reach 100 bcm by 2020.</p> <p>Achievement of APG utilization rate of 95 %.</p> <p>The Company's share in the domestic gas market is &gt;20 %.</p>
<b>DOWNSTREAM</b>			
<b>Refining and Petrochemicals</b>	<p>The transition to the production of gasoline and diesel fuels of Euro-5 Class was completed for the domestic market.</p> <p>Catalytic reformers and Reformer L-35/11-1000 were fully rebuilt (1st Stage) at Syzran and Kuibyshev Refineries, respectively.</p> <p>The MTBE construction was completed at Angarskaya Petrochemicals Company.</p>	<p>Catalytic cracking and MTBE units launch at Kuibyshev Refinery;</p> <p>Alkylation unit start-up at Angarskaya Petrochemicals Company;</p> <p>Catalysts regeneration project completion at Novokuibyshev catalyst plant;</p> <p>Construction of combined hydrocracking unit with integrated hydrotreating of diesel fuel at Tuapse refinery;</p> <p>Completion of the 1st construction stage of hydroprocessing complex at Novokuibyshev plant.</p>	<p>The production volumes of the motor fuels and jet fuel compliant with the Technical Regulation in the Russian Federation total 55 mmt.</p>
<b>Commerce and Logistics</b>	<p>The volume of high margin oil supplies to the east increased by 18.5 % YOY in 2015.</p> <p>Angarskaya Petrochemicals Company launched the production of Revolux hydraulic premium oils for commercial fleet.</p>	<p>A loyalty program was implemented at gas stations.</p> <p>Construction of refueling facilities in Gellendzhik port.</p> <p>Launch of the cooperation program with car repair stations to develop motor oil sales.</p> <p>Diversification of oil and oil product sales channels, including destinations in the east.</p>	<p>The annual sales per gas station in Russia average 5.5 thousand tons.</p>
<b>IN-HOUSE SERVICES</b>			
<b>In-house oil services</b>	<p>In 2015, Rosneft acquired Trican Well Service LLC rendering hydraulic fracturing and coil tubing services. This acquisition was instrumental in setting up an in-house hydraulic fracturing service covering 20% of own needs in 2015.</p> <p>Own demands for drilling services were satisfied by more than 56 % from the total Company onshore drilling in 2015.</p> <p>(More details are available in 3.5 section).</p>	<p>Higher performance of in-house services.</p> <p>Better equipment of drilling services and higher mobility.</p> <p>Restructuring of the in-house oil services business to improve field development efficiency.</p>	<p>Formation of a high-tech oil services business with the industry-highest financial and operating performance.</p>

Furthermore, in accordance with the requirements outlined in Directives of the Russian Government No. 203p-P13 of April 16, 2015, there are short- and mid-term plans to achieve a 3 % OPEX reduction year-on-year in the reporting period for all key businesses in comparable conditions.

## 2.4. LONG-TERM DEVELOPMENT PROGRAM AND PROGRESS REPORT

The Long-term Development Program was elaborated in 2014 as instructed by the President of the Russian Federation Vladimir Putin (Instructions No. Pr-3086 of December 27, 2013) and approved by the Rosneft Board of Directors on December 09, 2014 (Minutes No. 12).

The Long-term Development Program was updated in 2015 to detail the efforts aimed at the achievement of long-term goals, including import substitution, local content in the manufacturing of machinery and technologies, talent development, and activities planned in accordance with the requirements of the Russian Government's Directives (No. 4955p-P13 of July 17, 2014, No. 7558p-P13 of November 12, 2014, No. 1346p-P13 of March 05, 2015, and No. 2303p-P13 of April 16, 2015 and No. 7389P-P13 of October 31, 2014) and at improvement of the quality of planning. However, the long-term strategic goals and objectives under the Program after the update remain unchanged and are in line with the Company's development strategy. The updated Long-term Development Program was approved by the Company's Board of Directors (Minutes No. 10 of December 21, 2015).

The Program details the Company's strategic development areas, targets, and milestones for all businesses and corporate functions and includes the list of key initiatives aimed at Strategy implementation in the mid-term (3–5 years). The initiatives under the Long-term Development Program till 2030 are used to develop directives for a future business planning cycle.

The main areas, key performance indicators, and activities under the current Innovation Development

Program (see Section 6.9) and Energy Saving Program (see Section 6.6) were elaborated taking into account Rosneft Long-term Development Program and fully integrated into the current version of the document. Rosneft Investment Program aims at the fulfillment of the Company's strategic objectives outlined in the Strategy and Long-term Development Program by key business area (see Section 2.6).

The Long-term Development Program provides for the replenishment of marketable reserves at a minimum level of 100%, effective production in brownfields, and production increase through the development of new projects, creation of new production clusters on the shelf, development of technologies, and implementation of world-level project management practices, monetization of gas reserves and competitive production growth, optimal configuration of the refineries and maximization of profits in distribution.

When implementing the Program, the Company is guided by business sustainability principles and sets goals to achieve target performance in all key areas.

Ernst and Young, LLC performed an independent audit of the Rosneft Long-Term Development Program and issued the opinion on reliability of data on the Company operations performed to implement the Program for 2015, as stated in the Long-Term Development Program Progress Report, and on correctness of the stated reasons for variance of actual performance indicators of the Company's operations from the target ones for 2015. The audit opinion was received on April 28, 2016.

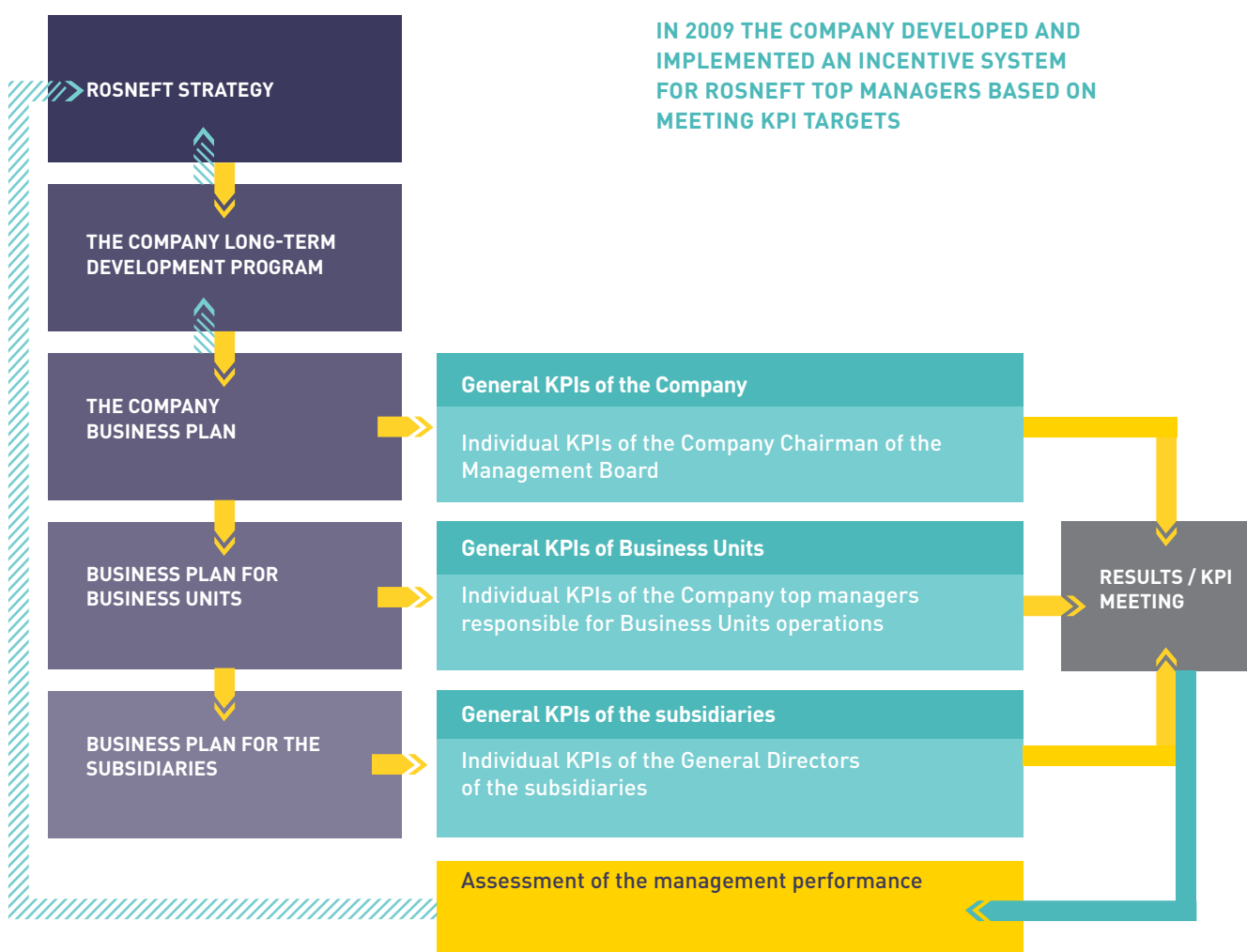
### The key objectives under the Long-term Development Program

The Long-term Development Program provides for the reserve replacement ratio at a minimum level of 100%, effective production at brownfields, and production increase through the development of greenfields, creation of new production clusters on the shelf, development of technologies, and implementation of high-level project management practices, monetization of gas reserves and competitive production growth, optimal configuration of the refineries and maximization of profits in distribution.



## 2.5. KPI SYSTEM AND ASSESSMENT OF THE RESULTS OF KPI ACHIEVEMENT

### KPI SYSTEM STRUCTURE



Upon successful implementation of the incentive system among the top managers and the heads of independent structural divisions, in 2011 the bonus payment principles based on KPI performance were applied to the heads of Administration of Rosneft and of the Group companies.

The principles and the procedure for the annual bonus payment are similar for all the categories of employees in the Company Administration and the Group companies. They are stated in the Provisions on Annual Bonus Payment (approved by the Board of Directors on December 28, 2011, Minutes No. 9) and the Company Provision on KPI System (approved by the Board of Directors on December 09, 2014, Minutes No. 12).

The key objective of the Company KPI system implementation shall be transforming the Company Strategy and Long-Term Development Program into the format of specific indicators for day-to-day management, assessing their current performance and developing principles of efficient management solutions.

### **The Company KPI system provides for:**

- focus on the Company Strategy and Long-Term Development Program execution;
- focus on continuous improvement of financial and operating (industry-wide) results of the Company;
- costs reduction in the reporting period as compared to the previous one;
- well-balanced and complex indicators motivating to achieve the priority objectives of the Company;
- transparency, measurability, minimal sufficiency and consistency of performance indicators;
- top-down cascading and decomposition of KPIs.

The Company KPI system includes both financial and economic indica-

tors, such as operating profit before depreciation (EBITDA), return on average capital employed (ROACE), total shareholder return (TSR), financial leverage (Net Debt/EBITDA), cost reduction indicators, and industry-wide indicators (hydrocarbons production performance, reserves replacement, light oil product output etc.).

### **The Company KPI system includes:**

- General performance indicators. The list of indicators is generally developed according to the key financial, economic and industry-wide indicators of the Company and its divisions;
- Individual KPI of the Company management. The list is developed according to the strategic objectives individually for each Company manager.

Target KPI of the Company top management are approved by the Rosneft Board of Directors upon preliminary discussion at the relevant committees meetings. KPI for the Company top managers for 2015 were approved by the Board of Directors on April 03, 2015, Minutes No. 27.

The list of the general KPI of the Company and individual KPI of the Rosneft President for 2015 include the indicators as follows:

- ROACE;
- Hydrocarbons production and output;
- EBITDA;
- Financial leverage (Net Debt / EBITDA);
- Rosneft TSR to average industry level of Russian companies TSR ratio;
- Cost reduction in the reporting period compared to the previous period in comparable conditions;
- Innovative development program execution.

The Company KPI system includes financial, economic and industry-wide indications



## ASSESSMENT OF MEETING KPIS

KPI meeting analysis for the annual bonus payment to the Company managers and employees is made upon summarizing the Company activities according to the audited consolidated financial and accounting statements.

The Company Internal Audit Service performs annual audit of each general and individual performance indicator, set for annual bonus payment to the Company and the Group companies' management in the reporting period. The audit results of KPI performance by the top managers are submitted to the relevant Committees.

Assessment of the top managers' activities is reviewed by the HR and Remuneration Committee of the Board of Directors. The Rosneft Board of Directors approves the annual bonus payment to the top managers and its amount for the reporting period, depending on meeting the set KPIS.

## Actual KPI levels are being normalized for:

- environmental factors;
- resolutions of the authorized bodies of the Company influencing KPI performance;
- changes in accounting and KPI calculation techniques, including changes in IFRS and other reporting standards;
- other factors stated by the Rosneft authorized management body (according to the Rosneft Charter), including assets sales/purchase and business operations restructuring of the Head Office and business units.

## Normalization during assessing KPI process provides for:

- assessment of contribution of the Company management with account of specific achievements of the top managers, having KPI, thus stimulating growth of efficiency irrespective of any external conditions;

- improvement of the quality of business planning due to constant improvement of the results of operations managed by the heads of the Company;
- improvement of transparency and auditability of KPI assessment.

KPI normalization shall be performed in accordance with the Company Guidelines No. PZ-10 M-0004 for KPI Normalization when Analyzing the Company Business Plan Performance, approved by the Order No. 218 of May 18, 2015 and the Regulation on the Procedure for KPI Normalization when Analyzing and Assessing Operations of the Company Management for the Reporting Period for Annual Bonus Payment, approved by the Rosneft Board of Directors and enacted by the Order No. 214 of May 18, 2015.

Upon results of 2014–2015 the majority of KPIS were met with account for normalization. The key KPI values, published in IFRS statements are given below. Reasons for the actual KPI values variance from the target ones are given in Appendix 1.

	2015	2014	Variance	Target KPI achievement in 2015
	actual	actual	+/-	
1. Hydrocarbons production, mmtoe	254.2	251.6	+1.0 %	Target exceeded
2. EBITDA, RUB bln	1 245	1 057	+17.8 %	Target exceeded
3. ROACE, %	13.4	10.0	+3.4 pp	Target exceeded
4. Net Debt / EBITDA	1.4	2.3	-39.1 %	Target exceeded
5. TSR to average industry level ratio	1.29	Not assessed	>1	Target exceeded

## Operating Highlights

Indicator	2015	2014	Variance	2013
SEC proven, hydrocarbon reserves, mm boe*	34 465	33 977	1,4 %	33 014
PRMS proven hydrocarbon reserves, mm boe*	42 917	43 085	-0,4 %	41 771
SEC proven marketable gas reserves** (bcm)	1 609	1 414	+ 14 %	1 329
PRMS proven marketable gas reserves** (bcm)	2 161	2 018	+ 7 %	1 867
PRMS proven reserves life (years)	23	24		24
Oil and gas condensate production, mmt	202,8	204,9	-1 %	189,2
Gas production (bcm)	62,5	56,7	+ 10 %	38,2
Oil export, mmt	109,1	102,4	+ 7 %	97,3
Oil refining, mmt	96,9	99,8	-3 %	90,1
Oil refining and petrochemicals, mmt	95,4	97,1	-2 %	87,1
Oil product exports***, mmt	65,8	62,7	+ 5 %	55,1
Oil product retail sales, mmt	10,9	11,2	-3 %	10,2

\* including fuel gas.

\*\* marketable gas: fuel gas + sales gas.

\*\*\* Consolidated Company data as from January 01, 2013, including petrochemical products and bunker fuel.

## Financial Highlights

Indicator	2015	2014	Variance	2013
Sales revenues and income generated by affiliate companies (RUB bln)	5 150	5 503	-6.4 %	4 694
EBITDA (RUB bln)	1 245	1 057	17.8 %	947
EBITDA Margin	24.2 %	19.2 %	+5 pp	20.2 %
Taxes (RUB bln)	2.3	3.0	-23.3 %	2.7*
Net income (RUB bln)	356	350	1.7 %	388**
Net income margin	6.9 %	6.4 %	+0.5 pp	11.8 %
Return on average capital employed (ROACE)	13.4 %	10.0 %	+3.4 pp	11.9 %
Return on average equity (ROAE)	12.2 %	11.5 %	+0.7 pp	20.0 %
CAPEX (RUB bln)	595	533	11.6 %	560
Unit Upstream CAPEX (\$/boe)***	4.3	5.3	-18.9 %	7.0
Unit Production OPEX (\$/boe)***	2.6	3.9	-33.3 %	4.3
Free cash flow (RUB bln)	657	596	10.2 %	204
Free cash flow per share (RUB)	61.99	56.24	10.2 %	19.80
Dividend per share (RUB)	11.75****	8.21	43.1 %	12.85
Total dividend accrued (RUB bln)	124.5****	87.0	43.1 %	136.2

\* Consolidated Company data as from January 01, 2013.

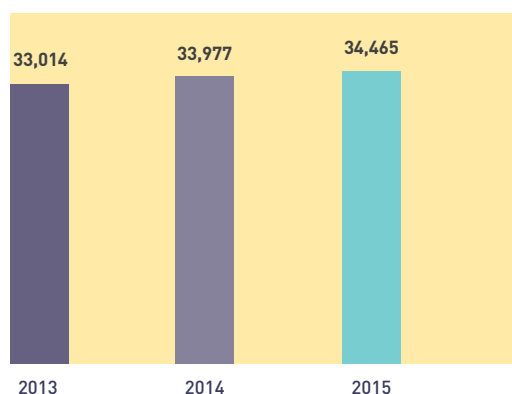
\*\* Net of the effect from acquired TNK-BP assets revaluation of RUB 167 bln.

\*\*\* Calculated using Central Bank of Russia monthly exchange rate.

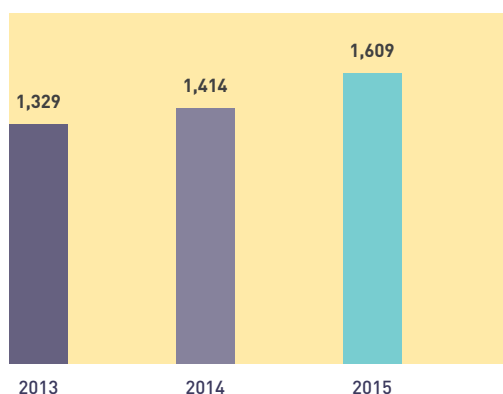
\*\*\*\* Amount of dividend recommended by the Board of Directors for approval at the Company General Shareholders Meeting on June 2016.



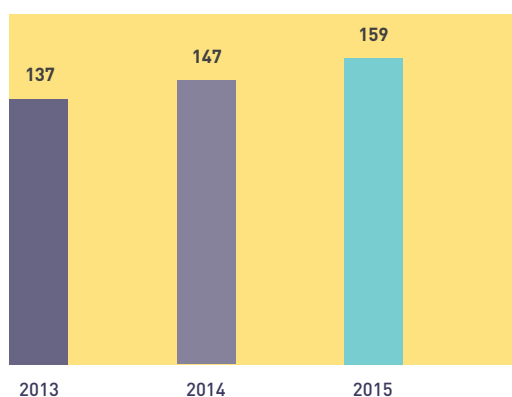
### Proven hydrocarbon reserves according to SEC, mm boe



### Proven gas reserves according to SEC, bcm

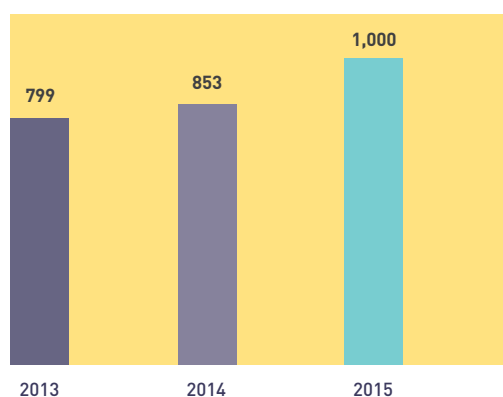


### OPEX in the Exploration and Production segment, RUB/ boe



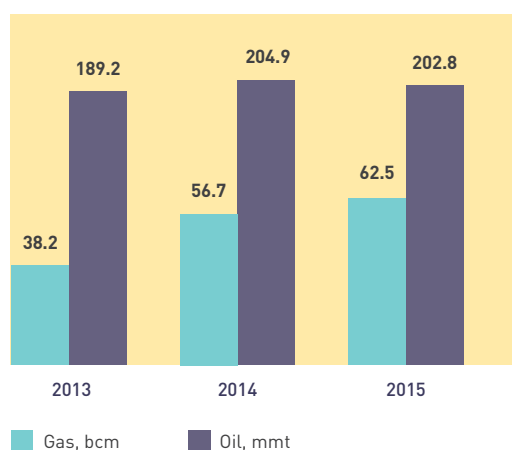
Growth indicator is mainly due to an increase in the costs of raw materials, inventories, fuel, and electricity tariffs.

### OPEX of refineries in the Russian Federation per ton of refined crude oil, RUB/t



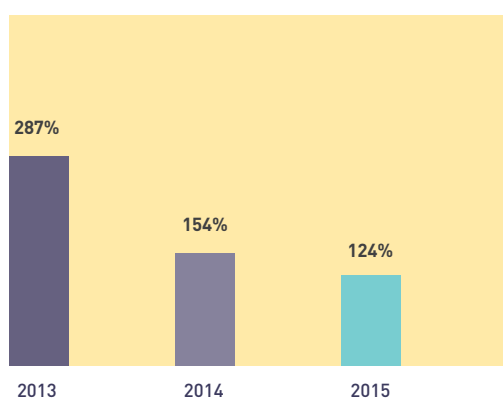
Growth is mostly due to the growth in costs and volume of additives for producing motor fuel, grade Euro-4 and higher, and electricity tariffs increase.

### Gas, oil, and gas condensate production



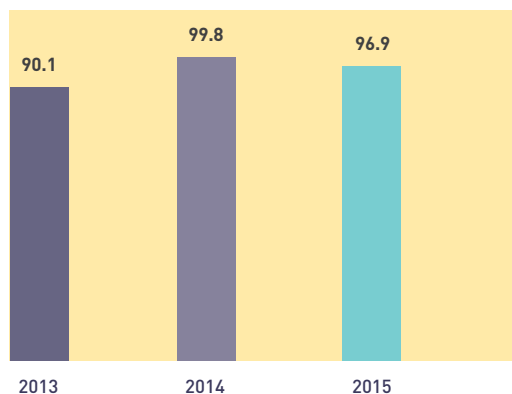
Gas, bcm Oil, mmt

### Hydrocarbon reserves replacement, SEC



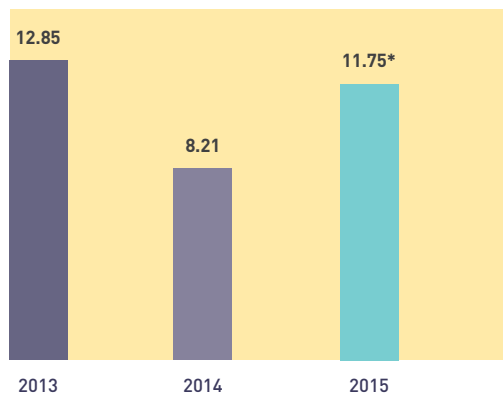
\* Newly acquired assets as of the acquisition date.

## Refining throughput, mmt



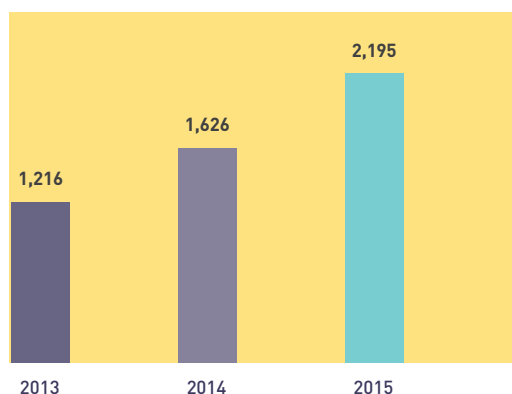
The reduction in 2015 was due to re-distributed volumes to higher margin sales channels against the negative impact of the tax maneuver on refining profitability and worsening macro-environment.

## Dividends per share (RUB/share)

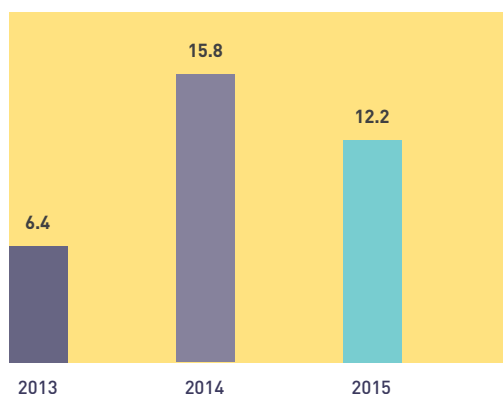


\* Dividends, recommended by the Board of Directors for approval at the General Shareholders Meeting in June, 2016.

## Operating cash flow, RUB bln

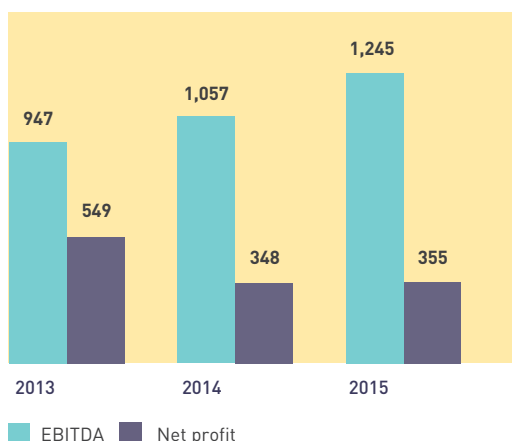


## Adjusted free cash flow, USD bln



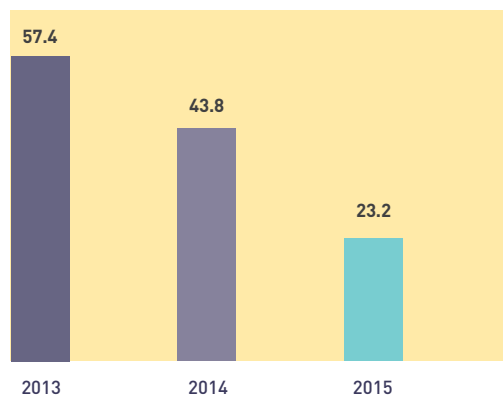
Based on 2015 results, maximizing operating profit and efficient management of the working capital helped to keep cash flow declining rate, excluding pre-payments, at 22.8 % in USD equivalent versus 47.3% of an oil price drop.

## EBITDA and net profit, RUB bln



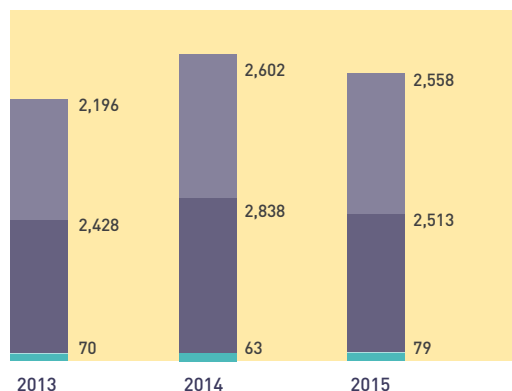
Increased control over expenses resulted in growth in earnings before interests, tax and depreciation (EBITDA) by 17.8% to RUB 1,245 bln (USD 20.8 bln) in 12M 2015 compared to 12M 2014. Higher EBITDA y-o-y was achieved despite of negative impact from tax maneuver (RUB -71 bln) and lower oil prices, which was just partially offset by RUB/USD exchange rate changes. Control over expenses, effective management of sales structure, improvement in quality of petroleum products basket and decrease in a negative effect of export duty lag contributed to EBITDA growth.

## Net debt as at the end of the year, USD bln



The Company's net debt for 2015 decreased by 44.3% in US dollar equivalent to USD 24.4 billion at the end of the year. The said reduction was due to the repayment of a significant portion of short-term debt as a result of operational cash flow generation and receipt of funds under long-term contracts for oil supply and issuance of bonds in the domestic market.

## Revenue, RUB bln

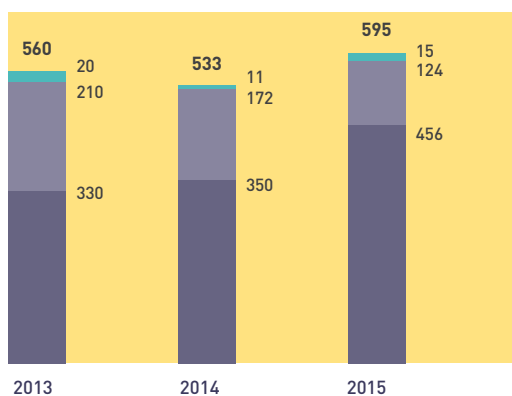


- Oil and gas sale
- Sale of petroleum products and petrochemicals
- Other sales and revenue from affiliates

A reduction in revenue in 2015 was due to lower global prices by 16.3 % and 47.3 % in RUB and USD respectively throughout 2015 and lower petroleum product sales volumes.

Despite worsening market environment, the Company increased its high margin supplies to the east (+18.5 %), increased gas sales (3.8 %) and sale of petroleum products and petrochemicals (+2 %).

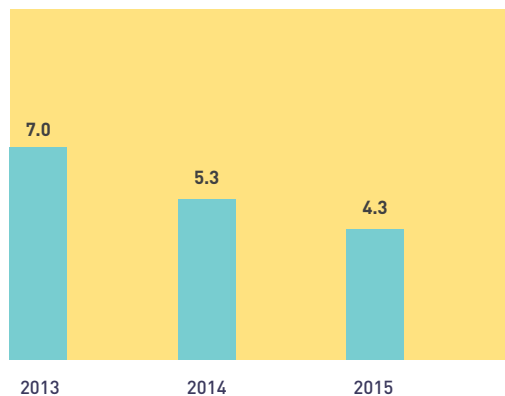
## CAPEX, RUB bln



- Prospecting and production
- Refining, commerce, and logistics
- Other activities

CAPEX increase in 2015 was due to the expansion of the drilling program and growing investment in Company's new fields.

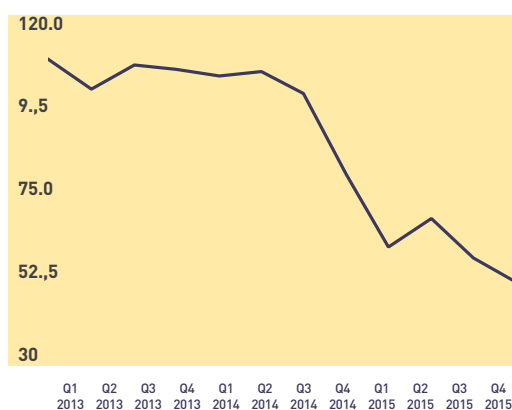
## Exploration and production CAPEX



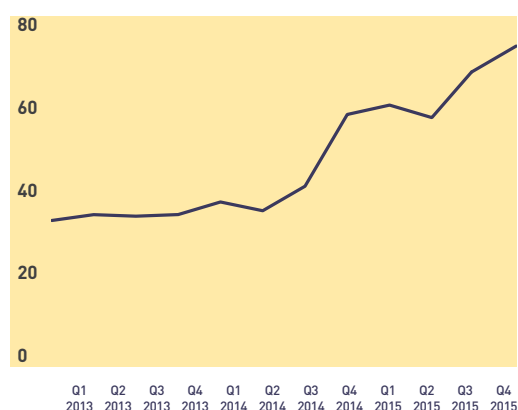
- Exploration and production CAPEX, \$/boe\*

\*Calculation is based on average monthly ruble-dollar rates.

## The average quarterly Urals oil prices (average Med and NWE) in 2013–2015, \$/boe



## Official USD FX rate at the end of the month published by the Central Bank of Russia, 2013–2015 (quarterly), RUB/USD



\*Average prices calculated based on Platts analysis.

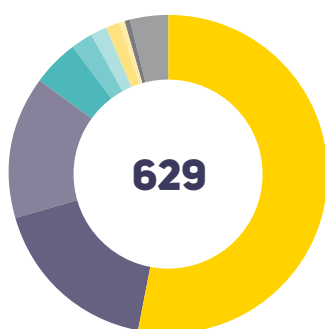




## 2.6. INVESTMENT PROGRAM IMPLEMENTATION

THE COMPANY'S INVESTMENT PROGRAM BASED ON CONSERVATIVE SCENARIOS IN CONDITIONS OF HIGH VOLATILITY IN MACROECONOMIC GEOPOLITICAL INSTABILITY IMPLIES THE IMPLEMENTATION OF THE COMPANY'S LONG-TERM DEVELOPMENT PROGRAM

2015 investments structure, RUB bn



334	Brownfields*
109	Oil refinery and petrochemicals
93	Greenfields
29	Gas business*
14	Commerce and logistics
11	Internal upstream services development
8	Offshore exploration
4	On-shore exploration**
4	International projects, Upstream
23	Others

**629** RUB BLN

TOTAL INVESTMENTS\* IN 2015

\*CAPEX and capital investments to joint projects.

**4.3** \$/BOE

LOWEST UNIT CAPEX AMONG MAJOR COMPETITORS

Rosneft's Investment Program is approved as part of the Company's business plan for the relevant period. Therefore, the Investment Program for 2015 and thereafter was approved as part of the Company's 2015/16 Business Plan at the Board of Directors' Meeting on December 18, 2014 (Minutes No. 15). Taking into account the significant changes in the macroeconomic conditions in December 2014 and Q1 2015, the Board of Directors approved the adjusted 2015/16 Business Plan on April 23, 2015 (Minutes No. 29). The Investment Program for 2016 and thereafter was approved as part of the Company's 2016/17 Business Plan at the Board of Directors' Meeting on December 18, 2014 (Minutes No. 10).

The Company's Investment Program based on conservative scenarios against the backdrop of macroeconomic and geopolitical instability implies the implementation of the Company's long-term development program approved by the Russian Government. It includes the achievement of Rosneft strategic goals related to an increase

in hydrocarbon production with a balanced financial structure and the optimal involvement of external financing driven by the faster start-up of new oil and gas fields.

Based on the 2015 results, the Company scaled up by 11% its investment to RUB 629 bln, including: CAPEX of RUB 595 bln and financing of joint projects at RUB 34 bln. The Investment Program was financed with own funds and long-term borrowings.

With higher investments driven also by the development of new projects and the expansion of production drilling in at brownfields, upstream spending on per boe of output decreased from \$ 5.3 to \$ 4.3 /boe in 2015. This helped the Company to keep its leading position as compared to its key competitors with capital investment efficiency ranging between \$ 10 and \$ 30 /boe.

The Company's 2015 Investment Program is a balanced portfolio of efficient investment projects aimed at the fulfillment of the Company's strategic objectives in the following key areas.

\* Including exploration.

\*\* Except for on-shore brownfields and greenfields exploration. Total on-shore exploration amounted to RUB 15 bln.



## BROWNFIELDS

Over half of the investment, about RUB 334 bln, was allocated to support production in the Company's upstream brownfields containing over 3.5 bln tons of proven PRMS-classified reserves available for development for many years to come. Top-5 mature assets based on investment amount include the assets of RN-Yuganskneftegaz LLC, OJSC Samotlorneftegaz, OJSC Orenburgneft, OJSC Samaraneftegaz, and a group of assets managed by OJSC Varyeganneftegaz. The investment in final stage of infrastructure development in the earlier started Verkhnechonskneftegaz, Uvat, and Vankor fields amounted to RUB 63 bln in 2015 with a production increase from 45 mmtoe to 49 mmtoe.

Rosneft's key objective in brownfields is a stable and financially viable long-term operations with slower rates of natural production decline by implementing modern technologies, developing hard-to-recover reserves, and implementing the program aimed at enhancing drilling efficiency better working with existing well stock.

Brownfields support stable production in the short- and mid-term range and generate a significant free cash flow, which is to be used for financing new field development, primarily in the east of Russia where the Company plans to develop new oil and gas production clusters.

## GREENFIELDS

The sustainable mid-term growth of oil and gas production by the Company is supported by launching new fields with persistently increasing investment, reaching RUB 93 bln in 2015, including RUB 60 bln in East Siberia and the Russian Far East and RUB 24 bln in West Siberia.

The Labaganskoye field was launched up in 2015. The Northern Tip of Chaivo was developed further with production up from 0.3 mmtoe to 2.5 mmtoe in 2015 vs 2014. Srednebotuobinskoye field was also further developed (including design works of Stage 2 to increase production capacity from 1 to 5 mmtoe a year).

The Company continues to develop a unique field cluster around the Vankor field using its transport, energy, and gas infrastructure. The total recoverable reserves at its Suzunskoye, Tagulskoye, and Lodochnoye fields are estimated at over 400 mmtoe<sup>1</sup>. The investment in 2015 amounted to RUB 17 bln<sup>2</sup>.

The start of commercial production is expected in 2016 at the East Messoyakh field together with the start-up of main oil treatment and export facilities in the Suzunskoye field.

The Company plans to accelerate the active development of its large oil and

gas production projects based on the large-scale preparation in previous years (including design and purchasing) (Russkoye, Urubcheno-Tokhomskoye, Tagulskoye, and Lodochnoye fields).

## ONSHORE AND OFFSHORE EXPLORATION

Investment in onshore exploration projects (RUB 4 bln<sup>2</sup>) and offshore exploration projects (RUB 8 bln from the Company) support Rosneft's long-term production growth. The Company is consistently increasing its onshore exploration activity license, also by actively participating in auctions entitling to subsoil use and expanding its license area portfolio. The Company invests in exploration of promising offshore areas independently and jointly with its strategic partners Statoil, Eni, and ExxonMobil.

## IN-HOUSE SERVICES DEVELOPMENT

The investment in the development of in-house oil field services amounted to RUB 11 bln in 2015. The Company continues to implement its oil field services strategy to improve performance of the production segment even in the challenging macroeconomic environment. The share of development drilling using own rig fleet exceeded 50%.

1. According to ABC1+C2 category.

2. Excluding onshore exploration on brownfields and greenfields. CAPEX for exploration onshore projects, including brownfields and greenfields amounted to RUB 15 bln.

## GAS BUSINESS

Rospan International, developing Achimov deposits (3,600–3,900 m deep) is a key gas project of the Company. The project is the key driver for gas production growth in the near-future. In Q4, 2015 we launched a pilot complex start-up of the second section of the Novy Urengoy gas and gas condensate complex treatment unit which become a major event for gas future production. Gas production plateau is to be reached in 2018.

Around RUB 23 bn were allocated for Rospan financing in 2015, is 50% above 2014 level.

We continue developing the Khadyryakhinskoe field and low layer of the Beregovoye fields of PJSC Sibneftegas, providing extra production of 0.8 bcm in 2015. Investments to Sibneftegas amounted to RUB 5 bln in 2015.

## OIL REFINING AND PETROCHEMICALS

Investment in oil refining and petrochemicals in 2015 totaled

RUB 109 bln and mainly covered the fulfillment of requirements under the quadripartite agreement aimed at producing different motor fuels with their quality compliant with the requirements of the Technical Rules of Procedure. In 2015 the Company completed transition to the production of Euro-5 gasoline and diesel fuel for the Russian market as required by the Technical Rules of Procedure. Other projects included the start-up of the isomerization units at Kuibyshev and Novokuibyshev Refineries and at Ryazan Oil Refining Company, start-up of the MTBE unit at Angarskaya Petrochemicals Company, and complete rebuild of the catalytic reformers at Syzran and Kuibyshev Refineries.

## PURCHASE AND DISPOSAL OF ASSETS

Throughout 2015, the Company was consistently implementing its strategy aimed at the efficient portfolio management and optimization of Group assets.

Rosneft acquired CJSC Novokuibyshev Petrochemicals Company in order

to increase the synergy in oil and gas refining and petrochemicals and purchased a 16.67% stake in Schwedt refinery (Germany) to expand its presence in the European market and improve its value added chain.

Moreover, the Company acquired logistics assets in Georgia and a gas station network in Armenia.

The Company acquired the assets of Trican Well Service LLC to implement its strategic goal of developing its own oil services. This acquisition provides an access to accumulated experience in production intensification, well completion, and well intervention while developing conventional oil and gas reserves.

In December, 2015 Rosneft and Alltech Group established a joint venture to develop production projects in the Nenetsk Autonomous District. Gas reserves monetization shall be performed by constructing a LNG plant. The Company's share in the joint venture makes 50.1%.

## INVESTMENT PROCESS

The main focus during the investment process is the efficient use of capital aimed at improving performance of individual investment projects and initiatives and business growth driven by the formation of the best portfolio, optimal balance between the Company's profitability and unlocking its long-term potential by financing the investment programs of its businesses. In 2015, the Company continued to improve its investment process based on the best investment management practices both by developing regulations and methodology framework and improving the investment discipline.

Investments supervision is an integral part of financial statements and management accounting. We carefully review investment program implementation and performance efficiency both for the Company in general and its key business segments and projects in particular.

The Company has a well-aligned expert review and investment project approval process in place involving its authorized investment bodies with Rosneft key executives included. The authority system applies to business projects ranging from the Board of Directors to business area levels.

A series of improvements were implemented with preserving the main investment focus:

- We enhanced investment process integration with coinciding strategic and business planning, efficiency management, financial discipline and corporate management processes.
- We continuously develop portfolio analysis tools. The developed system allows promptly deliver different scenarios for investment portfolio performance on the basis of the set criteria rating, which provides investment program flexibility to external changes, as well as strategic and current priorities of the Company set by its shareholders and approved by the Board of Directors.

The Company acquired 55 % stake in Solimoins project , raising its interest to 100 %, ensuring control and the status of hydrocarbons development project operator in Solimoins basin of the Amason River (Brasil).

For accelerating development of the East Siberian fields and attracting new technologies with later localization the Company partnered with BP for the development of the Srednebotubinskoye field by selling it a 20 % share in Taas-Yuryakh in 2015. A 50 % share in Polar Lights Company was sold in order to optimize “tail assets”. Another example of a highly profitable transaction is the sale of a 8.99 % share in Saras S.p.A. (Italian refinery).

*Hydrogen unit of JSC Angarsk Petrochemical Company*



- The Company made certain steps to reinforce the investment discipline by introducing the “two key” approach with spending authorized only if a project is included in the approved Business Plan and subject to an approval from appropriate investment authority.
- For ensuring prompt management decisions and enhancing control over the Company projects implementation efficiency we launched constant monitoring of the approval from appropriate investmnet authority.
- For introducing automatization into investment projects accounting and

control, we launched the Investment Projects Database.

- The Company Policy for increasing investment and operating efficiency was developed and introduced to comply with par. 2 of the Instruction of the President of the Russian Federation No. Pr-3013 of December 27, 2014 and the Directive of the Government of the Russian Federation No. 3984p-P13 of 24.06.2015.
- Training sessions were held to improve the investment competency and discipline for the Company’s central office and subsidiaries.

In 2015, in accordance with investment discipline, the Company’s authorized investment bodies approved about 280 projects with total investment amount of over RUB 700 billion in line with the Company’s ROI standards in all areas. As a result, investment decisions were made by the end of 2015 with regard to over 83 % of capital investments proposed for 2016.

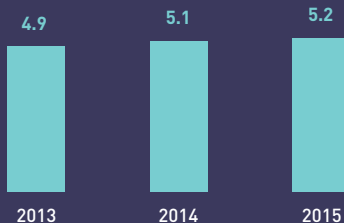
Investment decision quality is supported by the detailed analysis of every investment project using a common approach within a wide scenario and risk assessment range, covering financial, commercial, technical, environmental, and other risks.



# 2030405

## OPERATING RESULTS

Hydrocarbons  
production  
growth,  
mm boe/day



2013

2014

2015

### 254

MMTOE

NEW HYDROCARBON  
PRODUCTION RECORD

### 50 %

OVER 50% SHARE  
OF IN-HOUSE  
DRILLING. GROWING  
COMMISSIONING OF  
HORIZONTAL WELLS

### 10 %

GAS PRODUCTION  
INCREASE TO MAKE  
62.5 BCM





**THE COMPANY KEEPS IMPROVING  
THE EFFICIENCY IN RESPONSE  
TO GLOBAL MARKET CHALLENGES.  
2015 EBITDA GROWTH DESPITE  
CRUDE OIL PRICE DECLINE IN USD  
AND RUB TERMS PROVES  
EFFICIENT OPEX CONTROL,  
ENABLING CONSIDERABLE  
FINANCIAL LEVERAGE  
REDUCTION AND SIGNIFICANT  
INCREASE IN BUSINESS  
SUSTAINABILITY IN COMPLICATED  
MARKET CONDITIONS**

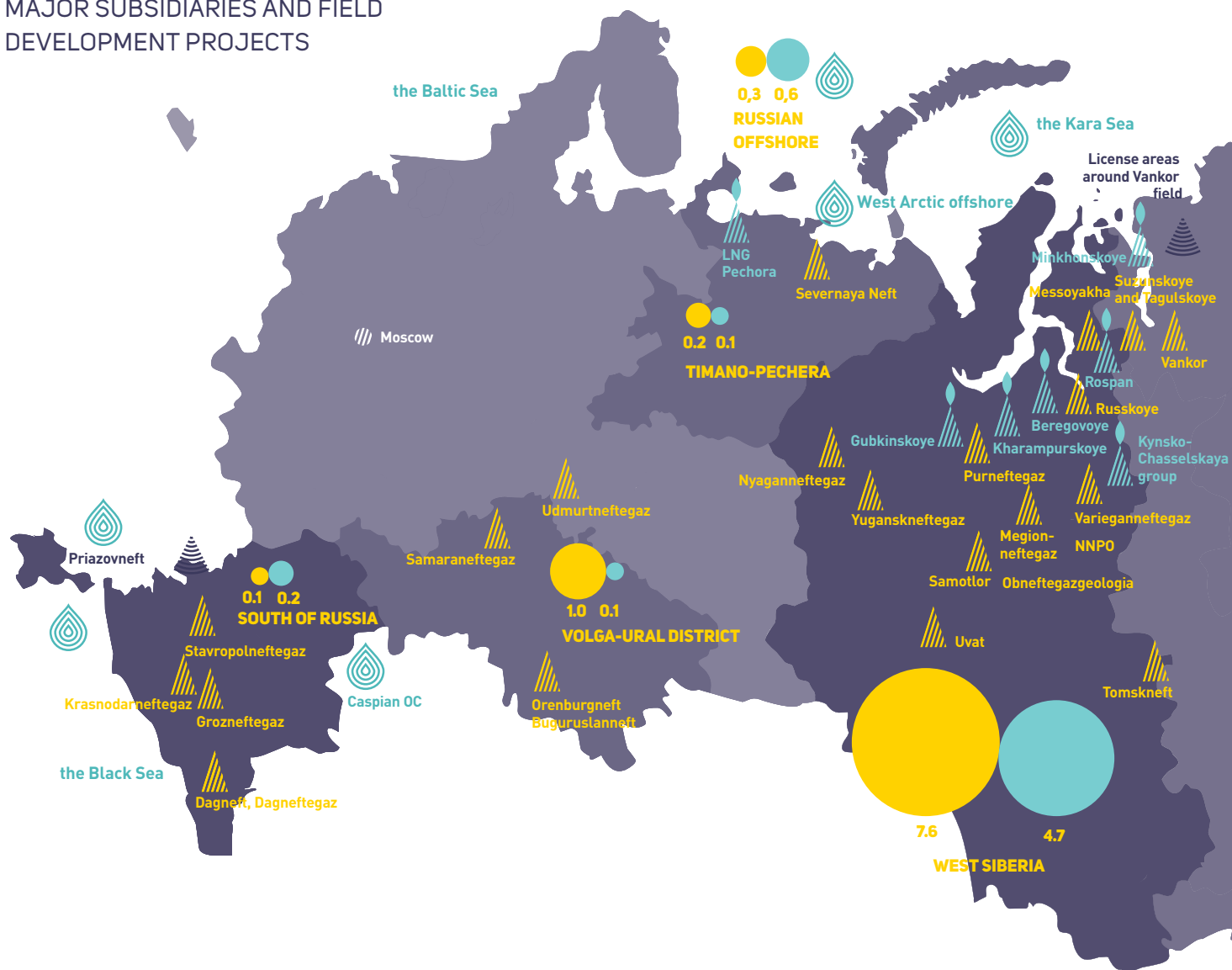




# ROSNEFT RESOURCE BASE AND PRODUCTION MAP

IN 2015 THE COMPANY WITH THE PARTNERS DISCOVERED 7 FIELDS AND 117 NEW DEPOSITS WITH THE TOTAL C1+ C2 RESERVES AT 232 MTOE. ABC1 HYDROCARBON RESERVES REPLACEMENT TOTALLED 429 MTOE OR 168 % OF PRODUCTION IN THE RUSSIAN FEDERATION. RESERVES REPLACEMENT COEFFICIENT HAS BEEN SIGNIFICANTLY EXCEEDING 100 % FOR OVER TEN YEARS.

## MAJOR SUBSIDIARIES AND FIELD DEVELOPMENT PROJECTS



**11.5** BLNT

TOTAL OIL AND GAS CONDENSATE  
RESERVES IN RUSSIA







**2.1** BLNT

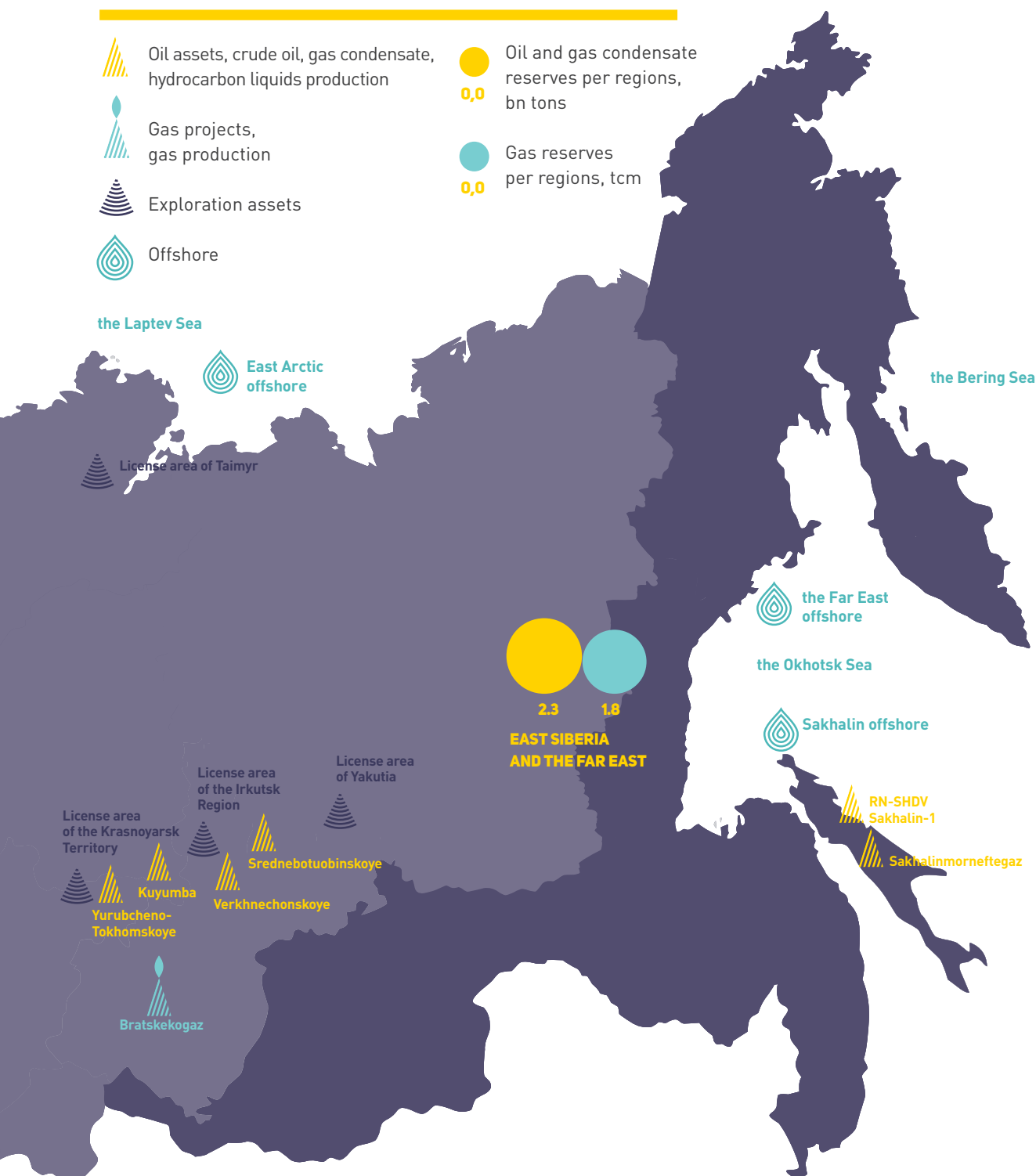
ONSHORE OIL AND GAS  
CONDENSATE RESOURCES

**23.0** BLNT\*

OFFSHORE OIL AND GAS  
CONDENSATE RESOURCES

## LEGEND

-  Oil assets, crude oil, gas condensate, hydrocarbon liquids production
-  Gas projects, gas production
-  Exploration assets
-  Offshore
-  Oil and gas condensate reserves per regions, bn tons
-  Gas reserves per regions, tcm



**7.5** TCM

TOTAL GAS RESERVES  
IN RUSSIA

**1.2** TCM

ONSHORE  
GAS RESOURCES

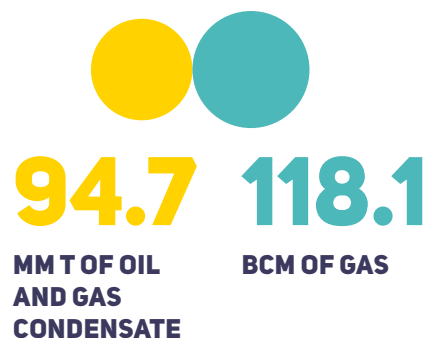
**22.8** TCM\*

OFFSHORE  
GAS RESOURCES

\* including foreign projects



## 3.1. EXPLORATION AND RESERVES REPLACEMENT



**West Siberia reserves  
increment**



ROSNEFT REITERATED ITS LEADERSHIP IN RESOURCE BASE AMOUNT AND EFFICIENCY OF EXPLORATION IN 2015. THE COMPANY CONDUCTED EXPLORATION IN ALL RUSSIAN EXTRACTING REGIONS, INCLUDING THE RUSSIAN FAR EAST, EAST AND WEST SIBERIA, VOLGA — URALS REGION, TIMAN PECHORA, AND SOUTH OF RUSSIA.

### ONSHORE EXPLORATION

2015 exploration program was performed at a high quality level with 50 exploration wells completed and 119,000 m drilled. The exploration success rate reached 84% (record high for the last five years). 2D seismic surveys were completed across over 2,000 linear km (+ 70% YOY) and 3D seismic surveys covered over 6,000 sq. km.

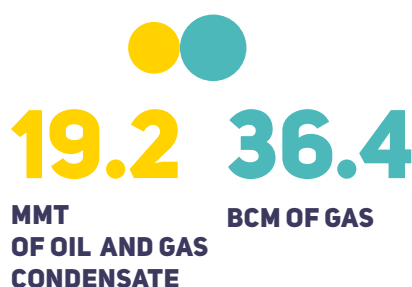
### West Siberia

Reserves increment in West Siberia was at 94.7 mmt of oil and 118.1 bcm of gas. 95% of 22 exploration wells were successful. 56 new deposits were discovered with total ABC1+C2 reserves at 184 mmtoe, including four new deposits with RN-Yuganskneftegaz LLC ABC1+C2 reserves with 136 mmtoe as a result of deepening production wells at the Priobskoye and Malobalykskoye License Areas and drilling of an exploration well at the Chupalsky License Area.

#### Key achievements in reserve replacement:

- 11.5 bln t of oil and condensate and 7.5 tcm of gas represent Rosneft residual recoverable ABC1+C2 reserves as of the end 2015. 429 mmtoe of reserve replacement for ABC1 hydro-carbon reserves;
- 168% of production replacement with reserves increment;
- 50 exploration wells were completed (with 119,000 m drilled);
- 84% — the record success rate in exploration drilling;
- Seven new fields and 117 new deposits with total C1+C21;
- reserves of 232 mmtoe were discovered as a result of exploration;
- The reserves life with the current production level is 46 years;
- The Company's license pool consists of 821 licenses, including 52 offshore licenses. A total of 27 subsoil areas were acquired from open acreage throughout 2015, 17 covered by licenses.

1. Including the partners' share.



#### East Siberia and the Far East reserves increment

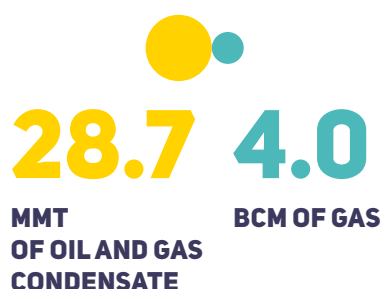


#### East Siberia and the Russian Far East

The overall increase in reserves in East Siberia and the Russian Far East approximated 19.2 mmt of crude and 36.4 bcm of gas. Seven exploration wells were success rate with and 100 % complete. Six new deposits with 33 mmt were discovered.

Taas-Yuriakh Neftegazodobycha LLC, Rosneft subsidiary, received a commercial oil inflow from the potentially productive deposits of the Arylakh horizon. This became possible after the complete drilling of 110-P exploration well at the Srednebotubinskoye field under the exploration plan in Yakutia. According to the preliminary estimate, increased C1+C2 reserves will exceed 10 mmt of crude oil. The reserve volumes are to be updated based on the results of the 2015/16 exploration and production well testing program and to be booked in the National Register.

VCNG started test operation at the North Danilovskaya field in the Irkutsk Region.



#### Central Russia reserves increment



#### Volga-Urals Region, Timan Pechora, and Southern Federal District

The overall increase in reserves in the Volga-Urals Region, Timan Pechora, and Southern Federal District approximated 28.7 mmt of oil and 4.0 bcm of gas. A total of 21 exploration wells were SR with 70 % complete. Seven fields, including L nyanoye, Travninskoye, Erikleiskoye, West Shpilskoye, Kamelikskeye, West Perelyubskoye (Samara and Saratov Oblasts), and Agachiulskoye (Republic of Dagestan) fields, and 55 new deposits and total reserves of 14.7 mmtoe were discovered.

The first exploration well was drilled and tested in Timano-Pechora in the Berganty-Mylsky License Area, commercial hydrocarbon inflows were produced. There are plans to book Nertsetinsky field reserves in the National Register in 2016.

The first 2D ultra-dense seismic surveys were conducted in the license areas of JSC Dagneftegaz and JSC RN-Ingushetia in the North Cauca-

#### Strategic exploration and reserve replacement priorities are:

- Exploration activity to maintain efficient production;
- Meeting the license obligations and improving the quality and volumes of reserves available for reaching the Company's strategic projects.

sian Federal District. This method, allows to improve the quality of exploration approach, as compared to previous years.

The largest field discovered in the Volga Urals Province was the Kamelikskeye field. The field was discovered as the result of exploration well testing, the produced gas condensate flow exceeded 300 cm/day.

The exploration drilling in the Saratov Oblast resulted in the discovery of a new oil-saturated interval in the Pertinsky horizon (Upper Devon) of the Cheremushkinskaya area. The oil inflow reached 38 cm/day. The gas and condensate influx rates at the Kozhevskaya area reached 200 th. cm/day and up to 110 cm/day, respectively. In 2016, two of the discovered fields are planned to be booked in the National Register. These discoveries open a new potential in the Saratov region for further exploration.

**46** YEARS

RESERVES LIFE AT CURRENT  
PRODUCTION

**7** NEW FIELDS

DISCOVERED IN 2015

### STABLE RESOURCES REPLACEMENT

As of the end of 2015, Rosneft residual recoverable ABC1+C2 reserves (IFRS) amounted to 11.5 bln t of oil and gas condensate and 7.5 tcm of gas.

The replacement of commercial ABC1 hydrocarbon reserves, taking into account acquisitions, totals 429 mmtoe, or 168 % of the production volumes in the Russian Federation. The reserves life based on the current production level amounts to 46 years.

One of the Company's number one priorities is an expansion of its resource base. Successful exploration resulted in the discovery of seven fields and 117 new deposits (taking into account projects implemented in partnerships). The total discovered reserves approximate 232 mmtoe.

The growth of ABC1 reserves driven by prospecting amounted to 276 mmtoe in 2015.

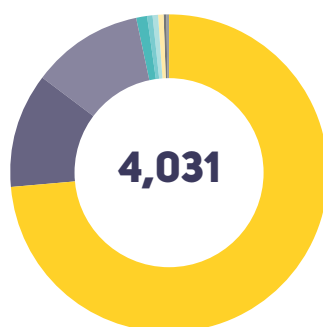
### INDEPENDENT INTERNATIONAL AUDIT OF RESERVES

In 2015, Rosneft reaffirmed its leadership among other world's public oil companies in terms of proven hydrocarbon reserves and hydrocarbon resource base.

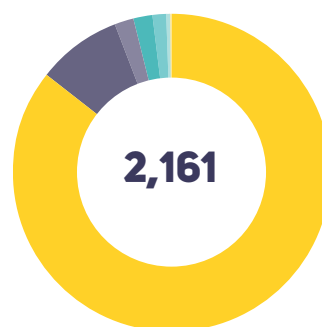
As of December 31, 2015, the proven hydrocarbon reserves of Rosneft approximated 34.5 bln boe (about 4.7 bln toe) based on the findings of an audit conducted by DeGolyer & MacNaughton using the SEC (U.S. Securities and Exchange Commission) classification providing for the evaluation through the end of profitable field development. Hydrocarbon liquids (oil, condensate, and NGL) and gas reserves approximated 24.7 bln bbl (3.3 bln t and 56.8 tcf (1.6 tcm) respectively.

The hydrocarbon reserves replacement in 2015, was 124 % according to SEC classification. Hydrocarbon

### Proved hydrocarbon liquids reserves (oil, gas condensate, HL) according to PRMS, mmt

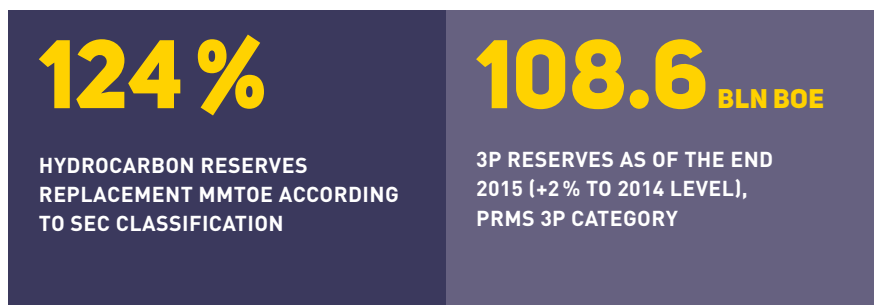


### Proved marketable gas reserves according to PRMS, bcm

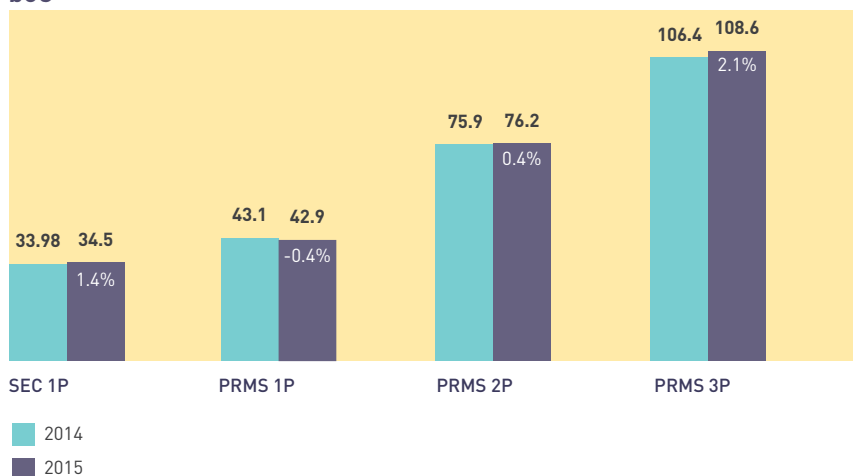


reserves increased by 488 mm boe (59 mmtoe). According to SEC, Rosneft proven hydrocarbon reserves in 2015 were sufficient for 19 years of production.

According to PRMS (Petroleum Resources Management System), 1P hydrocarbon reserves as of December 31, 2015 amounted to 43 bln boe (5.8 bln toe), including 29.8 bln bbl (4.0 bln t) of hydrocarbon liquids (oil, condensate, and NGL) and 76.3 tcf (2.2 tcm) of gas; 2P reserves were 76.2 bln boe (10.3 bln toe), including 53.7 bln bbl (7.2 bln t) of hydrocarbon liquids (oil, condensate, and NGL) and 130.3 tcf (3.7 tcm) of gas; 3P reserves amounted to 108.6 bln boe (14.7 bln toe), including 79.5 bln bbl (10.7 bln t) of hydrocarbon liquids (oil, condensate, and NGL) and 169 tcf (4.8 tcm) of gas. The total 3P reserves grew by 2% in 2015.



Hydrocarbon reserves according to international classifications, bln boe



3D seismic surveys



## 3.2. LIQUID HYDROCARBONS PRODUCTION

*RN-Yuganskneftegaz LLC facility*

### Strategic priorities in hydrocarbons production in Russia:

- Maintaining leadership in unit OPEX and CAPEX
- Brownfields output maintenance
- Launching new projects
- Ensuring production for supplies under long-term agreements

### Key achievements:

- Current development systems optimization
- Significant progress in production stabilization at brown fields
- Development drilling growth by 36 %
- Advanced technologies application

**30 %**

SHARE OF HORIZONTAL  
WELLS IN THE TOTAL NUMBER  
OF COMMISSIONED WELLS

**36 %**

GROWTH IN DEVELOPMENT  
DRILLING RATE

Hydrocarbon production amounted to 254.2 mmtoe in 2015, which was 1 % higher year-over-year. Crude oil and hydrocarbon liquid production was at 202.8 mmt in 2015.

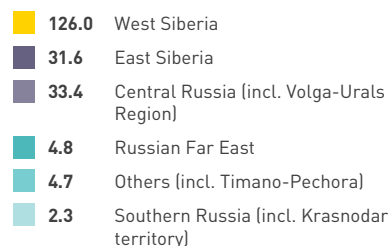
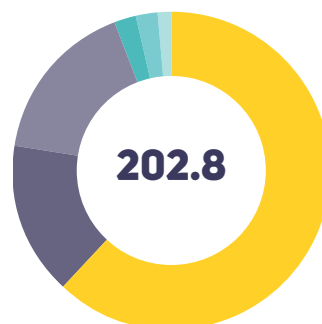
The Company continued to stabilize its production in mature fields. In 2015, it completed large-scale optimization of the current systems in order to improve the efficiency of field reserve production in West Siberia by shifting from conventional directional drilling to drilling of horizontal wells with multi-stage fracturing (MSF HW). This technology significantly improves well productivity, reserves recovery ratio, reduces the well stock, and increases project feasibility. MSF HW is actively used at five consolidated brownfields of the Company, including Yuganskneftegaz, Purneftegaz, Samotlorneftegaz, Nyaganneftegaz, and Varyeganneftegaz. About 50 % of the developed reserves at the aforementioned subsidiaries were started up driven by the use of MSF HW. The

approaches and technologies used by Rosneft during the development of its fields in West Siberia secured its leadership in new well launching efficiency.

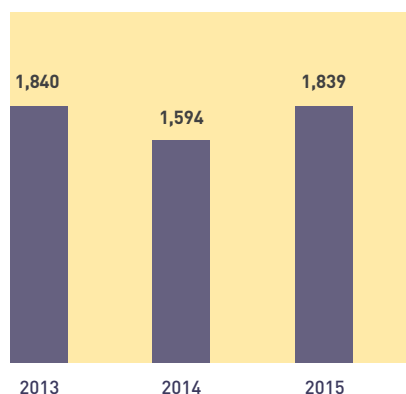
The Company increased its production drilling rate by 36 % to 6.9 million m in 2015 and started up 1839 new wells (+15 % YOY).

The rates of well stock rebuild by side-tracking also increased. In 2015, over 1000 wells were rebuilt that way which was more than 44 % above the 2014 level. That helped the Company to additionally produce more than 2.6 mmt of oil (+15 % YOY). Rosneft keeps its accelerating introduction of more efficient options for new well completion. In 2015, the implementation of horizontal wells with multi-stage fracturing increased by more than 30 % year-over-year. The number of horizontal wells increased by more than 24 % to 555 wells, making up 30 % of the total number of completed wells.

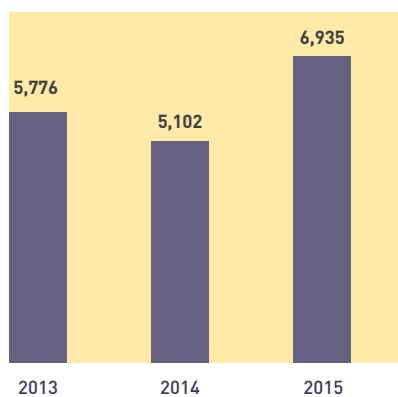
### Crude oil, gas condensate, and HL production, mmt



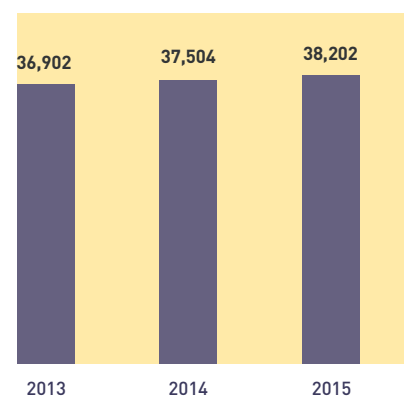
### New wells launching



### Development drilling



### Active oil well stock, units



\* Proforma data.

RN-Krasnodarneftegaz LLC facility



### Use of modern technologies to maintain production level

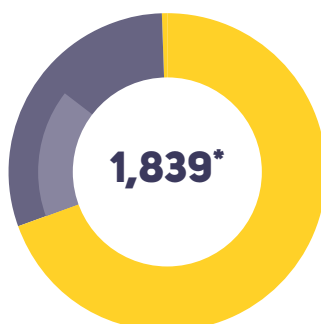
Well work contributes a lot to the maintenance of target production levels aimed at producing additional oil volumes.

In 2015, Rosneft subsidiaries and affiliates conducted over 4,700 wellwork operations to achieve additional production resulting in 7.7 mmt of oil. Main well work types aimed at additional production have traditionally been side-tracking, hydraulic fracturing, and transfer to other horizons and layers. Only these types of well work contributed additional 6.7 mmt of oil to the production.

Rosneft utilizes cutting-edge downhole technologies offered by such leading oil services companies as Schlumberger, Halliburton, KWS, RN-GRP, Cat-coneft, NewTech in the Russian Federation.

The Company uses different tail designs from fully cased models with burst port collars or hydrate-wax plugs with hydraulic fracturing to uncased types with hydraulic fracturing shifting sleeves. MSF with soluble pigs is widely used to prevent pig milling and accelerate well start-up. Slug Frac technology was tested, customized, and implemented for complex facilities.

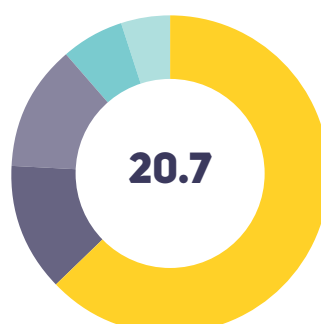
### New wells by type, units



- 1,285 Directionally drilled
- 555 Horizontal wells
- 275 including MSF HW

\* Oil and gas wells

### Additional production from new wells and well work



- 13.0 Production from new wells
- 2.7 Hydrofracturing in the producing well stock
- 2.7 Side-tracking
- 1.3 Transfer to other horizons and layers
- 1.0 Other



## 3.3. OVERVIEW OF PRODUCTION BY REGION OF OPERATIONS

### WEST SIBERIA

West Siberia is the Company's main oil producing region. In 2015, West Siberian assets accounted for 64 % of the Company's total oil production. The Company's main producing assets in West Siberia include RN-Yuganskneftegaz LLC (31 % of the total production), JSC Samotlorneftegaz (10 % of the total production) in Khanty-Mansiisk Autonomous District and Uvatneftegaz LLC (5 % of the total production) in the south of the Tyumen Oblast.

West Siberia is also a major gas producing region. Gas production in the Company grew by 5 %, or 2.1 bcm, to 44.5 bcm in 2015.

### RN-Yuganskneftegaz LLC

RN-Yuganskneftegaz LLC operates 32 license areas (Rosneft being the subsoil user). Most proven reserves (84 %) are concentrated in the Priobskoye, Mamontovskoye, Malobalykское, and Prirazlomnoye fields.

Hydrocarbon production in 2015 approximated 66 mmtoe with oil production being about 62.4 mmt.

Production is maintained by increasing development drilling amount and additional well work.

A new historical record was set in terms of development drilling in 2015. More than 3.5 million meters of rock were drilled. The growth amounted to 59 % year-over-year. 901 new wells were commissioned (+23 % YOY).

The Company's average daily oil production has stabilized since February: the decrease in daily average oil production reduced from 4.3 % in 2014 to 0.9 % in 2015.

The Company's strategic goal is further stabilization of production with growth in mid-term.

### JSC Samotlorneftegaz

JSC Samotlorneftegaz operates 10 license areas (being the subsoil user of nine of them). Most proven reserves (over 97 %) are concentrated in the Samotlorskoye field, one of the world's largest fields (with a production peak at 150 mmt at Samotlor in 1980s).

Hydrocarbon production in 2015 approximated 25.7 mmtoe with oil production being about 21 mmt. The main objectives aimed at maintaining production in the field are utilization of cutting-edge technologies and start-up of new undeveloped reserves.

In December 2015, JSC Samotlorneftegaz completed experimental drilling of a new horizontal well drilled in the Samotlor license area using 20 fracturing stages during 23 days. Hydraulic fracturing with MSF burst port collars and cup packer was done by an inter-group contractor. The well proved to be efficient. Its oil flow rate was more than three times above the average starting flow rate for new Samotlorneftegaz wells in 2015 and more than twice higher than that of neighboring wells in the area. Long-term prospects include

### Strategic priorities:

Further production stabilization at brown fields, including drilling rate increase and new technologies application.

Maintenance of the current well stock productivity.

### Key achievements

Stabilization of average daily production at RN-Yuganskneftegaz.

Application of new technologies at Samotlorneftegaz.

Oil production growth by 10.8 % up to 11 mtoe at RN-Uvatneftegaz.

All-time high production level at the East Siberian fields.



**3.5** MLN M

ALL-TIME HIGH RATE OF  
PRODUCTION DRILLING AT  
RN-YUGANSKNEFTEGAZ

**>40** MMTOE

AGGREGATE OIL PRODUCTION AT  
THREE MAJOR NEW PROJECTS,  
REACHING THE PRODUCTION PEAK

drilling of formation edge zones where non-utilized oil reserves of over 100 mmt are concentrated.

Samotlorneftegaz conducted pilot testing of the technology involving hydraulic fracturing sleeve activation with soluble balls in the wells applying multi-stage fracturing (MSF GW). The new technology contributes to a significant reduction of the periods of each well development from 18 to seven or eight days.

The use of soluble balls jointly with complete proppant flushing makes the port drilling stage unnecessary during development. The use of the new technology helped to ramp up an experimental well in the Samotlorskoye field within 24 hours and supported a yield of 105 cubic meters per day with a water cut within 10%.

#### RN-Uvatneftegaz LLC

RN-Uvatneftegaz LLC operates 16 license areas (being the subsoil user of 13 of them). Most of its proven reserves (over 80%) are currently concentrated in the Ust-Tegusskoye and Urnenskoye fields developed as part of the Eastern Development Center.

Oil production in 2015 exceeded 11 mmt, which was 10.8% above the 2014 level. RN-Uvatneftegaz started up three new fields in 2015 (Protazovskoye, South Gavrikovskoye, and Malyk fields) and started commercial drilling in the West Epasskoye field as part of the creation of the Eastern Development Center in the south of the Tyumen Region. Oil production in this field is expected to start in early 2016.

Drilling operations required transportation of a heavy rig to the West Epasskoye field. That was done in extreme swamp conditions of the Uvatsk District during a short summer and took 35 days.

RN-Uvatneftegaz is consistently improving drilling performance by using new methods and technologies which were previously tested during the development of the existing fields.

#### EAST SIBERIA

East Siberia is home to the Company's major new producing assets. 2015 was a record production year in the Vankor and Verkhnechonskoye fields with over 30 mmt of total output. The region will support major production growth in the medium term driven by the development of new fields in the Vankor cluster, Urubcheno-Tokhonskoye, Srednebotubinskoye, and Kuyumbinskoye fields.

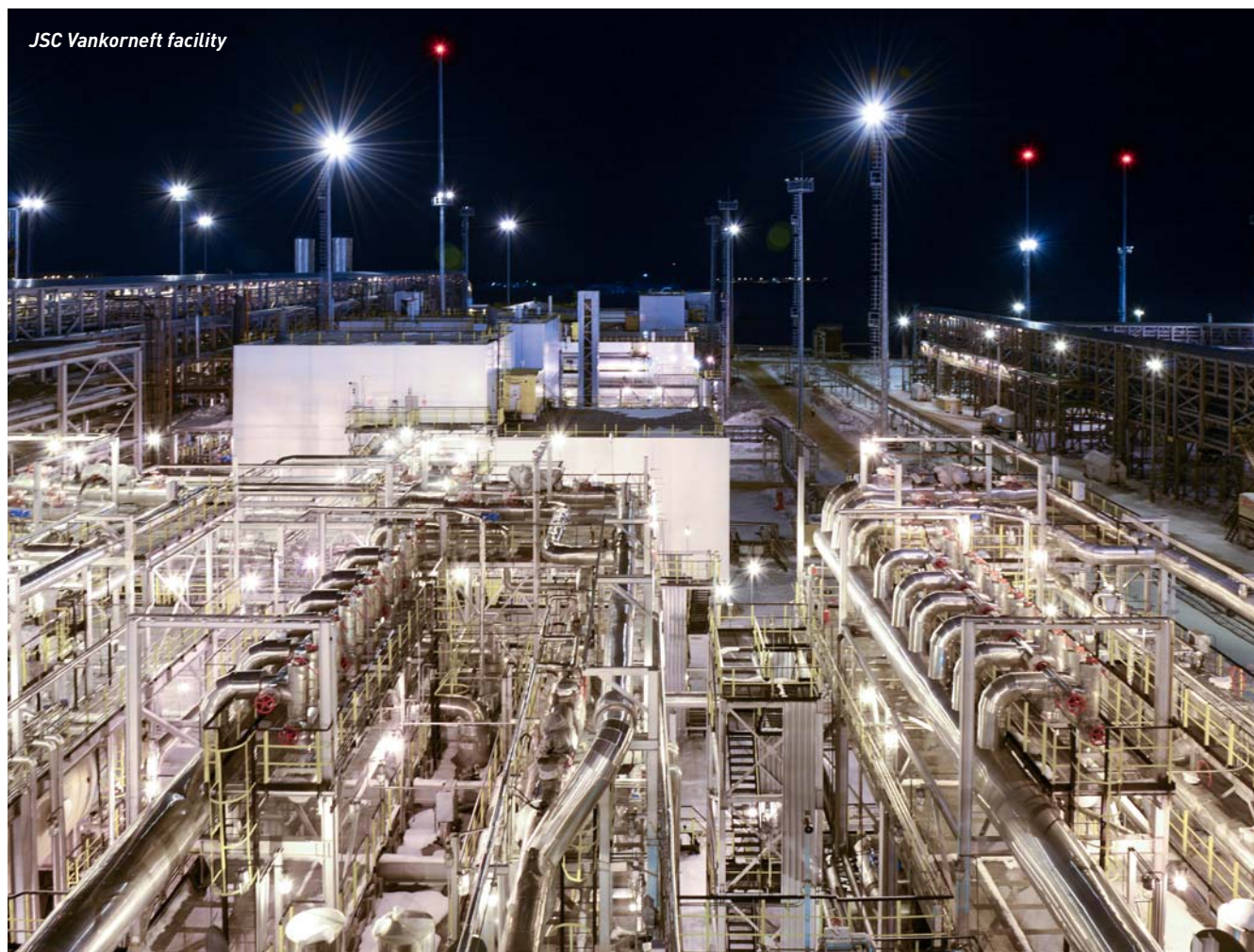
Gas production in the region in 2015 grew by 62%, or 3.4 bcm, to 8.9 bcm. Gas production growth of 3.4 bcm was mainly concentrated in the Vankor field and was the result of an increase in production and higher utilization of associated petroleum gas at 88% (vs 61% in 2014) driven by the start of gas treatment and transport to Gazprom's unified gas supply system (UGSS) in April 2014.

#### JSC Vankorneft

JSC Vankorneft develops the Vankor oil, gas, and condensate field which is the largest field discovered in the last 20 years.

Hydrocarbon production exceeded 29 mmt with oil production being over 22 mmt.

In 2015, the Company continued to enhance its production efficiency at the field. A horizontally branched well with 10 holes was launched in 2015, with initial flow rate at 310 tpd. This indicator is two times higher than the productivity of nearby horizontal wells. A total of four branched wells were started in Vankor. The total cumulative length of horizontal sections reached 1994 meters with a total borehole length of 4450 meters. The new technology boosts overall efficiency and production of additional oil and gas reserves in comparatively low permeability and porosity values. Branched wells represent a promising technology both at the Vankor field and other Vankor cluster fields (Suzunskoye, Tagulskoye, and Lodochnoye). All of the above will contribute to an increase in the oil recovery factor and overall projects efficiency.



JSC Vankorneft facility

**110 MILLIONTH TON OF OIL WAS PRODUCED ON OCTOBER 08, 2015 SINCE VANKOR FIELD DEVELOPMENT HAD BEEN STARTED IN 2014.**

#### **PJSC Verkhnechonskneftegaz**

Verkhnechonskneftegaz explores and develops the Verkhnechonskoye oil, gas, and condensate field, which is the second largest field in East Siberia, located in the Irkutsk Region.

Oil production exceeded 8.6 mmt in 2015, which was 5.4 % above the 2014 level. Production growth was supported by the implementation of a production drilling program and intensification of production in the base stock.

**IN 2015, THE COMPANY REACHED THE HISTORICAL DAILY PRODUCTION MAXIMUM OF 23.7 KT AT THE VERKHNECHONSKOYE FIELD BY OPTIMIZING THE INFRASTRUCTURE.**

Such results were achieved owing to efficient well work, optimization of the drilling cycle, construction of new wells and monitoring of pay zone parameters. The hydraulic fracturing program for the base stock facilitated an increase in well efficiency. The development of the field onshore infrastructure was a significant contribution to production increase. The rebuild of the oil treatment unit increased its throughput by 25 % from the design capacity and the start-up of an oil pipeline contributed to the significant growth of oil transportation volumes.

#### **PJSC East Siberian Oil and Gas Company (Vostsibneftegaz)**

PJSC East Siberian Oil and Gas Company (Vostsibneftegaz) develops an expanded priority area in the Urubcheno-Tokhonskoye field located in the Evenkiysky District in the Krasnoyarsk Territory. Field

development plans suggest annual oil production plateau at 5 mmt.

Natural oil flow output from 164 to 517 tpd were received upon testing 8 horizontal development wells in 2015.

#### **OJSC Taas-Yuriakh Neftegazodobycha**

OJSC Taas-Yuriakh Neftegazodobycha develops the Srednebotubinskoye field located in the Mirinskiy District of the Sakha Republic (Yakutia).

Field development plans suggest annual oil production plateau at 5 mmt. Oil and gas condensate production amounted to 921,000 t in 2015.

**THE TWO MILLIONTH TON OF OIL WAS PRODUCED ON DECEMBER 02, 2015 IN THE SREDNEBOTUBINSKOYE FIELD SINCE THE START OF PRODUCTION IN OCTOBER 2013.**





*Ust-Tegusky field  
of RN-Uvatneftegaz LLC*

## VOLGA URALS REGIONS

The Volga Urals Region is one of Rosneft's historical production centers in the Russian Federation. Some fields have been developed for about 80 years. In 2015, the Company's production in the region totaled 33.4 mmt, or 18% of the Rosneft total production.

In 2015 gas production in the region was at 3.2 bcm remaining at about the 2014 level. Most gas is produced at the fields of OJSC Orenburgneft and OJSC Samaraneftgaz.

### JSC Samaraneftgaz

JSC Samaraneftgaz operates 161 license areas (being the subsoil user of 160 of them). About half of all proven reserves is concentrated in 10 major fields, including Mukhamanskoye, Kuleshovskoye, Barinovskoye,

ko-Lebyazhinskoye, Mikhailovskoye, Kokhanskoye, Neklyudovskoye and others.

Hydrocarbon production approximated 12.5 mmt in 2015. Hydrocarbon liquids production increased by 5.3% to 12.1 mmt. The production growth was supported by an increase in the number of new wells and well work. The development drilling, exceeded 340,000 meters of rock in 2015, which was 1.5 times above the 2014 level. 39% more wells were launched versus 2014 (with initial flow rates remaining unchanged). The wellwork program included hydraulic fracturing, side-tracking, re-commissioning of wells, and well transfer to overlying formations. The maximum wellwork effect was achieved at the South Orlovskoye, Sadovoye, West Kommunnarskoye, Nokolso-Spiridonovskoye, Mukhamanskoye, and North Maksimovskoye fields.

The gas program execution involved the start-up of a gas compression station with annual capacity of 72.5 mm cm at in the Gorbatovskoye field, rebuild of the gas pipelines in the South Orlovskoye and Ekaterinovskoye fields and the start of construction of three gas compressor stations in the Kozlovskoye, Sologayevskoye, and Yablonevskoye fields.

### PJSC Orenburgneft

PJSC Orenburgneft operates 125 license areas (being the subsoil user of 90 of them). More than half of all proven reserves is concentrated in seven major fields, including Rostashinskoye, Sorochinskoye-Nikolskoye, Garshinskoye, Pokrovskoye, and others.

Hydrocarbon production in 2015 approximated 20.4 mmt Hydrocarbon liquids production approximated



**80** YEARS

OF PRODUCTION AT CERTAIN  
VOLGA-URAL FIELDS

**5.3%**

OIL PRODUCTION GROWTH  
AT RELATIVELY MATURE FIELDS  
OF SAMARANEFTEGAZ

18.1 mmt. The key goals in maintaining the output of Samaraneftegaz fields are advanced wellwork (including hydraulic fracturing, side-tracking, well re-commissioning, etc.) and optimization of well operation modes.

#### RUSSIAN FAR EAST (ONSHORE)

##### RN-Sakhalinmorneftegaz LLC

RN-Sakhalinmorneftegaz LLC operates 29 onshore license areas (Rosneft being the subsoil user) on Sakhalin Island and three offshore license areas (Rosneft being the subsoil user) in the Sea of Okhotsk with oil exploration and production efforts dating back to the 19th century.

RN-Sakhalinmorneftegaz main proven reserves (about 80 %) are concentrated in five fields, including Odoptu-more, Katangli, Mongi, Mirzoev, and Nabil.

Hydrocarbon production approximated 1.5 mmtoe with oil and gas condensate production being about 1.2 mmt in 2015.

#### KRASNODAR TERRITORY

##### RN-Krasnodarneftegaz LLC

RN-Krasnodarneftegaz LLC operates 31 license areas (Rosneft being the subsoil user) in the Krasnodar Territory, the oldest oil producing region in the European part of the Russian Federation.

RN-Krasnodarneftegaz main proven reserves (about 80 %) are concentrated in the Anastasievsko-Troitskoye field.

Hydrocarbon production approximated 3.1 mmtoe with oil and gas condensate production being about 0.9 mmt in 2015.



## IMPLEMENTATION OF THE APG UTILIZATION PROGRAM

The result of gas program implementation in 2015 was the achievement of an APG level of up to 87.9% (+7.0 p.p. vs 2014). A total of 20 facilities using APG were started up in 2015. The main projects under the program in 2015 were construction and rebuild of the following onshore infrastructure:

- Compression stations for compression of gas at last separation stages — low stage compression

sion station in the Gorbatovskoye field of JSC Samaraneftegaz, BS5 low stage compression station in the Malobalykskoye field of RN-Yuganskneftegaz LLC, compression station of the Ust-Kharampur field of RN-Purneftegaz LLC, compression stations in the Uzunskoye and West Ust-Balykskoye fields of OJSC Slavneft-Megioneftegaz.

- Electricity generation — 10.78 MW GGS in the West Asomkinskoye field, 14.3 MW GGS in the Arigolskoye field of OJSC Slavneft-Megioneftegaz,

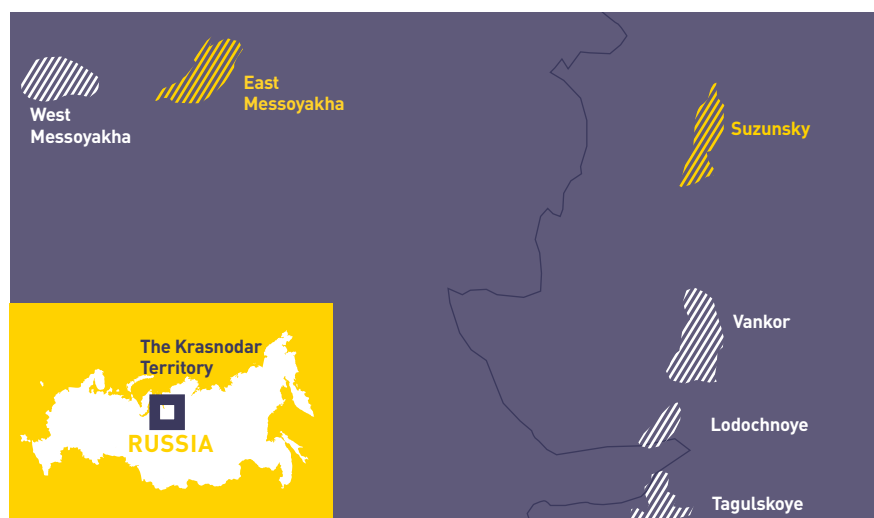
captive power plant (CPP3) of the Verkhnechonskoye field of Verkhnechonskneftegaz.

- Gas transport infrastructure (gas pipelines) of JSC Samaraneftegaz, RN-Stavropolneftegaz LLC and PJSC Orenburgneft.

## Key APG production facilities in 2015

Asset	APG production, bcm	Key 2015 achievements
Vankor cluster	7.7	Further development of the new production area.
Samotlorneftegaz	5.8	Maintaining utilization of APG at over 95%.
Purneftegaz	3.4	Increase in APG production by launching up new wells during 2014.
Yuganskneftegaz	4.6	Production growth drive by further implementation of utilization of APG program: compression station launching in April 2015 in the Malobalykskoye field.
Varyeganneftegaz	3.0	Maintaining utilization of APG at over 95%.
Orenburgneftegaz	2.1	Further implementation of the program aimed at higher added value use of APG. Gas refining and sale of output products with high added value at Pokrovskoye and Zaikinskoye gas processing plants.
Nyaganneftegaz	1.5	Maintaining utilization of APG at over 95%.

## 3.4. GREENFIELDS DEVELOPMENT



### Strategic priorities

Prompt launching of greenfields is one of the important Company's strategic priorities.

In 2016 we plan to launch Suzunskoye, East Messoyakha and Nagulskoye fields.

### SUZUNSKOYE FIELD

The Suzunskoye field is part of the Vankor cluster, including Rosneft's largest field in the region. The field contains significant reserves currently estimated at almost 400 mm bbl of oil and almost 21 bcm of gas. The field is located across four license areas. Most reserves (91 % of recoverable oil and 98 % of gas reserves) are within the Suzunskoye license area (OJSC Suzun being the subsoil user) and some of them in the East Suzunskoye, West Suzunskoye, and South Suzunskoye license areas (Tagulskoye LLC being the subsoil user). The field is being prepared for the commissioning of the 1st start-up facilities scheduled for Q3 2016. The maximum oil production is expected to reach 4.5 mmt in 2017. The region has an oil and gas pipeline network, including the interfield Suzunskoye Field to Vankor Field pipeline. Further product transportation will be conducted via the Vankor-Purpe oil pipeline and Transneft trunk oil pipeline, East Siberia-Pacific, to provide access to the Asia-Pacific Region.

### EAST MESSOYAKHA LICENSE AREA

The East Messoyakha license area is located in YNAO, northwards off 65 degrees north in the Tazovsk District of the Tyumen Oblast, about 190 km northwest of the Vankor area. The field development license is held by CJSC Messoyakhneftegaz owned in parity by Gazpromneft (50%) and Rosneft (50%). Gazpromneft-Razvitie LLC has been the operator since April 1, 2011. Large-scale development start is planned for Q4 2016. The current stage project objectives include the construction of the main infrastructure units and field start-up.

License agreements were updated and the license period was extended from 2020 to 2140. The four-year pilot production program, Phase 1, was completed with the final report defended in May 2015.

A total of 14 horizontal wells and five directionally drilled wells were drilled

**4.5** MMT0E

PEAK PRODUCTION RATE  
AT SUZUNSKOYE FIELD IS  
EXPECTED IN 2017



COMMERCIAL  
OIL PRODUCTION  
WAS STARTED AT  
LABAGANSKOYE FIELD  
IN Q3, 2015

in 2015. The construction of the main infrastructure (CPF, pressure oil pipeline, pipeline commissioning station, living quarters and field support structures, and energy infrastructure) is in progress at the East Messoyakha field to ensure the start-up according to the schedule.

Exploration takes place in the West Messoyakha license area. Initial data was formed to build a detailed geological and hydrodynamic model for the pay zones.

### LABAGANSKOYE FIELD

RN-Severnaya Neft LLC started commercial oil production at the Labaganskoye field in Q3 2015. While preparing for this stage, seismic surveys were completed using 3D CDP seismic reflection method, exploration wells were drilled, and a large work scope was performed to prepare to production drilling, including the survey of oil and reservoir properties for the reservoirs with commercial oil inflows.

The Labaganskoye infrastructure development program involved the construction of a 101.5 km oil pipeline from Labaganskaya OTU to Nyadeyskaya BS, installation of the first separation stage, furnace area, temporary booster station, and fuel tankage, and construction of an energy center. Timely start-up of

these facilities will ensure uninterrupted oil transportation to RN-Severnaya Neft treatment facilities. Furthermore, four cluster pads, an area for an oil treatment unit and field support facilities were back-filled. The total preparatory scope exceeded one million cubic meters of soil.

21 wells were launched at the field in 2015 with a total average daily production of over 1.6 th. tpd. The Labaganskoye field is a part of the Sorokin Swell. Eleven layers in the field are considered oil-bearing. Production in 2016 is expected to approximate 1 mmtoe as of the end of 2015, the field reserves according to PRMS classification are estimated as 241 mm boe.

### NAULSKOYE FIELD

Commercial production at the field is expected to start in 2016. Seven wells are planned to be built with an average start-up flow rate at 90.3 tpd and field equipment and infrastructure are planned for construction. As of the end of 2015, PRMS-classified field reserves are estimated as 239 mm boe. New reserves and expansion of resources are the strategic objectives of RN-Severnaya Neft LLC. New field development will create new jobs which will boost the social and economic situation in the region.

## 3.5. DEVELOPMENT OF ADVANCED IN-HOUSE SERVICES



### DRILLING

Rosneft drilling service is the most modern among all Russian drilling companies. Over 60 % of the Company's drilling rigs are younger than 10 years, including directly owned rigs and rigs received under finance and operational lease. The drilling service retrofit program involved the purchasing, supply, and start-up of 13 drilling rigs from Uralmash NGO Holding LLC in 2015. A contract was signed in October 2015 to supply 15 additional new drilling rigs for cluster drilling of horizontal development oil and gas wells with a nominal drilling depth of five kilometers in 2016. The

first drilling rig was assembled under the new contract in December 2015 at the check assembly site of Uralmash NGO Holding LLC in Tyumen.

New rigs will compensate for the decommissioning of equipment with expired service life, help to keep an in-house services share, and fulfill the production program of upstream subsidiaries.

The establishment of a united drilling holding was initiated in 2015 using the assets of RN-Burenie LLC in order to optimize the structure and implement a highly efficient management system. The assets of OBC LLC and JSC OBN

### Strategic priorities

- Higher in-house services efficiency
- Upgrading service equipment and improving mobility
- Maintaining over 50 % share of in-house service

**>60 %**

OF THE DRILLING FLEET ARE RIGS  
YOUNGER THAN 10 YEARS



## Services quality requirements

The requirements to services quality and need for up-to-date equipment is constantly growing due to increasing number of high-tech wells and operations.

Development of the in-house high-tech services unit proved to be efficient in terms of quality in line with the Company requirements and market control goals. Internal costs optimization and efficiency improvement allowed to retain pricing for the in-house service significantly below the inflation level, which respectively allowed to retain the cost of services rendered by the third parties. The Company plans to further develop this advantage.

Taking into account region specifics of the Company, we perform services in some divisions by in-house units only.

Flexibility and adaptation of the in-group contractors allows to promptly cope with the changing needs of the Company with minimal consequences.

The Company actively performs import substitution policy. In 2015 domestic equipment was procured for internal servicing and put into operation, we also signed procurement agreements for 2016.



**WE SUCCESSFULLY OVERCAME DRILLING SERVICES DEFICIENCY AND INCREASED THE CAPACITY OF THE IN-HOUSE DRILLING (ROSNEFT PERFORMS 56 % OF DRILLING SERVICES) AND RESPECTIVELY INCREASED PRODUCTION DRILLING BY MORE THAN 30 % LAST YEAR.**

**Igor Sechin**

From the report to Vladimir Putin,  
the President of the Russian Federation,  
March 28, 2016

were used to create the Orenburg Branch of RN-Burenie LLC, and regional subdivisions of RN-Burenie LLC. The Nizhnevartovsk Branch of RN-Burenie LLC will be opened with the assets of NPRS-1 LLC and JSC NvBN in 2016.

The implementation of the strategy aimed at the development of the drilling business continued throughout 2015 boosting the performance of the production segment despite the challenging environment. The number of active drilling rigs reached 223 units serviced by 208 drilling crews at the end of December. The in-house service involvement in the Company's onshore drilling exceeded 50 %.

Own drilling service is instrumental with more stringent control over third-party contractor prices, curbing tariff growth and monitoring the performance in the Company's units. As a result the Company managed to reduce costs of directionally drilled wells using RN-Burenie resources at our largest producing asset, Yuganskneftegaz, versus 2012 against the growth of 22 % of producer price index and 3 % of third-party contractor prices, on the average.

Precision Drilling de Venezuela, C.A. holding six drilling rigs and a headcount of 405 employees was fully integrated into the Company in 2015. All drilling capacities were relocated to JVs with the Company's interest (JV Petromiranda, JV Petromonagaz, JV Bokeron, and JV Petroperiha). The Company's operating performance represented by 77300 meters drilled and by reduction in 6% in 2015. 6 %.

High drilling efficiency in 2016 is certified by average well drilling time reduction from 40 to 21 days at JV Petromonagaz and from 35 to 29 days at JV Petromiranda. Currently, the Company is providing additional equipment and upgrades its drilling capacities to support JV's production program with the Company's participation. 2016 operating plan is developed and approved.

## WELL SERVICING AND WORKOVER AND OTHER IN-HOUSE SERVICES

The strategic goal for well current repair and workover at Rosneft is higher safety and quality of oil services, lower operating costs, and long-term satisfaction of the Company's demands using in-house services.

The average active number of in-house crews involved in well current repair and workover (RN-Service LLC group) was 531 crews in 2015. The production program covering the number of repair/workover operations is 104 % complete, almost 30,000 well repairs performed. Actual uptime per R&WO crew was 55 repairs per year.

RN-Service LLC optimization and update includes group restructuring. Such companies with non-core assets as RN-Aerocraft LLC, RB-Service-Sklad LLC, and RN-Service-Ecology LLC, were divested from RN-Service LLC. A series of preparatory actions were taken to divest the oil field equipment repair business from RN-Service LLC and create a separate specialized holding, RN-Remont NPO LLC, with its assets.



The second restructuring stage at RN-Service LLC is planned for 2016 and 2017, including the following activities:

- divestiture of companies with non-core utilities-related operations such as PNG-ORS LLC, PNG-KS LLC, and UKS LLC, and responsibility for process and chemical solution making services (UNG-NHS LLC);
- completion of the Repair unit restructuring and creation of RN-Remont NPO LLC holding;
- restructuring of TRKS and Spetstransport companies and establishment of specialized WR&WO and special transport services holding (merger of 20 well workover and process transport services companies with RN-Service LLC).

### HYDRAULIC FRACTURING

In order to improve operational performance and satisfy the current demand, the Company is developing its own hydraulic fracturing (HF) service. It successfully integrated a new hydraulic fracturing unit using purchased assets of Trican Well Services LLC to satisfy own growing demands with production capacities. The Company covered, independently, 20 % of its own hydraulic fracturing demands in 2015. The strategic goal is timely satisfaction of Rosneft's demand for hydraulic fracturing with an increasing demand for multi-stage fracturing (MSF) with the lowest costs and minimum risks.

The Company plans to develop its own advanced hydraulic fracturing competencies further in 2016–2017. Rosneft plans to develop relations with leading contractors in the sector as part of this initiative.

**30** THOUSAND

WORKOVERS WERE PERFORMED  
BY INTERNAL SERVICING DIVISION

**20%**

OF FRACTURING PERFORMED  
IN-HOUSE

## 3.6. DEVELOPMENT OF OFFSHORE PROJECTS IN THE RUSSIAN FEDERATION

Shares of the project participants, %



30	Exxon Neftegas Limited (USA)
30	Sodeco (Japan)
20	Rosneft (Russia)
20	ONGC Videsh Ltd (India)



THIS WELL CONTINUES SUCCESSFUL IMPLEMENTATION OF OUR OUTSTANDING PROJECT. I AM GRATEFUL TO EXXONMOBIL, OUR PARTNER, FOR USING THE DRILLING TECHNOLOGY MAKING THAT ACHIEVEMENT A REALITY."

Igor Sechin  
Chairman of Rosneft  
Management Board

### Strategic priorities

- Project portfolio ranging
- Focus on high-priority projects — seismic surveys and exploration drilling
- Planning future full-scale projects implementation

### OFFSHORE PRODUCTION PROJECTS

#### Sakhalin-1

Sakhalin-1 is the first large-scale offshore project implemented in the Russian Federation under PSA (effective from 1996).

Sakhalin-1 develops three fields, including Chaivo, Odoptu, and Arktun-Dagi located on the north-eastern shelf of Sakhalin Island.

Oil and condensate production under Sakhalin-1 exceeded 8.3 mmt in 2015. Consumers in the Russian Far East received over 2.3 bcm of gas. Project fields (Chaivo, Odoptu, and Arktun-Dagi) have been developed using cutting-edge methods and technologies.

In January, 2015 the first oil volumes were produced in the Arktun-Dagi field started up in 2014 by Rosneft and ExxonMobil as part of Sakhalin-1 Consortium from unique stationary Berkut platform. Three oil wells were drilled

from Berkut platform as of December 31, 2015.

Berkut is a unique drilling platform. The world's offshore float-on installation record was set when installing the platform.

In April 2015, a new world's record was set under Sakhalin-1 with the longest well drilled by Rosneft in the Chaivo field as part of Sakhalin-1 Consortium.

O-14 production well was drilled towards the edge of the South-Eastern tip of the field from Orlan drilling platform. The well has the longest borehole of 13,500 m.

Orlan platform was fully installed in July 2005 and drilling started in December 2015. The platform requires the minimum number of product treatment structures, as extracted crude oil supplied to the Chaivo onshore processing facility. Steel and concrete drilling facilities with living quarters are used to develop





the southwestern and southeastern parts of the Chaivo field. Orlan's steel and concrete base is fit to resist ice and gigantic ice ridges rising up to a height of a six-floor house.

### Northern tip of the Chaivo field

In September 2014, the Company launched the northern tip of the Chaivo field within a shallow area of the northeastern Sakhalin shelf.

The President of the Russian Federation launched the field operation during his teleconference with the President of Rosneft's Management Board which was also attended by the Minister of Energy of the Russian Federation.

The third oil well (NC-3, 9570 m downhole) was put into operation in 2015 according to the accelerated schedule and drilling of NC-4 well (10 486 m downhole) was finished.

The wells in the northern tip of the Chaivo field have a unique complex design with an extended reach.

Actual oil production in 2015 totaled 1926 kt. The cumulative volume of gas delivered to the Khabarovsk territory in 2015 amounted to 218.4 mmcm.

On November 28, 2015, Rosneft produced the two millionth ton of oil in the northern tip of the Chaivo field only fourteen months after the start-up of the first well.

Oil production in the northern tip of the Chaivo field takes place from three unique wells with average total production exceeding 7 th. tpd in late 2015.

The field, similarly to Sakhalin-1 project, contains light SOKOL oil. SOKOL is unique oil with a very low sulfur content of 0.25% and density of 36.8 degrees API, allowing to sell this oil at a premium to Dubai and Oman benchmarks.

### RESULTS OF OFFSHORE EXPLORATION IN RUSSIA

Rosneft completed exploration works at its offshore licensed areas in the Russian Arctic, Far East and southern offshore in 2015.

**13,500<sub>m</sub>**

A WELL WITH THE LONGEST  
BOREHOLE IN THE WORLD  
DRILLED UNDER SAKHALIN-1  
PROJECT

**>20**

TH. LINEAR METERS

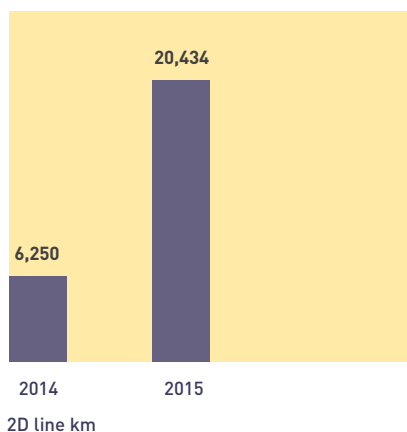
2D SEISMIC OPERATIONS  
AT RUSSIAN OFFSHORE  
PROJECTS IN 2015



*The Yastreb rig at Sakhalin shelf  
is second to none*



### Russian offshore seismic operations



### 2D seismic surveys:

The actual completed amount was 20434 line km in six license areas of the Arctic shelf.

### 3D seismic surveys:

The actual completed amount was 1183 sq.km in six license areas, including 800 sq.km in the Arctic shelf and 383 sq. km in the Russian Far East (four LA).

### Geochemical (helium) survey:

Geochemical (helium) survey was performed in the East Pribrezhny license area in the Sea of Okhotsk with 1300 physical observation points.

### Field geological expeditions:

A field expedition was organized to explore the islands in Novaya Zemlya and Franz Josef Land archipelagos in the Barents and Kara Seas in order to collect rock material to study the quality of oil and gas parent rock and reservoir and reduce geological risks in the Company's license areas in the West Arctic shelf.

### Regional projects:

The regional databases with geological and geophysical data for the shelves of the Russian Arctic, Far East, and southern seas were updated. Geological risks and uncertainties during planning and



Drilling operations monitoring

2 mmtoe aggregate oil production at the northern tip of Chaivo field reached upon 14 month only after the first well launching

Rosneft Board of Directors approved the Company's Policy for offshore hydrocarbons exploration and production to comply with p.2 of the President of the Russian Federation orders list dt. December 27, 2014 #Пр-3013 and the Russian Government Directives #3984-п П13 dt. June 24, 2015. The document was developed based on the methodological guidelines, approved by the Russian Government #ИШ-П13-4148 dt. June 24, 2015. This Policy is the key internal document of the Company providing complex regulation of processes and procedures in order to achieve strategic goals of the Company in terms of the offshore hydrocarbons exploration and development, set in the Rosneft Strategy and Long-Term Development Plan.

exploration were mitigated by improving regional shelf geology models, updating oil-and-gas content forecasts, including updates to oil and gas systems on Company license areas. The results of this work formed the basis for project ranging. Recommendations were prepared on exploration plan short- and mid-terms adjustments, and subsoil licensing plans were updated.

#### Geotechnical surveys:

Geotechnical surveys were completed at two sites<sup>1</sup> in the South Russky license area in the basin of the Pechora

Sea. Rosneft and Statoil joint ventures completed geotechnical surveys at two sites for exploration drilling purposes to be launched in 2016 in Magadan-1 and Lisiansky license areas in the basin of the Sea of Okhotsk.

#### Environmental monitoring:

The environmental monitoring included the survey of 12 earlier drilled wells in the basins of the Pechora, Barents, Kara Seas and the Sea of Okhotsk (South Russky, Pomorsky, West Prinovozemelsky, Medyn-Varandeisky, Magadan-1, and East Prinovozemelsky license areas).

1. Including the partners' share

## 3.7. DEVELOPMENT OF INTERNATIONAL PROJECTS IN PROMISING OIL AND GAS REGIONS



IN VENEZUELA THE COMPANY WITHIN JV PETROMIRANDA DRILLED A RECORD-SETTING HORIZONTAL WELL

**8.8** MMTOE

PRODUCTION IN 2015 UNDER THE COMPANY PROJECTS IN VENEZUELA (1.67 MTOE IN THE COMPANY'S SHARE)

### Strategic priorities

- Efficient implementation of current projects
- Optimization of current assets portfolio with account of their investment potential

### VENEZUELA

Rosneft is one of the world's largest investors in Bolivarian Republic of Venezuela (BRV). The Company continues to consistently expand its cooperation in crude oil production with Petróleos de Venezuela, S.A. (PDVSA), a Venezuelan national company.

Rosneft successfully implemented five joint exploration and production projects with PDVSA in Venezuela, including three projects currently at the production stage which are Petromonagas (Rosneft share is 16.67%), Petroperiha (Rosneft share is 40%) and Bokeron (Rosneft share is 26.67%), one pilot development project, Petromirinda (Rosneft share is 32%), and one exploration project, Petrovictoria (Rosneft share is 40%). Projects in Venezuela are mainly involved in low-grade oil production. A total of 8.8 mmt of oil was produced in 2015, including Rosneft share of 1.67 mmt.

The largest reserves are available under Junin-6 and Karabobo 2/4 projects. JV Petromiranda was started to imple-

ment Junin-6 project located in the low-grade oil belt in the Orinoco River basin in 2010. Phase 1 is currently in progress. It stipulates additional field development and infrastructure engineering. Pilot development of a priority area is being performed to determine pay zone characteristics.

JV Petrovictoria was incorporated to implement the project in Karabobo 2/4 block in 2014. An additional development program was elaborated in 2015. The synergy with JV Petromonagas during field development was evaluated. A memorandum was signed with PDVSA to agree on key project development indicators from 2015 through 2017, and exploration drilling was started in November 2015 in the early production area.

Rosneft is contributing efforts to set up joint ventures with PDVSA to render oil-related and infrastructure construction services. These operations will foster expansion of the Company's business in Venezuela and improve exploration and production performance. Involvement in well drilling in 2015 of Precision Drilling de Venezuela under its subsidiary's

### Key achievements

- Junin-6: pilot development of the first section to get production formation properties
- Karabobo 2/4: exploration drilling at the early production section







Joint project of Rosneft  
and PDVSA in Venezuela

projects increased field drilling rates, while decreasing drilling costs.

The Company reviewed expansion of its cooperation with PDVSA in other areas, including the implementation of joint hydrocarbon production projects on Venezuelan shelf.

Rosneft and PDVSA are increasing their cooperation in oil and oil product supplies. In June 2015, they signed an agreement on the Key Terms and Conditions for Russian Urals Oil Supply to Venezuela.

Rosneft is actively involved in socially important projects, including the construction of a martial arts center in

the country. Venezuelan nationals can study at the Company's partner colleges and universities in the Russian Federation. In 2015, Rosneft, PDVSA, and the Gubkin Russian State University of Oil and Gas signed a memorandum of cooperation in education and science, as well as a contract on education for PDVSA employees.

The Joint Venture Agreement between Rosneft and the State Oil Company of Azerbaijan Republic (SOCAR) is considering selection of assets of both companies to be included into operations of the joint venture. SOCAR may potentially hand-over to the joint venture its participation share in the offshore Absheron field in the Kaspian Sea.

Rosneft is considering expanding its business by participating in the gas and condensate field development project in Michelones, Patao and Riu Caribe offshores of Venezuela with the proved reserves and gas monetization as LNG for export.



Gas and gas condensate production at the Block 06.1 of Vietnam fields made 24.34 mboe



**I'M SURE OUR EXPERIENCE IN VIETNAM SHALL BE APPLIED NOT ONLY FOR THE COMPANY'S OPERATIONS IN SOUTHERN SEAS. THE ACQUIRED COMPETENCES WILL BE USED FOR PLANNING AND IMPLEMENTING THE UPSTREAM PROJECTS IN DISTANT REGIONS. I WOULD LIKE TO EMPHASIZE THAT THE PROJECT IMPLEMENTATION SETS AN EXAMPLE OF PROGRESSIVE CO-OPERATION OF THE COMPANY WITH OUR ASIA-PACIFIC PARTNERS — PETROVIETNAM AND ONGC. WE HIGHLY RATE THE CURRENT STATE OF THE JOINT PROJECTS IMPLEMENTATION IN VIETNAM AND THEIR FUTURE DEVELOPMENT."**

**Igor Sechin**

Commencement of PLDD-1X exploration well drilling at the Block 06.1 of Vietnam offshore, March, 2016

## BRAZIL

Rosneft has been participating in the hydrocarbon exploration and development project since 2012 (via its subsidiary Rosneft Brasil E&P Ltda., hereinafter, RN-Brazil) in the license areas in the Solimões River basin (State of Amazonas, Brazil). A transaction was closed in October 2015 to acquire 55 % share in the project from PetroRio. Currently, RN-Brazil owns 100 % of the property rights to the areas in Solimões River basin and is a project operator. The Company plans long-term seismic surveys and drilling of two exploration wells in 2016 and 2017.

## MOZAMBIQUE

A consortium was formed with Exxon-Mobil in 2015 to develop international cooperation by participating in the 5th license round in the Republic of Mozambique. Based on the results of the joint application submission the consortium was awarded with three blocks (A5-B, Z5-C, and Z5-D) at the country's offshore (Rosneft's share – 20 %). Commencement of operations under the project is planned for Q3-4, 2016 upon

signing concession agreements with the Mozambique Government.

## VIETNAM

Rosneft participates in a joint gas and condensate production project in the Socialist Republic of Vietnam, as well as in exploration projects in PLDD Block 06.1 (35 % 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 05.3/11 Blocks in 2013.

Rosneft is also a party to the offshore Nam Con Son pipeline project involving export and treatment of gas and gas condensate produced in offshore blocks in the Nam Con Son basin (32.7 % held by Rosneft Vietnam Pipelines B.V., 16.3 % held by Perenco, and 51 % held by PetroVietnam).

In 2015 gas and gas condensate production in 06.1 Block fields totaled 24.34 mmtoe (including 3.85 bcm of gas in 100 % share), which was significantly above the minimum buyer's

(Petrovietnam Gas) commitments under the current contract.

Rosneft Vietnam B.V., subsidiary, had several milestone events in 2015. An important operational highlight was achieved on June 22, 2015 marked by 13 years of zero life accident offshore operations. It is one of the best figures globally. Another important date was May 1, 2015 with 300 mm boe (including 46.6 bcm of gas in 100 % share) produced in 06.1 Block (Nam Con Son basin) operated by Rosneft Vietnam B.V. since the start of field development. These events were highly praised by Petrovietnam management and in November 2015, Rosneft Vietnam B.V. received a high national award, Order of Labor, Second Degree.

Agreements were signed in August 2015 on the provision of an offshore drilling rig and supply of long load equipment while preparing for drilling of two exploration wells (in PLDD 06./1 Block and 05.3/11 Block). The drilling of an exploration wells in PLDD and 05.3/11Block is scheduled for 2016. Additional 3D seismic surveys in 06.1 Block are also planned for 2016 to evaluate the potential of new promising formations.

## 3.8. GAS BUSINESS

ROSNEFT IS THE THIRD LARGEST GAS PRODUCER IN THE RUSSIAN FEDERATION AND THE SECOND LARGEST INDEPENDENT PRODUCER

10%

ORGANIC GROWTH OF GAS  
PRODUCTION IN 2015 VS 2014



A JV WITH ALLTECH TO CREATED OPEN A NEW HIGH-TECH GAS PRODUCTION CENTER IN NENETSK AD. THE JV SHALL PERFORM GAS MONETIZATION BY MEANS OF LNG PRODUCTION

**THE COMPANY DEVELOPS SIGNIFICANT GAS RESERVES IN WEST AND EAST SIBERIA AND HAS A UNIQUE LICENSE PORTFOLIO FOR THE DEVELOPMENT OF HYDROCARBON RESOURCES ON THE RUSSIAN CONTINENTAL SHELF. ROSNEFT'S STRATEGIC GOAL IN GAS BUSINESS DEVELOPMENT IS A LONG-TERM INCREASE OF THE COMPANY'S SHAREHOLDER VALUE THROUGH INCREASED GAS PRODUCTION SECURED BY A HIGHLY EFFICIENT LONG-TERM SALES PORTFOLIO.**

Gas production amounts to 20 % of the Company's total hydrocarbon production. Gas potential development is one of the Company's strategic objectives and it has recently taken some important steps forward in this area. Rosneft has substantial gas reserves at the initial development stage which supports a high growth potential and steady production expansion. A farther growth is planned in value-added use of associated petroleum gas.

Rosneft produces gas via more than 30 subsidiaries and joint ventures

in West and East Siberia, Central Russia, in the south of the European part of Russia, Russian Far East, as well as Vietnam, Venezuela and Canada.

The Company's gas production in Russia in 2015 totaled 62.54 bcm<sup>1</sup> with a 10 % organic growth year-on-year.

Recoverable ABC1+C2 gas reserves as at January 01, 2016 reached 7.5 tcm, being 4 % above the previous year. The greatest absolute and percentage growth of gas reserves according to the Russian classification was supported by exploration drilling by PJSC Sibneftegaz, one of the major production companies, and by a joint venture with an Altec Group company using the assets of the Kumzhinskoye and Korovinskoye fields.

Rosneft will continue to expand gas production, improve sales performance and prepare for the launch of its major projects in 2016 to provide for achievement of the set strategic goals.

### Gas Business strategic goals

- development and efficient monetization of resources with a production increase potential up to 100 bcm by 2020;
- increase in gas production in the east of Russia in case of gas export liberalization;
- improvement of APG and associated liquid fraction monetization by expanding gas value in the chain, gas refining development, and further NGL and LHG refining to sell high added value products;
- improvement of gas sales efficiency in the Russian Federation;
- improvement of regulation in the gas industry;
- development of LNG production and access to the global LNG market; creation of a basis and accumulation of necessary competencies for LNG Arctic projects delivery;
- implementation of advanced technologies using global gas upstream and downstream expertise.

1. Gas extraction without flared gas or gas used for HL production.

### Gas Business achievements:

- Rosneft and an Alltech Group company finalized the creation of a joint venture (JV) in late 2015 to develop gas production and monetization projects in the Nenets Autonomous District. The JV received subsoil licenses for the Kumzhinskoye and Korovinskoye fields. The JV also received the funds to be allocated for incorporated project development. Rosneft earned a majority share in the JV. The JV will form a foundation for the set-up of a new gas production center in Nenets Autonomous District involving construction of LNG plant and relevant infrastructure. This project is a key element of Rosneft's gas strategy.
- The second stage of Novo-Urengoi gas and gas condensate processing plant was started up in Q4 2015 by Rospan International, being the driver of gas production growth for years to come.
- Long-term gas supply contracts were signed with E.ON Russia for five years with a total supply volume of 4.4 bcm and with Evraz Group for ten years with a total supply volume of 14 bcm of gas.
- Three licenses were purchased for the Yutermalsky, Malokhadyryakhinsky and Tochipylykynsky license areas with C1+C2 gas reserves totaling 4.15 bcm and oil/condensate reserves amounting to 0.67 mmt. Resources of these areas make 170 btoe.
- In the end of October, Rosneft and ExxonMobil Consortium were recognized a winning bidder for three offshore areas in the Republic of Mozambique after the fifth license round held by INP (Instituto Nacional de Petróleo, National Oil Institute). The long-term perspectives of exploration and a potential of large gas fields discovery were confirmed by the geological analysis of both companies.

### GAS PRODUCTION

The Company's total gas production in 2015 was record high 62.54<sup>1</sup> bcm, including 29.67 bcm of natural gas and 32.87 bcm of associated petroleum gas, with 0.85 bcm of the total gas production (0.64 bcm of natural gas) produced abroad in Vietnam, Venezuela, and Canada, and 61.69 bcm was produced in Russia. Besides a part of gas, produced in Russia, is sent for NGL production. The scope of the Company's gas production in Russia in 2015, including gas sent for NGL production, amounted to 62.1 bcm.

Based on the 2015 results, Rosneft is rated among the top three gas producers in Russia with its production volume accounting for 9.8% of the total gas production in Russia.

The organic growth of gas production was 5.81 bcm, or 10%, year-on-year and driven by the following factors:

- growth of Vankorneft production by 3.39 bcm resulting from natural

and associated petroleum gas production increase and improvement of added value use of APG to 88% after the start-up in Q2 2014 of the gas processing plant, compression station, and gas pipeline to transport gas to Gazprom's UGSS for future sale;

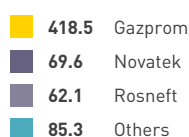
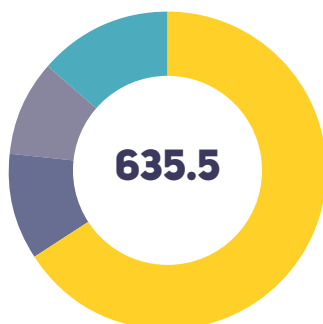
- 0.86 bcm increase in natural gas production by Sibneftegaz, mainly driven by the start of gas production in the Khadyryakhinsky license area in December 2014;
- 0.76 bcm increase in gas production by RN-Purneftegaz LLC as a result of the start-up of new cluster pads in the Tarasovskoye field and gas pre-hydration and gas-gathering pipeline in Barsukovskoye field;
- 0.67 bcm increase in APG production after the start of the pilot development of the Northern tip in Chaivo field on Sakhalin;

- 0.26 bcm increase in natural gas production by JSC Rospan International as a result of the start-up of new wells and check-out of the 2nd stage of Novo-Urengoi gas and gas condensate processing plant.

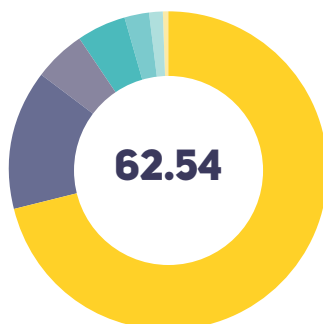
The Company aims at long-term gas business development. Sustainable mid-term growth of oil and gas production by the Company is supported by the start-up of new fields with a stably increasing investment scope. It is primarily a large-scale development of Rospan International fields that provides for a gas production increase to almost 20 bcm and hydrocarbon liquids of about 6 mmt after its ramp-up. The first project stage is planned to be started in the Kharampur and Kynsko-Chaselskoye license areas. There are also plans to increase production in Sibneftegaz fields currently yielding 11.8 bcm to 14 bcm by 2020 driven by the development of the Khadyryakhinskoye field and bottom horizons in the Beregovoye field.

1. Gas extraction without flared gas or gas used for HL production

### Gas production in Russia in 2015 (CDO FEC data, including gas sent for HL production), bcm



### Gas production per key operation regions in Russia and abroad, %



**62.54** BCM

ROSNEFT GAS PRODUCTION IN  
2015

**87.9%**

APG UTILIZATION RATE IN 2015

Major gas projects will support the fulfillment of the Company's current contract commitments related to gas supply and are delivered to achieve the goals outlined in the Company's Long-term Development Program.

West Siberia is the largest gas producing region for Rosneft. Gas production in the region grew by 5% in 2015 to 44.49 bcm with natural gas production amounting to 24.45 bcm, being mainly from Sibneftegaz, Rospan International, and RN-Purneftegaz fields. Associated petroleum gas production in the region was 20.04 bcm with the main volume from Samotlorneftegaz, RN-Yuganskneftegaz, RN-Purneftegaz, Varyeganneftegaz, RN-Nyaganneftegaz, and Tomskneft fields.

Gas in East Siberia was produced in Vankorneft fields, being the largest fields in the region, as well as Verkhnechonskneftegaz and Taas-Yuriakh Neftegazodobycha.

APG and natural gas production in 2015 amounted to 7.95 bcm and 0.98 bcm, respectively. The total production growth in the region of 3.43 bcm in 2015 is significantly above the last year's figure, which is mostly driven by APG utilization rate increase.

Most gas in Central Russia in 2015 was produced in Orenburgneft and Samaraneftegaz fields.

RN-Krasnodarneftegaz LLC is the main gas producing asset in the south of Russia, leader of natural and associated petroleum gas production.

The main production source of the Russian Far East is APG from Northern Chaivo field, APG produced by Sakhalin-1,

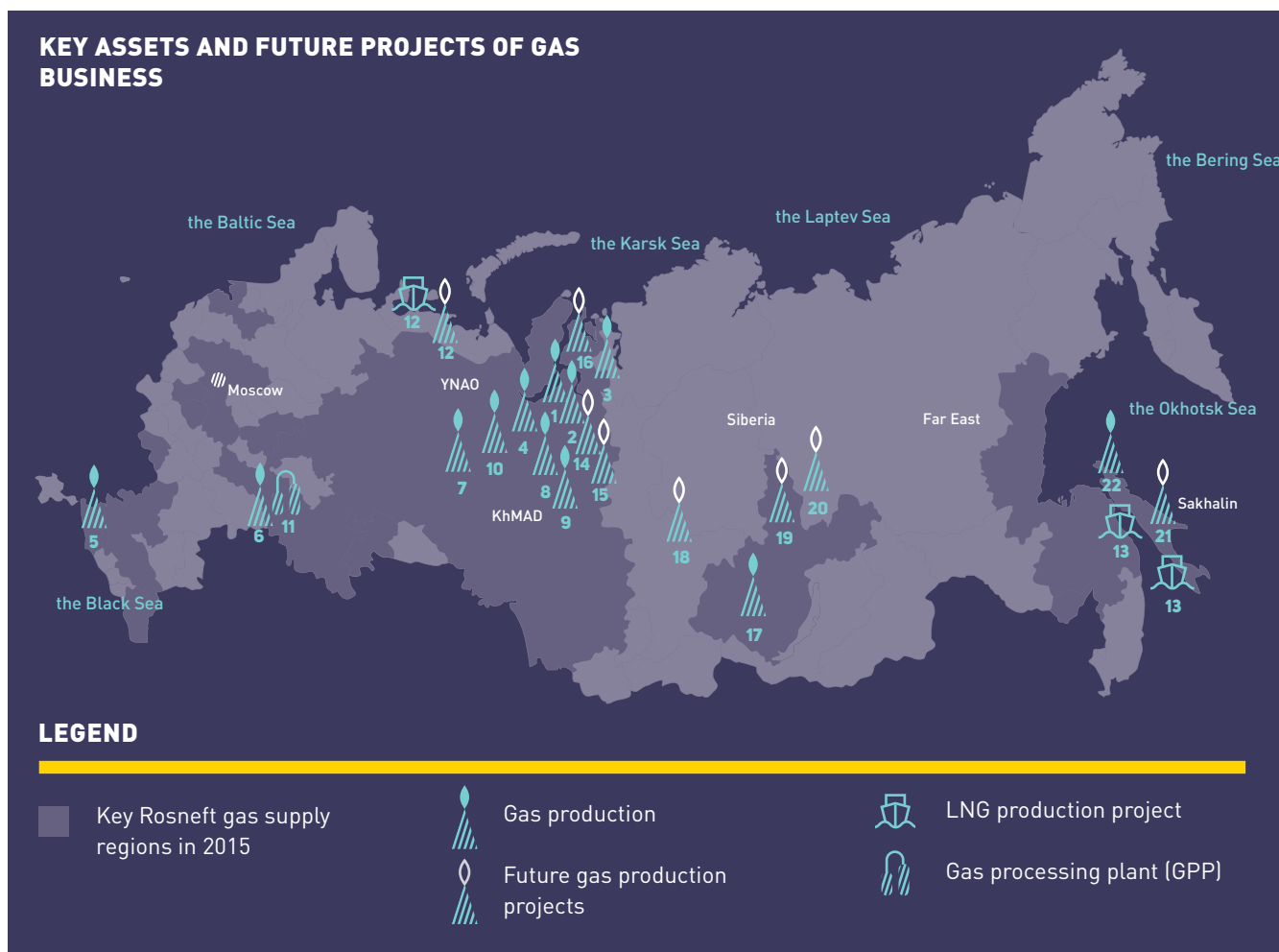
and natural gas produced by RN-Sakhalinmorneftegaz LLC.

Gas was produced abroad under international projects in Vietnam, Venezuela, and Canada.

### New facilities commissioning

In Q4 2015 Rosneft performed complex pilot testing of the second stage of Novy Urengoy gas and gas condensate complex conditioning unit of Rospan, being the driver of gas production increase for the next years.





#### 1. Rospan

Main growth center for natural gas production in the next five years. Production of 4.24 bcm in 2015, growth potential to almost 20 bcm per year.

2015 — launch of the second stage of Novo-Urengoi gas and gas condensate processing plant in the check-out mode.

#### 2. Sibneftegaz

Production of 11.76 bcm in 2015.

2015 — increase in gas production in the Khadyryakhinskoye field.

#### 3. Vankor cluster

Production of 8.71 bcm in 2015. Development of a new production region.

2015 — continued increase of APG utilization rate. Achievement of the designed gas supply volume to gas transport network (GTN) 5.6 bcm per year.

#### 4. Purneftegaz

Production of 5.53 bcm in 2015.

2015 — start-up of new cluster pads in the Tarasovskoye field and gas pre-hydration and gas-gathering pipeline in Barsukovskoye field.

#### 5. Krasnodarneftegaz

Production of 2.75 bcm in 2015.

The main gas production asset in the south of Russia, leader of natural and associated petroleum gas production. In 2015 the total amount of gas production from the date of commercial operations beginning reached 100 bcm.

#### 6. Orenburgneft

Production of 2.79 bcm in 2015.

Gas refining at Zaikinsky, Pokrovsky and Zagorsky refineries.

#### 7. RN-Nyaganneftegaz

Production of 1.54 bcm in 2015.

2015 — sustain APG utilization rate above 96%.

#### 8. sustain APG utilization rate above 96%.

Production of 3.1 bcm in 2015.

Has free gas and gascap gas reserves.

#### 9. Samotlorneftegaz

Production of 5.82 bcm in 2015.

2015 — sustain APG utilization rate above 97%.

#### 10. Yuganskneftegaz

Production of 4.58 bcm in 2015.

2015 — continued implementation of the APG utilization rate increase program.



RN-Krasnodarneftegaz LLC facility

**11. Otradnensky and Neftegorsky GPP in the Samara Region and Zagorskaya integrated oil and gas treatment unit in the Orenburg Region**

Center for the production of added value products

**12. Pechora LNG**

Promising project: JV with Alltech Group. The goal is the creation of a new gas production center in Nenets Autonomous District involving construction of LNG plant and relevant infrastructure.

**13. Far East LNG (part of Sakhalin-1 project)**

Alternative monetization option of natural gas reserves and resources under Sakhalin-1 and gas from Rosneft's own offshore projects on Sakhalin.

Engineering and survey costs in December 2015 were included in the

2016 Work Program and Budget under Sakhalin-1 and approved by Sakhalin-1 competent government authority.

**14. Kharampur**

**15. Kynsko-Chaselskoe**

**16. Minkhovskoye**

Long-term gas production in West Siberia.

**17. Bratskecogas**

Gas supplies to the Irkutsk Region.

**18. Urubcheno-Tokhomskaye group of fields**

**19. Verkhnechonskneftegaz**

**20. Taas-Yuriakh neftegazodobycha**

**21. North Veninskoye**

Long-term gas production projects in East Siberia and in the Russian Far East.

**22. RN-Sakhalinmorneftegaz, North Chaivo**

Gas supplies to the Sakhalin Region and Khabarovsk Territory.



## INTERNATIONAL GAS BUSINESS DEVELOPMENT

One of Rosneft's priorities is to launch into the international gas markets to become a global LNG market player. The Company's participation in gas production projects abroad will be instrumental in efficient increase in natural gas reserves and creation of a balanced asset portfolio for its sales markets.

The Company determined its target strategic regions, which are South America, Middle East, East Africa, and APR to compete against other global players and have efficient gas sales channels.

Rosneft is currently the operator of an offshore gas production project in Vietnam and is one of the major gas producers in the country.

### Achievements in international gas business development in 2015

Rosneft and its partner ExxonMobil were awarded three offshore areas for hydraulic fracturing (A5-B in the Angoche area and Z5-C and Z5-D in the Zambezi River basin) after the fifth license round in the Republic of Mozambique. Once the gas potential in these areas is confirmed, the Company will be able to implement a large-capacity LNG project in the future.

In June 2015, Rosneft signed a Joint Project Memorandum with PDVSA outlining a series of essential conditions for a joint venture required to implement an offshore gas project in Venezuela.

The Memorandum of Understanding and Roadmap with Petrobras, a state-owned company, signed in 2014 witnessed by Russian and Brazilian Presidents at the BRICS summit continues the efforts aimed at the approval of the best pattern and business model for joint monetization of natural gas reserves of two companies in the Solimões River basin.



RN-Purneftegaz LLC facility







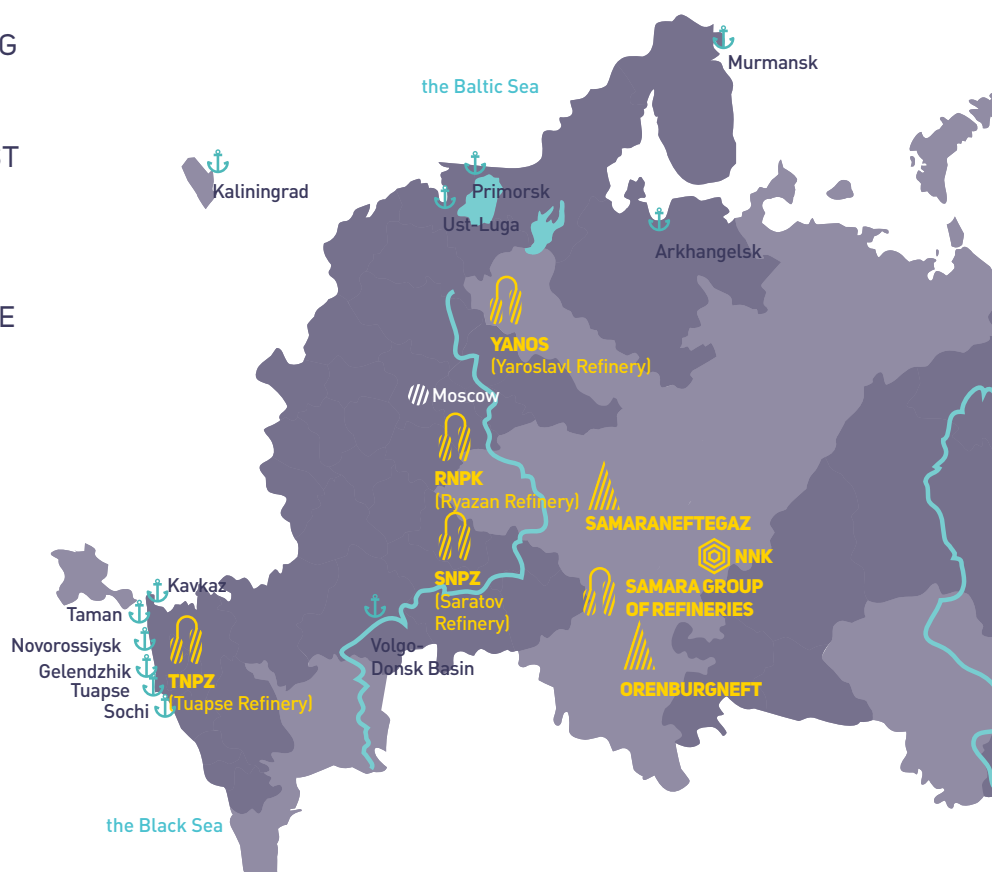
## 3.9. DOWNSTREAM

### ROSNEFT OIL REFINING FACILITIES IN THE RUSSIAN FEDERATION

POSNEFT IS THE LEADER IN DOMESTIC OIL REFINING. THE COMPANY OWNS 10\* LARGE OIL REFINERIES IN THE KEY REGIONS PERFORMING 30% OF OIL REFINING IN RUSSIA.

ROSNEFT PERFORMS THE LARGEST MODERNIZATION PROGRAM IN THE RUSSIAN FEDERATION: OVER 30 CONSTRUCTION PROJECTS, UPGRADING OF REFINERIES TO THE TOTAL CAPACITY OF 40 MMT PER ANNUM.

\* including YANOS.



### Progress of refineries upgrading

● Completed ● Completion in 2016 ● Completion in 2017 and further // Reconstruction ● Capacity

	Ryazan	Angarsk petrochemical complex	Novokuibyshevsk refinery	Syzran refinery	Kuibyshev refinery	Komsomolsk refinery	Effect
Primary processing							
Vacuum unit	●						Conversion rate
Isomerisation	●	●	//	●	●		Euro-5 gasoline
Catalyst cracking	//			●	●		Light products yield
Hydrotreater	●//	●●	●	●	//	●	Euro-5 fuel
Reforming		//	●	//	//	//	Euro-5 gasoline
Alkylation		●		●	●		Euro-5 gasoline
Coking*			//			●	Conversion rate
Hydrocracking	●		●			●	Light products yield
MTBE	●	●		●	●		Euro-5 gasoline

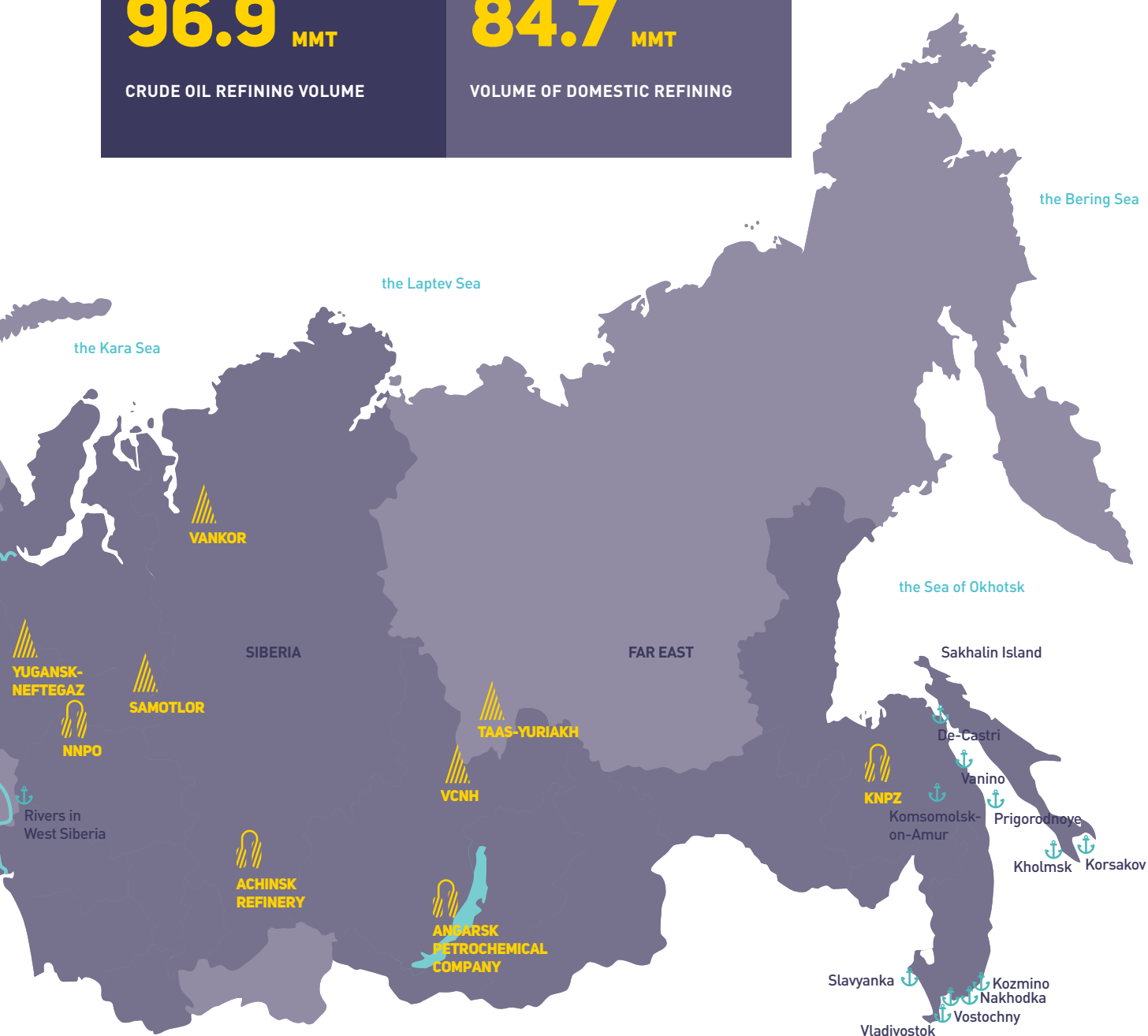
\* Delayed coking or flexicoking.

**96.9** MMT

CRUDE OIL REFINING VOLUME

**84.7** MMT

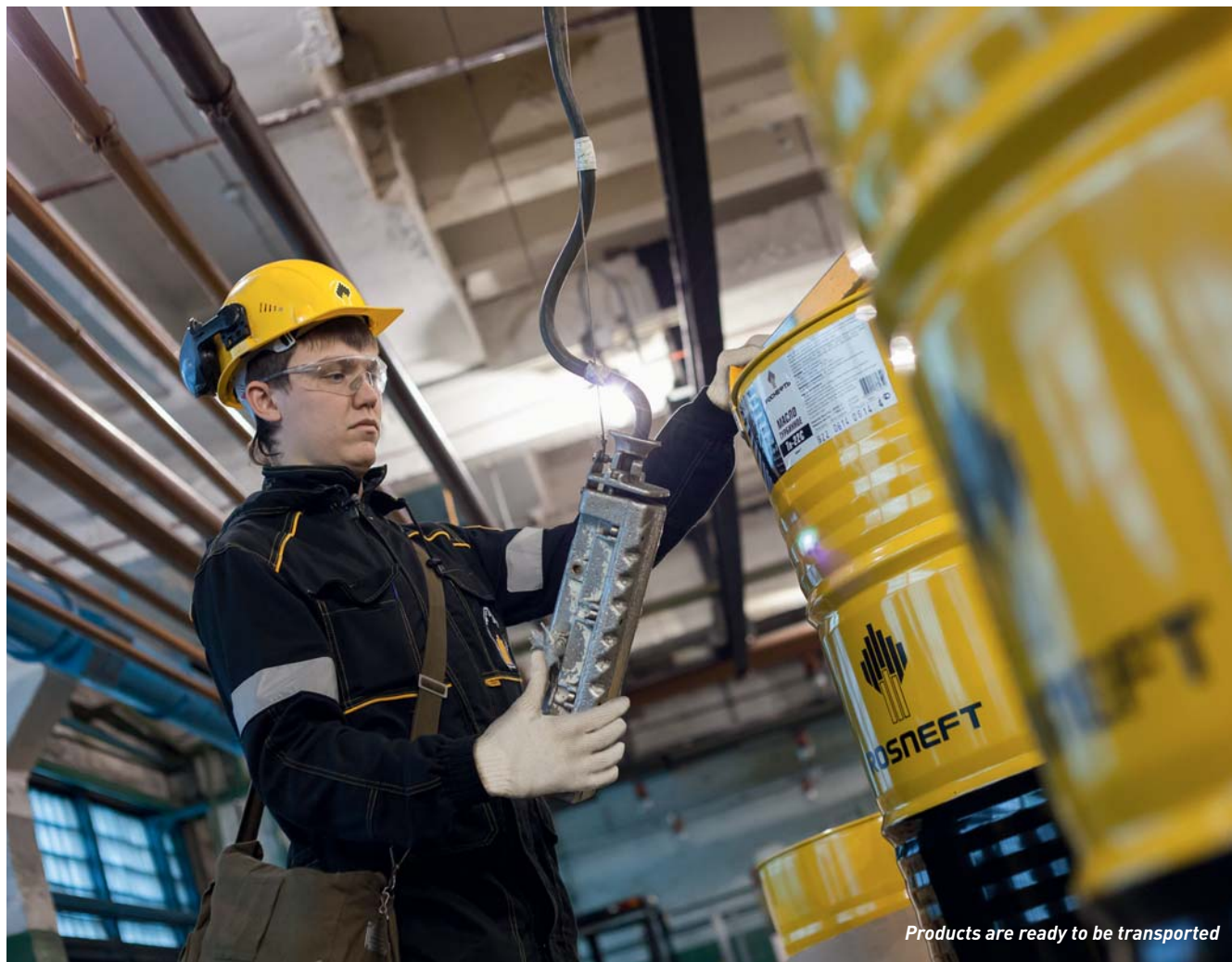
VOLUME OF DOMESTIC REFINING



	Tuapse refinery	Achinsk refinery	Saratov refinery	Effect
Roughing	●		///	
Vacuum unit		●		Conversion rate
Isomerisation	●	●	●	Euro-5 gasoline
Catalyst cracking				Light products yield
Hydroprocessing	●	●///	///	Euro-5 fuel
Reforming	●			Euro-5 gasoline
Alkylation				Euro-5 gasoline
Coking*	●	●		Conversion rate
Hydrocracking	●	●		Light products yield
MTBE				Euro-5 gasoline

## LEGEND

- Retail coverage
- Producing assets
- Company's refineries
- Ports of presence
- Petrochemical plants



*Products are ready to be transported*

## 2015 highlights

Large-scale retrofit and upgrade were completed at all Rosneft refineries in 2015 driving the Company's transition to the production of Euro-5 Class gasoline and diesel fuels for the Russian market. The Technical Regulation for the Customs Union initially set the period of transition to Euro-5 Class gasoline and diesel fuels in the domestic market after January 1, 2016. Therefore, the Company's commitments to start producing gasoline and diesel fuel of higher environmental classes were fulfilled ahead of schedule.

Petroleum products and petrochemicals sales in 2015 grew 1 % YOY to 97.4 mmt. The sales growth is mainly driven by the sale of reserves accumulated in 2014 and additional

efficient trading operations to offset somewhat decreased production.

As part of import substitution, the Company started production and successful operation of its own reformer catalyzators and hydrogen units. Only nationally manufactured catalyzators are used at all catalytic cracking units.

The Company signed a series of important oil supply contracts in the reporting year.

Rosneft and China National Chemical Corporation (ChemChina) signed a long-term ESPO oil supply contract in 2015 for up to 2.4 mmt of oil per year until July 2016.

The long-term contract for oil supply to Poland was extended for three years (from February 1, 2016 through

January 31, 2019) with its conditions stipulating an increase in oil supply to 25.2 mmt.

Despite worsening macroeconomic conditions, the Company increased its high margin supplies to the East (+18.5%), increased gas sales (3.8%) and sale of petroleum products and petrochemicals. Therefore, the Company managed to limit the negative effect from oil price reduction by 16.3% in RUB and 47.3% in USD in 2015.

The Company fully performs its oil supply obligations under long-term contracts. It also exceeds all of its petroleum product supply obligations in the domestic market and increased Euro-4/5 motor fuel supplies in the Russian Federation by 30 % YOY.



## Company's oil refining capacities in 2015

Refinery	Design capacity at the end of the year	Refining volume, mmt	Yield of light oils
Tuapse	12.0	9.6	51.2%
Achinsk	7.5	6.3	55.5%
Angarsk Petrochemicals Company	10.2	9.1	63.4%
Komsomolsk	8.0	7.0	58.2%
Ryazan	18.8	16.2	54.5%
Saratov	7.0	6.1	44.9%
Slavneft-Yanos*	7.5	7.6	55.5%
Samara Refinery Group:	24.1	20.9	56.0%
Novokuibyshev	8.8	8.3	55.4%
Kuibyshev	6.8	6.2	54.9%
Syzran	8.5	6.4	57.9%
Mini-refineries	5.4	1.9	-
LINIK	8.0	-	-
ROG JV Refineries*	13.4	10.8	79.2%
Mozyrs Refinery*	-	1.4	-

\* Of Rosneft share.

## Structure of petroleum product output, mmt

Refinery	Naphtha	Gasoline	Kerosene	Diesel fuel	Fuel oil	Other
Tuapse	1.8	-	-	3.1	4.3	0.3
Achinsk	0.2	1.0	0.2	2.1	2.0	0.6
Angarsk Petrochemicals Company	0.2	1.3	0.5	3.0	2.1	0.8
Komsomolsk	0.9	0.4	0.3	2.5	2.6	0.2
Ryazan	0.5	2.9	1.1	4.0	4.9	2.2
Saratov	-	1.0	-	1.7	1.6	1.5
Slavneft-Yanos*	0.2	1.3	0.6	2.0	2.5	0.5
Samara Refinery Group:	0.7	3.3	0.4	7.0	6.5	1.5
Novokuibyshev	0.3	1.3	0.4	2.6	2.2	0.8
Kuibyshev	0.2	0.9	-	2.1	2.3	0.2
Syzran	0.2	1.1	-	2.3	2.0	0.5
Others (mini-refinery incl.)	1.2	0.1	-	0.9	0.1	2.4
ROG JV*	0.5	2.0	0.7	4.8	0.4	2.8

\* Of Rosneft share.

JSC Novokuibyshevsk Refinery



**55.3 %**

LIGHT PRODUCTS YIELD FROM THE  
COMPANY'S REFINERIES IN RUSSIA  
IN 2015

**66.5 %**

CONVERSION RATE IN RUSSIA IN  
2015

### OIL REFINING

The Company has the largest oil refining capacities in Russia. The volumes processed at its refineries in the Russian Federation amounted to 84.7 mmt in 2015, being the best level for the Company in the current demand conditions and oil/petroleum product price environment. However, the yield of light petroleum products grew from 54.8 % in 2014 to 55.3 % in 2015, and conversion rate from 65.3 % in 2014 to 66.5 % in 2015 driven by higher vacuum gasol production and optimization of secondary processes.

A reduction in total oil refining volumes (including Company's international refineries) to 96.9 mmt (-3 %) in 2015 YOY was mainly due to redistributed volumes to YOY more high-margin sales channels subject to the adverse impact of the tax maneuver on the refining segment profitability and worsening macro environment as well as due to the suspension of refining at

Mozyrsky Refinery under a processing contract in Q1 2015 and related oil redistribution to more profitable sales channels.

In 2015, Russian refineries increased the production of Euro-4/5 Class motor fuels that meet the requirements of the Technical Regulations of the Customs Union. The share of Euro 4/5 Class gasoline and diesel fuel in 2015 was 95 % and 73 %, respectively YOY (vs 73 % and 54 %, respectively).

### KEY ACHIEVEMENTS IN REFINING FOR 2015

The Company's refining efforts in 2015 were aimed at satisfying market demand for high-quality petroleum products by continuing implementation of the refinery upgrade program and transition to producing Euro-5 environmental class fuel. Priorities also included import substitution and development of in-house technical infrastructure.

## 1. Implementation of the upgrade program for Russian refineries

The refinery upgrade program is in progress in the Russian Federation. It involves the construction and renovation of process plants increase conversion rate and light product yields, and improve motor fuel quality to supply the Company's sales channels with the petroleum products that meet the requirements of the Technical Regulations for the Customs Union.

Under the Modernization Program:

- isomerization units were started up at Kuibyshev and Novokuibyshev Refineries and at Ryazan Oil Refining Company;
- catalytic reformers were rebuilt at Syzran and Kuibyshev Refineries;
- the MTBE unit was fully built at Angarskaya Petrochemicals Company.

## 2. Conversion to Euro-5 motor fuels

Large-scale retrofit and upgrade were completed in December 2015 at all Rosneft refineries in 2015 driving the Company's full transition to the production of Euro-5 Class gasoline and diesel fuels for the Russian market.

## 3. Import substitution, development, and launch of new products

- As part of import substitution, the Company started production and successful implementation of own catalyzators for reformers and hydrogen units.
- Only nationally manufactured catalyzators are used at all Company catalytic cracking units.
- A composition was developed for a lubricity additive to RT and TS fuel to substitute imported HiTEC-580 additive. It passed all proper tests with satisfactory results.
- The Company started to use at its refineries upgraded PPD VES-410d produced by Angarsk Catalyzer and Organic Synthesis Plant.

## Novokuibyshevsk Refinery

Throughout 2015, the plant refined 8.3 mmt of crude oil, produced 2.3 mmt more Euro-4/5 fuels YOY. Conversion rate amounted to 70.9%.

The essential investment in 2015 was allocated to support the existing capacity, build a hydrocracking and hydro-treating facilities, and engineering under other refinery upgrade investment projects.

## Novokuibyshevsk Oil and Additive Plant

In 2015, the plant continued its Program for development of high-quality oils production under hydroprocessing facility construction projects (stages I and II) as well as environmental and infrastructure projects.

Program implementation will allow achievement of a sustainable development level and improve oil business profitability of Rosneft and competitiveness of plant products.

## Kuibyshev Refinery

Refined crude oil in 2015 amounted to 6.2 mmt and conversion rate reached 61.0%. Euro-4/5 fuel production in 2015 was 2.3 mmt more than in 2014.

Major investment in 2015 was allocated for the construction of a catalytic cracking unit with auxiliary facilities and MBTE unit. The company continued to invest in the construction of a vacuum gasoil hydro-treatment unit, hydrogen and sulfur units, and maintenance of the existing capacities.

## Syzran Refinery

Oil refining amounted to 6.4 mmt in 2015 with conversion rate of 67.6%, which was 1.6% more YOY. Euro-4/5 environmental class fuel production was 1.2 mmt more than in 2014.

Major investment in 2015 was allocated to finance the large-scale plant upgrade, including construction of catalytic cracking facilities, MBTE unit, and diesel fuel hydro-treatment

## Key achievements

Transition to complete producing Euro-5 gasoline and diesel fuel for the Russian market.

Current upgrade results:

- Isomerization units were put to operation at Kyibyshevsk, Novokuibyshevsk and Ryazansk refineries;
- Catalyst reforming units reconstruction was performed at Syzransk and Kyibyshevsk refineries;
- MTBE unit construction was completed at Angarsk refinery.

capacities, as well as to maintain the existing capacities.

The upgrade of Reformer ЛЧ-35/11-6000 was fully completed and aligned with the industrial safety requirements in November 2015.

## Ryazan Refinery

A total of 16.2 mmt was refined. The conversion rate amounted to 68.6%, being 3.3% above 2014.

Major investment in 2015 was allocated to maintain the existing capacities and continue the implementation of the comprehensive plant development program.

A low-temperature isomerization unit, RCPSA, and VT-4 vacuum unit were started up in 2015 and the first rebuild stage was completed at the diesel fuel hydro-treating facilities.

## Saratov Refinery

The plant refined 6.1 mmt during 2015 with a conversion rate of 72.0%.

A program of long-term refinery development was elaborated and capacity maintenance projects were implemented in 2015.



**84.7** MMT

DOMESTIC REFINERY THROUGH-  
PUT

**96.9** MMT

TOTAL REFINERY THROUGHPUT  
(INCLUDING FOREIGN REFINERIES)

### Tuapse Refinery

Throughout 2015, the plant refined 9.6 mmt, which was 1.0 mmt more than in the previous year.

Investment in 2015 was allocated to implement large-scale refinery rebuilding projects, including the construction of hydrocracking/hydro-treating and reformer/isomerization facilities with related refinery infrastructure.

ELOU-AVT-12 vacuum unit was started up in 2015 supporting the production and sale of vacuum gas oil and some refinery facilities were commissioned.

### Achinsk Refinery

Refined crude oil in 2015 amounted to 6.3 mmt and conversion rate reached 66.1%.

All motor fuels from 2015 and thereafter are manufactured in accordance with the requirements of the Technical Regulations for the Customs Union. Euro-4 and Euro-5 motor fuel output in 2015 was 0.8 mmt above the 2014 figure.

Major investment in 2015 was allocated to implement the large-scale refinery upgrade, including the construction of hydrocracking and hydrofining facilities, maintenance of the existing capacities and revamp of LK-6Us plant.

### Angarskaya Petrochemicals Company

The company refined 9.1 mmt of oil throughout 2015 with a conversion rate reaching 73.8%, which was 1.4% above the 2014 indicator. An increase in Euro-4/5 environmental class fuels versus 2014 amounted to 0.9 mmt, including a 0.7 million ton increase in Euro-4/5 gasoline output.

The MBTE plant was fully built in December 2015 to facilitate further growth of environmentally clean fuels in 2016.

Major investment in 2015 was allocated to implement the large-scale plant upgrade, including construction of catalytic cracking gasoline hydrofin-

ing units, sulfuric acid alkylation and diesel fuel hydro-treating facilities and related infrastructure, as well as to maintain the existing capacities.

### Komsomolsky Refinery

Refined crude oil in 2015 amounted to 7.0 mmt and conversion rate reached 62.8%, being 2 p.p. versus 2014. Euro-4 and Euro-5 motor fuel output was 0.2 mmt above the 2014 level.

Major investment in 2015 was allocated to implement the large-scale refinery upgrade, including the construction of hydrocracking and hydro-treating facilities, and maintenance of the existing capacities.

Metalwork and equipment hydrocracking and hydrotreating facilities, sulfur and hydrogen units were installed in 2015 and general refinery infrastructure was built.

The ESPO-Komsomolsk Refinery pipeline branch construction was started, including all necessary infrastructure. It will be built by Transneft company.

### Eastern Petrochemical Company

All efforts under EPC project and its financing in 2015 were in line with the project scheduled approved by the Rosneft's Board of Directors.

The Government of the Russian Federation issued Decree No. 2602-r of December 17, 2015 to approve government support measures (Roadmap) to assist with the strategic investment project of Eastern Petrochemical complex construction.

Currently, surveys are in progress under the EPC project to be completed by end of 2016.

### MINI-REFINERIES

The Company holds shares in several mini-refineries in the Russian Federation with a refining volume in 2015 totaling 1.9 mmt. The largest mini-refinery is Nizhnevartovsk Oil Refining Association with a refining scope amounting to 1.5 mmt.



## KEY ACHIEVEMENTS IN PETROCHEMISTRY, GAS PROCESSING AND CATALYST MANUFACTURING IN 2015

### Petrochemistry

The Company produces petrochemical products at JSC Angarsk Polymer Plant (APP) and JSC Novokuibyshevsk Petrochemical Company (NPC) in Russia.

### Angarsk Polymer Plant

In 2015, the Angarsk Polymer Plant processed 660 thousand tons of feedstock and produced 441 thousand tons of high margin petrochemical products (products with high added value). The main products are high-density polyethylene, propylene, and butylene-butadiene fraction.

In 2015, the Company took measures to increase the output and production efficiency, and to enhance safety and reliability of production facilities operation.

### Novokuibyshevsk Petrochemical Company

In March 13, 2015 Rosneft completed the process of the acquisition of SAN-ORS petrochemical holding. During the year, the new assets were integrated into the Company structure.

Since the takeover on March 2015 and through the end of the year, the processing capacity at Novokuibyshevsk

Petrochemical Company was 0.97 mmt, and the output totaled to 0.85 mmt. The NPC produces a wide range of petrochemical products. The key petrochemical products are tert-amyl methyl ether, technical synthetic phenol, technical synthetic ethyl alcohol, acetone, liquefied petroleum gas for domestic consumption and other LPG, phenolic resin, para-tertiary butylphenol, etc.

In 2015, the Company took a number of measures to improve operational efficiency of the refinery, including technical re-equipment, optimization of natural gas supply, arranging for para-tertiary butylphenol separation scheme, as well as to maintain the production capacity.

### Gas processing

The total processing capacity of Neftegorsk and Otradnensky Gas Processing Plants in the Samara Oblast is 1.8 bcm per year.

In 2015, the Neftegorsk GPP and Otradnensky GPP processed 410 and 257 mcm of APG respectively. At present, the Company is implementing a comprehensive upgrade program at its gas processing facilities. The scope of the program includes revamp and replacement of worn-out equipment with contemporary packaged units that will allow an improvement in operating efficiency and increase the level of automation.

**0.97** KT

THROUGHPUT  
OF NOVOKUIBYSHEVSK  
PETROCHEMICAL COMPANY,  
0.85 M TONS — PRODUCTS OUTPUT

**660** KT

OF FEEDSTOCK REFINED AT  
ANGARSK POLYMER PLANT (APP)  
AND 441 THOUS. TONS OF HIGHLY  
MARGINAL PETROCHEMICALS  
PRODUCED

Zaykinsky Gas Processing Enterprise, a part of Orenburgneft subsidiary, comprises Pokrovskaya Gas Treatment Unit and Zaykinskoye Gas Processing Plant, with the total annual processing capacity of 2.6 bcm.

In 2015, Zaykinsky Gas Processing Enterprise processed 2.44 bcm of associated gas (including 313 mcm at Pokrovskaya Gas Treatment Unit, and 2.13 bcm at Zaykinskoye Gas Processing Plant).

### Catalyst manufacturing

As part of the import substitution program, the reformers at Syzran and Ryazan Refineries in 2015 were loaded with the local reforming

~21 MMT

TOTAL OIL SUPPLIES OF ROSNEFT AND ROSNEFT TRADING S.A. TO GERMANY FOR REFINING, INCLUDING FOR OTHER RUHR OEL GMBH SHAREHOLDERS, IN 2015 MAKING ALMOST ONE FOURTH OF CRUDE OIL IMPORT TO THE COUNTRY



THE COMPANY LAUNCHED CATALYSTS AND ADDITIVES PRODUCTION OF SIMILAR QUALITY TO FOREIGN ANALOGS WITHIN THE IMPORT SUBSTITUTION PROGRAM

catalysts manufactured at Angarsk Catalyst and Organic Synthesis Plant. The catalyst for hydrogen production manufactured at Angarsk Catalyst and Organic Synthesis Plant and loaded to the Syzran Refinery in 2015, showed good results at the same level as its foreign analogues. The new pour point depressant additive VES-410D (to improve the low-temperature properties of diesel fuels) produced at Angarsk Catalyst and Organic Synthesis Plant was delivered to Syzran Refinery and proved its high efficiency.

The construction project of the out of pile catalysts regeneration section is underway at Novokuibyshevsk Catalysts Plant. The launch is planned for 2016. The purpose of this section is regeneration of catalysts for Euro-5 fuel production domestically in Russia (not to bring the catalysts abroad for regeneration).

### A brief overview of international oil refining projects

#### Ruhr Oel GmbH (ROG)

Rosneft has a 50 % stake in Ruhr Oel GmbH (ROG) JV in Germany. Ruhr Oel GmbH owns stakes in four refineries in Germany (Gelsenkirchen – 100 %; Bayernoil – 25 %; MiRO – 24 %, and PCK Schwedt – 37.5 %.), and in five supply pipelines and sea terminals in the North Sea, Baltic Sea, Mediterranean Sea and the Adriatic Sea. ROG is a leader at the German market in terms of refining throughput (21.3 mmt in 2015, including Rosneft share of 10.8 mmt). The conversion rate is above 95 %. In addition, ROG is a leader in sales of motor fuels and petrochemical products.

In 2015, the bulk volume of crude oil supplied by Rosneft and Rosneft Trading S.A. to Germany for processing, including other ROG refineries shareholders, was 21 mmt that is almost 25 % of the total crude imported to Germany.

In November 2015, Rosneft completed the purchase transaction with Total for 16.67 % share in PCK Raffinerie GmbH - PCK Schwedt Refinery located in Schwedt on the Oder in Germany. Its capacity for the crude primary processing is 11.5 mmt per year, the Nelson complexity index is 9.2. PCK Raffinerie GmbH holds a 45 % stake in the German section of the Druzhba pipeline and a share in the marine terminal for crude oil in Rostock, and owns the Rostock-Schwedt pipeline and the pipeline to a distribution terminal in Seefeld near Berlin, also owned by PCK Raffinerie GmbH. As the result of the sale contract, the total share of Rosneft in PCK Schwedt increased from 18.75 % up to 35.42 %.

In December 2015, Rosneft and BP signed a legally binding Agreement on dissolution of ROG as part of the previously initiated restructuring procedure of the oil refining and petrochemical joint venture in Germany. When the restructuring procedure is completed which is expected before the end of 2016, Rosneft will become the direct shareholder and will increase its shares respectively: in Bayernoil Refinery – up to 25 % (now 12.5 %); MiRO Refinery – 24 % (now 12 %); PCK Schwedt Refinery – up to 54.17 % (now 35.42 %). Rosneft will also increase its stake in the Transalpine pipeline (TAL) from 5.5 % to 11 %. BP, in turn, will take 100 % of the

Gelsenkirchen Refinery and of DHC Solvent Chemie, the solvents production enterprise.

Both contracts will allow Rosneft to continue implementing its strategy for oil refining in Europe and to move to a new level. The contracts are aimed at maximizing the added value for the shareholders of Rosneft.

#### Mozyr Refinery

The Company processes its crude oil at the Mozyr Refinery in Belarus under a processing agreement. The Company has a 21 % stake in the Mozyr Refinery through Slavneft. In 2015, the volume of Rosneft crude feedstock processed at the Mozyr Refinery amounted to 1.4 mmt, at a conversion rate of 73.5 %.

#### Saras S. p. A.

Rosneft has been a minority shareholder in Saras S.p.A. since 2013. In October 2015, as part of its assets optimization and effective share management Rosneft reduced its share in Saras S. p. A. from 20.99 % of the issued share capital of Saras S. p. A. down to 12 %. The Company will retain its representation on the Board of Directors of Saras S.p.A. The Company sold its shares to institutional investors at a price over 38 % higher than the original purchase price.

The major asset of Saras S. p. A. is the Sarroch Refinery in Sardinia. It is one of the largest refineries in the Mediterranean region with a throughput capacity of up to 15 mmt per year. The Sarroch Refinery is integrated with a 575 MW IGCC power plant.



## Crude oil sales in 2015–2014, mmt

Region	2014	2015
	Volume, mmt	Volume, mmt
Europe and other destinations	61.1	60.4
Asia	33.5	39.7
CIS countries	7.8	9.0
Domestic market	8.8	5.4
<b>TOTAL</b>	<b>111.2</b>	<b>114.5</b>

### IMPROVING SALES EFFICIENCY OF OIL, GAS, PETROLEUM PRODUCTS AND PETROCHEMICALS

#### Crude oil sales

**ROSNEFT HAS BEEN IMPLEMENTING A POLICY AIMED AT ENSURING A REQUIRED BALANCE OF CRUDE MONETIZATION CHANNELS, INCLUDING CRUDE OIL PROCESSING AT ITS OWN REFINING FACILITIES IN RUSSIA AND GERMANY, EXPORT UNDER LONG-TERM CONTRACTS AND TENDER-BASED SPOT CONTRACTS, AND DOMESTIC SALES.**

The Company is constantly monitoring economic effectiveness of its crude monetization channels that enables it to maximally increase the share of high margin channels in the general sales structure. In 2015, the share of high margin channels increased to 51 % of the total volume of crude (40.2 % in 2014).

In the reporting year, Rosneft supplied 84.4 mmt of crude oil to the refineries in Russia, 3 % less compared to 2014 (86.6 mmt); the reduction in supplies mainly related to redirecting the equity crude to higher margin channels due to negative impact of the tax maneuver on the profitability of the refining segment.

In addition to crude oil supplies to its own refineries in Russia, in 2015 the Company supplied 3.7 mmt of crude to Ruhr Oel GmbH refineries in Germany, a 12 % increase compared to 2014.

In 2015, Rosneft continued supplying crude oil to the Mozyr Refinery under

the processing scheme; however, the total supplies were 1.4 mmt only that is half as much than in 2014. The decrease in processing was due to decrease in refining margins and, consequently, lower efficiency of the scheme in general. The petroleum products manufactured at the Mozyr Refinery were sold domestically through the Company's retail network and exported to the markets of Belarus and Ukraine and far abroad.

Total supplies to third parties in 2015 amounted to 114.5 mmt, including 5.4 mmt of crude oil sold domestically. Crude oil exports totaled 109.1 mmt. Supplies to the East appear to be the most lucrative export channel for the Company with pipeline deliveries to China, sales in Kozmino and De-Castri ports. The high margin supplies to the East in 2015 amounted to 39.7 mmt (including 26.6 mmt of pipeline delivery and shipping to China under the long-term agreements, and the rest volumes — via Kozmino and De-Castri ports), a 18.5 % increase YOY.

The Company exported 60.4 mmt of crude oil to the North-Western, Central and Eastern Europe, the Mediterranean countries and other far abroad countries. The export to the CIS countries totaled 9.0 mmt.

The major part of the Company export volumes is supplied via Transneft facilities, including the trunk pipeline network and the ports. In the reporting year, the preferred routes of crude oil supply were as follows:

- pipeline transport – around 100.3 mmt, or 91.9 % of the total crude oil exports. Over 42 mmt of this volume were exported via

seaports (including 14.9 mmt via Primorsk; 6 mmt via Novorossiysk; 8.6 mmt via Ust-Luga; 12.9 mmt via Kozmino, including 3.6 mmt to China under the long-term contract), and other 58 mmt via pipeline to China (23.0 mmt), Belarus (8.3 mmt), the Central and Eastern Europe (26.2 mmt);

- railway and mixed transport – 5.3 mmt, or 4.9 % of the total export. These were mainly supplies via the Caspian Pipeline Consortium (CPC) (4.6 mmt) and via railroad to Belarus (0.7 mmt).

Apart from the abovementioned destinations, in 2015, 3.5 mmt of crude oil were shipped via De-Castri export terminal, a twice increase compared to 2014. Such an increase was driven by the production increase in Severnoye Chaivo field. De-Castri export terminal with a capacity of 12 mmt per year is owned by Sakhalin-1 project consortium, where Rosneft holds a 20 % stake.

In 2015 supply volume via Kozmino to China under the long-term contracts amounted to 3.6 mmt (largely owing to redistribution of supply volumes from "Skovorodino-Mohe" route).

In 2015, the Company supplied 4.6 mmt of crude oil and gas condensate via Caspian Pipeline Consortium (CPC) including Russia's quota managed by Transneft. The CPC pipeline runs from the Tengiz oil field in the Western Kazakhstan to the Novorossiysk Port. Rosneft has been participating in the CPC project since 1996 through Rosneft-Shell Caspian Ventures Ltd. (7.5 % stake in the project). The Company holds 51 % of the venture, with Shell holding the remaining 49 %.

## 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

### Key achievements

Oil supplies to the East grew by 18.5% and totaled 39.7 mmt in 2015.

Oil supplies to China grew by 21% and totaled 30.2 mmt.

Supplies to China under long-term agreements grew by 18% and totaled 26.6 mmt.

### Crude oil supplies under long-term agreements

In 2015, the Company continued supplying Urals crude oil to Glencore, Vitol and Trafigura via Novorossiysk, Primorsk and Ust-Luga ports under contracts, payable in advance. These contracts provide a sustainable long-term channel for crude oil supply, with selling prices under contracts corresponding to those obtained by the Company in regular tenders.

In 2015, 14.68 mmt of crude oil were supplied under these contracts, including:

- Glencore — 8.34 mmt;
- Vitol — 4.60 mmt;
- Trafigura — 1.74 mmt.

In 2015, the Company continued supplying crude oil to China National Petroleum Corporation (CNPC) under long-term contracts. The scope of supplies to CNPC in 2015 totaled 26.6 mmt, including 7 mmt of crude oil supply in transit through Kazakhstan.

**Petroleum products sales, mmt**

Region	2014	2015
Europe and other destinations	43.6	46.3
Wholesale in Russia	20.3	18.8
Retail in Russia	11.2	10.9
Asia	11.7	13.2
Bunkering	4.0	3.0
CIS countries	2.3	2.0
<b>TOTAL</b>	<b>93.1</b>	<b>94.2</b>

In 2015, the Company continued supplies to BP Oil International Limited under the long-term contract providing for export deliveries of petroleum products with possible substitution with crude oil within 5 years. In 2015, 1.3 mmt of fuel oil and 0.6 mmt of crude oil were supplied under the contract.

**Extending cooperation in crude oil and petroleum products trading**

In June 2015, at the St. Petersburg International Economic Forum Rosneft and China National Chemical Corporation (ChemChina) signed a supply contract under which ESPO oil blend shall be supplied directly to the Chinese company, with the volume up to 2.4 mmt per year for the period until July 2016.

During the BRICS summit in Ufa in July 2015, Rosneft and ESSAR, an Indian company, signed a long-term contract for crude oil supplies to the ESSAR Refinery at Vadinar (India). The contract was signed based on arrangements agreed by Vladimir Putin, the President of Russia, during his official visit to India in 2014, providing for supply of 100 mmt of crude oil within a 10-year period.

**Petroleum products sales**

In 2015, the Company significantly increased the volume of its petroleum products export to 61.5 mmt (2014: 57.6 mmt).

In 2015, the Company started to sell fuel oil (VGO) produced at Komsomolsk, Angarsk and Tuapse Refineries. This allowed expanding the range of petroleum products supplied to foreign markets, including the markets of the Asia-Pacific region.

The Company held negotiations with the key market players of Mongolia on the contract conditions for 2015-2016 and agreed on maintaining the pricing formulas and volumes at least at the level of 2014. In 2015, the Company supplied 777 kt of gasoline, diesel fuel, fuel oil and kerosene to Mongolia (increase by 24 % as compared to 2014), allowing the Company to increase its market share in Mongolia up to 80 %. All the contracts stipulate minimum monthly volumes acquired.

**Domestic sales of petroleum products**

In 2015, domestic sales of petroleum products amounted to 29.7 mmt (2014: 31.5 mmt).

Rosneft is the largest seller of motor fuels in the exchange market in Russia. In 2015, the Company was actively selling petroleum products in the exchange market while maintaining sales efficiency compared to alternative export channels. The share of the Company sales in the exchange increased in 2015 vs 2014: gasoline sales increased by 4 % and amounted to 30.1 %, diesel fuel - by 4 % amounting to 35.4 %. The Company exceeded

the volumes of exchange-based trading approved by the joint decree of the Federal Antimonopoly Service of the Russian Federation and of the Ministry of Energy dated January 12, 2015. In 2015, the exchange-based trading volume of the Company was 18.2 % for gasolines vs. 10 % rate, 10.4 % for diesels vs. 5 % rate, 15.4 % for kerosene vs. 10 % rate and 3.1 % for fuel oil vs. 2 %.

In accordance with the Company Policy, the petroleum products supply to the federal partners is a priority. In 2015, Rosneft provided for all the needs of the military units of the Ministry of Defense in the Central and Eastern military districts as well as divisions of the Ministry of Internal Affairs, EMERCOM and the Federal Security Service. In 2015, the Company was designated as the sole supplier of motor fuels for over 50 structural divisions of the investigative authorities by the resolution of the Government of the Russian Federation as part of the program for expansion of cooperation with federal customers. The Company will continue to attract other federal customers in 2016.

**Petroleum products sales in the CIS countries**

In 2015, Rosneft continued its stable tanker and ferry supplies to Armenia on; now it satisfies 60 % of the country's demand. In addition, the Company signed a sales agreement for 100 % stake in LLC Petrol Market





### Domestic sales of petroleum products, mmt

Petroleum product	2014	2015
Diesel fuel	9.3	9.6
Gasoline	11.4	11.7
Fuel oil	2.5	1.7
Kerosene	3.4	3.2
Other	4.9	3.5
<b>TOTAL</b>	<b>31.5</b>	<b>29.7</b>

that owns a network of 22 petrol stations and 3 oil depots (including the tank farm of the bitumen plant of LLC ABIT). In 2015, the Company supplied 169 thousand tons of high-quality gasoline and diesel fuels produced by the Russian refineries of the Company.

In addition, Rosneft supplies gasoline and diesel fuels in the Kyrgyz Republic to the retail subsidiary Bishkek Oil Company for further sales via its own petrol stations and wholesale. In 2015, the Company

supplied 54 kt of petroleum products. The supply increase allowed the Company to increase its presence in the petroleum products retail market of Kyrgyzstan – in Bishkek the market share is estimated at 30%.

Despite the tough political and economic situation in Ukraine, the Company continued to supply petroleum products in the Ukrainian market. In 2015, the petroleum products supply to Ukraine amounted to 123 kt.

Rosneft continues to expand the international presence and diversify the supply routes. In 2015, the Company commenced supply to its own retail network in Georgia, and prepared to implement its new trading and logistics capabilities with starting the joint venture on the basis of Petrocas Energy Limited assets, a 49% stake of which was purchased in the end of 2014. Thus, in 2015 Rosneft signed long-term diesel supply contracts with large European end-consumers: Mabanaft GmbH & Co. KG. and Motor Oil Hellas.

## Gas sales

The Company supplies natural gas, dry and associated gas to consumers in Russia. Associated petroleum gas is supplied to the Company own gas processing plants (GPP) and to gas processing plants owned by SIBUR Holding. Natural gas and dry stripped gas are supplied to consumers via Gazprom unified gas distribution system under a gas transportation contract. Natural gas and dry stripped gas are supplied both to end consumers and to regional retail companies in nearly 40 regions.

**IN ACCORDANCE WITH ITS LONG-TERM DEVELOPMENT STRATEGY, ROSNEFT INTENDS TO ESTABLISH ITSELF AS A LEADER IN THE DOMESTIC GAS MARKET OF RUSSIA AMONG INDEPENDENT GAS SUPPLYING COMPANIES.**

The Company develops trading competences and searches for solutions to optimize supply in the domestic market in order to increase the revenue due to the inability to export gas through pipelines.

In view of the increased competition to attract consumers, the main strategic aim in monetizing gas resources of the Company is that to ensure guaranteed sales of growing gas output through long-term supply contracts with the largest financially reliable consumers. In 2015, the Company signed the following long-term contracts with its consumers:

- Long-term contract with JSC E.ON Russia with a total volume of gas amounting to 4.4 bcm, valid for five years;
- Long-term contract with EVRAZ Group to supply gas to its facilities with a total volume amounting to 14 bcm, valid for ten years.

At year-end 2015, the Company domestic gas sales amounted to 58.03 bcm, including 31.13 bcm in West Siberia and Ural Federal District, 2.69 bcm in the South of Russia, 0.78 bcm in the Far East, 23.43 bcm in European Russia and other regions.

In the Sverdlovsk Region, the Company covered nearly 87 % of the gas demand,

ensuring supply to both industrial facilities and residents.

Sales growth in 2015 versus 2014 was driven by deliveries under the new contracts signed in 2014. The increase was accompanied by an increase in average sales prices by 8.1 % due to the gas price indexing in the domestic market. In June 2015, the Federal Tariff Service of Russia (FTS of Russia) (from July 21, 2015 the Federal Antimonopoly Service of Russia (FAS)) increased the wholesale gas price by 7.5 % and tariff for transporting for independent manufacturers through main pipelines by the national average of 2 % effective July 1 of the reporting year. The decision boosted gas sales performance of the Company even in the remote regions of supply. In 2015, Rosneft took active part in the natural gas auction at the St. Petersburg International Mercantile Exchange (SPIMEX), launched in October 2014, thus supporting the development of SPIMEX as a tool for efficient gas sales and ensuring the liquidity of auctions.

In 2015, the Company participated in gas trading at three delivery bases (balance points) of Nadym, Yuzhno-Balykskaya and Vyngapurovskaya compressor stations with the delivery anticipated in the following month. At year-end 2015, the Company share in the total trading volume of the natural gas contracted at exchange trading to consumers amounted to 35 % or 2.4 bcm.

The Company supported the day-ahead delivery, a new tool launched in October 2015 that facilitates optimization of irregular gas consumption for auction participants.

## Retail sales

At year-end 2015, the retail geography of Rosneft comprised 59 regions in Russia, from Murmansk in the North, to the North Caucasus in the South, and from Smolensk in the West to Sakhalin in the East. The Company also owns retail assets in Abkhazia, Ukraine, Belarus, Kirgizia and Armenia.

As of December 31, 2015, the retail network of the Company included

**16 %**

THE COMPANY'S SHARE IN  
DOMESTIC GAS MARKET UPON  
RESULTS OF 2015

**~35 %**

OF TRADED GAS VOLUME  
AT SPIMEX WAS PROVIDED  
BY ROSNEFT



*Rosneft is the leader in the jet fuel market*

2,557 own and leased filling stations, including 194 filling stations in Ukraine, Belarus, Abkhazia and Kirgizia. In total, own and leased sites had 1,819 shops, 691 cafes and 174 car washes. At 80 filling stations, there were small repair and car maintenance services.

As of December 31, 2015, the Company trade subsidiaries owned 135 operational oil depots, 2.6 mmcm in total capacity. The Company is continuously working to optimize and improve efficiency of its oil depot operations. In 2015, Rosneft shutdown 9 oil depots that failed to meet technical and operational requirements of the Company, and those with low turnaround and high unit costs. The other depots are in the process of automation and modernization. These measures were aimed at reducing the risks of petroleum products losses in quantity and quality and at improving industrial and ecological safety of these depots.

The Company owns about 1,000 gasoline trucks and takes measures to reduce operating costs for delivery by gasoline trucks, including logistics optimization.

The main directions of retail business development in 2015 was focused on efficiency increase by both income and expense methods, including from one hand development of non-fuel business and small wholesales, and from the other — optimization of operating costs.

As part of the non-fuel business development the Company increased the number of filling stations with cafes. In order to provide customers with the service complying with the highest international service standards, the Company develops partnership projects with Italian companies Pirelli and Autogrill.

For convenience of the customers retail business site ([www.rosneft-azs.ru](http://www.rosneft-azs.ru)) and wholesale business site ([www.rosneft-opt.ru](http://www.rosneft-opt.ru)) were developed and put into operation, and Rosneft mobile app was launched.

In 2015, retail sales totaled 10.9 mmt of petroleum products, the average daily throughput per one filling station being 11.7 tons/day. Retail business of the Company demon-

strates stable results compared to the overall decline in the petroleum products retail market in Russia, maintaining petroleum products sales per 1 filling station in Russia flat versus 2014.

The Company retail operations include gasoline, diesel fuel, consumer lubricants and liquefied gases.

### Petrochemicals sales

In 2015, Rosneft sold 3.2 mmt of petrochemical products, a 3% increase YOY. The volume included 2.2 mmt of petrochemical products sold overseas (including 2 mmt manufactured at Ruhr Oel GmbH refineries), and 1 mmt sold in Russia. In Q4 2015, the Company held annual tenders selling 1 mmt of petrochemical products which allowed the even distribution of the volumes and the establishment of long-term cooperation with customers.

In 2015, 80% of petrochemical products were sold based on tenders and contracts with formula-based prices.



The year 2015 was marked with a significant event that influenced the development of the petrochemical business when Rosneft integrated with JSC Novokuibyshevsk Petrochemical Company, becoming the third largest producer of LPG in Russia.

## B2B

### Jet fuel sales

Rosneft is a leader in the Russian jet fuel market with a market share of around 32 %. The Company sells jet fuel through 20 fueling sites controlled by the Company and 19 partner fueling sites.

The Company increased jet fuel sales through signing supply contracts with the airline companies and covering new airports (Aeroflot, S7 Group, OJSC Ural airlines, Asiana, Korean Air, OJSC Polar airlines, I Fly LLC, OJSC Saratov airlines, Airline Severstal LLC). As a result, in 2015, the jet fuel sales to airlines increased by 1 % versus 2014 and amounted to 65 %.

As part of a project for entry into the international fuel oil market, the Company started its supplies to KazMunayGas-Aero LLP, a key player in the fuel oil supply market of Kazakhstan. The wholesale contract was signed with Magnai trade LLC for fuel oil supply to Mongolia. Rosneft also signed contracts with such large international suppliers as Shell, WFS and Air BP; the agreement of intent with AFS GmbH, one of the largest German operators, on fueling the Company customers in the largest airports in Germany. A contract was signed with a Vietnamese fuel company Petrolimex.

However, due to decrease in the purchasing power and the subsequent reduction in number of flights in Russia, jet fuel sales in 2015 decreased by 5.9 % versus 2014.

### Bunkering business

Rosneft activities in the bunkering business embrace all major sea and river bunkering ports in Russia, and several overseas destinations. In 2015, bunkering fuel sales amounted to 3 mmt, a 25 % decrease versus

2014 due to redistribution of fuel oil volumes to be exported; this redistribution relating to price environment change which is the result of the export duty decrease effective January 1, 2015.

In 2015, the Company implemented the following initiatives aimed at extending its presence at the bunkering market, including:

- as part of the production development the Company expanded the product range of bunkering fuel by starting to produce two types of distillate fuels at the Company's refineries: DMF-I (at Angarsk Fuel and Petrochemical Refinery, Ryazan Refining Company, Komsomolsk Refinery) and DMF- III (at Angarsk Fuel and Petrochemical Refinery, Komsomolsk Refinery), as well as following types of residual fuel oil — RMG380 (Angarsk Fuel and Petrochemical Refinery, Komsomolsk Refinery), RMG500 (Angarsk Fuel and Petrochemical Refinery, Komsomolsk Refinery), RMG700 (Angarsk Fuel and Petrochemical Refinery) that fully conform to international bunkering fuel quality requirements;
- the Company carried out export deliveries of marine fuel for bunkering of fishing vessels in the fishing areas at the north of the Pacific Ocean;
- Bunkering fuel sales on the rivers of Volga-Don basin, Siberian Federal District and the Khabarovsk Territory increased to 477 kt or by 12 % versus 2014.

### Bitumen product sales

In 2015, bitumen materials sales dropped by 13 % versus 2014 and amounted to 1.8 mmt due to bitumen production decrease following the growth of the fuel oil production for export.

Domestic market sales amounted to 97 % of the total sales in the reporting period.

In 2015, in addition to the existing export destinations (Mongolia, Armenia,

Ukraine, and Belarus) the Company started export to the Baltic States and Kirgizia.

### Lubricant sales

In 2015, the total lube sales of the Company increased by 6 % versus 2014 and amounted to 779 kt, with 457 kt (59 % of the total output) of the product were sold in Russia.

In 2015, premium lube sales increased by 14 % (2014: 48 kt) and amounted to 55 kt.

In 2015, a number of initiatives were implemented to extend the Company's presence in the lubes market in Russia, including:

- Representative offices in Kazakhstan, China and Turkey were opened for purposes of extending geography of sales;
- agreements were reached and work is underway to substitute imported oils by the Company oils at over 80 large enterprises of the Russian Federation;
- 7 strategic partnership agreements for petroleum products supply were signed with the largest Russian companies;
- lube sales development program was launched to sell the Company lubricants at official AVTOVAZ service stations;
- the Company started a large-scale advertising campaign to promote the motor oils of the Company in Russia, Belarus and Kazakhstan, including TV, radio, Internet, outdoor advertising and advertising in the press;
- The Company extended its product range and launched new products: Rosneft Plastex (a line of premium lubricants); Gidrotec ZF HVLP (ashless multigrade hydraulic oils); Gidrotec OE HLP and Gidrotec OE HVLP (hydraulic oils for equipment with high degree of wear resistance); and a special insulating oil MEI-20.



### The Company priorities for 2016:

Transport efficiency increase, optimization of shipment schemes and cost reduction remain the utmost priorities for the Company. In 2016, the Company will strive to take further steps in ensuring its goals:

- To further optimize production programs for refineries and petroleum products sales to the best partners.
- To prepare and launch the motor fuels accumulation program to ensure sufficient gasoline volumes in periods of high demand.
- To reduce the logistics costs through transportation by different transport means; to optimize costs for own logistics assets of the Company.
- To organize new effective logistics schemes, for example, additional light crude deliveries to the company's refineries by railroad and by water.
- Effective contracting of the river fleet to carry out the oil export program of 2016 in expected bad hydrological conditions.



*RN-Nakhodkanefteprodukt terminal ensures oil products transshipment in the Far East*

### PRODUCTION PLANNING AND LOGISTICS

#### Key performance results in 2015:

- The Company fulfilled the shipment plan for crude and petroleum products.
- The Company optimized the production program for refineries and petroleum product sales directions within monthly production plans and petroleum products redirecting schedules.
- The cost of rail tanker leasing was reduced; train costs were reduced by organizing direct railway routes and controlling rail tanker loading level with the help of thermal control.
- The Company organized new efficient logistic channels for crude

and petroleum products sales and optimized the existing channels: shipments of crude oil by rail to China through Mongolia from Meget shipment point, transshipment of VGO in Tuapse and Vanino, transshipment of fuel oil in the port of Slavyanka, multimodal scheme for VGO export shipments through the terminal in Nizhnekamsk, reducing the cost of transshipment in the port of Taman and the ports of Estonia.

- Despite the bad hydrological conditions, the Company fulfilled the plan for river transportation. The Company organized a river transportation scheme with tows and tugs, transshipment and loading in the harbors of Volgograd and the lower Don River.
- The Company hit a record high in transshipment via terminal in Tuapse (16.3 mmt).

- The Company completed acquisition of the shipping assets of Prime Shipping LLC. This logistics asset with a modern and safe fleet will allow the Company to strengthen its position in the river transport market and increase efficiency of its operating activities.
- The Company increased short-distance and middle-distance shipments of motor fuels by road (instead of railway) from the refineries directly to the filling stations (without depots) which has resulted in transportation costs reduction.

### Logistics infrastructure objects of the Company

#### Transshipment terminal of OJSC RN-Nakhodkanefteprodukt

The terminal is mostly used for the export of petroleum products from the Komsomolsk Refinery, Angarsk Fuel and Petrochemical Company, and the Achinsk Refinery. It is also used for transshipment of petroleum products to the domestic market, namely, to the Magadan and Kamchatka Regions and to Sakhalin. The transshipment capacity is up to 7.5 mmt of petroleum products per year. The terminal is implementing a program of production assets renovation, in order to bring them into compliance with the new requirements of industrial, ecological and fire safety. In 2015, the terminal continued to acquire investments for renovation of the tank farm, process piping and utility networks. In 2015, the volume of petroleum products transshipment through Nakhodka terminal (including bunkering for export and domestic market) amounted to 6.8 mmt.

#### Transshipment terminal of Arkhangelsknefteprodukt LLC

The terminal is used for transshipment of petroleum products of the Company and third parties for export, as well as for bunker fuel transshipment services. In 2015, transshipment of petroleum products (including bunkering) through the terminal totaled to 1.9 mmt.

Since 2014, the Terminal continues a program of production assets reconstruction, in order to bring them into compliance with the new requirements of industrial, ecological and fire safety.

#### Transshipment terminal of Tuapsenefteprodukt LLC

The capacity of the terminal located near the Tuapse Refinery is 17 mmt per year. The terminal is mostly used for export of petroleum products from Tuapse, Achinsk and Samara Refineries. The terminal is implementing a program of production assets reconstruction, in order to bring them into compliance with the new requirements of industrial, ecological and fire safety, and joint development of production capacity with the Tuapse Refinery to ensure long-term turnover. In 2015, the terminal finished technical re-equipment of the loading section and continued reconstruction of technological equipment at the oil berths of the trading port and of utility networks; as well as construction of sewage treatment plants. In 2015, transshipment of petroleum products (including bunkering for export and domestic market) through the terminal totaled to 13.8 mmt, and together with the transshipment of petroleum products from third parties — 16.3 mmt; 8.6 mmt of petroleum products were handled including those through the new deep-water dock.

**25** MMT

PETROLEUM PRODUCTS TRANSHIPMENT VOLUME THROUGH THE COMPANY'S TERMINALS

**8.6** MMT

TRANSHIPMENT VOLUME THROUGH NEW DEEP-WATER TUAPSE DOCK

# CORPORATE GOVERNANCE



# РОСНЕФТЬ

ГОДОВОЕ ОБЩЕЕ  
СОБРАНИЕ АКЦИОНЕРОВ  
17 ИЮНЯ 2015 САНКТ-ПЕТЕРБУРГ



Дональд ХАМФРИЗ



Роберт ДАУЛТИ



Маттиас ВАРНИГ





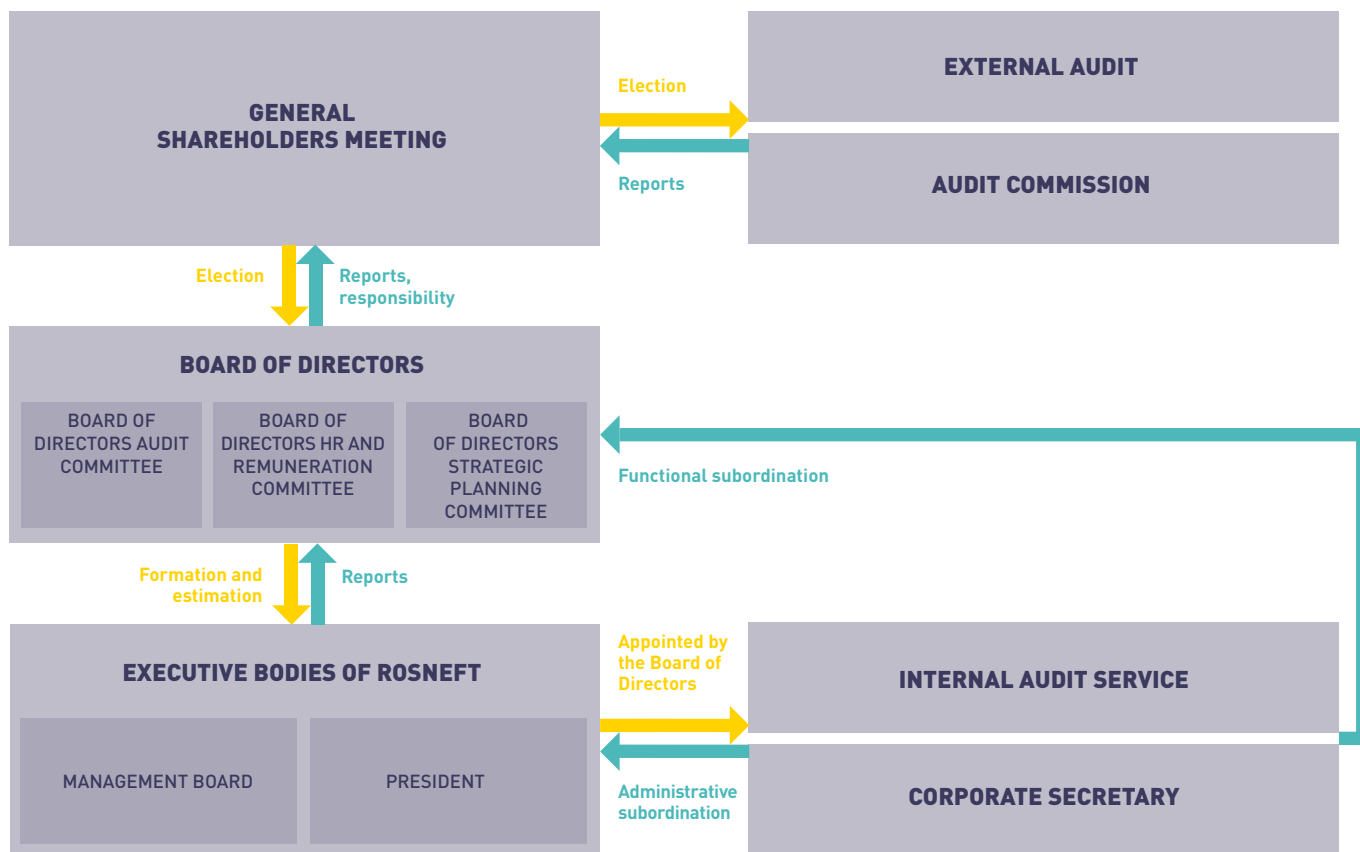
**THE MAIN FACTORS ENHANCING  
THE INVESTMENT APPEAL AND  
IMPROVING THE ECONOMIC  
ACTIVITIES OF THE COMPANY  
ARE ITS COMPLIANCE WITH  
THE HIGHEST CORPORATE  
GOVERNANCE STANDARDS  
AND MAXIMUM INFORMATION  
TRANSPARENCY**





## 4.1. KEY PRINCIPLES OF THE CORPORATE GOVERNANCE SYSTEM IN 2015

### CORPORATE GOVERNANCE MODEL



**ROSNEFT IS A PUBLIC JOINT STOCK COMPANY WITH SECURITIES TRADED ON RUSSIAN AND OVERSEAS STOCK MARKETS. PUBLIC TRADING BINDS THE COMPANY TO MEET THE HIGHEST CORPORATE GOVERNANCE STANDARDS.**

Rosneft corporate governance is a system of relations between the executive bodies, the Board of Directors, its share and stakeholders that aims to:

- exercise of shareholders and investors rights;
- increase of Company's investment potential;

- create viable mechanisms of risk assessment capable of influencing the Company value;
- ensure efficient use and safety of the funds contributed by the shareholders (investors).

The current corporate governance model of Rosneft provides separate functions of strategic leadership, control and operating management of the Company.

**THE GENERAL SHAREHOLDERS MEETING** is the supreme governing body of the Company responsible for the following key issues:

- approval of the Charter and regulations on the management and control bodies, introduction of changes and amendments;
- election of the Board of Directors, the Audit Commission and the Auditor;

- approval of the annual reports and the annual accounting (financial) statements;
- distribution of profit and loss based on the results of the fiscal year, payment (declaration) of dividends;
- increase or reduction of the charter capital;
- reorganization or liquidation of the Company;
- split or consolidation of the shares.

**BOARD OF DIRECTORS** acts on behalf and in the interests of all the shareholders and the Company, is accountable to the General Meeting of Shareholders, and is responsible for strategic management and control of performance of the executive bodies of the Company. The Board of Directors is competent for the following:

- to determine the priority directions of the Company's activity, and to approve the long-term development program;
- to implement the strategic business projects and to execute transactions;

- to elect the executive bodies of the Company, to determine their key performance indicators and to estimate their activities;
- to determine the Company's policy on internal control, risk management and audit; in remuneration to the management of the Company; in managing conflicts of interest; in innovations; in dividend, information, HR and social policies of the Company;
- to determine the Company's policy on strategic issues for the companies of Rosneft Group.

### COMMITTEES WITHIN BOARD OF DIRECTORS

**Audit Committee** is responsible for oversight of completeness, accuracy and reliability of the Company's accounts; of reliability and efficiency of the internal control and risk management system; of assurance of independence and objectiveness of the internal and external audit functions.

**HR and Remuneration Committee**, which functions include assessing effectiveness of the HR policy and remuneration system,

setting criteria for candidate selection to the Company's Board of Directors and Management board; assessing performance of the Board of Directors, of the executive bodies and of top managers of the Company.

**Strategic Planning Committee** assisting the Board of Directors in defining the Company's strategic goals and assessing its performance in the long term.

**EXECUTIVE BODIES**, being accountable to the General Meeting of Shareholders and to the Board of Directors, ensure implementation of resolutions taken by the General Meeting of Shareholders and by the Board of Directors of Rosneft; provide effective management of the Company's operations and determine the Company's position on significant issues of the Rosneft Group

companies. The JSC Rosneft Oil Company's executive bodies system consists of the Management Board — a collective executive body and the President — a sole executive body of the Company which govern the Company's current activities and which are accountable to the General Meeting of Shareholders and to the Company's Board of Directors.

**EXTERNAL AUDIT** is a commercial organization which is a part of one of self-regulating audit organizations with a right to examine

economic subjects of social importance and which meets purchase documentation requirements.

**AUDIT COMMISSION** controls the financial and economic activities of the Company, identifies and assesses the risks arising as a result or in the course of its business and financial operations, including:

- audit of the Company operations based on the annual performance of the Company;

- audit of the Company operations at any time on the initiative of the Audit Commission, under a resolution of the General Meeting of Shareholders or of the Board of Directors, or upon request of the shareholder(s) holding at least 10 percent of the shares;
- assessment of reliability and accuracy of the data in annual reports and other financial documents of the Company

**INTERNAL AUDIT SERVICE** assists the Board of Directors in raising the Company's management efficiency, improving its financial and economic activities including systematic and gradual assessment of the internal control and risk management system and of the corporate governance system representing the rational assurance in the Company's goals and helps to provide:

- the reliability and integrity of the provided information concerning the Company's financial and economic activities including the Group companies.
- efficiency and productivity of the activities of the Company and the Group companies.
- research of internal resources to raise financial and economic activities of the Company and of the Group companies.
- the safety of the property of the Company and of the Group companies.

**CORPORATE SECRETARY** provides efficient execution of the Corporate Policy and organization of efficient communications between the Company and its shareholders, the governing and control bodies, in particular to:

- implement the procedures to protect the shareholders' rights;

- ensure efficient work of the Board of Directors and its committees;
- arrange for information disclosure and protection of insider information;
- provide for interactions with the securities' regulator, registrar and professional traders;
- improve the corporate governance system.

According to the Code, the corporate governance system of Rosneft provides for:

1. observance and protection of its shareholders rights, in particular:
  - the right to participate in the management of Rosneft through voting at the General Meeting of Shareholders;
  - the right to participate in establishing the Board of Directors under the terms stipulated by legislation of the Russian Federation;
  - the right to receive a part of the Company's profit as dividends;
  - the right to obtain any necessary information about the Company on a timely and regular basis;
  - the right to free and unencumbered disposal of the shares, reliable methods of record-keeping with respect to entitlements to the shares;
2. equal conditions for all the shareholders;
3. strategic management of the Company by the efficient and professional Board of Directors, control of the executive bodies by the Board of Directors, and accountability of the Board of Directors and executive bodies to the shareholders;
4. recognition and protection of the stakeholders' rights, active cooperation with stakeholders, compliance with social responsibility standards;
5. development of efficient internal audit and risk management system;
6. timely and accurate disclosure of any information on all the key aspects of the Company activity.

The Charter of Rosneft and the internal documents of the Company provide guidelines for all the members of the corporate management system.

**One of the key documents to regulate the corporate governance of the Company is the Corporate Governance Code of Rosneft** approved by the Board of Directors on June 11, 2015 (hereinafter the Code)<sup>1</sup>.

The Code states and describes the **principles** which form the base of the corporate governance system of Rosneft and which meet the world's best practices.

The Corporate Governance Code stipulates the recommendations of the international and Russian corporate governance authorities that are strictly observed by the Company.

**1. The Code includes the following rules in relation to observance and protection of the shareholders rights:**

- information and materials for the General Meeting shall be available in the Russian and English languages at least 30 days prior to the date of the meeting;
- the materials for the General Meeting shall contain information on the person who proposed a particular item to be included to the agenda of the General Meeting or has nominated any candidates to be elected to the management bodies;
- directions on how to get to the venue of the General Meeting of Shareholders and a sample form of a proxy for the shareholders' representatives shall be posted at the official website of the Company;
- the Board of Directors of the Company shall approve the dividend policy containing transparent rules

for the calculation and payment of dividends;

**2. The Code includes the following newly accepted norms targeted at having the professional and effective Board of Directors:**

- the Board of Directors shall have the self-assessment executed each year and the standard assessment to be made by an independent expert at least once in three years;
- the Board of Directors shall decide on its additional competences to be acquired; this issue shall be discussed at in-person meetings of the Board (except for ordinary meetings provided for in the Charter of Rosneft);

**3. In information disclosure the Code stipulates the Company obligations** to disclose not only the information provided for in the current legislation, but the information recommended for disclosure by the best corporate governance standards (including the Corporate Governance Code of the Bank of Russia).

Compliance to the highest corporate governance standards and maximum information transparency are the key factors to increase investment attractiveness and economic efficiency of Rosneft that gives a boost to the investors' and counterparties' confidence, reduces the risk of inefficient use of resources by the Company, increases the Company value and adds to prosperity of its shareholders.

The Company may ascertain the compliance of its corporate governance system with the listing rules of the Moscow and London stock exchanges, with the main corporate governance principles recognized by the global economic community (e.g., corporate governance principles of the Organisation for Economic Co-operation and Development, European Sharehold-

1. The Corporate Governance Code of Rosneft (English version) is available at the official website of the Company– [www.rosneft.ru](http://www.rosneft.ru) / [www.rosneft.com](http://www.rosneft.com)



ers, corporate practice norms of the European Bank for Reconstruction and Development], as well as to the key recommendations of the Bank of Russia.

The corporate governance is a complex multi-level system of relations, constantly developing under the influence of both internal factors and the external environment. As for the internal factors, the Company to apply high corporate governance standards is targeted at increase of investment attractiveness and trust of partners. The external factors, such as changes in macroeconomics, give the challenges, the solution of which affects further development of the Company.

In this regard, the Company should constantly monitor external and internal changes, and trends analysis in the global and national processes that may affect the corporate governance standards.

**The key trends of the Russian corporate governance are stated in the Corporate Governance Code approved by the Board of Directors of the Bank of Russia on March 21, 2014** and recommended for application by the Russian joint-stock companies with securities admitted to trading.

On February 27, 2015, the Board of Directors approved the action plan (Roadmap) for implementation of the recommendations of the Corporate Governance Code of the Bank of Russia that were left uncovered, though they were among the key tasks of the Company in 2015.

**IN 2015, IN ADDITION TO THE REVISED CORPORATE GOVERNANCE CODE, THE BOARD OF DIRECTORS APPROVED AND REVISED A NUMBER OF INTERNAL DOCUMENTS WITHIN THE FRAMEWORK OF THE ROADMAP IMPLEMENTATION, INCLUDING:**

**1. On June 11, 2015, the Board of Directors approved a new edition of the Regulations on the Corporate Secretary of Rosneft** that defines the functions, powers, rights and duties of the Corporate Secretary, performance appraisal and remuneration for the Corporate Secretary, as well as requirements for disclosure of information on the Corporate Secretary, that comply with recommendations of the Corporate Governance Code.

**2. On May 22, 2015, the Board of Directors approved amendments to the Regulations on HR and Remuneration Committee<sup>1</sup>** of the Board of Directors of Rosneft that are targeted at implementing the recommendations of the Corporate Governance Code by the Bank of Russia.

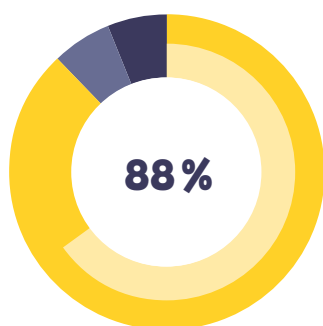
The new edition of the Regulations stipulates the following key functions of the HR and Remuneration Committee:

- to define a methodology for self-assessment and develop proposals to select an independent consultant to assess the work of the Board of Directors of the Company;
- to hold an annual detailed assessment (self-assessment/external assessment) of the performance of the Board of Directors, its committees, and the members of the Board of Directors;
- to consider the assessment results and proposals of the Board of Directors regarding improvement of activities and procedures of the Board of Directors, to determine priority areas to improve the Board of Directors;
- to consider conformity of candidates to the members of the Board of Directors, to analyze compliance of the independent Directors (taking into account the information they provided) to independence criteria, to prepare and submit to the Board of Directors the conclusion

The Board of Directors' activity assessment is carried out in order to estimate the efficiency of the Board and its committees performance and whether they meet the Company's development requirements and to determine the Board of Directors' activities demanding extra attention.

1. Minutes No.34 as of May 25, 2015

## Compliance with the Corporate Governance Code of the Bank of Russia recommendations, %



- 88 Recommendations performed
- 65 Minimum threshold
- 6 Non-performed recommendations
- 6 Not applicable to the Rosneft operations

on the independence of candidates (members of the Board of Directors), including information about the circumstances in which a member of the Board of Directors ceases to be independent;

- to consider whether it's rational to implement long-term incentive plans taking into account the business model of the Company, its planning horizons, objectiveness of long-term indicators, the expected motivational effectiveness and cost of implementing such a program (the Committee will discuss this issue in 2016).

### 3. In 2015, the Board of Directors approved the following internal documents:

- **Policy on Internal Audit** that stipulates among others that the internal audit division shall be subordinate to the Board of Directors;
- **Policy on the Internal Control and Risk Management** setting out goals, objectives and key principles of the Company's risk management and internal control systems as well as alignment of its agents responsibilities;
- **Regulations on Remuneration to the members of the Board of Directors**, stipulating in accordance to the Corporate Governance Code of the Bank of Russia that members of the Board of Directors shall be entitled to seek professional advice at the expense of the Company on issues related to the competence of the Board;
- **Regulations on Remuneration and Compensations to the Audit Commission members**, prepared in conformity with the Methodical recommendations by Rosimushchestvo (Russian Agency for State Property Management);
- **Regulations on the induction of the members of the Board of Directors**, stipulating the procedures to inform the members

of the Board of Directors on the performance of the Company with the purpose of a quick, complete and effective immersion in the specifics of the Company;

- **Regulation on Remuneration and Compensations to top managers**, stipulating dependence of remuneration of the Company top managers on their achieving the key performance indicators developed in accordance with the long-term strategy of the Company and approved by Board of Directors.

**ACCORDING TO THE PLANS FOR 2015 STATED IN THE ROADMAP, THE BOARD OF DIRECTORS HELD THE SELF-ASSESSMENT IN MAY 2015 (FOR 2014-2015 MEMBERSHIP) BASED ON THE QUESTIONNAIRE APPROVED BY THE HR AND REMUNERATION COMMITTEE.**

Members of the Board of Directors assessed:

- members and structure of the Board of Directors;
- key processes and functions of the Board of Directors;
- working procedures of the Board of Directors.

The results of the self-assessment were presented to the HR and Remuneration Committee and to the Board of Directors in June 2015. The following measures were taken with regard to the self-assessment results:

- in accordance with the stated Regulations on the induction of the members of the Board of Directors the newly elected members are familiarized with:
  - the Charter and the key internal documents of Rosneft regulating the Company operation and control;
  - strategic documents and plans of the Company financial and economic performance;
  - the organizational structure of the Company.

- working meetings were held with the assistants and experts authorized by the Board members to cooperate with the Company to provide help to the Board members in their activity; the following issues were discussed:
  - cooperation in preparation and holding the Board of Directors meetings;
  - documentation procedure of the Company;
  - procedure of working with confidential information;
  - preparation of the Company reports and information on the Board of Directors members to be included in such reports;
  - practice of corporate governance of the Company.
- The Company started to work with the certified information system Portal SD that helps the Corporate Secretary to place the materials for meetings in a secured information space and the Board members to see these materials, even with remote access;
- The work plans of the Board of Directors and its committees for the next corporate year include the following issues to be discussed and considered thoroughly: control of the executive bodies' performance, organization of the risk management and internal control system, assessment of risk management effectiveness, results of audits conducted by the internal audit service, assessing the level of corporate governance in the Company;
- The Board of Directors discussed the following key issues at their in-person meetings: financial and economic performance plans, the Company strategy, the long-term development program);
- If during a meeting any Board member has any questions, the Board gives a prompt response providing all the necessary additional information and the supporting documents;
- Regular business meetings were organized to discuss the Audit

Committee competence as well as preliminary meetings on the items to be considered at the Board meetings.

In 2015, based on the self-assessment procedure for the corporate governance quality in the companies with state participation approved by the Order No. 306 of Rosimushchestvo (Russian Agency for State Property Management) dated August 22, 2014, and methodical recommendations for internal audit in joint-stock companies with state participation approved by the Order No. 249 of Rosimushchestvo dated July 4, 2014, the Company held an internal audit of the corporate governance system. According to the results, Rosneft complies with **88 percent** of the recommendations stipulated in the Corporate Governance Code approved by the Bank of Russia that is significantly higher than the minimum (65 percent) recommended by Rosimushchestvo.

In 2016, the Roadmap will be furtherly implemented, including changes to the Charter and the regulations on the management bodies of Rosneft in order to formally fix the principles that are already implemented by the Company.

## 4.2. LOCAL (INTERNAL) REGULATORY DOCUMENTS OF THE COMPANY

All the internal documents of the Company identifying the corporate governance system and its principles are available at the official website of Rosneft at [www.rosneft.ru](http://www.rosneft.ru) / [www.rosneft.com](http://www.rosneft.com)

The current system of local (internal) regulatory documents of Rosneft is an effective tool for corporate governance that formalizes the requirements to the existing processes, controls their implementation, and sets uniform standards and requirements for all the Group companies.

The Company developed and implemented standards in investment governance and efficient management of major projects, business planning, operational efficiency and cost cutting, pricing, internal audit and control, corporate governance, quality management, innovative development, etc.

The local regulatory documents are hierarchically structured and divided into four levels depending on

the level of detail of activities and processes by activities. The current local regulatory document management system ensures timely and quality elaboration of documents, its organization and systematization, informing the Company employees on requirements of the local regulatory documents, and execution of the requirements.

The Company's local regulatory documents comply with legislation of the Russian Federation, international law, technical regulations and national standards, industry standards and requirements, and the regulator's recommendations.

The information on standard internal documents that form the basis of the Report is available in the Appendix to the Annual Report.



## 4.3. ROSNEFT BOARD OF DIRECTORS (BOD)

ROSNEFT BOARD OF DIRECTORS ACTING WITH DUE PROFESSIONALISM AND EFFICIENCY IS A KEY ELEMENT OF THE CORPORATE GOVERNANCE SYSTEM.

Rosneft Board of Directors reports to the General Shareholders' Meeting. It is responsible for observance and protection of rights and legitimate interests of the Company shareholders, acts under the Rosneft Charter and Regulations on the Board of Directors, approved by the Annual General Shareholders Meeting as of June 27<sup>1</sup>, 2014 and carries out the strategic management of the Company business, including:

- approval of development strategy, determining priority development areas of the Company and the key strategic vectors of its activity in a long-term perspective, including key performance indicators and major business goals;
- approval of the Company business plans;
- oversight of performance of the approved strategy and development plans;
- formation of the Company executive bodies and oversight of their activities in terms of their conformance to the approved strategy and business plans of the Company;
- determination of the Company policy on compensations to members of the Board of Directors, executive bodies and other key managers of the Company;
- determination of the principles and approaches to risk management and internal control processes within the Company, setting directions for its internal audit;
- determination of the Company policy on sustainable development, investments, corporate management, information disclosure, prevention of corruption, etc.;
- approval of implementation and performance of material business projects and transactions;
- oversight of the Rosneft Group companies activities with regard to conducting corporate events and making transactions up to the amount exceeding the limit stated by the Company Charter.

The Company Board of Directors performs the above functions by making decisions within the competence determined by the Rosneft Charter.

Provisions of the Rosneft Charter and Regulations on the Board of Directors ensure transparency of the BoD members election, allowing the shareholders to get sufficient information to assess their personalities and professionalism.

Rosneft annual campaign provides for supplying the shareholders with all the relevant information on candidates nominated to the Board of Directors, as stated in the Corporate Governance Code of the Bank of Russia.

Assurance of the Board of Directors efficient performance, including interaction with the Company management and control bodies, lies with the Chairman of the Board of Directors elected at the first meeting upon the BoD membership approval. Powers of the BoD Chairman are stated in the Regulations on the Board of Directors.

**9 MEMBERS**

IN THE ROSNEFT BOARD OF DIRECTORS AS APPROVED BY THE CHARTER



THE PROCEDURE FOR THE ACTIVITIES OF THE BOARD OF DIRECTORS, INCLUDING PREPARING AND HOLDING MEETINGS, AND THE RIGHTS AND OBLIGATIONS OF BOD MEMBERS, IS STATED IN ROSNEFT REGULATION ON THE BOARD OF DIRECTORS

1. Unnumbered Minutes dated June 2, 2014.

The Board of Directors performs activities on a planned basis. The BoD meetings schedule, developed according to the resolution of the management bodies and proposals of members of the Board of Directors, the Management Board and the Audit Commission as well as the Chairman of the Management Board, the Auditor and the other Rosneft top managers, shall be approved by the Board of Directors every six months.

The format of the meetings is determined subject to the importance and significance to the Company of items submitted for review. However the Company Charter determines the list of items to be reviewed in physical presence only. In addition to the above items determined by the Rosneft Charter, approved in June 2015, the Corporate Governance Code also contains the list of items recommended to be reviewed in physical presence of the Board of Directors.

The activities of the Board of Directors and its Committees are supported by the Corporate Secretary, performing functions of the BoD Secretary and the GSM Secretary according to clause 15.6 of the Rosneft Charter.

The procedure for preparing and holding the Board of Directors meetings, stated in Rosneft Regulations on the Board of Directors, ensures that its members are duly prepared for such meetings and get the required information to make sound and substantiated decisions.

High professionalism of the Board's directors and the mechanisms stipulated by the Charter and internal regulatory documents of the Company offset the risk of a conflict of interest when performing their duties.

The Board of Directors members assess each agenda item under review from the perspective of a potential conflict of interest between them and the Company (including related to participation of particular BoD members in management bodies of other companies), in which case the director concerned shall immediately notify the Board of Directors of both the fact of a conflict of interest per se (its potential occurrence), and the ground for it.

With regard to related-party transactions which create a conflict of interest for a Board director and with regard to other issues which create a conflict of interest between a Board director and the Company, such director shall not participate in voting thereon, and, if necessary, shall not be present during the discussion of the said agenda items.

As recommended by the Corporate Governance Code of the Bank of Russia, Rosneft shall disclose information concerning the Board of Directors activities, including details on the Board members, meetings held, and the work of the Board Committees in the form of press-releases, communications on material facts, and in annual reports of the Company.

The Board of Directors meetings are held as often as required but at least every six weeks. The Company's Strategy performance and updating shall be discussed at the BoD meeting at least once a year.



# BOARD OF DIRECTORS MEMBERSHIP

(AS OF DECEMBER 31, 2015)

THE MAKEUP OF THE ROSNEFT BOARD OF DIRECTORS IS ADEQUATE TO THE SIZE OF THE COMPANY'S OPERATIONS AND ITS BUSINESS LINES, AND MAKES IT POSSIBLE TO EFFICIENTLY ORGANISE ITS ACTIVITIES, INCLUDING FORMATION OF THE BOARD COMMITTEES.

FROM JANUARY 01, 2015 THROUGH JUNE 17, 2015 THE POWERS OF THE COMPANY BOARD OF DIRECTORS WERE EXERCISED BY MEMBERS ELECTED BY THE ANNUAL GENERAL SHAREHOLDERS MEETING HELD ON JUNE 27, 2014.

ON JUNE 17, 2015 THE ANNUAL GENERAL SHAREHOLDERS MEETING ELECTED THE NEW BOARD OF DIRECTORS WITH 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 in 2007, Order of Honor (Russia) in 2009.

Member of the Rosneft Board of Directors since 2015.

Director of Economics and Finance Department in the Russian Prime Minister's office from 2008 until 2012, Minister of Economic Development of the Russian Federation from 2012 until 2013, Assistant to the President of the Russian Federation from 2013 to date.

Has vast experience in economy and finance in terms of managing strategic enterprises of the Russian Federation.

Holds no shares of Rosneft.

Born in 1960.

Graduated from Leningrad State University in 1984. PhD in Economics. Chairman of the Board of Directors of Rosneft from 2004 until 2011.

In November 2012, reelected to the Board of Directors of Rosneft, since June 2013 – Vice-Chairman of Board of Directors of Rosneft.

Deputy Head of the Executive Office of the President of the Russian Federation from 2000 until 2004, Deputy Head of the Executive Office of the President of the Russian Federation from 2000 until 2004, Deputy Prime Minister of the Russian Federation from 2008 until 2012.

Has unique experience and expertise in management and government regulation of energy enterprises.

Holds 13,489,350 shares in Rosneft (0.1273 % of the share capital).



**IGOR SECHIN**

Deputy Chairman  
of the Board of Directors



Born in 1955.

In 1981 graduated from the Bruno Leuschner Higher School of Economics (Berlin). Member of the Rosneft Board of Directors since 2011, Deputy Chairman of the Board of Directors since 2014.

Managing Director of Nord-Stream AG since 2006; held executive positions in the Dresdner Bank Group from 1990 until 2006).

Has vast practical experience in delivering transnational investment projects, and banking experience.

Holds 92,633 shares in Rosneft (0.0009 % of the share capital).



#### **MATTHIAS WARNIG**

Deputy Chairman  
of the Board of Directors

Chairman of the HR and Remuneration  
Committee, Member of the Audit  
Committee



#### **ANDREY AKIMOV**

Member of the Board of Directors  
Member of the HR and Remuneration  
Committee, Member of the Strategic  
Planning Committee

Born in 1953.

Graduated from the Moscow Financial Institute in 1975.

Member of the Rosneft Board of Directors since 2014.

Chairman of the Management Board of JSC Gazprombank since 2003, held executive positions in the Vneshtorgbank system from 1974 until 1987.

Has vast banking experience, specifically in working with large energy companies, as well as in raising investments and non-financial risks management, business ethics, corruption prevention and HR management.

Holds no shares of Rosneft.

Born in 1952.

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

Member of the Rosneft Board of Directors since 2015.

Professor at the Finance Department of the State University Higher School of Economics from 2007, Chief Advisor for Russia and CIS to Morgan Stanley Bank LLC from 2013 until 2015 (under civil contract).

Wrote over 20 scientific works and publications on probability theories and macroeconomic model building.

Holds no shares of Rosneft.



#### **OLEG VIYUGIN**

Chairman of the Strategic Planning  
Committee, Member of the Audit  
Committee



**ROBERT DUDLEY**

Member of the Board of Directors  
Member of the Strategic Planning  
Committee

Born in 1955.

Graduated from Illinois University in 1977  
and Thunderbird School of Global Manage-  
ment in 1979.

Member of the Rosneft Board of Directors  
since 2013.

President of BP Group p.l.c. (since 2010),  
President of TNK-BP Management  
(2003–2008).

Has experience in managing Russian and  
international oil companies as well as pro-  
fessional skills in strategic planning.

Holds no shares of Rosneft.

Born in 1957.

Graduated from the University of Southern  
California in 1979.

Member of the Rosneft Board of Directors  
since 2015.

SPUL (President) Middle East and Pakistan  
(BP p.l.c. group) from 2009 until 2010. Re-  
gional President Brazil, Uruguay, Venezuela  
and Colombia (BP Energy do Brasil and BP  
Brasil Ltda) from 2010 until 2015.

Has unique practical experience in explora-  
tion and field development under interna-  
tional projects.

Holds no shares of Rosneft.



**GUILLERMO QUINTERO**

Member of the Board of Directors  
Member of the HR and Remuneration  
Committee



**ALEXANDER NOVAK**

Member of the Board of Directors  
Member of the Strategic Planning  
Committee

Born in 1971.

Graduated from Norilsk Industrial Institute in 1993 and from Lomonosov Moscow State University in 2009. Member of the Rosneft Board of Directors since 2015.

Deputy Minister of Finance of the Russian Federation from 2008 until 2012, Minister of Energy of the Russian Federation from 2012.

Experienced in achieving targets in fuel and power industry of the Russian Federation.

Holds no shares of Rosneft.

Born in 1948.

Graduated from Oklahoma State University in 1971 and the Wharton School, University of Pennsylvania in 1976. Member of the Rosneft Board of Directors since 2013.

Managed financial operations of ExxonMobil Corporation from 2006 until 2013.

Has experience and expertise in financial management of international oil companies.

Holds 160,000 GDRs of Rosneft (0.0015% of the share capital).



**DONALD HUMPHREYS**

Independent Director  
Chairman of the Audit Committee

## Attendance by the Board of Directors members of the BoD and the BoD Committees meetings in 2015

BOARD OF DIRECTORS				Audit Com- mittee	HR and Remuner- ation Committee	Strategic Planning Committee
Member of the Board of Directors	Executive Director	Independ- ent Director	Attendance			
PERSONS WHO WERE THE BOARD OF DIRECTORS MEMBERS THROUGHOUT 2015						
Andrey Akimov			29/30		15/15	3/3
Matthias Warnig			25 <sup>1</sup> /30	18/18	15/15	
Robert Dudley			27 <sup>1</sup> /30			6/6
Igor Sechin	✓		24 <sup>2</sup> /30			
Donald Humphreys		✓	29 <sup>1</sup> /30	18/18	8/8	
PERSONS WHO LEFT THE BOARD OF DIRECTORS ON JUNE 17, 2015						
Andrey Bokarev			19/19	12/12		
Nikolay Laverov		✓	19/19	12/12		3/3
Alexander Nekipelov			19/19		8/8	3/3
Artur Chilingarov			19/19			3/3
PERSONS WHO JOINED THE BOARD OF DIRECTORS ON JUNE 17, 2015						
Andrey Belousov			11/11			
Oleg Viyugin		✓	11/11	6/6		3/3
Guillermo Quintero			11/11		7/7	
Alexander Novak			11/11			3/3

Note: the first figure shows the total number of meetings the director attended; the second one shows the total number of meetings the director could attend in 2015.

### THE BOARD OF DIRECTORS ACTIVITIES IN 2015

In 2015 the Board of Directors held 30 meetings (5 – in presentia, 25 – in absentia) and made resolutions on the most significant matters of the Company business as follows:

- passed a number of resolutions following directives by the President

and the Government of the Russian Federation on:

- approving the action plan (road map) to implement provisions of the Corporate Governance Code in the Company activities, accepting local regulations (policies) to follow the approved road map;
- reviewing the analyzed Company policies in terms of their conformance to the Methodical

Recommendations of the Russian Government in performance of the Directive Pr-3013, and approving policies obligatory for implementation;

- approving the analysis of Rosneft Non-Core Assets Disposal Program implementation as of the beginning of 2015;
- approving strategies for and improving efficiency and transparency of

- The BoD members, M. Warnig, R. Dudley and D. Humphreys did not take part in the meetings if the items on the agenda contained any potential legal and (or) commercial conflict of interests.
- Deputy Chairman of the Board of Directors, I. Sechin did not take part in the BoD meetings if the items on the agenda contained the approvals of related-party transactions as his voice could not be taken into account according to Art. 83 of the Federal Law On Joint-Stock Companies.



## The Board of Directors meetings in 2015



25 In absentia  
5 In presentia

- Rosneft activities, operating costs reduction and import substitution;
- reviewing the Company Sponsorship and Charity Report and further developing and implementing the respective internal regulations on sponsorship and charity;
- approved Disputes Settlement Agreement with Yukos Finance B.V., Yukos Capital sarl, Stichting Administratiekantoor Yukos International, Stichting Administratiekantoor Financial Performance Holdings, Consolidated Nile, LP, General Nile, LLC, Yukos International (UK) B.V., Luxtona Limited, Financial Performance Holdings B.V., Yukos Hydrocarbons Investments Limited, CN & GN (PTC) Ltd. and individuals controlling the above companies;
- reviewed the audit results of 2014 Rosneft Long-Term Development Program performance and recommendations of the independent auditor upon results of limited review of the report on 2014 Rosneft Long-Term Development Program performance;
- reviewed preliminary results of the Long-Term Development Program performance implementation;

- approved the Long-Term Development Program updated in line with the Company activities in 2014, the results of its performance audit in 2014 and recommendations of the independent auditor upon results of limited review of the report on its performance in 2014, previously approved strategies and labor productivity development efforts;
- approved the core principles for oil and petroleum products procurement by Rosneft from external suppliers;
- amended the Company 2015 Business Plan, reviewed the preliminary results of its performance and approved the Company 2016-2017 Business Plan;
- approved the results of KPI delivery by the Rosneft top managers and the general directors of key subsidiaries of the Group and the amounts of their 2014 annual performance-based remuneration, approved performance indicators for the Rosneft top managers and the general directors of key subsidiaries of the Group for 2015 annual bonus payment;
- agreed on performing self-assessment of the Board of Directors activities and reviewed the relevant results;
- made a number of decisions concerning the Rosneft Management Board membership<sup>1</sup>;
- approved the report on 2014 Rosneft Innovative Development Program implementation;
- reviewed the reports on the Company internal audit activities;
- passed a number of corporate resolutions as follows:
  - on establishment of the Board of Directors Committees;
  - on approval of the Board of Directors meetings schedule;
  - on arrangement and preparation for holding the Annual General Shareholders Meeting on June 17, 2015;
  - on combining the positions in management bodies of the other companies by the Rosneft Management Board members;
- approved a number of the Company internal documents;
- endorsed the report on the Rosneft 2014-2018 Energy Saving Program implementation in 2014, including the results of the Rosneft Energy Performance Commission activities in 2014, approved the Rosneft 2016-2020 Energy Saving Program;
- endorsed a number of transactions at the St. Petersburg International Economic Forum and passed a number of resolutions on material business projects and transactions;
- endorsed over 1600 related party transactions.

1. For details see Executive Bodies section.

**INFORMATION ON MOST SIGNIFICANT MATTERS IS DISCLOSED BY THE COMPANY ON A REGULAR BASIS IN THE FORM OF PRESS RELEASES<sup>1</sup> AND IN THE FORM OF COMMUNICATIONS ON MATERIAL FACTS.<sup>2</sup>**

**ROSNEFT BOARD OF DIRECTORS COMMITTEES**

In order to have a preliminary review of the most important issues within the Rosneft Board of Directors' responsibility, three Board Committees were established. The Committees operating as of December 31, 2015 were established by the Board of Directors on June 17, 2015.

**Audit Committee<sup>3</sup>**

Responsible for the oversight of the completeness and accuracy of the Company financial and other statements, reliability and efficiency of the internal control and risk management system, compliance, corporate governance practices and assurance of independence and objectiveness of the internal and external audit functions.

**Composition of the Audit Committee**

1. Donald Humphreys - Chairman (Independent Director);
2. Matthias Waring;
3. Oleg Viyugin (Independent Director).

**Key functions of the Audit Committee:**

- oversight of completeness and accuracy of the Company accounts (financial statements);
- assurance of independence and objectiveness of the external audit;
- oversight of efficiency and reliability of the internal control and risk management system;

- monitoring of the Company corporate management system, assessment of corporate management practices, development of recommendations on improvement of the Company corporate management system;
- regular interaction with the Audit Commission;
- oversight of the efficiency of the system of communicating instances of fraudulent or unfair actions (including unfair use of insider and confidential information) by the Company employees and third parties and other non-compliant actions in the Company activities;
- assurance of the Board of Directors' regular engagement with the Company's executive bodies and structural subdivisions responsible for internal audit, internal control and risk management, and with the Audit Commission by having working meetings and joint sessions on matters within the Committee's remit.
- estimation of conformance of candidates to the criteria of selection to the Company Board of Directors, conformance of independent directors (with account of information submitted by them) to the criteria of independence, issuing opinions on independence of candidates (members of the Board of Directors) and reporting such opinions to the Board of Directors, including informing of circumstances when a BoD member loses independence;
- assessment of the management bodies' performance;
- continuous monitoring of HR and social policies of the Company, and of the incentive, evaluation and remuneration systems for compliance with the Company strategy, financial situation, and labor market environment;
- assurance of the Board of Directors' regular interaction with the Company executive bodies and HR function by having working meetings and joint sessions on matters within the Committee's remit;

**HR and Remuneration Committee.<sup>4</sup>**

Assesses effectiveness of the HR policy and continuity policy, systems of candidate appointment to the positions and remuneration, assessing performance of the Company Board of Directors, executive bodies and top managers.

**Composition of the HR and Remuneration Committee**

1. Matthias Warnig - Chairman;
2. Andrey Akimov;
3. Guillermo Quintero.

**Key functions of the HR and Remuneration Committee:**

- assurance that highly qualified professionals are hired to manage the Company and creating necessary incentives for their successful performance;
- oversight over disclosing information on remuneration policy and practices as well as on the Company shares holding by members of the Board of Directors, executive bodies and other top managers;
- development of self-assessment criteria and proposals for selecting independent adviser to assess activities of the Board of Directors, annual detailed assessment (self-assessment/external assessment) of efficiency of the Board of Directors activities and analysis of the results, including issuing proposals for the Board of Directors activities and procedures improvement, definition of priorities for the Board of Directors membership increase.

1. <http://rosneft.ru/news/pressrelease/>

2. <http://rosneft.ru/Investors/information/importantnotices/>

3. Provision for the Rosneft Audit Committee under the Board of Directors is approved by the Board (minutes No.6 as of October 06, 2014).

4. Provision for the Rosneft HR and Remuneration Committee under the Board of Directors is approved by the Board (minutes No.6 as of October 06, 2014) and duly amended by the Board (minutes 34 as of May 25, 2015).

## Strategic Planning Committee<sup>1</sup>

Oversees strategic development of the Company.

### Composition of the Strategic Planning Committee

1. Oleg Viyugin - Chairman (Independent Director);
2. Andrey Akimov;
3. Robert Dudley;
4. Alexander Novak.

### Key functions of the Strategic Planning Committee:

- assisting the Board of Directors in the following areas within its remit:
  - setting strategic goals and guidelines for the Company development;
  - assessing the Company performance in the long term;
  - developing strategic and business planning;
- participating in identifying the Company business priorities, assessing the top managers' strategic initiatives with regard to development and oversight of the delivery of the Company overall strategy and individual business stream strategies;
- analyzing the main trends in the economic policy pursued by the Russian Federation in what concerns the Company business, and communication of relevant information thereon to the Board of Directors;
- participating in overseeing delivery of the Company approved business plans;

- assessing efficiency of investor and shareholder relations.

The work of the Board Committees is regulated by the respective regulations on each of the Board Committees and the Rosneft Regulation on the Procedure for Formation and Operation of Rosneft Board of Directors Committees. According to the Regulation:

- Rosneft Board Committees were established at the first meeting of the newly elected Board of Directors - 17.06.2015;
- personal composition of the committees was approved with regard to professional experience and knowledge of the BoD members in the relevant field, which allows efficient solution of challenges set to the committees.
- Each Board Committee is composed of at least three members, provided that one member of the Company Board of Directors shall not be a member of more than two committees.

The procedure for development of the Rosneft BoD Committees and arrangement of their activities is stated in the Provisions for the Committees under the Board of Directors.

1. Provision for the Rosneft Strategic Planning Committee under the Board of Directors is approved by the Board (minutes No.6 as of October 06, 2014).

**18** MEETINGS

OF AUDIT COMMITTEE

**6** MEETINGS

OF STRATEGIC PLANNING  
COMMITTEE

**15** MEETINGS

OF HR AND REMUNERATION  
COMMITTEE

The Committees annually submit their progress reports to the Rosneft Board of Directors.

## ACTIVITIES OF THE BOARD COMMITTEES IN 2015

In 2015 the Audit Committee held 18 meetings, and performed the activities as follows:

- assessed candidates for the Company auditors to perform audit of financial statements of Rosneft and its subsidiaries, recommended LLC Ernst and Young for the General Shareholders Meeting Approval and offered the recommended remuneration of the auditor's services in 2015;
- reviewed the candidacy of the external auditor proposed by the Company top management to audit implementation of Rosneft Long-Term Development Program in 2014 and the amount of its services remuneration;
- on a quarterly basis, reviewed the Company preliminary and final financial statements and the findings of their audit;
- within the year-round campaign made a preliminary review (jointly with the Audit Commission) of opinion of the Audit Commission on the 2014 audit findings with regard to Rosneft business activities;
- assessed the Rosneft auditor's findings on the Company 2014 financial statements (accounts) (including subdivisions and subsidiaries);
- reviewed the draft 2014 Rosneft Annual Report within the Committee's remit;
- preliminary reviewed the Internal Audit Provisions and submitted it

to the Board of Directors, approved the Internal Audit Department Provisions;

- reviewed and submitted for approval the Company internal audit report and approved internal audit plan for 2015;
- reviewed and approved candidates for the positions of the Head of Rosneft Internal Audit and control Service and the heads of independent structural divisions of Rosneft Internal Audit Service;
- recommended the following internal policies for the Board of Directors approval: Dividends Policy, Regulation on Insider Information, Corporate Governance Code, Risks Management and Internal Control Policy;
- submitted recommendations to the Board of Directors for issuing proposals to the General Shareholders Meeting in terms of the Company profit distribution, amount of dividends upon results of 2014 and their payment procedure;
- reviewed the tender results in terms of signing an agreement or audit services rendering to the Company and assessment of candidates for the Company auditors when performing procurements.

Besides three conference calls featuring the Committee members, the company top management and the external auditor's representatives were arranged in 2015 to discuss the draft details of the Company financial statements indicators and the results of its audit. Comments and recommendations of the Committee members were taken into account



when finalizing the documents to be submitted to the Committee as a body under the Board of Directors.

During the reporting year the Committee also held meetings (conference calls) with the Head of the Company Internal Audit Service, representatives of the external auditor and the Audit Commission.

**In 2015 the HR and Remuneration Committee** held 15 meetings, and performed the activities as follows:

- according to the Company effective standards, made a preliminary review of reports of KPI achieved in 2014 by the Rosneft key employees and the general directors of the Group key companies, and the amount of the respective remuneration, and submitted them to the Board of Directors;
- reviewed the proposals of the Company HR Service related to estimating KPIs for 2015 by the Company key employees and the general directors of the Group key companies, thereafter approved by the Board of Directors as recommended by the Committee;
- issued recommendations to the Board of Directors in terms of quantity and personal composition of the Company Management Board;
- reviewed and recommended the following internal policies for the Board of Directors' approval.
- Regulation on the procedure for performance indicators standardizing when making analysis and assessment of the Company top management activities for the

reporting period for annual bonus calculation;

- Regulation on remuneration and costs compensation of the Rosneft Board of Directors and Audit Commission members;
- Regulation on instatement of the Rosneft BoD members;
- Rosneft Code of Business Ethics and Corporate Conduct;
- Rosneft Regulation on the Corporate Secretary.
- provided performance of self-assessment of Rosneft Board of Directors activities in the composition of the 2014-2015 fiscal year, including issuing questionnaires to be filled-in by BoD members, summarizing assessment results and submitting them to the Board of Directors;
- approved 2014 Rosneft Sustainability Report (posted on the Company official website <http://www.rosneft.ru/Development/reports/>).

**In 2015 the Strategic Planning Committee** held 6 meetings, made preliminary reviews of and prepared for the Board of Directors recommendations on the items as follows:

- approval of, adjustments to and acceptance of provisional results of the Company Business Plan performance in 2015;
- review of provisional results of Rosneft Long-Term Development Program performance in 2015;
- approval of updated Rosneft Long-Term Development Program;

- approval of the Company internal HSE regulations;
- acceptance of internal regulations on operating and investment efficiency following directives by the President and the Government of the Russian Federation;
- approval of the report on 2014 Rosneft Innovative Development Program implementation.

## 4.4. ROSNEFT EXECUTIVE BODIES

The Procedure for appointment and formation of the Company executive bodies as well as the principles and procedures of their activities are given in the Rosneft Regulation on the collegial executive body (the Management Board) and the sole executive body (the President).

Rosneft executive bodies consist of the Management Board, collegial executive body, and the President, the sole executive body, managing the Company day-to-day operations and accountable to the General Shareholders Meeting and the Board of Directors of the Company.

### ROSNEFT MANAGEMENT BOARD

Pursuant to paragraph 12.3 of the Rosneft Charter, Management Board members are appointed for a period of three years. The procedure for Management Board formation, the rights, duties and responsibilities of Management Board members are set by the Rosneft Regulation on the Collegial Executive Body (the Management Board).

In 2015 Rosneft Management Board membership was changed as follows:

- On April 23, 2015 A.V. Votinov and I.V. Pavlov were removed from the Management Board due to employment termination, Yu.A. Narushchevich, Vice-President for Internal Services, and A.N. Shishkin, Vice-President for Energy and Localization, became Management Board members as of April 24, 2015 (minutes 29 of April 24, 2015);
- On June 11, 2015 I.V. Maidannik was removed from the Management Board due to employment contract termination (minutes 36 of June 15, 2015);

- On October 01, 2015 R.R. Sharipov and N.M. Mukhitov were removed from the Management Board due to resignation (Minutes No. 6 of October 05, 2015), V.N. Yurchenko, Acting Vice-President, Head of Security, became Management Board member from October 01, 2015.

Due to rearrangement of several business segments of Rosneft the number of the Company Management Board members was reduced from 13 to 11 persons, as resolved by the Board of Directors on October 01, 2015. Rosneft Management Board includes the Heads of key business lines, operation service and support function segments of the Company.

### ACTIVITIES OF THE MANAGEMENT BOARD IN 2015

In 2015 the Management Board reviewed 150 items within its remit and held 44 meetings, 5 of them in presence. In particular in 2015 the Management Board acted as follows:

- reviewed the below issues within the Company priority business lines:
  - draft integration strategy for Refining and Petrochemicals and Commerce and Logistics segments;
  - CNG distribution network development concept;
  - RRDB Bank development strategy till 2019;

- |   |   |  |
|---|---|--|
| <ul style="list-style-type: none"> <li>– intermediate-range program of work for the offshore projects in the Russian Federation in 2015-2019;</li> <li>• reviewed the results of implementing 2013 – 2014 Program for synergetic effect achievement from TNK-BP assets acquisition;</li> <li>• approved amendment to the corporate organization chart;</li> <li>• approved material transactions between the Company and the Group companies, including non-core and cost-ineffective assets disposal transactions;</li> <li>• made several decisions on business projects performance, including joint ventures establishment;</li> <li>• decided on dissolution and restructuring of several Group companies to provide the Company corporate structure rearrangement, assets management centralization, production resources optimization and current costs reduction;</li> <li>• reviewed the Company gas business line development strategy;</li> <li>• preliminary reviewed the updated Rosneft Long-Term Development Program thereafter submitted to the Company Board of Directors;</li> <li>• approved the Company internal regulations, providing continuity of the key business operations of</li> </ul> | <p>the Company, some of them were implemented in 2015 following directives by the President and the Government of the Russian Federation:</p> <ul style="list-style-type: none"> <li>– Policy on hydrocarbon reserves assessment and record;</li> <li>– Standard for the Rosneft corporate technical, engineering and geology appraisal arrangement and performance procedure;</li> <li>– Policy on IT and business processes automation;</li> <li>– Corporate Standard for Key Business Planning and Budgeting Principles;</li> <li>– Standard for coordination of the Company licensed activities in using subsurface resources and subsurface areas exploration licenses management;</li> <li>– Standard for technical requirements to the non-associated petroleum gas amount and properties assessment systems;</li> <li>– Corporate Standard for Corporate Risk Management System;</li> <li>– Approval of the corporate Standard for innovative projects management;</li> <li>– Standard for the Company standard design engineering system for oil and gas fields on-site facilities;</li> </ul> | <ul style="list-style-type: none"> <li>– Standard for the general pricing principles and motor fuel distribution procedure in the domestic market of the Russian Federation;</li> <li>– Corporate Standard for Rosneft Corporate Scientific and Engineering Complex Quality Management System. Quality Guidelines;</li> <li>– Corporate Regulation on Petroleum Products Quality Management System;</li> <li>– Rosneft Regulation on Purchasing Authorities;</li> <li>– Rosneft Regulation on Rosneft Business Ethics Council;</li> <li>– Corporate Regulation on the Procedure for development (updating) and performance of Rosneft Innovative Development Program;</li> <li>– Corporate Regulation on the procedure for and operation of one contact system for innovative products implementation;</li> <li>– Corporate Standard for emergencies and accidents criteria. Procedure for prompt reporting of emergencies or accidents (threat of emergencies/accidents);</li> <li>– Corporate Standard for innovative operations efficiency management;</li> <li>– Corporate Standard for financial obligations limits management system;</li> </ul> |
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Rosneft Corporate Secretary appointed by the Board of Directors supports the activities of the Board of Directors and its committees.

- Corporate Standard for FX transactions in Rosneft and the Group companies, etc.
- reviewed the results of activities of the heads of independent structural divisions of Rosneft and the general directors of the Group companies in 2014, approved their KPIs for 2015;
- approved the list of candidates to boards of directors (supervisory boards) for 2015 and approved candidates to the positions in executive bodies of the Group Key Companies;
- approved standard charters and regulations on management and supervision bodies of the Group Key Companies.

#### **ROSNEFT PRESIDENT AND CHAIRMAN OF THE MANAGEMENT BOARD**

Powers of the sole executive body of Rosneft are performed by the President acting under the Company Charter and the Regulation on Rosneft sole executive body approved by the General Shareholders Meeting. The President shall also perform functions of the Chairman of the Management Board by virtue of the position.

The Chairman of the Management Board reports to the Board of Directors and the General Shareholders Meeting of the Company, manages the Company day-to-day operations following resolutions of the above management bodies

and acts on behalf of the Company without power of attorney.

Competence of the Chairman of the Management Board covers issues related to business operations, including decisions on the transactions made by the Company and the Group companies and business projects implementation within the price limit set in the Rosneft Charter.

Pursuant to para 11.3 of the Rosneft Charter, the Chairman of the Management Board is appointed by the Board of Directors for the period of five years.

By virtue of the Rosneft Board of Directors resolution (Minutes No. 22 of 23 May, 2012) Igor Sechin was appointed the Company President from May 24, 2012. By virtue of the Rosneft Board of Directors resolution of April 30, 2015 Igor Sechin was appointed the Company sole executive body for the next five-year period (Minutes No. 32 of April 30, 2015).

#### **LIABILITY INSURANCE OF MEMBERS OF THE ROSNEFT BOARD OF DIRECTORS AND EXECUTIVE BODIES**

Taking into account the scope of Rosneft projects, significance and materiality of the performed transactions as well as wide application of foreign law for project transactions structuring, Rosneft securities trading at foreign trading platforms, highest responsibility of members of the Board of Directors and executive bodies, including



potential risk of adverse effect for the Company even in the case of rational and diligent performance of their duties, the Company for about 8 years is providing liability insurance to the Management Board members and the top managers at its own cost and expense.

## ROSNEFT CORPORATE SECRETARY

The Corporate Secretary is the officer of Rosneft assuring compliance of the Company with the applicable laws, the Rosneft Charter and internal documents which safeguard Company shareholders' rights and interests, efficient communication with Rosneft shareholders, support of the Board of Directors productivity, development of Rosneft corporate management in line with the interests of its shareholders and other parties concerned.

Functions, rights, duties and responsibilities of the Corporate Secretary as well as requirements to a candidate to the Corporate Secretary are determined by the Rosneft Regulation on the Corporate Secretary<sup>1</sup>.

Functions of the Corporate Secretary include:

- involvement in improvement of the Company corporate governance system and practices;
- provision of communication with Rosneft shareholders and assistance in corporate conflict prevention;

- involvement in arrangement and performance of general shareholders meetings;
- support of activities of the Board of Directors and its committees;
- involvement in implementation of information disclosure policy at the stock market as well as provision of corporate documents safekeeping;
- support within its powers of the Company interaction with regulatory bodies, trade organizer, registrar and securities traders;
- support of implementation of procedures set by legislation and the Company internal regulation concerning shareholders' rights and lawful interests observation, and oversight of their performance.

Regulation on the Corporate Secretary is posted on the Company official website: <http://www.rosneft.ru/Investors/corpgov/>

The Rosneft Corporate Secretary performs functions of the secretary of the Company Board of Directors and the secretary of the General Shareholders Meeting.

By virtue of the Rosneft Board of Directors resolution as of April 28, 2014<sup>2</sup> the functions of the Rosneft Corporate Secretary are performed by the Director of the Rosneft Corporate Governance Department.

## Svetlana Gritskevich

Born in 1974.

Graduated from the Modern Knowledge Institute, Belarus State University (Minsk) in 1996. Graduated from the Russian Presidential Academy of Public Service in 2011. Has an MBA degree from MIRBIS (Moscow International Business School, 2011). Has considerable experience in corporate governance (since 1996) and management experience which enable her to efficiently and with high quality perform the functions of the Company Corporate Secretary.

Member of the Board of Directors of PJSC Orenburgneft, OJSC NGK Slavneft, PJSC Varyeganneftegaz, PJSC NC Rosneft-Kubannefteprodukt, OJSC Udmurtneft, PJSC Saratov Oil Refinery, PJSC NC Rosneft-Smolensknefteprodukt, LLC NGK Intera, OJSC FESRC, LLC RN-West, LLC RN-RDC, PJSC Far Eastern Bank, member of the Supervisory Board of JSC Bank RRDB. Svetlana Gritskevich holds 393 shares in Rosneft (0.000004 % of the share capital).

1. Regulation on the Rosneft Corporate Secretary is approved by the Board of Directors (Minutes No. 36 as of June 15, 2015).

2. Minutes No. 34 of May 05, 2014.

# ROSNEFT MANAGEMENT BOARD MEMBERS

(AS OF DECEMBER 31, 2015)



## IGOR SECHIN

Chairman of the Rosneft  
Management Board,  
Deputy Chairman of the Rosneft  
Board of Directors

Born in 1960.

Graduated from Leningrad State University in 1984. PhD in Economics. Has government and industry awards.

Chairman of the Rosneft Board of Directors from 2004 until 2011.

Deputy Prime Minister of the Russian Federation from 2008 until 2012.

President, Chairman of the Rosneft Management Board since May 2012.

Member of the Rosneft Board of Directors since November 2012.

Deputy Chairman of the Rosneft Board of Directors since June 2013.

Chairman of the Board of Directors of OJSC ROSNEFT-EGAZ, OJSC Inter RAO, LLC National Oil Consortium, CJSC SPbMTSB [St Petersburg International Commodities Exchange], Chairman of the Supervisory Board of LLC TsSKA Professional Hockey Club, member of the Boards of Directors of SARAS S.p.A., Pirelli & C. S.p.A.

Holds 13,489,350 shares in Rosneft (0.1273 % of the share capital).



## YURI KALININ

Deputy Chairman of the Management  
Board, Rosneft Vice President, HR and  
Social Affairs

Born in 1946.

Graduated from the D.I. Kurskiy Saratov Institute of Law in 1979.

Has government and industry awards: three orders: Order of Merit to the Fatherland, II, III, IV degree, two Orders of Courage, Order of the Red Banner of Labor, Medal of Labor Veteran, Merited Lawyer of the Russian Federation, Medal of Diligence, 1 and 2 degree, Medal of Valor, Letter of Acknowledgment of the Federation Council and the Chairman of the Federation Council, Certificate of Honor of the Government of the Russian Federation and other awards.

Rosneft Vice-President since December 2012.

Member the Rosneft Management Board since February 2013.

Rosneft Vice President, HR and Social Affairs since March 2013.

Deputy Chairman of the Management Board since October 2014.

Member of the NEFTEGARANT Non-Government Pension Fund Board

Holds 203,916 shares in Rosneft (0.0019 % of the share capital).



## LARISA KALANDA

State Secretary Rosneft  
Vice-President

Born in 1964.

Graduated from the Sverdlovsk Institute of Law in 1985, completed a postgraduate course at the Institute of Philosophy and Law of the Belarus Academy of Sciences. Distinguished Lawyer of the Russian Federation in 1994.

Has government and industry awards: Certificate of Honor of the President of the Russian Federation, Order of Honor, Merited Lawyer of the Russian Federation.

Deputy Chairman of the Rosneft Management Board since 2009 till May 2012.

Member the Rosneft Management Board since May 2012.

State Secretary - Vice President of Rosneft since December 2012 (in charge of government relations).

Acting Vice President - Head of Company Office since July 2015 (corporate governance and internal control of the Company).

Acting General Director, OJSC ROSNEFTEGAZ since 2007 (concurrently).

President of OJSC RN-Holding since September 2105 (concurrently).

Member of the Boards of Directors at OJSC ROSNEFT-EGAZ, PJSC RusHydro.

Holds 2,171,818 shares in Rosneft (0.0205% of the share capital).

## ERIC MAURICE LIRON

Rosneft First Vice-President

Born in 1954.

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

Rosneft Vice President, Drilling, Completions and Oilfield Services since April 2013.

Rosneft First Vice-President, Upstream (Production) since July 2013.

Member the Rosneft Management Board since September 2013.

Chairman of the Boards of Directors of Orenburgneft, PJSC Varyeganneftegaz, and member of the Boards of Directors of OJSC NGK Slavneft, OJSC Udmurtneft, and OJSC Tomskneft VNK, General Director of LLC RN Razvedka i Dobycha.

Holds 543,804 shares in Rosneft (0.0051% of the share capital).

## ZELJKO RUNJE

Rosneft Vice President for Offshore  
Projects

Born in 1954.

Graduated with distinction from the University of Alaska.

Has a Letter of Acknowledgement from the President of the Russian Federation for significant contribution to strengthening interstate cooperation in oil and gas spheres, awarded with the Order of Friendship.

Rosneft Vice-President since October 2012.

Member the Rosneft Management Board since November 2012.

Rosneft Vice President, Offshore Projects since March 2013.

Chairman of the Board of Directors at CJSC RN-Shelf-Far East, as well as a member of the Board of Directors at LLC Arctic Science Center, CJSC Rosshelf, LLC Caspian Oil Company, RN Nordic Oil AS.

Holds 377,318 shares in Rosneft (0.0036% of the share capital).



#### DIDIER CASIMIRO

Rosneft Vice President, Refining,  
Petrochemical, Commerce and  
Logistics

Born in 1966.

Graduated with distinction from Ghent University, Belgium, in 1991, and from Ghent University, Belgium/Lisbon University, Portugal, in 1992.

Rosneft Vice-President since May 2012.

Member the Rosneft Management Board since June 2012.

Rosneft Vice President, Commerce and Logistics since March 2013.

Rosneft Vice President, Refining, Petrochemical, Commerce and Logistics since January 2015.

General Director at LLC RN-Commerce (concurrently), Deputy Chairman of the Supply and Marketing Committee at Ruhr Oel GmbH; Chairman of the Board of Directors at PJSC Buryatnefteprodukt, PJSC NC Rosneft-Altaineftprodukt, PJSC NC Rosneft-Smolensknefteprodukt, PJSC NC Rosneft - Murmansknefteprodukt, CJSC Rosneft-Armenia, PJSC Saratovnefteprodukt, PJSC Tulaneftprodukt, JSC RN-Yaroslavl, LLC LLC RN-West, PJSC Saratov Oil Refinery, PJSC NC Rosneft-KBTC, PJSC NC Rosneft-Kurganneftprodukt, PJSC NC Rosneft-Yamalnefteprodukt, LLC RN-Erevan, Rosneft Trading S.A., RN-MMG Pte Ltd, Chairman of the PJSC Lisichansknefteprodukt Supervisory Board; member of the Board of Directors at LLC ITERA OGC, LLC RN-RDC, OJSC NC Rosneft-Artag, PJSC NC Rosneft - KarachaevoCherkessknefteprodukt, CJSC SPb-MTSB, OJSC NGK Slavneft, OJSC NGK Slavneft-YANOS, Rosneft Trade Limited, Rosneft Global Trade S.A., Lanard Holdings Limited, Rosneft Techno S.A., Rosneft Finance SA, as well as a member of Council at SIA ITERA Latvia. Holds 457,598 shares in Rosneft (0.0043 % of the share capital).



#### PETER LAZAREV

Rosneft Financial Director

Born in 1967.

Graduated from Plekhanov Moscow Institute of National Economy in 1990.

Member the Rosneft Management Board since June 2011.

Rosneft Financial Director since February 2012.

General Director at LLC InvestM-kom (renamed LLC YUKOS-Moscow) since 2007 (concurrently).

Executive Financial Director at JSC RN Managment (renamed TNK-BP Management) since 2013 (concurrently).

Financial Director, OJSC RN-Holding since 2013 (concurrently).

General Director at LLC RN-Foreign Projects since January 2015 (concurrently).

Chairman of the Board of Directors at NEFTEGARANT Non-State Pension Fund, Chairman of the Council of NPF NEFTEGARANT, member of the Board of Directors at PJSC Far Eastern Bank, LLC Neftepromleasing, OJSC NC Rosneft - MP Nefteprodukt, LLC ITERA OGC, Rosneft SH Investments Limited, TOC Investments Corporation, Taihu Limited.

Holds 448,066 shares in Rosneft (0.0042 % of the share capital).





### YURY NARUSHEVICH

Rosneft Vice President for Internal Services

Born in 1968.

Graduated from Ivano-Frankovsk Oil and Gas Institute in 1992.

Has won institutional award Certificate of Honor of the Ministry of Energy of the Russian Federation, Letter of Acknowledgment of the Ministry of Energy of the Russian Federation.

Rosneft Vice President, Drilling, Completions and Services since June 2014.

Rosneft Vice President, Internal Service since March 2015.

Member the Rosneft Management Board since April 2015.

Member of the Board of Directors at LLC RN-Service.

Holds 6,888 shares in Rosneft (0.00006 % of the share capital).

### SVYATOSLAV SLAVINSKIY

Rosneft Vice President for Economics and Finance

Born in 1970.

Graduated from Lomonosov Moscow State University in 1994 and l'Université Paris-Dauphine in 1995.

Order of Merit to the Fatherland, II degree.

Rosneft Vice President, Economics and Finance since April 2013.

Member the Rosneft Management Board since September 2013.

Chairman of the Supervisory Board at JSC Bank RRDB.

Holds 378,949 shares in Rosneft (0.0036 % of the share capital).

### ANDREY SHISHKIN

Rosneft Vice President for Energy and Localization of Rosneft

Born in 1959.

Graduated from Gubkin Moscow Institute of Petrochemical and Gas Industry in 1985 from State Academy under the Government of Russian Federation in 1996 and from Moscow International Business Higher School MIRBIS in 2002.

Has government and industry awards: Order of Merit to the Fatherland, IV degree, Order of Honor, Letter of Acknowledgment of the Government of the Russian Federation and a number of titles of honor.

Rosneft Vice-President since July 2012.

Rosneft Vice President, Energy, Health, Safety and Environment since March 2013.

Rosneft Vice President, Energy and Localization since August 2014.

Member the Rosneft Management Board since April 2015.

Chairman of the Board of Directors at OJSC FESRC, RIG Research Pte. Ltd., member of the Supervisory Board at Association NP Market Council, member of the Board of Directors at PJSC Rosseti, JSC USC, PJSC RusHydro, LLC National Petroleum Consortium, OJSC Tyumen Energy selling company, LLC RN-RDC.

Holds 377,144 shares in Rosneft (0.0036 % of the share capital).

## 4.5. REMUNERATION OF THE BOARD OF DIRECTORS MEMBERS

In April, 2015 the Rosneft Board of Directors approved a new version of the Regulation on Rosneft Board Remuneration and Compensations (the Regulation)<sup>1</sup> with account of corporate management practices development in terms of the BoD members' incentive system, updated from the date of approval of the previous version of the document. The Regulation is posted on the Company official website: <http://www.rosneft.ru/Investors/corpgov/>

The procedures for calculation and payment of remuneration to the Rosneft BoD members conform to recommendations of the Corporate Governance Code of the Bank of Russia, in particular:

- the fixed amount of base remuneration of a member of the Board of Directors (for performing functions of a BoD member) shall be USD 500,000 (five hundred thousand US dollars) for a fiscal year, similar to remunerations of boards of directors in major vertically integrated oil companies and sufficient to attract, motivate and hold duly competent and qualified persons within the Company Board of Directors;
- available list of all types of payments to the Board of Directors members and conditions of their receipt, providing absolute transparency of the directors' reimbursement estimation procedure;
- set principle of fair estimation of remuneration: remuneration shall be paid in proportion to the period of a BoD member functioning (performing functions of the BoD Chairman/committee member/committee chairman) and shall not be paid to a BoD member taking part in less than 2/3 of the held meetings;

- available opportunity to pay remuneration to BoD members with the Company shares and set limits for transactions with the shares received upon the relevant decision of the General Shareholders Meeting in order to correlate financial interests of the directors with the Company long-term development goals and financial interest of its shareholders (BoD members are advised not to sell the major part of their shares of the Company (over 50% of the received shares) and not to apply any hedging instruments within at least 1 (one) year upon secession of their membership in the Board of Directors);
- set principles and conditions of costs compensations;
- specified list of costs to be reimbursed to BoD members (including the costs for giving expert advice on the issues within the Board of Directors' remit).

Regulation also stipulates payment of remuneration in rubles (at the Russian Central Bank exchange rate at the date of payment) to all the Board members except for non-residents, who receive payment in USD. The Company does not provide any other forms of short-term motivation or any additional financial incentives to members of the Board of Directors, including participation in an optional program and/or extra payments or compensations, including the cases of early termination of powers of BoD members due to the change of control over the Company or other circumstances.

Remuneration for performing activities in the Company Board of Directors as required by the current Provision for Remuneration and Compensations to the Rosneft BoD Members shall not be paid to:

- Civil officers and persons restricted or not allowed to get any payments from business entities by the current legislation;
- The sole executive body and members of the collective executive body.

The Annual General Shareholders Meeting held on June 17, 2015 (unnumbered Minutes of June 22, 2015) resolved to approve the remuneration to the members of the Company Board of Directors for the period of their service in the following amounts:

- **Andrey Akimov** — USD 530,000 (USD 500,000 base remuneration and USD 30,000 — for performing functions of HR and Compensation Committee member);
- **Andrey Bokarev** — USD 530,000 (USD 500,000 base remuneration and USD 30,000 — for performing functions of Audit Committee member);
- **Matthias Waring** — USD 580,000 (USD 500,000 base remuneration, USD 50,000- for performing functions of the HR and Compensation Committee Chairman and USD 30,000 — for performing functions of Audit Committee member);
- **Nikolay Laverov** — USD 580,000 (USD 500,000 base remuneration, USD 50,000- for performing functions of the Strategic Planning Committee Chairman and USD 30,000 — for performing functions of Audit Committee member);

1. Minutes No. 28 dated April 10, 2015.

- **Alexander Nekipelov** — USD 660,000 (USD 500,000 base remuneration, USD 100,000 for performing functions of the Board of Directors Chairman, USD 60,000 for performing functions of HR and Compensation Committee and Strategic Planning Committee member);
- **Donald Humphreys** — USD 580,000 (USD 500,000 base remuneration, USD 50,000- for performing functions of the Audit Committee Chairman and USD 30,000 — for performing functions of HR and Compensation Committee member);

- **Artur Chilingarov** — USD 530,000 (USD 500,000 base remuneration and USD 30,000 — for performing functions of Strategic Planning Committee member);

Remuneration to Robert Dudley, member of the Company Board of Directors, was not paid according to his application. Remuneration to Igor Sechin, Vice-Chairman of the Board of Directors, was not paid either, as he is the sole executive body of the Company.

The total amount of the said remuneration in 2015 is equal to USD

3,990,000. As of December 31, 2015, the Company had fulfilled its obligation to pay remuneration approved by the General Shareholders Meeting to the said Rosneft Board of Directors members.

In addition to that, the above resolution of the General Shareholders Meeting approved reimbursement of expenses to the members of the Rosneft Board of Directors associated with performance of their functions.

## Rosneft shares held by the members of the Board of Directors and the Management Board

Member of the Rosneft Board of Directors and Management Board	Quantity of ordinary shares	Share in charter capital, %
Andrey Akimov	-	-
Andrey Belousov	-	-
Matthias Warnig	92,633	0.0009
Oleg Viyugin	-	-
Robert Dudley	-	-
Guillermo Quintero	-	-
Alexander Novak	-	-
Igor Sechin	13,489,350	0.1273
Donald Humphreys	160,000 (GDR)	0.0015
Larisa Kalanda	2,171,818	0.0205
Yuri Kalinin	203,916	0.0019
Didier Casimiro	457,598	0.0043
Peter Lazarev	448,066	0.0042
Eric Maurice Liron	543,804	0.0051
Yury Narushevich	6,888	0.00006
Zeljko Runje	377,318	0.0036
Svyatoslav Slavinskiy	378,949	0.0036
Andrey Shishkin	377,114	0.0036
Vasilij Yurchenko	-	-

## TRANSACTIONS WITH ROSNEFT SECURITIES BY MEMBERS OF THE BOARD OF DIRECTORS AND OF THE MANAGEMENT BOARD

The effective Company Regulation on Insider Information obliges members

of the Board of Directors, the Management Board and the President to disclose to the Company information on transactions which they execute with Rosneft securities.

In 2015, a member of the Rosneft Board of Directors executed a transaction

with Company securities. Details of such transaction were presented to the Company (in compliance with the procedure and time limits stipulated by the internal documents) and were disclosed to the stock market in compliance with the applicable legislation.

Member of the Board of Directors	Transaction date	Quantity of purchased/sold shares	Type of transaction
Donald Humphreys	September 03, 2015	100,000	purchase

## 4.6. REMUNERATION OF ROSNEFT MANAGEMENT

Rosneft developed and is successfully implementing an incentive system for its top managers. The core principles of the incentive system state that:

- incentive system for the top managers provides for the balance of the Rosneft shareholders' interests and the top managers' commitment to achieve the Company long-term strategic goals;
- The size of top managers' remuneration directly depends on the results of the Company operations, major projects implementation and their personal contribution to the said results achievement, which is shown by the Company KPI system.

The procedure for KPI determination and achievement includes:

- determination of KPI according to the Company Development Strategy, Long-Term Development Program, directives of the Federal Executive Authorities, Business Plan and the Company goals in the reporting year;
- approval by the Board of Directors of the collective KPI for operations of the Company and its business segments, as well as individual KPI for the top managers;
- calculation of the collective and individual KPI performance according to the audited consolidated accounting statements and management accounting upon results of the reporting period;

- approval by the Board of Directors of the size of the top managers' bonuses.

KPI structure and its connection to the Company Strategy and Long-Term Development Program is specified in section 2.5, KPI system definition and assessment of KPI achievement, hereof.

In April 2015<sup>1</sup> the Rosneft Board of Directors approved the Rosneft standard on payments and compensations to top managers setting the key principles of payroll and bonus systems, compensations and social benefits to Rosneft President, Vice-Presidents and officers in the rank of Rosneft Vice-President (the document is posted on the Company official website: <http://www.rosneft.ru/Investors/corpgov/>).

The standard sets the ceiling amount of the official salary of the Rosneft President, interest connection of the top managers' official salary to the one of the Rosneft President, list of the core payments and compensations to the Rosneft top managers and the key principles and standard size of bonuses to the Rosneft top managers.

The document provides for all possible payments to the Company managers, calculation procedure and payment conditions.

Short-term remuneration to the Management Board members, with account of management team rota-

tion, including salary and bonuses (VAT included) made RUB 2 884 and 2 799 million in 2015 and 2014 YOY (the non-profit social insurance contributions of the Management Board members, paid to the budget of the Russian Federation as required by law made RUB 376 and 260 YOY, the growth is due to the amended calculation of insurance contributions in 2015). The short-term remuneration does not include one-off bonuses paid in 2015 for major projects implementation in 2014 (Karsk oil-and-gas province opening, first commercial production at the world-largest Berkut drilling platform in the Okhotsk Sea, APR major projects performance), bonuses paid according to the resolution of the President of the Russian Federation on granting the state awards for achievements in 2014, and a part of remuneration for 2014. Payment of post-employment benefits, dismissal compensations or share-based payments was not effected. Salary indexation was not performed in 2015.

1. Minutes No. 29 of April 24, 2015.



## 4.7. RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT

### GENERAL INFORMATION

In accordance with the recommendations of the Corporate Governance Code of the Bank of Russia, requirements of the Russian Legislation and other generally recognized best practices, an Internal Control and Risk Management System (IC&RMS) has been set up and is continuously improved in Rosneft.

The goals and objectives of the IC&RMS are set out in the Company Policy on the Internal Control and Risk Management, that has been developed in line with the recommendations of the international professional organizations specializing in risk management, internal control and internal audit services and provide reasonable assurance in the delivery of the Company goals, including:

- strategic goals contributing to performance of the Company mission;
- operating goals, assuring effectiveness of financial and business operations of the Company and soundness of assets;
- goals assuring compliance with the applicable laws and local regulatory documents;
- goals assuring prompt issuing of reliable financial and non-financial statements, internal and/ or external reporting.

Continuous development and improvement of IC&RMS allows the Company to respond to changes both in the external and internal environment as appropriate, increase the effectiveness and efficiency of operations, safeguard and boost value of the Company.

The key lines of IC&RMS development are included into the Long-Term Development Program approved by the Rosneft Board of Directors as of December 21, 2015 (Minutes No. 10).

### IC&RMS BODIES

The key IC&RMS bodies of the Company are: the Board of Directors, the Board Audit Committee, the President, the Management Board, the Audit Commission, the Company management, heads of structural divisions and employees responsible for development and operation of risks management and internal control system, Risks Department, Internal Control Department, Internal Audit Service.

### SUMMARY OF IC&RMS MANDATE AND KEY ACHIEVEMENTS IN 2015

#### Rosneft Board of Directors (BoD)

The Board of Directors performs the Company strategic management on behalf and in the best interests of all shareholders of the Company.

CONTINUOUS DEVELOPMENT AND IMPROVEMENT OF IC&RMS ALLOWS THE COMPANY TO RESPOND TO CHANGES BOTH IN THE EXTERNAL AND INTERNAL ENVIRONMENT AS APPROPRIATE, INCREASE THE EFFECTIVENESS AND EFFICIENCY OF OPERATIONS, SAFEGUARD AND BOOST VALUE OF THE COMPANY.

In accordance with the Regulations on the Board of Directors the functions of the Board of Directors in the area of control over financial and business operations of the Company assumes approval of the main vectors of development of internal control and risk management systems, their implementation control, organization and execution of evaluation and assessment of the effectiveness of IC&RMS.

#### Rosneft Board Audit Committee

Rosneft Board Audit Committee was established to perform profound consideration of issues and preparation of recommendations to the Company Board of Directors on matters within its remit related to control of financial and business operations of the Company and on other matters delegated to the Committee.

Pursuant to the Regulations on the Rosneft Audit Committee under the Board of Directors the main task of the Committee shall be rendering assistance to the Rosneft Board of Directors in its assuring protection of interests of the Company shareholders by exercising control of completeness and reliability of financial statements of the Company and other reports, reliability and efficiency of the system of internal control and risk management, compliance, internal audit and corporate management system.

1. Corporate Governance Code recommended by letter of the Bank of Russia No. 06-52/246 of April 10, 2014.
2. Federal Law No. 402-FZ, On Accounting, of December 06, 2011, Corporate Governance Code of the Bank of Russia, implemented in the Company according to the Instruction of the Government of the Russian Federation No. ISH-P13-5859 of July 31, 2014.
3. The Company Policy on the Internal Control and Risk Management No. P4-01 P-01 is approved by the Rosneft Board of Directors, minutes No. 8 of November 16, 2015.
4. Provision on the Rosneft Board of Directors approved by the Rosneft General Shareholders Meeting on June 26, 2014 (minutes w/o No.).

## Audit Commission

### AS OF DECEMBER 31, 2015 THE INTERNAL AUDIT COMMISSION CONSISTED OF FIVE MEMBERS

The Company has adopted a new version of the Regulation on the Rosneft Audit Commission approved by the General Shareholders Meeting on June 27, 2014 and Regulation on Remuneration and Compensations to Audit Committee Members, approved by the Rosneft Board of Directors on May 27, 2015.

An Audit Commission of five members is elected by the General Shareholders Meeting for the period until the next Annual General Shareholders Meeting. A Company shareholder or any person nominated by a shareholder may be a member of the Audit Commission. Audit Commission members cannot concurrently be members of the Board of Directors or hold other positions in the Company management bodies.

The Audit Commission shall inspect/audit the Company activities, including identification and assessment of risks arising from and in the course of business operations of the Company.

Rosneft Audit Commission shall audit/inspect financial and business operations of the Company, confirm reliability and accuracy of data included in the Rosneft Annual Report and annual accounting (financial) statements of the Company.

Two meetings of the Audit Commission were held during the reporting period.

In compliance with the approved 2015–2016 work plan and Guidelines on organizing the checking process for audit commissions of joint-stock companies with the participation of the Russian Federation, approved by Order No. 254 of the Federal Agency for Management of State Property dated 26 August 2013, the Audit Com-

mission undertook a desktop review of financial and business operations of Rosneft and issued opinions on its review of the annual financial statements and on the accuracy of the data presented in the annual report.

### Audit Commission membership (as of December 31, 2015)

By a decision of Rosneft's General Shareholders Meeting dated June 17, 2015, the following persons were elected members of the Internal Audit Commission:

#### Alexei Afonyashin

Born in: 1983  
Education: higher

Entity: Ministry of Economic Development of the Russian Federation

Position: Deputy Director of State Regulation of Tariffs, Infrastructure Reforms and Energy Efficiency Department

#### Oleg Zenkov

Born in: 1977  
Education: higher

Entity: Federal Agency for State Property Management (Rosimushchestvo)

Position: Adviser to the Deputy Minister — Head of Rosimushchestvo

#### Sergey Poma

Born in: 1959  
Education: higher

Entity: Russian National Association of Securities Market Participants (NAUFOR)

Position: Deputy Chairman of the Management Board

#### Zakhar Sabantsev

Born in: 1974  
Education: higher

Entity: Ministry of Finance of the Russian Federation

Position: Head of banking sector monitoring and summary analytics unit, Financial Policy Department

#### Tatyana Fisenko

Born in: 1961  
Education: higher

Entity: Ministry of Finance of the Russian Federation

Position: Director for Budget Planning and Accounting Department

Audit Commission members did not receive remuneration in the reporting year for their activities in the Audit Commission.

## Risk Management Department

Responsibility for development and maintenance of the Corporate-Wide Risk Management System (CWRM) is assigned to the Risk Management Department. The Company risk management process is regulated by the Standard for the Corporate-Wide Risk Management System (CWRM)<sup>1</sup>.

Reporting on the key risks of the Company, including risks related to the Long-Term Development Program implementation and risks related to financial and business operations, is issued in accordance with the Corporate-Wide Risk Management System. Risk reporting is communicated to the Company Board of Directors, management team and employees, and includes all the required information on risks and risks assessment as well as details of the activities for risks mitigation to the acceptable level.

The following steps were performed to improve the Corporate-Wide Risk Management System:

- Further development of risk assessment methods and approaches, including application of quantitative methods for the Company material (key) risks assessment.

- Regular analysis of the Company exposure to market risks performed on the basis of analysis and quantitative assessment of price and exchange risks influence to financial indicators of the Company as part of portfolio-based approach to market risks management.
- Development and updating of the Company risk reporting, including risks, having impact on the Long-Term Development Program implementation and current business operational risks (including risk modeling results).
- Step-wise integration of the Group companies into CWRM perimeter.

### Corporate insurance

Rosneft considers insurance as a risk management tool which allows transferring financial losses from insurable risks in the event of risk occurrence to insurance companies. Insurance covers Rosneft ownership interests in relation to:

- ownership, usage and asset management (property damage insurance);
- obligatory indemnification (third-party liability insurance);
- entrepreneurial activities (entrepreneurial risks insurance).

Rosneft resorts to liability insurance as it is required under federal legislation, including Federal Law No. 225-FZ "On Mandatory Insurance of the Owner of a Hazardous Facility against Civil Liability for Harm Caused by an Accident at the Hazardous Facility". In accordance with Federal Law No.225 the subject of mandatory insurance is the proprietary interest of the owner of a hazardous facility, associated with his liability to cover for the damage inflicted upon victims .

Rosneft performs insurance of risks of property damaging (loss) and

potential losses from business interruption as a result of site accidents or other accidental exposure. Also, the Company resorts to third-party liability insurance against potential damage resulting from onshore and offshore operations.

In 2015 the Company completed indemnified loss adjustment related to the accident on OJSC Achinsk Refinery.

### Internal Control Department

In accordance with the Internal Control and Risk Management System Policy and the Standard for Internal Control Rosneft implements and constantly improves its Internal Control System (ICS).

The Internal Control Department, a part of Rosneft Administration, provides methodological support and assistance to the Company management in formalizing and increasing the effectiveness of business processes through development and implementation of the requirements for the design of controls and their weight in the business processes.

Completeness of information on risks and control procedures within business processes allows the Management to make effective management decisions and accomplish the identified goals by means of due prevention of adverse events in business processes, which contributes directly to accomplishing strategic goals of the Company while ensuring a high level of management.

The objectives of the Internal Control are consistent with the objectives of the Internal Control and Risk Management System, identified in the respective Company Policy and are being delivered through Internal Control processes.

Delivery of Internal Control goals assumes accomplishment of the following objectives:

Both global and domestic economic climate in 2015 as well as certain changes in foreign policy environment had a significant impact on the Company operations. The Company expects that the above trends may still have impact on its business operations in the nearest future.

In 2015 a number of countries including the USA and the EU states prolonged their sectoral sanctions imposed on Russia. The above sanctions impose restrictions to USA and EU citizen in terms of providing financing to the targets of sanctions stated in the USA and EU regulations, as well as providing works, goods and services that might be used in the Russian Federation for performing deep-water exploration and oil production, exploration and oil production in the Arctic region and implementing difficult oil production projects. The Company takes into account the above sanctions when performing business operations and keeps their continuous monitoring to mitigate negative effect.

1. The Company Standard for the Corporate-Wide Risk Management System No. P4-05 C-0012, version 1.0 approved by the Rosneft Management Board as of October 16, 2015 [Minutes No. Pr-IS-35p of November 16, 2015].

2. Part 1 of article 1 of the Federal Law No. 225-FZ "On Mandatory Insurance of the Owner of a Hazardous Facility against Civil Liability for Harm Caused by an Accident at the Hazardous Facility".

- development and upgrade of the key areas of IC development as consistent with the Company needs, requirements of the parties concerned, risk assessment of the business processes, etc.
- development, implementation and execution of control procedures, including methodological support to the organization and effective functioning of the internal control in the Company.
- identification of gaps in the existing control procedures, development and implementation of corrective actions; control procedures unification and optimization.
- development and implementation (with the help of IT systems among the rest) of a mechanism of interaction and sharing information related to internal controls and risk management among all structural divisions of Rosneft and the Group companies, including joint ventures.

The list of the key actions and initiatives implemented as part of internal controls development in 2015 includes:

- risk matrices and control procedures were generated for 14 business processes in the Rosneft Head Office and in 16 Group companies (over 100 matrices), reflecting gaps in the design of business processes controls. Improved efficiency of the controls design by means of implementing a series of corrective actions.
- standard risk matrices and controls were developed for key business processes. Implementation of standard control procedures in the Group companies is in progress.
- regular training on Internal Control is provided for Rosneft employees

and the Heads of the Group companies and joint ventures. Development and launch into commercial operation of a multimedia course on risk management and internal control.

- update of consolidated corporate events program dedicated to compliance as part of the compliance system development in the Company by the relevant Task Force; specific training of the top managers, the heads of independent structural divisions and the Company employees, including online training (multimedia course on corruption and fraud management).

### Internal Audit

The internal audit function in Rosneft is performed by the Head of Internal Audit Service and structural divisions: Operations Audit Department, Corporate Audit Department, Regional Audit Department, Economic and Administrative Analysis Division, Internal Audit Concept and Arrangement Division (structural divisions of the Internal Audit Service). In accordance with the administrative structure of Rosneft, approved by the Board of Directors, structural divisions of the Internal Audit Service directly report to the Head of Internal Audit Service.

The following regulations were approved in the Company to develop internal audit functions: the Company Policy on Internal Audit, the Company Regulation on the Internal Audit Quality Assurance Program, the Company Regulation on the Procedure for Cooperation of Rosneft Internal Audit Service with Rosneft Structural Divisions and the Group Companies when Performing Internal Audit.

Internal Audit assists the Board of Directors and the executive bodies of the Company in increasing efficiency of the corporate management, improving

its financial and business operations through systemic and consistent approach towards analysis and assessment of the internal control and risk management system, as well as corporate governance as the tools providing reasonable assurance in the delivery of objectives set by the Company, and provides as follows:

- reliability and integrity of submitted information on financial and business operations of the Company and the Group companies;
- efficiency and productivity of operations of the Company and the Group companies;
- determination of internal reserves to raise efficiency of financial and business operations of the Company and the Group companies;
- safekeeping of property of the Company and the Group companies.

The Internal Audit Work Plan is endorsed by the Audit Committee and approved by the President of the Company; internal audit reports are reviewed by the Rosneft Board of Directors. The existing reporting line where the Head of Internal Audit Service reports to the Board of Directors and the executive bodies of the Company ensures independence sufficient for delivery of functions assigned to the internal audit.

The key areas of internal audits in 2015 were Upstream (20 % of audits) and Downstream (18 % of audits). Over 90 % of the audits come to specific inspections and audits aimed at identifying opportunities to improve the most important business processes in the Company and activities of the key subsidiaries.

In 2015 over 180 audits were performed covering over 90 % of the top business processes.

1. The Company Standard on Internal Control No.P4-01C-0018 of December 31, 2014.  
2. The Company Policy on Internal Audit was approved by the Rosneft Board of Directors as of February 02, 2015 [Minutes No. 20] and enacted by the Order No. 60 as of February 18, 2015.  
3. The Company Regulation on the Internal Audit Quality Assurance Program was approved by the Rosneft Order No. 215 of May 18, 2015.  
4. The Company Regulation on the Procedure for Cooperation of Rosneft Internal Audit Service with Rosneft Structural Divisions and the Group Companies when Performing Internal Audit was approved and enacted by the Rosneft Order No. 10 of January 21, 2016.



Upon results of the internal audits the Internal Audit Service together with the heads of business segments, develops the proposals for improving business processes and raising efficiency of the internal control and risk management system as well as action plans to correct the revealed violations and defects.

> 180

INTERNAL AUDIT INSPECTIONS  
WERE PERFORMED IN 2015

According to the Company Policy on Internal Audit, in 2015 the Internal Audit Service performed self-assessment of Rosneft internal audit and issued a report and action plan for developing internal audit function in the Company in 2016.

The Head of Rosneft Internal Audit Service executes functional management of internal audit in the Group companies and coordination of the activities of internal audit divisions organized in 97 Rosneft subsidiaries. Internal auditors and inspectors of the subsidiaries were involved in the audits carried out by the Internal Audit Service and performed standalone audits of areas recommended by the Internal Audit Service. This ensures implementation of a risk-based approach aimed at maximum auditing of the Company risks and enhances the internal audit efficiency at the level of the Group companies.

The Internal Audit Service was rearranged in January, 2016 to provide for the internal audit independence, administrative integrity and centralization of the Company's internal audit function. The employees of internal audit divisions of the Group companies were transferred to the Rosneft Internal Audit Service.

The Head of Rosneft Internal Audit Service interacts with the Company management and control bodies, external auditor and audit commissions of the subsidiaries and affiliates. The Head of Rosneft Internal Audit Service annually confirms to the Board of Directors (Rosneft Audit Committee under the Board of Directors) the fact of administrative independence of the internal audit.

# 0506

## INFORMATION FOR SHAREHOLDERS AND INVESTORS

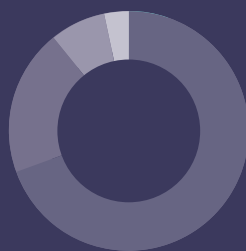


### Shareholder structure, %

- 69.50 Rosneftegaz (100% federal ownership)
- 19.75 BP Russian Investments Ltd

Free float (10.75%)

- 7.50 Global depositary receipts [GDR]
- 3.25 Ordinary shares



COMPANY SHARES  
ARE TRADED AT  
MICEX, GDR — AT  
LSE

## 35.3%

THE COMPANY 2015 TSR  
IS 8 PP HIGHER THAN  
THE AVERAGE FOR THE  
RUSSIAN PEER GROUP



**INCREASE OF LONG-TERM  
SHAREHOLDER VALUE IS OUR  
KEY STRATEGIC PRIORITY**

**PMЭФ2015**  
ПЕТЕРБУРГСКИЙ  
МЕЖДУНАРОДНЫЙ  
ЭКОНОМИЧЕСКИЙ  
ФОРУМ



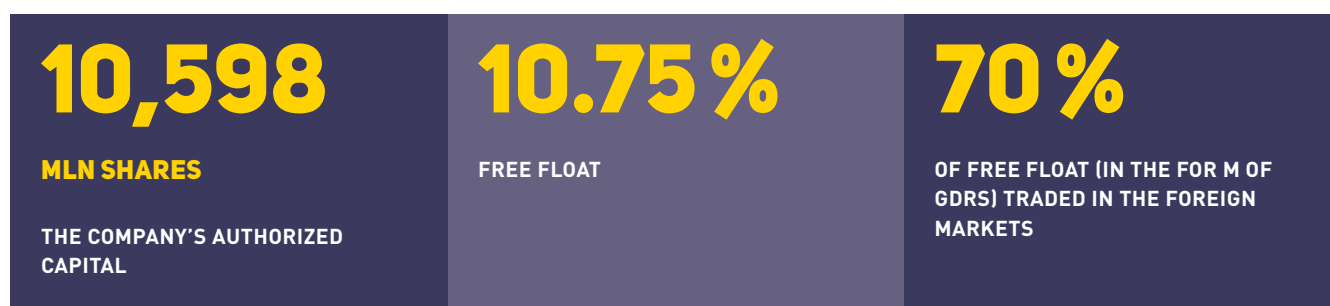
### Lack of balance and clear prospects on the oil market



Source: IEA estimates based on OPEC data

- \* Supply of liquid hydrocarbons keeps exceeding demand
- \* Despite low oil pricing, imbalance persists this year
- \* Global liquid hydrocarbons production significantly increased
- \* New production capacity assigned
- \* Industry supply to exceed demand

## 5.1. SHARE CAPITAL



The authorized capital of Rosneft as of December 31, 2015 was RUB 105,981,778.17 and was divided into 10,598,177,817 ordinary shares with par value of RUB 0.01 each.

The state registration number of issue of ordinary shares of the Company is 102-00122 A.

The date of state registration of issue of ordinary shares of the Company is September 29, 2005.

In accordance with the Charter, the Company has the right to additional placement of 6,332,510,632 ordinary shares with par value of RUB 0.01 each and with total par value of RUB 63,325,106.32 (authorized shares) and offering the same rights as outstanding

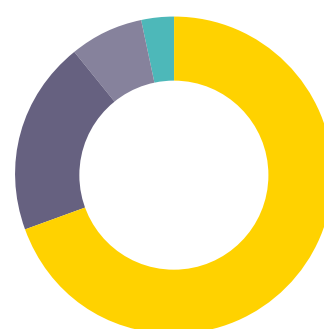
ordinary shares of Rosneft. A decision on increase of Rosneft charter capital by placement through open subscription of additional authorized shares is taken by the General Meeting of Shareholders. No issues or placement of additional shares of Rosneft were carried out in 2015.

The number of shareholders registered in the shareholder register of Rosneft as of December 31, 2015 (without disclosure of information by nominee shareholders) was 29,283 (including 7 nominee shareholders).

The number of nominee shareholders did not change, year-on-year.

As of December 31, 2015, Rosneft had no preferred shares.

Shareholder structure, %



69.50	Rosneftegaz (100% federal ownership)
19.75	BP Russian Investments Ltd
7.50	Global depositary receipts (GDR)
3.25	Ordinary shares
<b>FREE FLOAT (10.75%)</b>	



## Rosneft's Shareholders with Equity Stakes Exceeding 1%<sup>1</sup>

SHAREHOLDERS	as of December 31, 2014		as of December 31, 2015	
	Number of shares	Equity stake, %	Number of shares	Equity stake, %
OJSC ROSNEFTEGAZ (shareholder) <sup>2</sup>	7,365,816,383	69.50	7,365,816,383	69.50
Non-Bank Credit Organization and Closed Joint-Stock Company National Settlement Depository (nominee Central Depository) <sup>3</sup>	3,187,680,194	30.08	3,189,547,616	30.10
Other legal entities owing less than 1 % of shares	1,528,138	0.01	1,582,062	0.01
The Russian Federation represented by the Federal Agency for State Property Management	1	less than 0.01	1	less than 0.01
Individuals	43,121,771	0.41	41,199,398	0.39
Account of unidentified entities	31,330	less than 0.01	32,357	less than 0.01
TOTAL	10,598,177,817	100.00	10,598,177,817	100.00

During 2015 Rosneft updated information on shareholders owing more than 1% of share capital on its corporate website on a monthly basis. Rosneft management has no information about any shareholders with equity stakes exceeding 1% (all shareholders of Rosneft with equity stakes exceeding 1% of total issue), other than those listed above.

Rosneft shares are traded on the Russia's organized stock market Moscow Exchange with listing in the first (and highest) quotation list.

Order № 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 shares of Rosneft outside the Russian Federation.

In July 2006, Rosneft carried out listing of Global Depositary Receipts (GDRs) on the London Stock Exchange. Issue of GDRs, which certify rights in respect of ordinary shares of Rosneft, in accordance with foreign law, was carried out by J.P. Morgan depositary bank. One Global Depositary Receipt is equivalent to one common share of Rosneft. As of December 31, 2015, GDRs were issued for 793 mln ordinary shares, which is 7.5% of total shares.

The rights of a shareholder (owner of ordinary shares), including voting rights on each voting share of Rosneft, are specified by Article 5.8 of the Company Charter posted on the corporate website ([www.rosneft.ru](http://www.rosneft.ru)).

1. Information in the Table is based on data from the Rosneft Shareholder Register.

2. OJSC 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%.

3. The total number of nominee-held shares includes 2,092,900,097 shares (19.75% of Rosneft share capital) owned by BP Russian Investments Limited.

## 5.2. DIVIDEND POLICY

ROSNEFT BOD  
RECOMMENDED DIVIDEND  
PAYOUT FOR 2015 AT  
35% OF IFRS NET PROFIT  
PROVIDING 43% GROWTH YOY

In comparison to the requirements set out in the laws of the Russian Federation, the Charter of Rosneft provides for an increased period of five years for the shareholders to request the payment of declared dividends not paid due to the lack of shareholders' address data and bank details.

On June 5, 2015, the Dividend policy<sup>1</sup> of Rosneft was approved by the Company Board of Directors; it formalised the basic principles used by the Company in the payment of dividends, and established rules, clear and transparent for the shareholders to perform the calculation, accrual and payment of dividends.

The Dividend Policy of Rosneft regulates the procedure for the determination of the profit allocated for payment of dividends, 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 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 in improving the Company's profitability;
- Increasing Rosneft's investment appeal;
- Ensuring sustainable dividend growth given net profit increase;
- Providing shareholders with the most convenient way to receive dividends;
- Payment of dividends in the shortest possible time.

The resolution on dividend payout (including the amount of dividends and the form of payment) is passed by the General Meeting of Rosneft Shareholders upon recommendation of the Board of Directors. As stated in the Company Dividend Policy, in determining dividend amounts the Board of Directors is guided by the level of net income as determined in OJSC Rosneft financial statement prepared under Russian Accounting Standards as well consolidated financial statements prepared under International Financial Reporting Statements. The recommended amount of dividends to be paid is determined by the Board of Directors based on the Company's financial performance in the reporting year, but is usually not less than 25% of the Company's IFRS net profit.

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 23, 2015 the Board of Directors recommended the General Meeting of Shareholders to allocate RUB 87,011 million for the payment of dividends for 2014, representing RUB 8.21 per one ordinary share. On June 17, 2014 the Annual General Meeting of Shareholders accepted the Board recommendation for the payment of dividends. A total of RUB 86,931 million were paid to Rosneft shareholders in the form of dividends.

1. The Rosneft Dividend Policy is available on the Company's official website — [www.rosneft.ru](http://www.rosneft.ru) / [www.rosneft.com](http://www.rosneft.com)



Dividends were paid to all persons recorded in the Rosneft Shareholder Register, except for (1) persons who had not informed the Registrar of the issuer in a timely fashion of changes in the data recorded on their registration form, (2) returns sent to the Company by nominee shareholders in accordance with clause 42 of the Federal Law on Joint-Stock Companies.

A total of RUB 60,473 million were paid to the Russian State in the form of dividends (to OJSC ROSNEFTEGAZ which is 100% in federal ownership). As of 2015 year end Rosneft had no dividends payments outstanding to either Federal budget or OJSC ROSNEFTEGAZ.

On April 22, 2016 the Rosneft Board of Directors recommended the General

Meeting of Shareholders to allocate 35 % of 2015 IFRS net profit, or RUB 124,529 million, for the payment of dividends for 2015. The recommended dividend per share therefore equals to RUB 11.75, exceeding the previous year level by 43 %.

## Rosneft Dividend History

	Dividend per share <sup>1</sup> , RUB	Total dividends announced, RUB mln	Total dividends paid, RUB mln	Dividend payout ratio under RAS <sup>3</sup>	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 %
<b>DIVIDENDS PAID UPON IPO AS OF JUNE 18, 2006</b>					
2006	1.33	14,096	14,080	13.3 % <sup>2</sup>	14.7 %
2007	1.60	16,957	16,941	10.5 %	5.2 %
2008	1.92	20,349	20,333	14.4 %	7.4 %
2009	2.30	24,374	24,356	11.7 %	11.8 %
2010	2.76	29,251	29,229	15.2 %	9.3 %
2011	3.45	36,564	36,536	33.1 %	25.0 %
	4.08	41,928	41,892		
2012	8.05	85,315	85,250	28.2 %	25.0 %
2013	12.85	136,187	136,076	99.9 %	25.0 %
2014	8.21	87,011	86,931	17.4 %	25.0 %
2015 <sup>4</sup>	11.75	124,529		52.0 %	35.0 %

1. The dividend amounts take into account the 1:100 share split carried out in September 2105.
2. The 2006 net income is adjusted for non-recurring items.
3. The dividend payout ratio equals the total amount of dividends announced divided by the net income for the reporting period.
4. Dividends recommended by the Board of Directors for approval by the Annual General Meeting of Shareholders in June 2016.

## 5.3. MEASURES AIMED AT IMPROVING SHAREHOLDERS COMMUNICATION EFFICIENCY AND THEIR ABILITY TO EXERCISE RIGHTS TAKEN IN 2015



As compared to the law requirements, the Charter of Rosneft provides a longer period of 60 days for submitting proposals by shareholders to the AGM agenda and nominating candidates to the Board of Directors and Audit Commission.

*The Company pays special attention to provide stakeholders with quality information*

### **Creating the most favorable conditions for shareholders' participation in the management of the Company:**

In 2015, the Company implemented the following measures aimed at exercising the rights of shareholders in full and provided for by the Roadmap, as set out in the Corporate Governance Code and Charter of Rosneft.

1. When drawing up the agenda of the Annual General Meeting of Shareholders following the results of 2014, the opinions of shareholders were taken into account, as well as items proposed

by shareholders for the consideration by the General Meeting. As compared to the law requirements, the Charter of Rosneft provided a longer period of 60 days for submitting proposals by shareholders to the AGM agenda and nominating candidates to the Board of Directors and Audit Commission.





**SHAREHOLDERS ARE ENTITLED TO REVIEW AGM INFORMATION AND MATERIAL 30 DAYS PRIOR TO THE MEETING**



**DURING THE AGM ALL SHAREHOLDERS ARE PROVIDED WITH EQUAL OPPORTUNITY TO EXPRESS THEIR OPINION ON THE ITEMS PUT ON THE AGENDA**

2. Shareholders are entitled to study the information and materials for the Annual General Meeting 30 days prior to the meeting date. Shareholders may study the materials not only at the Company location, but also at the Registrar of the Company — LLC Reestr-RN, in more than 20 reception and service points for Rosneft shareholders in the Russian regions. The materials were also available to the shareholders at the official Rosneft website [www.rosneft.ru](http://www.rosneft.ru) / [www.rosneft.com](http://www.rosneft.com), in Russian and English, and at the time of the meeting.

The list of information and materials provided to shareholders on the AGM agenda items was expanded as compared to the list specified by law. In addition to the mandatory materials provided for by law, the shareholders were provided:

- Information on persons who proposed items to the agenda of the General Meeting or nominated candidates to the management bodies;
- Position of the Board of Directors on the items of the AGM agenda;
- The official Rosneft website now contains information on access to the venue of the General Meeting and a model proxy

form for the participation of shareholders' representatives in the General Meeting, including information on the procedure for the certification of proxy.

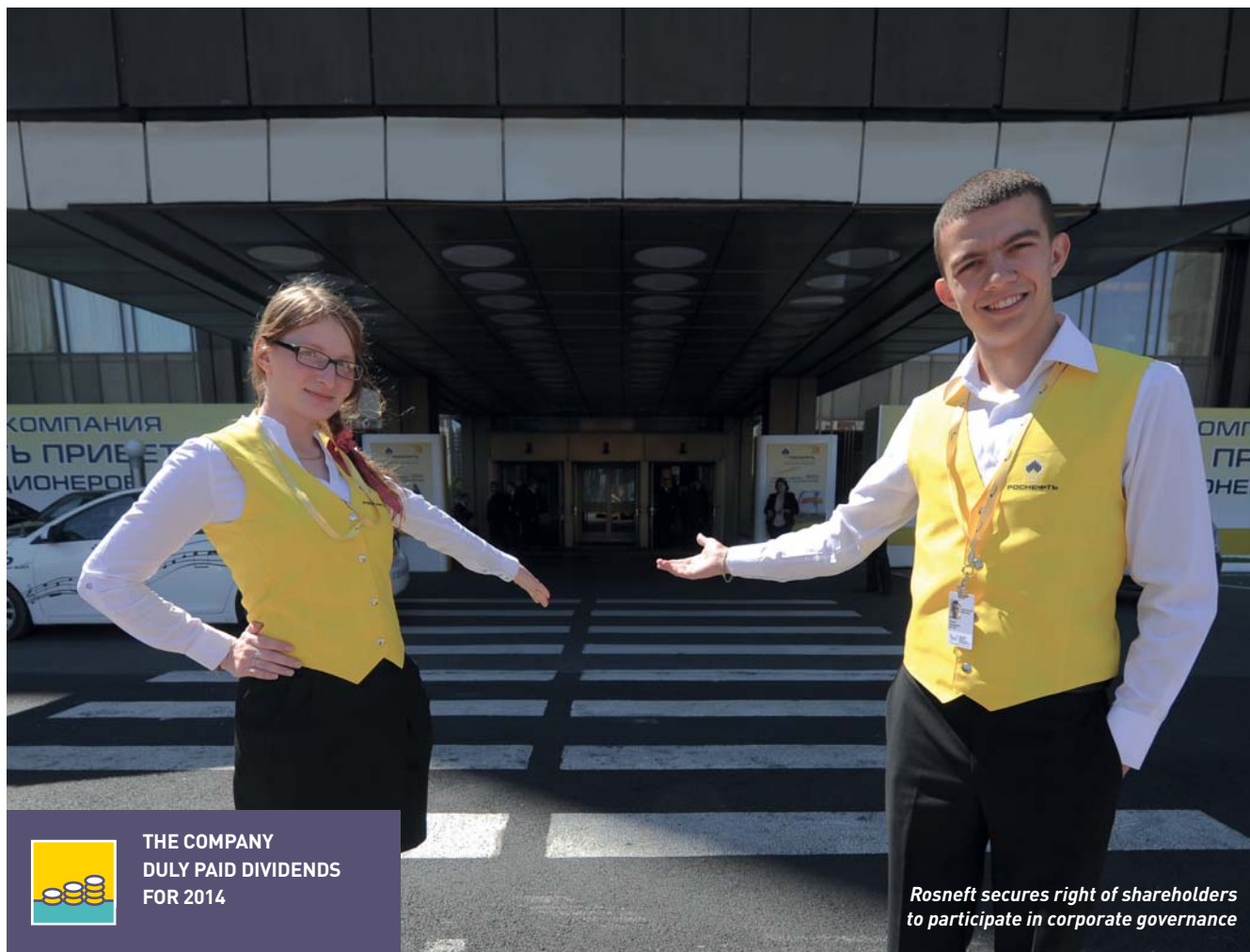
3. The information about the record date for the persons entitled to attend the General Meeting of Shareholders was disclosed 11 days prior to that date, which significantly exceeds the period recommended by the Corporate Governance Code of Bank of Russia (7 days).
4. The Annual General Shareholders Meeting on the results of 2014 was held on June 17, 2015 in St. Petersburg, one of the largest regions where its shareholders live. For the benefit of shareholders who were unable to attend the General Meeting of Shareholders in person, the General Meeting was broadcast live in the cities of the Company's operations — Buzuluk, Gubkinsky, Krasnodar, Moscow, Neftekumsk, Nefteyugansk, Nizhnevartovsk, Orenburg, Samara and Usinsk, and Vankor field.

The General Shareholders Meeting<sup>1</sup> approved the Company's Annual Report, Financial Accounts, distribution of the 2014 net income, 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 2014, the payment of remuneration and reimbursement of expenses to members of the Company's Board of Directors, and approved the related party transactions. As of December 31, 2015, the resolutions passed by the General Meeting had been implemented in full.

5. 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 to the management and supervision bodies, analysts, and consultants, and receive answers at the time of the General Meeting or in writing after the General Meeting in as short a time as possible. The opportunity to ask questions was also provided to shareholders who viewed the broadcast of the General Meeting of Shareholders.
6. The decisions adopted by the Annual General Shareholders Meeting were announced after the vote count, and brought to the attention of the parties concerned by the publication in Rossiyskaya Gazeta and Komsomolskaya Pravda and posting on the official Rosneft website. There were no Extraordinary General Meeting of Shareholders held in 2015.

1. The Rosneft Annual General Shareholders Meeting Minutes w/o No. as of June 17, 2016.



THE COMPANY  
DULY PAID DIVIDENDS  
FOR 2014

*Rosneft secures right of shareholders  
to participate in corporate governance*

**For the purposes of effective cooperation with shareholders to aid in the exercise of their rights in full, the Company has provided several communication channels:**

Hot line service of the Shareholder Relations Division, Corporate Governance Department of Rosneft — multichannel phone to receive and process verbal inquiries:  
8-800-500-11-00  
(toll-free in Russia);  
+7 (495) 987-30-60;  
+7 (499) 429-06-89.

Company's mailing address: 26/1 Sofiyskaya Embankment, Moscow, 117997, Russia, for written inquiries.

Email: [shareholders@rosneft.ru](mailto:shareholders@rosneft.ru).

Fax +7 (499) 517-86-53.

### **The exercise of the shareholders' rights to equal and fair participation in the Company's profits by receiving dividends**

The official Rosneft's website at [www.rosneft.ru](http://www.rosneft.ru) / [www.rosneft.com](http://www.rosneft.com) contains the Company's Dividend Policy approved on June 05, 2015 by the Board of Directors; it formalized the dividend policy principles used by the Company, the procedure for making decisions on payment (declaration) of dividends, and the procedure for calculation of dividends.

The executive bodies of the Company took all necessary steps to ensure the timely and full payment of dividends declared at the Annual General Shareholders Meeting of Rosneft for 2014.

The official Rosneft website contains a reminder for the shareholders about the need to update any outdated information required for the Com-

pany's dividend payment (bank account details, mailing address, etc.), as well as a note of consequences and risks associated with untimely notification of Rosneft of the change of this information.

Dividends for 2014 were paid by the Company in the prescribed time and amount.

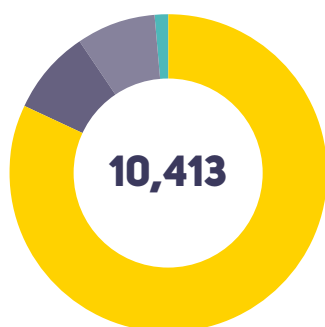
RUB 87.0 bln was allocated to be paid in dividends on Rosneft shares in 2014 (8 rubles and 21 kopecks per one outstanding share). The approved amount of dividend payment was 25 % of the Company's IFRS net income.

Shareholders who requested payment of dividends declared but not paid by the Company for previous periods due to the absence of relevant payment details and who updated their data in the Shareholder Register and/or with the nominee shareholder, including the heirs of the shareholders, were paid dividends for the prior periods.



*During the Annual General Shareholders Meeting, shareholders have equal opportunity to express their opinion on agenda items*

In 2015, the Shareholder Relations Division processed 10,413 requests



- **9,005** Telephone inquiries
- **664** Written inquiries
- **642** Requests for the payment of dividends for the previous periods
- **102** Email inquiries

### Providing reliable and efficient registration of rights to shares, free and unhindered disposal of shares

The Shareholder Register is maintained by a professional registrar — LLC Reestr-RN, 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 guarantee the rights of shareholders to register and exercise their rights to shares of the Company.

For all matters related to exercising their rights to the shares, submission of documents required to update personal data and making transactions with their securities, shareholders may contact the service points and the transfer agent points operating in the regions where shareholders of the Company live most. These are the Head office and 12 branches of the Company's Registrar, 5 transfer agent points based on the Rosneft part-

ner banks, and 3 Company reception and service points for the shareholders.

Answers to frequently asked questions related to the registration of rights to shares, the required document forms, the Registrar's and service points' contact details can be found on the official Rosneft website at [www.rosneft.ru](http://www.rosneft.ru). The website section «For investors and shareholders» contains a considerable volume of information and documents for shareholders.

The Shareholders received answers to all their questions, including those related to the calculation and payment of dividends, the ownership of shares and the procedure for the registration of rights to them, the right to attend the General Meeting of Shareholders, the procedure for the receipt of information, etc.

Frequently asked questions and answers thereto, as well as information about the Company's activities are available on the official Rosneft website in the Q&A directory.



## 5.4. COOPERATION WITH INSTITUTIONAL INVESTORS



“SPEAKING OF MAJOR COMPANIES, WE PAY ATTENTION TO THEIR FOCUS ON SELF-FINANCING AND POSITIVE CATALYZERS OF CAPITALIZATION GROWTH. THE PRIORITY IS GIVEN TO THE ROSNEFT SHARES (TO BUY RECOMMENDATION). WE FORECAST THAT IN 2016 THE ROSNEFT SHARES SHALL BE TRADED THE BEST AMONG THE OTHER OIL COMPANIES, AS ROSNEFT MANAGED TO PREVENT THE BALANCE MISALIGNMENT AND IS SHOWING HIGH RATE OF PRODUCTION AND OPEX REDUCTION.”

Morgan Stanley analyst

*The leading investment banks' analysts trip to the Company refineries in the Samara region*

### COOPERATION WITH INSTITUTIONAL INVESTORS

Rosneft shares are one of the most attractive investment targets among the Russian issuers. 10.75% of them are free-floating, including 7.50% in the form of global depositary receipts (GDRs) listed on the London Stock

Exchange (LSE). The company has a diversified investor base of more than 700 institutional investors.

International institutional investors of the Company are headquartered in the major centers of business and financial activity, including New York, Boston, Los Angeles, London, Frankfurt, Stockholm, Hong Kong, Singapore and Tokyo.

For ten years since the IPO, Rosneft quotes have shown an upward trend, exceeding peers and MICEX Index figures. Thus, for the period starting July 19, 2016 and by the end of April, 2016 Rosneft stocks increased 72% on MICEX which is 51-110 pp higher than the nearest competitors' and 25 pp above the MICEX index numbers.



## Rosneft key index membership

Index	Company weight
MSCI Russia	3.61 %
FTSE Russia IOB	11 %
MICEX	4.21 %
SCI <sup>1</sup>	21.367 %

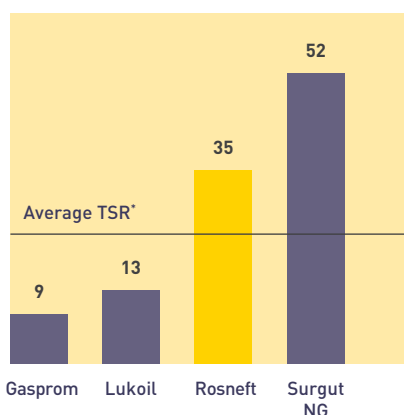
## Major international institutional investors of Rosneft

Institution	Country
Alfred Berg Kapitalförvaltning AB	Sweden
Amundi Asset Management SA	France
APG Asset Management	Netherlands
BlackRock, Inc.	USA
Canada Pension Plan Investment	Canada
Capital International, Inc.	USA
Credit Suisse AG	Switzerland
Deka Investment GmbH	Germany
Delaware Management Business Trust	USA
Deutsche Asset&Wealth Management	Germany
Dimensional Fund Advisors LP	USA
Goldman Sachs Asset Management LP	USA
Grantham, Mayo, Von Otterloo Co.	USA
HSBC Global Asset Management	UK
Invesco PowerShares Capital Management	USA
JPMorgan Asset Management	UK
Neptune Investment Management Ltd.	UK
Nordea Investment Management AB	Denmark
Norges Bank Investment Management	Norway
Parametric Portfolio Associates LLC	USA
Pictet Asset Management	Switzerland/UK
Raiffeisen Kapitalanlage-Gesellschaft mbH	Austria
RAM Active Investments SA	Switzerland
Robeco Institutional Asset Management BV	Netherlands
SEB Varahaldus AS	Estonia
Sjunde AP-fonder	Sweden
SSgA Funds Management LLC	USA
Swedbank Robur Fonder AB	Sweden
The Casse de depot et placement du Québec	Canada
The Dreyfus Corp.	USA
The Vanguard Group	USA
TIAA-CREF Investment Management	USA
UBS AG Investment Management	Switzerland
UBS Asset Management Ltd.	UK
Wellington Management Group	USA

Source: FactSet.

1. Index of companies with state participation at MICEX.

## The total shareholder return (TSR) of Rosneft and Russian peers in 2015, %



Source: Company data

# 35.3%

THE COMPANY TSR IN 2015, WHICH IS BY 8 P.P. HIGHER THAN AN AVERAGE INDICATOR OF THE COMPARABLE RUSSIAN COMPANIES



IN 2015 THE TOTAL SHAREHOLDER RETURN IS BY 4.2 P.P. HIGHER THAN THE GROWTH OF MICEX INDEX OF COMPANIES WITH STATE PARTICIPATION

\* Average TSR is calculated on the following companies: Gazprom, Lukoil, Novatek, Rosneft, Surgutneftegaz, Tatneft, Transneft and Bashneft.

Note: Total shareholder return (TSR) is calculated with the following formula:

$$TSR = (M1 - M0 + D) / M0 * 100\%$$

where

M1 — Company market cap as of the year end,

M0 — Company market cap at the beginning of the year,

D — Dividends for the year.

Average TSR is the weighted arithmetic mean based on companies' market cap as at the beginning of the year.

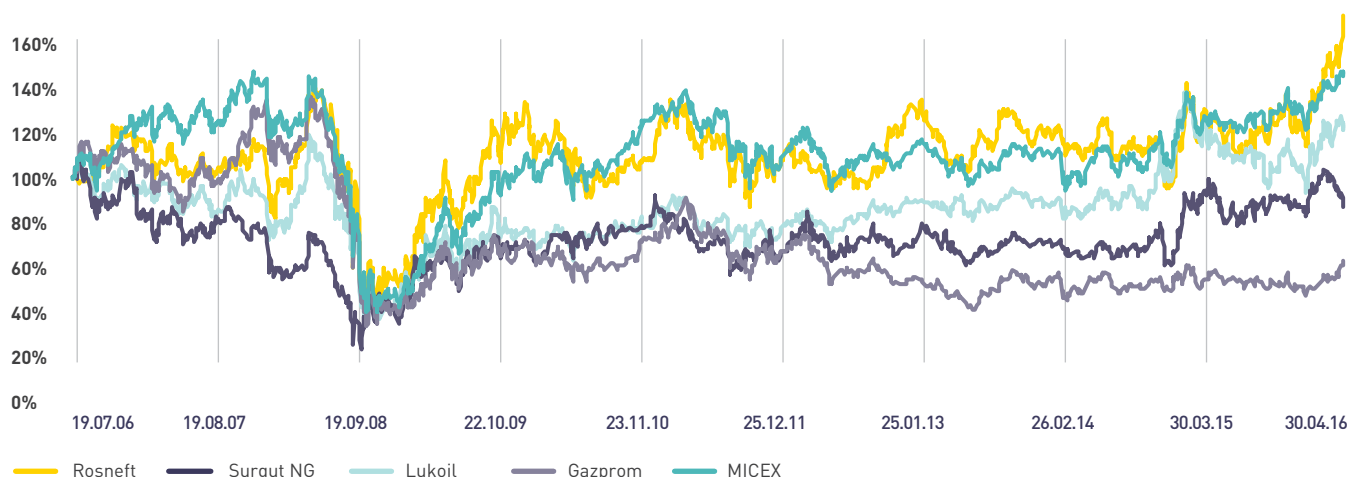
In 2015, the total shareholder return (TSR) of Rosneft was 35.3%, which is 8 pp higher than the average for the Russian peer group.

Cooperation with current and potential investors of the Company is carried out by the Chairman of the Management Board, senior management of the Business units, Vice-President for Economics and Finance, as well as Investor Relations Department. In 2015, an active investor relations program was carried out, including 9 strategic presentations by the Chairman

of the Management Board at major international investment forums, as well as about 150 one-on-one and group meetings held by the Company management with leading investment funds. The feedback received from investors is reported to the Company management on a regular basis.

Currently, the Company is covered by 18 investment banks. Thanks to successful efforts during 2015 five investment banks upgraded their recommendations including 3 who switched from "Hold" to "Buy".

## Rosneft share performance over the last 10 years\*



\* Values as of the end-periods.

## Key trading figures of Rosneft ordinary shares and depositary receipts in 2015

Instrument	52 week high	52 week low	Volume-weighted average price	Average daily trading volume, mln	Average daily trading value, USD mln
Depository receipt (LSE), USD	5.24	3.19	4.07	6.39	25.96
Ordinary shares (MICEX), RUB	290.20	196.75	247.40	4.79	19.47

Source: Bloomberg

Bank	Recommendation, beginning of 2015	Recommendation, end of 2015	
1 Gazprombank	Hold	Hold	
2 Otkrytie	revised	Hold	
3 Renaissance Capital	Hold	Hold	
4 Sberbank CIB	Hold	Hold	
5 Uralsib	Hold	Hold	
6 BCS prime	Sell	Hold	↑
7 Bank of America Merrill Lynch	Hold	Hold	
8 Citibank	Hold	Buy	↑
9 Credit Suisse	Hold	Sell <sup>1</sup>	↓
10 Deutsche Bank	Hold	Buy	↑
11 Goldman Sachs	Hold	Buy	↑
12 HSBC	Sell	Sell <sup>1</sup>	
13 J.P. Morgan	Sell	Hold	↑
14 Morgan Stanley	Buy	Buy	
15 Raiffeisen Bank	Buy	Buy	
16 UBS	Hold	Hold <sup>2</sup>	
17 Aton	on watch	on watch	
18 VTB	on watch	on watch	

1. In March 2016 upgraded to «Hold».

2. In March 2016 upgraded to «Buy».

## ABOUT 150

1-ON-1 AND GROUP MEETINGS  
HELD BY THE COMPANY  
MANAGEMENT WITH LEADING  
INVESTMENT FUNDS IN 2015

Five investment banks reviewed  
their recommendations on the  
Company's shares/ GDR upward.

As of now all leading investment  
banks have either "Buy" or "Hold"  
recommendations on the Com-  
pany's shares/ GDR.

\* as of March, 2016

## KEY IR EVENTS IN 2015



### FEBRUARY

Speech of the Chairman of the Management Board at the International Petroleum Week (IP Week) conference in London.

Meeting of the Company management with leading international funds.

### MARCH

Disclosure of the Company's Q4 and 12M 2014 results. Conference call for investors with the participation of the Finance and Business units management.

Video call of the Head of Finance unit with members of the UBS investment conference in the USA.

Group meeting of the Company top managers with investors.



### APRIL

One-on-one meetings with investors during the Sberbank CIB investment conference.

### MAY

Meeting of the Chairman of the Management Board and heads of Business units with the representatives of international investment funds as to the strategic priorities of Rosneft and the basic parameters of the business plan.

Publication of the Rosneft Annual Report.

### JUNE

Shareholder Identification and Perception Study implementation.

Speech of the Chairman of the Management Board at the Annual General Shareholders Meeting.

Speech of the Chairman of the Management Board at the St. Petersburg International Economic Forum.

Disclosure of the Company's Q1 2015 results.

Conference call for investors with the participation of the Finance and Business units management.

Meeting of the Finance and Business units management with analysts of the leading investment banks in the framework of the Annual General Shareholders Meeting.

### JULY

Group meeting of the Company top managers with investors.



### AUGUST

Disclosure of the Company's Q2 2015 results.

Conference call for investors with the participation of the Finance and Business units management.

### SEPTEMBER

Speech of the Chairman of the Management Board at the Eastern Economic Forum in Vladivostok.

### OCTOBER

Speech of the Chairman of the Management Board at the IV Eurasian Forum in Verona.

One-on-one meetings with investors during the VTB Capital Investment Forum RUSSIA CALLING!

One-on-one meetings with investors during the investment conference of J.P. Morgan 'Credit&Equities Emerging Markets Conference' in London.

Site-visit of the analysts of the leading investment banks to the Company's fields and refineries in the Samara Region.

### NOVEMBER

Rosneft participation at the conference 'Power bridge Russia – Japan' in Tokyo.

Individual meetings with investors under CEEMEA 1 on 1 Conference hosted by Goldman Sachs.

Individual meetings with investors under Global Natural Resources Conference investment conference of Goldman Sachs.

Disclosure of the Company's Q3 2015 results.

Conference call for investors with the participation of the Finance and Business units management.



### DECEMBER

One-on-one meetings with investors during Moscow Exchange and UBS Forum in London.

One-on-one meetings with investors during UBS Global Emerging Markets One-on-One Conference.

Shareholder Identification and Perception Study implementation.

One-on-one meetings with investors in USA.





*Rosneft held Energy Bridge Russia — APR session at the Eastern Economic Forum with heads of the world leading companies participating*

Chairman of the Management Board as well as Heads of Business units support the regular cooperation with the investment community. These meetings allow the investors, analysts, representatives of international rating agencies to receive first hand information about the vector of the Company's strategic development, production activities and financial management. On a quarterly basis, Rosneft holds conference calls for investors with the participation of the Finance and Business units management covering results for the reporting period in detail. Information for shareholders and

investors, including press releases, presentations, Rosneft Annual and Sustainability Report, material facts on decisions of the Board of Directors and the Management Board are published on the corporate website [www.rosneft.ru](http://www.rosneft.ru)

**THE ROSNEFT ANNUAL REPORT FOR 2014 WAS PRIZE-WINNER IN THE CATEGORY OF 'BEST ANNUAL REPORT OF THE COMPANY WITH A CAPITALIZATION OF OVER RUB 200 BLN' AT THE XVIII ANNUAL CONTEST OF ANNUAL REPORTS ORGANIZED BY THE MOSCOW EXCHANGE AND THE RCB MEDIA GROUP.**

## PRIORITIES FOR 2016

1. Improving information disclosure standards.
2. Active cooperation with investors and shareholders.
3. Increasing the timeliness, quality, and expertise of financial communications.

## 5.5. BONDS AND CREDITING RATINGS OF THE COMPANY

IN 2015, THE COMPANY CREDIT RATINGS WERE AT THE LEVEL OF SOVEREIGN CREDIT RATING OF THE RUSSIAN FEDERATION.

**BB+**

S&P CREDIT RATING AS OF 2015  
YEAR END

**Ba1**

MOODY'S CREDIT RATING AS  
OF 2015 YEAR END

As part of Eurobonds program totalling USD 10 bln Rosneft placed 2 bond issues in 2012: USD 1 bln maturing in 2017 and USD 2 bln maturing 2022. During 2006-2010 ex TNK-BP subsidiaries placed 8 eurobond issues totalling USD 5.5 bln maturing 2011-2020. Of which as of December 31, 2015 there were 4 issues outstanding totalling USD 3.4 bln.

The Company implemented three ruble bond programs as part of which 33 issues totalling RUB 1,190 bln were placed, including eight issues totalling RUB 400 bln placed in 2015.

### The Company is one of the largest high-quality Russian borrowers

Par value, mln	Currency	Coupon	Series / issue number	Date placed	Date redeemed	Issuer
<b>EUROBONDS</b>						
1,000	USD	7.5 %	Series 2	July 2006	July 2016	Rosneft Finance S .A .
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.
<b>RUB BONDS</b>						
20,000	RUB	8.6 %	Series 04 and 05	October 2012	October 2022	Rosneft
30,000	RUB	8 %	Series 07 and 08	March 2013	March 2023	Rosneft
40,000	RUB	7.95 %	Series 06, 09, and 10	June 2013	May 2023	Rosneft
40,000	RUB	7.95 %	Series 50-05, 50-06	December 2013	December 2023	Rosneft
35,000	RUB	8.9 %	Series 50-01, 50-07	February 2014	February 2024	Rosneft
225,000	RUB	11.9 %*	Series 50-02, 50-03, 50-04, 50-08, 50-09, 50-10, 50-11, 50-12, 50-13, and 50-14	December 2014	November 2024	Rosneft
400,000	RUB	13.4 %*	Series 50-15, 50-16, 50-17, and 50-24	December 2014	December 2020	Rosneft
400,000	RUB	11.9 %*	Series 50-18, 50-19, 50-20, 50-21, 50-22, 50-23, 50-25, and 50-26	January 2015	January 2021	Rosneft

\* Coupon rate effective on December 31, 2015.

## 5.6. INFORMATION DISCLOSURE

Information transparency is one of the most important principles of Rosneft corporate governance.

In 2015, the Board of Directors approved a new revision of the Rosneft Code of Business Ethics developed in accordance with best international practices. The Code of Business Ethics, in particular, defines the rules for disclosure of information to external parties.

- Rosneft Code of Business and Corporate Ethics Principle 3.3. The Company's information policy provides for the publication of all necessary information on its activities in the public domain. In particular, such information is publicly available on the Rosneft website at [www.rosneft.ru](http://www.rosneft.ru).
- Rosneft Code of Business and Corporate Ethics Principle 5.1.

The Company respects the rights of all of its shareholders, regardless of their shares, and it supports an effective dialogue with these persons.

By timely publication of accurate information about its activities in an intelligible format for the shareholders, the Company guarantees the observance of rights of shareholders and investors.

The information disclosure policies of the Company are based on princi-

ples of regularity, efficiency, availability, reliability, and thoroughness. The company ensures the timely and full disclosure of information on all aspects of its operations to the 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, financial and operating activities. The Company's official website is updated on a regular basis in accordance with the applicable Rosneft regulations.

Pursuant to the Regulators' requirements on disclosure of information as it relates to posting information on the Internet, the Company also uses the webpage provided by one of the distributors of information in the securities market (Interfax).

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'.

Rosneft adheres to the principles of accessibility, transparency and sufficiency of information disclosure on the Company's activities to ensure shareholders' and investors' rights.



## Mandatory disclosure of Rosneft information

Information disclosure in the securities market in accordance with Russian legislation		
Type of information	Disclosure channel	Regulation
Articles of Association and internal documents regulating the activity of the Company's management bodies.	RSS news feed and Company's webpage at Interfax website.	Federal Law on Joint Stock Companies No. 208-FZ of December 16, 1995.
List of affiliates.	Company's official webpage (Corporate website) <a href="http://www.rosneft.ru">www.rosneft.ru</a>	Federal Law on Securities Market.
Security issue documents, including securities prospectus Annual Report.		Regulations of the Bank of Russia No. 454-P of December 30, 2014 on Information Disclosure by the Issuer of Issue-Grade Securities.
RAS accounting statements (annual and interim).		
IFRS consolidated financial statements (annual and interim).		
Quarterly report of the issue-grade securities issuer.		Federal Law on Combating Insider Information Misuse and Market Manipulation No. 224-FZ of July 27, 2010.
Messages, including material facts, insider information disclosure.		
Press releases on the resolutions of management bodies <sup>1</sup> .		
List of major transactions and related-party transactions made in the reporting year <sup>2</sup> .	The Company's page on website of the authorized information agency Interfax <a href="http://e-disclosure.ru/portal/company.aspx?id=6505">http://e-disclosure.ru/portal/company.aspx?id=6505</a> .  The Company's official website (Corporate site) <a href="http://www.rosneft.ru/Investors/information/">http://www.rosneft.ru/Investors/information/</a>	Regulation of the Bank of Russia No. 454-P, On Information Disclosure by Equity Securities Issuers, as of December 30, 2014 (as amended by the Directive of the Bank of Russia No. 3899-U as of December 16, 2015).
Information for analysts, shareholders, and investors in Russian and in English on the Company's performance, financial statements, implementation of major investment projects, and strategic priorities.	Rossiyskaya Gazeta  Corporate website <a href="http://www.rosneft.ru/investors/www.rosneft.com/investors/">www.rosneft.ru/investors/www.rosneft.com/investors/</a>	
Information in English for the investment community.	Bloomberg	
Disclosure of information on different aspects of the Company's activity to investment fund analysts and shareholders.	Events for investors (conference calls, management meeting the investment community, participation in investment conferences).	
Sustainability Management Report.	Company's official webpage (Corporate website) <a href="http://www.rosneft.ru">www.rosneft.ru</a>	Recommendations in the Corporate Governance Code of the Bank of Russia.
Press releases, news.	Company's official webpage (Corporate website) <a href="http://www.rosneft.ru">www.rosneft.ru</a>	
Information disclosure as required by law / regulator / trade organizer in the UK		
Financial sections of the Annual Report, including IFRS financial statements for the year Press releases with key quarterly operations and financial figures from the IFRS statements Press releases describing events that may impact the price of the Company's shares/global depositary receipts (GDR).	London Stock Exchange website <a href="http://www.londonstockexchange.com">www.londonstockexchange.com</a>	London Stock Exchange's Admission and Disclosure Standards.  Requirements of the UK Listing Authority (UKLA).  Requirements of the Financial Conduct Authority (FCA).
Procurement information disclosure shall be performed according to the legal requirements of the Russian Federation		
Procurement plans, notifications and documents, data sheets at each procurement stage, information on concluded agreements.	Unified information system, <a href="http://www.zakupki.gov.ru">www.zakupki.gov.ru</a> , procurement section of on the Company's website: <a href="http://www.zakupki.rosneft.ru">www.zakupki.rosneft.ru</a> .	The Federal Law of the Russian Federation No. 223-FZ, On Procurement of Goods, Works and Services by Several Categories of Legal Entities, as of July 18, 2011.

1. The obligation for disclosure (publication) of press release on the decisions taken by the issuer's management bodies, stopped as of 14.03.2016 in connection with the entry into force of the guidelines of the Bank of Russia dated 16.12.2015 No. 3899-U, On Amendments to the Regulations of the Bank of Russia, from 30.12.2015 No. 454-P «On the disclosure of information by issuers of equity securities».

2. The list of transactions in the accounting year in a separate document is for the first time disclosed by the Company in accordance with Art. 9-10 p. 70.3. of the provisions of the Bank of Russia as of 30.12.2015 No. 454-P, On information disclosure by issuers of equity securities [in wording of the Order of the Bank of Russia from 12.16.2015 No. 3899-U].



Disclosing information the Company follows the requirements of the Russian legislation, the Bank of Russia and the Russian market operator – MICEX (shares trading) and LSE (GDR trading), Rosneft Information Policy and other requirements and legal acts.

### INCREASING INFORMATION TRANSPARENCY

Information transparency is one of the most important principles of Rosneft corporate governance. The company is consistently one of the leaders in the number of messages disclosed.

In its efforts to increase transparency and openness, the company gives priority to improving the efficiency of interaction 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 March 04, 2016, the Company published the full audited consolidated financial statements in accordance with the IFRS for 2015.

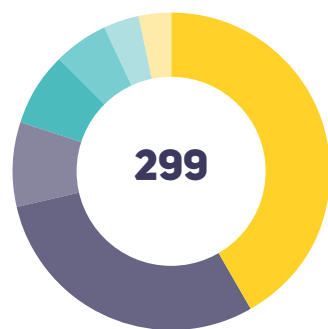
As part of interaction with institutional investors, shareholders and other stakeholders, Rosneft in 2015 held presentations of its financial

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 with the management of 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 the Rosneft Sustainability Policy, since 2007, Rosneft has held annual meetings with representatives of its stakeholders in the form of round tables in the regions where it operates (15 round table meetings were held in 2015). Subjects of the meetings include the issues of social and economic collaboration, ecology and environmental management, occupational health and safety, social sphere and charity.

Rosneft focuses on ensuring the quality and relevance of information for stakeholders during the preparation of Sustainability Report. As of year-end of 2015, the Company has planned to release a report in accordance with the revision G4 of the GRI Sustainability Reporting Guidelines. The report will undergo an independent audit by Ernst & Young.

### Statements disclosed in 2015



125	On bonds issue
89	On the issuer's management bodies resolutions
25	On licensing material operations of the issuer
23	Other statements
16	On disclosing some issuer's reporting
10	On issuer's participation in the charter capital of the other entities
11	On performed transactions

# SUSTAINABLE DEVELOPMENT



LABOR EFFICIENCY  
IS A KEY PRIORITY OF  
THE COMPANY


RUB **5.6** BLN  
CHARITY EXPENSES  
IN 2015

RUB **116.9** BLN  
INNOVATIONS  
EXPENSES IN 2015

NO TRANSPORTATION  
FIRES IN 2015 DUE  
TO PREVENTIVE  
MAINTENANCE





A photograph of two male workers in an industrial setting. They are wearing dark blue work jackets with yellow accents and reflective white stripes. The worker on the left is wearing a red and black helmet with goggles and clear safety glasses, smiling. The worker on the right is wearing a yellow helmet with goggles and red safety glasses, looking towards the left. Both are wearing blue gloves. The worker on the right has a green bag slung over his shoulder. The background shows industrial structures and a clear sky. A yellow graphic element consisting of parallel lines is in the upper left corner.

**AS A MAJOR RUSSIAN COMPANY, ROSNEFT FOCUSES NOT ONLY ON ITS OPERATIONING AND FINANCIAL INDICATORS ACHIEVEMENT, BUT ALSO ON ITS CONTRIBUTION TO DEVELOPMENT AND PROSPERITY OF THE COUNTRY, AND IMPROVEMENT OF LIVING STANDARDS OF ITS CITIZENS**

## 6.1. EMPLOYEES

THE COMPANY'S MAIN ASSET IS A TEAM OF HIGHLY SKILLED EMPLOYEES MOTIVATED TO DEMONSTRATE SUPERIOR PERFORMANCE.



As of December 31, 2015, the headcount of the Rosneft Group companies reached 261.5 thousand employees. The main reasons for the headcount increase were acquisition of new assets and employees hired from third party service contractors to the Group companies.

The median age of the Company's employees remained almost unchanged being 39.7 years (39.4 at year-end 2014).

Executive positions were held by 32,700 thousand employees (31,700 at year-end 2014). As of 31 December 2015, the number of employees in executive positions remained almost the same compared with 31.12.2014 (12.7 %) representing 12.5 % of the total headcount as of 31.12.2015.

### LABOR EFFICIENCY

One of the Company's key priorities is labor efficiency improvement. For implementation of this objective, in 2015 development and approval of consolidated labor efficiency per-

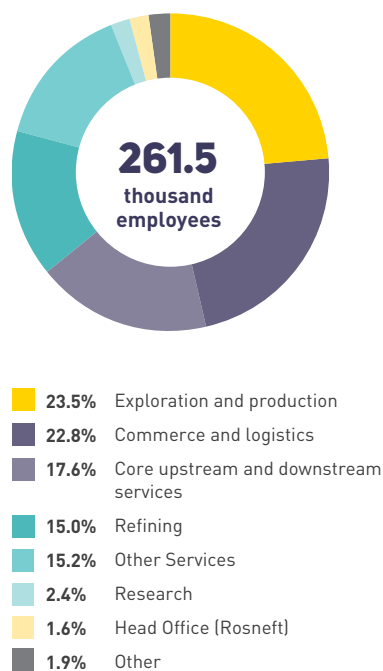
formance indicators by the companies of the key business segments and the Company as a whole was completed.

The target value of labor efficiency performance indicator for 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 of 2016, performance KPIs by relevant business areas have been included in the lists of performance indicators of the Company's top managers and chief executives of the Group companies.

In 2015, principles of classifying employees as administrative and management staff and the maximum ratio of administrative and management staff to the total headcount for such companies were developed for the staff of a number of general corporate service companies. This rate was used for development of the 2016 – 2020 Business Plan.

**Headcount as of  
December 31, 2015, %**



1. As in the Report of 31.12.2014, the headcount of the Group companies consolidated by the proportional consolidation principles are not included (the Company's share is 50%): Tomskneft Group (8,417 people), RUHR GmbH.





*Increased labour efficiency  
is one of the main priorities  
of the Company*

## ADMINISTRATIVE CHANGES SUPPORT

Rosneft is a dynamically developing company, which makes the HR support of changes all the more important.

Undertakings for improving efficiency in the Upstream segment:

1. RN Drilling restructuring (merging with Orenburg Drilling Company, LLC, creation of Orenburg branch, restructuring of Nefteyugansk and Gubkinsk branches);
2. Restructuring of RN Service Group (creation of specialized holdings: RN-Remont NPO, LLC and Spetsyalny Tekhnologicheskoy Transport, LLC);
3. Completed establishment of specialized holding RN-GRP, LLC (based on Trican Well Services) and its integration into the Company;
4. Transition to the in-company servicing of energy facilities (RN-Nyaganneftegaz, PJSC Verkhnechonskneftegaz, RN-Uvatneftegaz);
5. Replacement of drilling supervision performed by the third companies with the in-company drilling supervision;

Undertakings for manageability increase, business process optimization, and cost reduction at the companies of the Downstream segment:

1. In order to improve the efficiency of the regional sales business, a draft organizational structure, LLC RN-Regional Sales, was developed, an evaluation of positions was performed, and a payroll range matrix was developed based on salary reviews.
2. Transfer of logistics services of six refineries to the Company's core enterprise, JSC RN-Trans, was implemented.
3. A project of a standard structure of fueling sites/filling stations was developed for implementation on the assets of retail business.
4. 15 terminal companies were associated with marketing and distribution companies (MDC). Operational management of terminals was transferred to the MDCs.
5. HR support was provided to the project of returning the power units at four refineries: JSC Angarsk Petrochemical Company, JSC Novokuibyshevsk Refinery, JSC Kuibyshev Refinery, and LLC Novokuibyshevsk Oils and Additives Plant (calculation of the standard

headcount was performed, organizational structures were developed and approved, personnel compensation conditions were agreed, and staffing of the new energy units was provided).

6. In support of the integration process of a new asset, JSC Novokuibyshev Petrochemical Company (SANORS):
  - a new organizational structure and staffing of the company were developed and approved;
  - necessary changes were made to the staffing of the Company's Head Office and to the company;
  - the company was instructed to implement the annual bonus system according to the practices and procedures of the Company.

## HR RESERVE MANAGEMENT

As part of the planned work with the talent pool in 2015, 29 meetings were held by the HR Committees chaired by senior managers of the Company. The talent pool for target positions of Level 1 of the Company management was upgraded (359 reservists were approved), and the talent pool was formed for Levels 1 and 2 of the Company management with 447 reservists.

In 2015, programs for development of the reservists of Level 1 of the Company management were implemented in accordance with the individual development plans approved in 2014.

### ALIGNMENT OF FUNCTIONAL UNITS IN THE GROUP COMPANIES

In order to standardize the institution-building processes, model organizational and functional structures of the following functional areas were developed and submitted to the Group companies for implementation:

- Model organizational structure of the Personnel and Social Programs segment;
- Model organizational structure of the Geology and Field Development segment;
- Model organizational structure of the Tax Management segment;
- Model organizational structure of the Industrial Safety, Occupational Safety, and Environment Protection segment was updated.

### ALIGNMENT AND AUTOMATION OF THE KEY HR PROCESSES

In 2015, as part of implementation of the Company's approved Plan of Control Enforcement and Automation in HR Management, Payroll, and Social Development until 2020, we completed a pilot project for development and implementation of a single corporate template (SCT) for personnel accounting and payroll based on a single information platform (SAP) at two pilot companies (LLC RN-Yuganskneftegaz and JSC Kuibyshev Refinery). In the

fall of 2015, a project of replicating this template solution in five more Group companies was launched, as well as a project of bringing the unified information system of the former TNK-BP to SCT algorithms. Simultaneously, development was started of a similar template solution based on the second information platform (1S), which is designed for smaller enterprises of the Company.

It is expected that by end-2016 the information systems on the basis of the uniform algorithms and methods will do accounting and calculation of payroll for 69 thousand employees (SAP platform) and for 2.5 thousand employees (1S-Payroll Management platform), which is approximately 47 % of the total headcount of the Company performed by corporate information systems (150 thousand persons). This will make approximately ~26 % of the total headcount of the Group Companies, where the Company owns 50 % and more stakes in the charter capital. Continuous full-scope implementation of 2020 Plan for enhancing control and automation of HR management, salary calculation and social development will contribute to significant growth of the Group companies' involvement into the standard HR trend.

The key benefits from this large scale project are:

- Standardizing the Company's recurring business processes as related to HR management and payroll system;
- Reducing the risk of employee personal data leaks due to data loss prevention controls embedded in the rolled-out solutions; Building a company-wide integrated HR and payroll system, enabling

walkthrough of compliance with the Labor Law and the Company's policies;

- Optimizing routine HR processes (including reporting), reducing the level of service required to maintain HR and payroll processes.

The completion of the project is scheduled for 2020.

### PERSONNEL TRAINING AND DEVELOPMENT SYSTEM

Rosneft's corporate personnel training and development system aims to achieve the following strategic objectives:

- Assure the level of employees' occupational competences to meet the Company's current and future business needs;
- Improve the Company's managerial competences by developing an internal succession pool;
- Provide the Company's strategic projects with qualified personnel;
- Comply with statutory requirements regarding the level of personnel training in operational quality and safety in the fuel and energy sector;
- Assure the required level of competence for all Rosneft employees involved in the corporate industrial safety management and labor protection system.

In 2015, the Company delivered 325.9 thousand man-courses covering mandatory, professional and technical, and management training.

Among corporate training programs delivered in 2015, a special part is

**325.9**

THOUSAND MAN/COURSES OF  
TRAINING PERFORMED IN 2015



*Highly qualified employees  
are the Company main asset*

played by comprehensive corporate programs of employee training by the Company's business segments.

#### **For the Upstream segment:**

In order to ensure a talent pool for the Company and to educate highly skilled engineering staff, in 2015, implementation was started of a comprehensive program for career planning and development of young engineers in the Upstream segment in 2015 – 2025. In the framework of the Program:

- the need for the Group companies in young engineering personnel of hard-to-fill occupations until 2025 was stated, and a list of target positions in six business segments was approved (Geology, Drilling, Well Intervention, Development, Production, Shelf), for which young engineers must be trained in the framework of the Program;
- the development and approval of 71 target profiles of vocational competences for the target position of the Program was provided with indication of the recruitment sources and selection criteria for participants;

- the development of training programs for the training of specialists in the designated target positions was started.

Pursuant to the Company Order No. 548, On the measures to ensure the flush safety of Rosneft, of October 29, 2014, regular mandatory corporate training for supervising employees, specialized industrial safety specialists, foremen and specialists in drilling and workover is organized in the framework of Well Control international courses.

Innovative modular programs for additional education have been implemented on the basis of the Company's partner universities, Lomonosov Moscow State University and Gubkin Oil and Gas University, namely, Oil and Gas Geology of the Russian Shelf, Environment Protection in Development of Offshore Oil and Gas Fields, and Development of Offshore Oil and Gas Fields (70 people).

An internship was delivered to students of Moscow State University programs at the White Sea Biological Station named after N. A. Pertsov (Karelia) (July, September 2015).

Development of the Rosneft Offshore Drilling research and education centers on the base of Gubkin Oil and Gas University was continued. The center will be the base platform for training specialists of the Company's offshore projects. The opening of the Center is scheduled for Q4 2016.

#### **For the Downstream segment:**

In order to provide practical skills for operating personnel of hazardous production facilities, the Company management continued to implement the Program of Equipment of the Educational and Training Base of the Group companies of the Oil Refining and Petrochemicals segment with simulators for the period 2014 – 2020, approved by the Company management (as part of the Refinery Modernization Program). The Program includes the purchase of 167 simulators for 15 plants. In 2015, the Group companies of the segment purchased 16 simulator systems and trained 64 instructors.

In 2015, within the framework of the implementation of state requirements





*The Company introduces skill and competence assessment tools for the main job positions*

for the training of the fuel and energy complex staff and other corporate requirements to occupational safety, approximately 70 thousand man-courses of mandatory training were delivered in the Oil Refining and Petrochemicals segment.

The participation of the Company delegates in the 2nd National Championship of Interface Working Professions in High-Tech Industries by the WorldSkills Hi-tech-2015 method was organized in Yekaterinburg.

The Rosneft team won second place in the Chemical Analysis Laboratory Engineer competency.

Comprehensive training program is implemented on a regular basis for linear fueling site/filling station personnel; in 2015, more than 36.1 thousand man-courses were delivered. Corporate training programs for managers of fueling sites/filling stations were updated and implemented at marketing and distribution companies, namely, Efficient Management of Fueling Sites and Client-Oriented Behavior Skills.

### Cross-functional training for all business segments:

As part of the implementation of the Program for Improvement of the Culture of Occupational Safety and Informed Leadership in the industrial and occupational safety field at Rosneft:

Internal trainers were selected and trained for corporate internal courses entitled Leadership in Industrial and Occupational Safety, Incident Investigation, and Restrictions Evaluation and Management (17 people).

Implementation of staff training under corporate programs was started; internal trainers of the Central Management Staff trained more than 500 people from the heads of departments of the Head Office and the Group companies.

The following distance learning courses were developed:

- Measures for electrical safety of personnel when working with office equipment and household appliances

(more than 1,500 employees of the Company's Head Office trained);

- Golden rules of occupational safety in the framework of mandatory training and testing for CMT staff (beginning of training scheduled for 2016).

Training was delivered to General Directors of the Group companies and reservists for these positions under the General Director University program at the Higher School of Management of St. Petersburg State University (87 people).

As part of the work with the Company talent pool, training was continued on corporate MBA programs on the basis of MGIMO MIEP, Higher School of Management of St. Petersburg State University, and Gubkin Oil and Gas University (64 people.)

Individual development plans of reservists of Level 1 were implemented in terms of training and development activities with 4 programs and 26 study groups implemented.

As part of the agreement on strategic cooperation between Rosneft



and General Electric (GE), 5 training programs were organized with the involvement of GE Crotonville corporate university professors for managers and specialists of the Company.

Training in compliance for managers and specialists of CMT and the Group companies was organized. Internal trainers of the Company delivered intramural training sessions for employees on systemic approach to the development of the compliance function in the Company. Over 500 people were trained.

A multimedia distance learning course for workers of CMT and the Group companies was developed and put into operation on fighting corruption and fraud. Over 2 thousand people were trained.

### Development of internal training resources:

Traditionally, the Company pays great attention to the development of internal training resources with the aim to accumulate and spread knowledge within the Company and to develop its own educational and training base at the level of international standards.

In 2015, coordination and methodological support was provided for projects of educational and training base development in the regions, namely, design, construction, repair, and equipment (59 training sites). New training centers were established at the Group companies, namely, JSC Ulyanovsknefteprodukt and JSC Krasnoyarsknefteprodukt. Seven Group companies purchased 24 technology simulator systems and trained 96 instructors for training on simulators.

A system of internal corporate training is functioning successfully. The 2015 catalog of CMT internal training seminars contained 181 courses. CMT internal trainers delivered 245 training sessions and trained more than 4,000 people.

Tutorial materials for the design and implementation of internal courses were developed and sent to the internal trainers of CMT and the Group companies.

14 groups of internal trainers and 151 people were trained under the internal trainers' program module. The 2016 catalog of internal courses was developed (165 programs).

Educational films were implemented at the Group companies for training workers in the following occupations: Oil and Gas, 20 films; Refining and Petrochemicals, 35 films, multimedia aids: Oil Refinery, Gas Refinery, Uniform Rules for Operation of Process Equipment in the Rosneft Retail Network.

### Training of foreign citizens:

In 2015, implementation of targeted training programs for international projects of the Company was continued.

Training was continued of nationals of the Republic of Cuba and the Republic of Venezuela at Gubkin Oil and Gas University under a three-year program of language and master education (35 people), as well as baccalaureate training of 3 nationals of Mongolia at three partner universities: Lomonosov State University, Moscow State University of Foreign Affairs, Gubkin Oil and Gas University (9 people).

The following documents were developed and prepared for signing at the highest state level:

- Memorandum of Cooperation in the field of education and science between Rosneft, PDVSA, Gubkin Oil and Gas University, and the Venezuelan University of Hydrocarbons dated June 18, 2015;
- Agreement between Rosneft and the Ministry of Oil and Mineral Resources of the Arab Republic of Egypt in promoting the organization of training of Egyptian nationals in the Company's partner universities dated August 26, 2015;
- Agreement of Intention between Rosneft and Pertamina Company (Republic of Indonesia), including a Memorandum of Understanding in the field of promoting the organization of training for Pertamina employees in partner universities of Rosneft on dated November 5, 2015.

### Competency assessment system:

The Company has a continuous process of improving the system of competency assessment and development of all categories of personnel. This system contributes to solution of significant business challenges of the Company:

- planning the training and development of the Company staff;
- selection of employees for the Talent Pool and expert community;
- selection of talented youth;
- providing up to date information to management about the level of competence development for HR decisions in hiring and promotion.

Employees are evaluated with advanced techniques that are used at major international companies.

In 2015, a model of corporate and management skills was designed based on the experience and best practices of foreign and Russian oil and gas companies. With the use of the new Competency Models, evaluation of candidates to the Company's talent pool was started.

As part of the innovative project entitled Implementation of the competency method of personnel evaluation and development in all business segments of the Company (the project covers the period up to 2017) together with the Gubkin Oil and Gas University, the National Research Tomsk Polytechnical University, and the leading Russian consulting companies, vocational competencies are being developed. In 2015, a pilot evaluation of staff in the business segments Related Business Processes of the Production segment, Marketing and Distribution, and Logistics and Transport business segments was implemented. Over 2 thousand people were evaluated in the pilot implementation of the system in 2015. Competences are being developed for the segments Purchasing, Logistics and Transport, Capital Construction, Economy and Finance, and Energy Efficiency.

Knowledge and skills assessment tools were implemented in 10 major worker

**2,359**

STUDENTS OF 98 ROSNEFT CLASSES IN 46 CITIES OF RUSSIA IN 2015

**47** UNIVERSITIES

IN LONG-TERM COOPERATION WITH THE COMPANY

occupations in the Downstream segment. Over 1.5 thousand people were evaluated.

In 2015, evaluation activities were performed at the perimeter of the Company for more than 17 thousand people.

Rosneft is a participant of the state project of development of the national qualifications system. In 2015, representatives of the Company became members of the Council for Vocational Qualifications in the Oil and Gas Sector. The Council was established with the support of the National Council for Vocational Qualifications of the President of the Russian Federation. Within the framework of this project, the Company has organized the review of 21 drafts of professional standards, which were published for public discussion on the website of Ministry of Labor of Russia.

## YOUTH POLICY

Rosneft youth policy is geared towards achieving the following key objectives:

- Building an external talent pool by screening the most talented graduates motivated to get the highest quality professional training and a job in the Company;
- Ensuring influx of the required number of young talents among the best university graduates with the competence level adequate to the Company's business requirements;
- Facilitating young specialists' efficient performance by accelerating their induction and adjustment, developing professional and managerial skills and engaging them in innovative, research and engineering activities;
- Supporting government policy in vocational and professional education and engineering personnel training.

Rosneft's corporate continuing education program, School-University-Enterprise, is an efficient solution to these objectives.

Building an external talent pool begins in high school. Rosneft classes for grades 10 and 11 are opened in the best schools in all strategically important regions where the Company has a presence.

In 2015, there were 98 Rosneft classes supported by the Group companies in 46 Russian cities in the Central, Southern, North Caucasus, Volga, Northwestern, Urals, Siberian and Far Eastern Federal Districts. The first Rosneft classes appeared in Yuzhno-Sukhokumsk (Dagestan), Turtas (Tyumen oblast, Uvatsky district), and Moscow (opened in the framework of the Engineering Class to Moscow School project; Rosneft's partner in this project is the Gubkin Oil and Gas University). The training program covered 2,359 students.

High quality of education in Rosneft classes is achieved through comprehensive and advanced school programs in physics and mathematics, and organization of additional profession-oriented education with the engagement of lecturers from partner universities, annual workshops for training and development of the teachers of Rosneft classes. In 2015, there was a seminar at Lomonosov Moscow State University for the school principals where Rosneft classes are opened. The seminar was attended by 40 school principals from 37 cities.

In Rosneft classes a lot of emphasis is put on occupational guidance. In 2015, 9 Ladder to Success workshops were offered to students in the 10th grade (1,112 students from 48 schools).

In order to improve the efficiency of career guidance, a collection of events from the experience of schools entitled Career Guidance in Rosneft classes was developed and published.

Particular attention is paid to the employment of graduates of Rosneft classes at Rosneft enterprises. In 2015, after completing higher education, 91 young graduates of Rosneft classes, who had been trained in the core professions, were hired by the Company.

Work on building the external talent pool for the Company continues in



*Building external talent pool begins in high school*

universities. Rosneft and the Group's subsidiaries are cooperating on the basis of long-term comprehensive agreements with 47 universities in the country, and 18 universities have the status of Rosneft Partner Universities. In 2015, Rosneft signed 5 cooperation agreements with universities. Two agreements, namely, with the National Mineral Resource University and the St. Petersburg State Marine Technical University, were signed in the framework of the 19th St. Petersburg International Economic Forum. Other new partners of Rosneft are the State University of Maritime and Inland Shipping, Tyumen State University, and Ukhta State Technical University.

Rosneft and its subsidiaries support talented students by giving corporate scholarships to the best of them. In 2015, scholarships were awarded and paid to 508 students. Corporate scholarship fellows have a priority right to on-the-job training and a subsequent employment at Rosneft subsidiaries.

As part of the practical training for professional activity, in 2015, at the perim-

eter of the Company internships were organized for 4,839 students of partner universities and relevant regional universities; in addition, Rosneft delivered internships to 85 graduate students of specialized educational programs.

In order to develop the School-University-Enterprise corporate system of continuous education, in the regions of the Company's presence, as well as support of educational institutions involved in its implementation, Rosneft and the Group companies provide charity assistance to schools, technical schools, colleges and universities in the following areas:

- opening and maintenance of Rosneft classes including the costs of additional education of students, training of teachers of core subjects, classroom equipment, and career guidance activities. In 2015, RUB 139.4 million was spent on these purposes;
- development of cooperation with vocational and higher education organizations which are partners

of the Company including modernization of educational programs, maintenance of the basic chairs and specialized graduate programs at partner universities, development of material and educational base of educational institutions, scholarship support for gifted students and grant support for teachers. The amount of charity donations to technical schools, colleges, and universities in 2015 amounted to RUB 654.9 million.

One of the priorities of the Company's HR policy is working with young specialists.

In 2015, 1,389 graduates joined the ranks of young specialists of the Company.

In 2015, 3,667 young specialists were employed at the perimeter of the Company's work at 90 Group companies. The program of work with young specialists was also implemented by 5 shipbuilding and ship repair enterprises, which employ 143 young specialists.

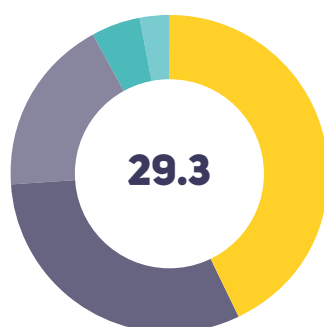
The Group companies have provided the conditions for professional and personal growth of young professionals and development of their vocational, leadership, and management skills. The subsidiaries have operating councils of young professionals and mentoring for efficient management of the youth adaptation process. Every young professional has an individual development plan, according to which his/her training and development is organized.

As part of the corporate training and development program for young specialists and their mentors, 6,556 man/courses were delivered focusing on development of occupation-specific technical competencies and management competency.

1,632 young specialists took part in scientific and engineering conferences organized by Rosneft; 86 young specialists became the winners in the concluding interregional conference. 68 winning projects presented by the conference participants were recommended for implementation.

For the purposes of identifying and developing high potential young specialists and building a talent pool within the organization, business games aiding in performance evaluation were held where 312 young professionals from 59 evaluation groups participated.

### Social support, RUB bln



- 12.6 Optimal work conditions
- 9.1 Healthcare, promotion of healthy lifestyles, and other social benefits
- 5.3 Non-state pensions
- 1.5 Social infrastructure
- 0.9 Housing

### SOCIAL PARTNERSHIP AND SOCIAL BENEFITS FOR EMPLOYEES

In 2015, Rosneft continued to strengthen the mutually beneficial partnership with the Interregional Trade Union Organization of Rosneft and the trade unions of its subsidiaries.

In an effort to continue efficient dialog and take good decisions under the social partnership program of the work group formed of representatives of the employer and trade union activists to develop a uniform position on social benefits of the employees.

Thus in 2015 the work group amended the Standard Labor Contract of Rosneft Group companies to enhance social protection of the employees.

In 2015, a Company template of the Model Regulation on Internal Labor Regulations was developed and agreed with the Interregional Trade Union Organization of Rosneft.

The Model Regulation is intended to establish uniform principles for all the subsidiaries of Rosneft concerning the following:

- Establishment of the procedure for hire, transfer and dismissal of the Company's employees;
- Definition of the basic rights, duties, and responsibility of workers and employers;
- Establishment of working hours and rest time;
- Definition of requirements for the Company's employees on compliance with the labor discipline and rules of conduct in the territory and facilities of the Company;
- Strengthening of the labor discipline;
- Rational use of working time.

The implementation of the model template is scheduled for 2016 after completion of all the approval procedures.

### SOCIAL PROGRAMS

The Company's social programs are designed in the first place to ensure safe and comfortable working conditions, support and promote a healthy lifestyle, address housing issues and improve the quality of life for employees and their families, and provide material support for veterans and retired workers.

### CONDITIONS OF WORK AND RECREATION

In 2015, the Company approved the uniform requirements and put in place the guidelines entitled Organization of meals for employees of oil and gas production companies of the Group working in shifts and employees of oil and gas refining companies of the Group, which take account of the regional, climate, and geographic features and specify the rules of arrangement and maintenance of meal rooms, transport and storage of foods, requirements to the quality of ready meals and criteria for checking it.

For standard harmonization, the Company continued modernization of facilities in the social sphere in companies of the Group including a set of measures for construction, reconstruction, major/minor repairs, and design and survey works. The costs of development and construction of camps, support bases of teams, sites, and workshops in the reported year amounted to RUB 5.8 bln.

In 2015, 95 shift camps in the regions of the Company's operations accommodated nearly 22 thousand Company's and contractors' employees.

### CORPORATE PENSIONS AND SUPPORT FOR VETERANS

Rosneft's care of the standard of living of its employees including retirees is an urgent need at the present time. In addition to solution of social problems, the corporate pension program provides additional motivation for employees to work at the Company.





*In 2015, there were 98 Rosneft classes supported by the Group companies in 46 cities of Russia*

The successful implementation of the corporate pension program enables (through the principle of joint obligation) to establish the employee's future pension in addition to the state pension from the employer's funds and the employee's own funds through an individual pension agreement with NPF Neftegarant.

In addition, for many years the Company has been implementing a project of social support of veterans where they are paid a monthly supplement to the state pension. In 2015, more than 2,100 veterans of the new assets of the Company were included in the project and began receiving monthly pensions through NPF Neftegarant.

In 2015, the Company transferred approximately RUB 340 million to veterans of the Group companies as financial assistance for holidays, payment of resort treatment, and other vital issues.

In honor of the 70th anniversary of Victory in the Great Patriotic War and the 50th anniversary of the Oil, Gas and Fuel Industry Worker Day, special assemblies, memorial meetings, and concerts were held for pensioners who are veterans of war and labor and financial support was provided.

## CORPORATE HOUSING PROGRAMS

Housing programs for employees hold a special place in the corporate and social policy and are aimed at attracting and retaining promising and skilled workers and experts in scarce specialties at the Company.

A comprehensive housing assistance program offering mortgage loans, housing construction, and corporate lodging has been implemented since 2005 across the Company.

In 2015, 695 employees improved their living arrangements resorting to the corporate mortgage program.

In some regions where the residential stock is still low (Komsomolsk-on-Amur, Achinsk, Agoy village in the Tuapse district), the Company erects corporate apartment buildings. In 2015, the Company prepared for commissioning two residential buildings in Achinsk.

## HEALTH CARE AND INSURANCE

The Company is particularly concerned with health care and personal insurance coverage for its employees, which are aimed at improving work efficiency and professional longevity, disease

prevention, improving the quality of life of employees, and promotion of healthy lifestyles.

The main areas of this work are as follows:

- delivery of health care at the production sites and in the shift camps;
- voluntary medical insurance providing employees with a wide range of health services in addition to the scope guaranteed by compulsory health insurance;
- providing health resort and rehabilitation treatment for employees;
- preventive healthcare (preventive immunization and medical examination) to prevent and mitigate diseases in personnel;
- arrangement and implementation of recreational sports for the Company employees;
- implementation of a program to promote healthy lifestyles;
- compensation of the cost of health groups and sport clubs to employees.

In 2015, in order to introduce common standards for staff healthcare, the Regulation entitled Organization of Emergency Medical Care on Facilities of the Group Companies was developed and put into operation. In accordance with the requirements of the Regulation, systematic work is carried out on equipping health centers with modern medical equipment. For improving the professional qualifications of medical staff at the health centers, a training program has been implemented on CCU and emergency care for injuries and bleeding. On the results of the training, the medical staff was given individual tests of the mastered knowledge and skills.

Resort treatment for workers and their families is considered by the Company to be an effective way to prevent diseases and to preserve the professional longevity of oil industry workers. In 2015, more

than 54 thousand employees, retirees and family members enjoyed recreation and rehabilitation in the health resorts of Sochi, Anapa, Belokurikha, Crimea and other regions of Russia.

In accordance with the approved program to promote healthy lifestyles, themed health days with engagement of leading medical professionals and modern diagnostic equipment were implemented and received positive feedback at the Group companies.

In 2015, more than 190 thousand employees of the Group companies and management staff were covered by voluntary healthcare insurance. The company is constantly striving to improve the quality of service and to expand insurance coverage for the VHI program by increasing opportunities for employees to obtain the necessary medical care in the

best regional medical institutions in Russia.

For 170 thousand employees of the Group companies, insurance coverage is effective in the event of death and total or partial disability resulting from an accident, and employees are insured not only for the period of performance of their duties but also during off-hours. Successful implementation of approaches to voluntary insurance of employees against accidents has also started at the Company's contractor organizations.

A systemic approach to the implementation of all areas of social policy, careful attention to the needs of employees and their families, and a responsible business style contribute to the stability and efficiency of social investments not only within the Group companies but also in the regions of Rosneft's presence.



*The Company priority is the implementation of health plan and life insurance of employees*

## 6.2. SOCIAL AND ECONOMIC DEVELOPMENT IN THE REGIONS AND CHARITY IN 2015

> 50

CHARITY PROJECTS  
IN 2015

RUB 5.6 BLN

CHARITY EXPENSES  
IN 2015

Rosneft is involved intensively in the implementation of socio-economic programs in the area of its production activities pursuant to its Agreements, and funds individual charity projects.

The company follows a systemic approach to solving social issues, social investments, and social impact in order to reduce social risks. As part of the social and charity programs, the Company follows the principle of fighting any involvement in corrupt activities strictly.

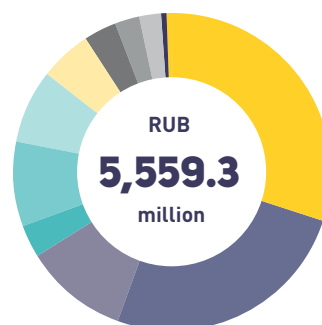
Within its charity activities, the Company is interested in achieving the following objectives:

- promoting social and economic development of the Company's regions of presence;
- development of partnerships with the Company's regions of presence;
- support of the state policy in the field of education;
- support of public health programs, physical culture and sports, science and technology, environmental protection, etc.

The main areas of the Company's charity activities in accordance with the stated objectives are as follows:

- development of social infrastructure in the regions of presence;
- support of veterans and disabled people including pensioners and employees of the Company and their families;
- support of indigenous peoples of the North;
- promotion of activities in the field of education, science, culture, art, education, patriotic education, and spiritual development;
- support of educational institutions of general, vocational, and higher education, and corporate training centers of the Company within the School-University-Enterprise corporate system of continuous education;
- promotion of activities in the field of disease prevention and healthcare as well as promotion of healthy lifestyles and improving the moral and psychological state of the people;

Donations in 2015, %



1,677	Infrastructure development of regions, districts, and municipalities
1,425	Sport
582	Culture
178	Charities, NGOs, humanitarian aid
486	Revival of spiritual heritage
415	Education, science
285	Preschools
188	Health
148	Support of veterans, the disabled, and the poor
118	Other (including support of pensioners, low-income families, youth organizations, city events, socio-domestic and agricultural institutions)
39	Support of indigenous peoples of the North
16	Orphanages



- environment protection and animal protection;
- promotion of activities in the field of physical culture and sports.

In determining specific facilities and activities for financing, priority is given to social and infrastructure projects with the maximum social efficiency and direct impact on the quality of life of the population of the Company's regions of presence (including employees of the Group companies).

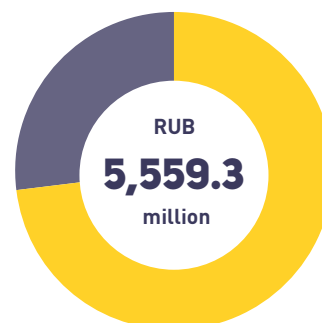
In 2015 the Company granted cash funds for repair, equipment, and support of 18 kindergartens and orphanages, located in the regions of its operations, in order to perform its obligations to provide financing to the social sphere under the agreements with the regional authorities and under individual charity projects.

Over 50 projects were implemented in the field of education and science, health, sports, culture and spiritual heritage.

The Company paid special attention to performing events commemorating the 70th anniversary of our victory in the Great Patriotic War. Over RUB 100 million were granted to render assistance to veterans, persons having the Resident of Blockaded Leningrad badge, underage prisoners of concentration camps and homefront workers, as well as to municipal district councils, regional and city veterans organizations and councils for arranging festive and ceremonial events.

In addition, assistance to the indigenous peoples of the North is always an important area of the Company's charity activity. In 2015, Rosneft allocated over RUB 39 million to support the traditional way of life and improve the living conditions of small indigenous peoples of the North.

### Charity sponsoring



- 4,069 Social sponsoring under the signed agreements
- 1,490 Separate charity projects



*The Reindeer Herder's Day. Reindeer sleigh racing.*



## 6.3. SPONSORSHIP ACTIVITY OF THE COMPANY

THE SPONSORSHIP ACTIVITY OF ROSNEFT IS AIMED AT REVIVING SPIRITUAL AND NATIONAL VALUES, PROMOTING SCIENTIFIC AND TECHNICAL PROGRESS, SUPPORTING CULTURE, SCIENCE AND EDUCATION, AND DEVELOPING SPORTS.

Rosneft is an active supporter of professional and amateur sports. Financial support of the Anatoly Tarasov Golden Puck International Ice Hockey Cup in 2015 was aimed at promoting a healthy lifestyle among the young generation of Russians.

Rosneft supports Russian fighters and is a sponsor of fights in Russia and abroad.

Rosneft is the general sponsor of Avtovaz LADA Sport team. Domestic cars LADA Vesta Sport and Lada Kalina Sport appeared under the LADA SPORT ROSNEFT team flag on the international and Russian race tracks respectively. Support of the domestic sport cars in the world and Russian touring will become powerful incentives for the development of Russian automotive industry and help us to promote the Company's brand, including the product brand, in the domestic and international markets.



*The Company considers the preservation and protection of polar bears a priority*

Rosneft pays special attention to environmental aspects of industrial oil production. Protection of endangered animal species of the Arctic zone is a natural step of a responsible subsoil user, which Rosneft is. The Company considers the preservation and protection of polar bears a priority. Rosneft has taken custody of all polar bears living in Russian zoos.

The Company supports the St. Petersburg Philharmonic. A sponsorship contract with Rosneft has let thousands of people in Russia and abroad hear the virtuosos of the Temirkanov orchestra.

Sponsorship in 2015 amounted to: RUB 763.7 m (VAT included; the value is comprised of the actually used (paid) sponsorship budget; according to IFRS).



*Rosneft is the general sponsor of the Avtovaz LADA Sport team*

## 6.4. HEALTH AND SAFETY

As the leader of the oil and gas industry of the Russian Federation and one of the largest companies in the global energy sector, the Company is aware of the nature and extent of the impact of its activities, products, and services and of its responsibility for ensuring trouble-free production operations, safe working conditions for employees, and the safety of the health of people living in the Company's regions of operation.



In 2015, the Company's occupational safety and industrial safety policy was reviewed.

In its operations, the Company is guided by the following principles:

- Priority of life and health of people as compared to 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 contractors for the safety of themselves and 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 the Company's employees in efforts to reduce workplace injuries, risks of explosion and accident hazards, and diseases;
- Priority of preventive measures to measures for localization and liquidation of accident consequences.

Seeking to meet the best global industry benchmarks in the field of industrial safety and occupational safety including health, road safety, fire, radiation, and flush safety issues, integrity of production facilities, preventing and reacting to explosion and accident hazards (industrial safety and occupational safety), the Company has stated the following strategic objectives:

- Zero rate of occupational injuries and diseases;
- Zero fatality and fire rate.

Rosneft operates a health, safety and environment 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 activity — from planning and implementation of appropriate actions to monitoring and performance assessment.

Since May 2006, the health, safety and environment management system has been audited on an annual basis for compliance with the requirements of International Standard on Environmental Management Systems (ISO 14001:2004) and Standard on Occupational Health and Safety Assessment Systems (OHSAS 18001:2007).

In March-April 2015, the British Standards Institution (BSI) conducted a recertification audit of compliance of IHSEMS with ISO 14001 and OHSAS 18001. Its results confirmed the effectiveness of the management system.

In 2015, the perimeter of the IHSEMS was extended to four new Group companies (OJSC RN-Nyaganneftegaz, JSC Verkhnechonskneftegaz, LLC RN-Uvatneftegaz, CJSC Rospan International).

In 2015, preparation for the 2016 certification was carried out in five Group companies (JSC Varyeganneftegaz, OAO Tyumenneftegaz, PJSC Orenburgneft, LLC Novokuibyshevsk Catalysts Plant, LLC Purneftepererabotka).

In 2015, a long-term program was implemented to improve the culture of safety and informed leadership in the field of industrial safety and occupational safety. Rosneft pays special attention to safety issues in its productive activities.



**IN 2015 NO  
TRANSPORTATION  
FIRE OCCURED DUE TO  
PREVENTIVE OPERATIONS  
PERFORMANCE**

**33 %**

**LESS FIRE ACCIDENTS DUE TO  
OPERATION REQUIREMENTS  
VIOLATION**

The Company has developed and implemented measures for preventing and reducing the number of accidents in the production environment.

In 2015, the following activities were carried out under this program:

- the layout of the Safety Screen was designed, an electronic version of which was included in the Presidential Monitoring module;
- the stands were also placed in the Group companies;
- since October 2015, articles on occupational safety have been published in the corporate newspaper Oil Courier;
- a program of implementation of the Golden Safety Rules was developed, which includes informing the Company employees by providing Golden Safety Rules brochures, publications in the corporate newspaper and on the Company website, and providing training and certification of employees;
- a practice is being implemented of short checklists for mandatory checks of the industrial safety and occupational safety status when visiting sites of the Group companies by all visiting employees of the Company;
- the Company Regulations were approved entitled Procedure for organization and implementation of the annual contest for the best Group company on the results of work in the industrial safety and occupational safety field and the procedure for rating the Group companies by industrial safety and occupational safety;

- requirements to equipment at health centers of the Group companies were developed, health centers were audited, and their equipment is monitored;
- the Regulations entitled Organization of Emergency Medical Aid at Facilities of the Group Companies were developed and enacted by the Order of the Company President;
- requirements for medical support of employees and contractors were developed.

Analysis and monitoring of industrial safety expert examinations of equipment, technical devices, buildings and structures of hazardous production facilities of the Company was organized.

In 2015, the Company bylaws in the field of fire safety were developed, processed and put into effect:

- the Company Regulations entitled Preparation of the Company facilities for safe operation during the fire-hazardous season;
- Memo for fire works at the Company facilities and checklist for fire works for self-control and risk assessment at fire works;
- Company Guideline entitled Testing and evaluation of the firefighting departments that provide services of fire prevention and extinguishing at the facilities of Rosneft and Group companies;
- A list of standard measures to improve fire safety culture was developed;

In 2015, the number of fires at the Company's facilities due to violations of the manufacturing process was reduced by 33% as compared with 2014. The number of fires associated with violations of the firefighting regulations during fire works was reduced by two times, and fires at motor vehicles were avoided completely in 2015 as a result of preventive work.

Preparation of the Program for bringing the Company properties in compliance with the fire safety requirements in the 2015-2019 was organized at the Group companies.

In 2015, the firefighting state of office buildings of Rosneft (including leased buildings) in Moscow was inspected, and based on their results the administration developed a plan to address the identified problems.

Briefing and tutorial training was delivered to the staff of structural units located in office buildings of Rosneft (including leased buildings) in Moscow who were put in charge of fire safety in their departments.

There are regular trainings on the evacuation of employees from the offices buildings occupied by the Central Staff in Moscow. A schedule of training for the evacuation employees for 2016 was developed.

The Company pays special attention to the quality of fire protection services on explosive sites of oil production, refining, and petrochemicals. Most of the enterprises are under the protection of LLC RN-Fire corporate departments, a specially established subsidiary of the Company.



## 6.5. ENVIRONMENTAL SAFETY AND ENVIRONMENT PROTECTION



### DEVELOPMENT OF THE ENVIRONMENTAL SAFETY MANAGEMENT SYSTEM: RESULTS OF 2015

Environmental mission of the Company — efficient management of the Company's operations impact on our environment to preserve it for the present and future generations.

Environmental safety and environment protection are among the top priori-

ties of Rosneft. In order to achieve the best performance in this area, the Company is continuously improving its approaches to environmental management and increases the scale of environmental measures and the necessary costs of environmental protection.

The Company's investments to environment protection (including related ones) amounted to **RUB 44.7 bln** which is by 65% more than in 2012. Rosneft

total environment protection costs made **RUB 71.6 bln**.

In 2015, the Rosneft Board of Directors approved the Company Policy for environment protection setting the key tasks and principles.

- compliance with legislation and other applicable to the Company's activities in the field of environmental protection requirements, including the norms of international law;





- preservation of favorable environment and biological diversity;
- the balance of interests of the Company and the Company in the use of natural resources;
- tolerance to environmental risks;
- innovation in the implementation of environmental technologies;
- prioritize preventive measures over measures aimed at localization and liquidation of consequences of hazardous events;
- openness and reliability of statements of the Company in the field of environmental protection;
- continuity and consistency in achieving the goals and environmental objectives.

The key goals of environment protection are:

- reducing the negative environmental impact of economic activities implemented by the Company;
- rational use of natural resources in the implementation of economic activities of the Company, the adoption of measures for their protection, restoration and rehabilitation of disturbed areas;
- providing measures for the conservation of ecosystems and biodiversity, including the implementation of offshore projects in the Arctic;
- improving the efficiency of the Company through the development,

system implementation of innovative technologies, the use of global best practices to ensure environmental protection;

- Maintenance and improvement in the field of environmental management systems among the company, taking into account the risk-oriented approach;
- ensuring the competence of the Company's employees by informing and improving the system of ecological education and culture;
- increasing the responsibility of the Company's employees and contractors in environmental matters;
- quick and efficient response and minimizing the negative effects on the environment in the event of emergencies, including the organization of measures to protect wildlife in the areas of oil spills;
- cooperation with public authorities, partners and other stakeholders, aimed at the development of relations in the sphere of nature management and environmental protection;
- implementation of appropriate analysis and assessment of the process to determine progress and ensure compliance with the principles set out in the Policy area of environmental protection

In 2015, the Rosneft Board of Directors set targets of the Company's annual and quantitative indicators to assess the set goals for environment protection by 2025. On an ongoing basis, the

monitoring of their achievement is performed.

Target Company's KPI for environmental protection are:

- timely implementation of environmental commitments arising from the current operations of the Company;
- elimination of damages at the Company's facilities as a result of the activities of third parties by 2026;
- water resources management and protection of water objects from pollution - increase of the proportion of recycled and re-used water consistently, environmentally safe handling of produced formation water, the introduction of advanced wastewater treatment systems;
- in the area of air protection - reducing the share of APG flaring, reduction of specific gross emissions.

To achieve the set targets in 2015, a Program for Raising Environmental Efficiency up to 2025 was developed. Annually since 2013 the Company has been performing inventory of ecological obligations in accordance with the Corporate accounting policy.

The Company has implemented voluntary mechanisms of environmental responsibility, has a corporate system of voluntary liability insurance against environmental damages.

In 2015, the certifying organization held regular supervisory audit of IHSEMS compliance with ISO 14001, Ecological



**ROSNEFT WAS  
GRANTED THE AWARD  
FOR ENVIRONMENTAL  
IMPROVEMENT AND  
EDUCATION**



**IN 2015 WE DEVELOPED  
AND PERFORMED  
THE PROGRAM FOR  
PRESERVATION OF  
BIOLOGICAL DIVERSITY  
OF MARINE ECOSYSTEMS  
IN THE LICENSE AREAS  
OF ROSNEFT**

management system. Its results confirmed the effectiveness and noted the strengths of the management system.

In 2015, a Program of Preservation of Biological Diversity of Marine Ecosystem in the License Areas of Rosneft in the Russian Arctic was developed and approved, which includes scientific research of marine ecosystems, monitoring and research of indicator species of living organisms, research of the sensitivity of the territory and habitats, collection and analysis of stock information on the state of the environment, monitoring and evaluation of environmental impact of planned and implemented economic and other activities, and other environmental protection measures for preservation of biological diversity in the Russian Arctic as stipulated by the applicable law and licensing agreements.

## **PUBLIC AND SOCIAL ACTIVITIES OF ROSNEFT IN THE FIELD OF ENVIRONMENTAL SAFETY**

Environment protection is an integral part of Rosneft corporate culture providing sustainable development of the Company.

As one of the leading socially oriented businesses in Russia, the Company pays great attention to environment protection and is an active supporter of important community environmental projects.

In 2015, Rosneft was granted the award for environmental improvement and education.

The Company became a member of the Green Spring-2015 National Environmental Subbotnik. The purpose of the event is to support new formats of

environmental education and development of ecological culture in children and young people.

In June 2015 Rosneft took a direct part in the All-Russian children's environmental festival Eco-Childhood, organized by the Ministry of Natural Resources and Ecology of the Russian Federation. As part of the Festival the Company received a diploma for participation in the establishment of Russian record in the category "The event in the framework of environmental protection and social and educational projects with the participation of the greatest number of different subjects of the Russian Federation" (85 subjects).

In 2015, we held a traditional corporate event "Day of Ecology" for specialists of relevant services of the central apparatus and society groups have been training seminars and trainings.

In the Botanical Garden of Peter the Great in St. Petersburg event participants planted a memorial avenue of rhododendron bushes.

## **DEVELOPMENT OF COOPERATION WITH PUBLIC AUTHORITIES AND NON-GOVERNMENTAL ENVIRONMENTAL ORGANIZATIONS**

We are constantly working to ensure the reduction of the negative impact on the environment through the use of technologies, assessed with account of environmental, economic and social factors. Representatives of the Company in accordance with the legislation are involved in the development of specialized manuals of best available technologies, organized by the Federal Agency for Technical Regulation

and Metrology, Ministry of Natural Resources of Russia and the Russian Ministry of Energy.

Within the framework of the existing cooperation agreement between Rosneft and the Russian National Committee for the United Nations Environment Program (NP UNEP COM), Rosneft started cooperation under the Program of the Presidium of Russian Academy of Sciences entitled Fundamental Exploratory Research in the Interests of the Russian Arctic Development and the Environment section (including the Arctic work group) of the Research and Coordination Council of the Federal Agency of Scientific Organizations (FANO).

Throughout 2015, projects and the environmental policy of Rosneft was supported at the sites of the Civic Chamber of the Russian Federation, the Expert Council under the Government of the Russian Federation and public councils at federal executive bodies.

In 2015 Rosneft and WWF Russia performed several meetings regarding preparation of the program "On preservation of marine ecosystems biodiversity on the Rosneft's arctic offshore license areas of Russia and the recent environmental consequences from oil spills at oil producing facilities in the framework of the Roadmap of measures for 2015-2016, signed June 30, 2016 to execute Memorandum of Understanding signed June 21, 2013.

The objectives outlined in the Road Map include exchange of best practices and bilateral consultations on issues of social and environmental responsibility and minimizing negative impact on the environment and key habitats of birds and mammals in the Arctic.

## 6.6. ENERGY EFFICIENCY AND ENERGY SAVING

**3%**

**OF RUSSIA POWER BALANCE**

FUEL AND ENERGY CONSUMPTION  
BY ROSNEFT

**23.2** MMT

SCOPE OF FUEL AND ENERGY  
CONSUMPTION IN 2015

### CONSUMPTION OF FUEL AND ENERGY RESOURCES

Rosneft is the third biggest consumer of energy resources in the Russian Federation and holds more than 3% of the energy balance of the country.

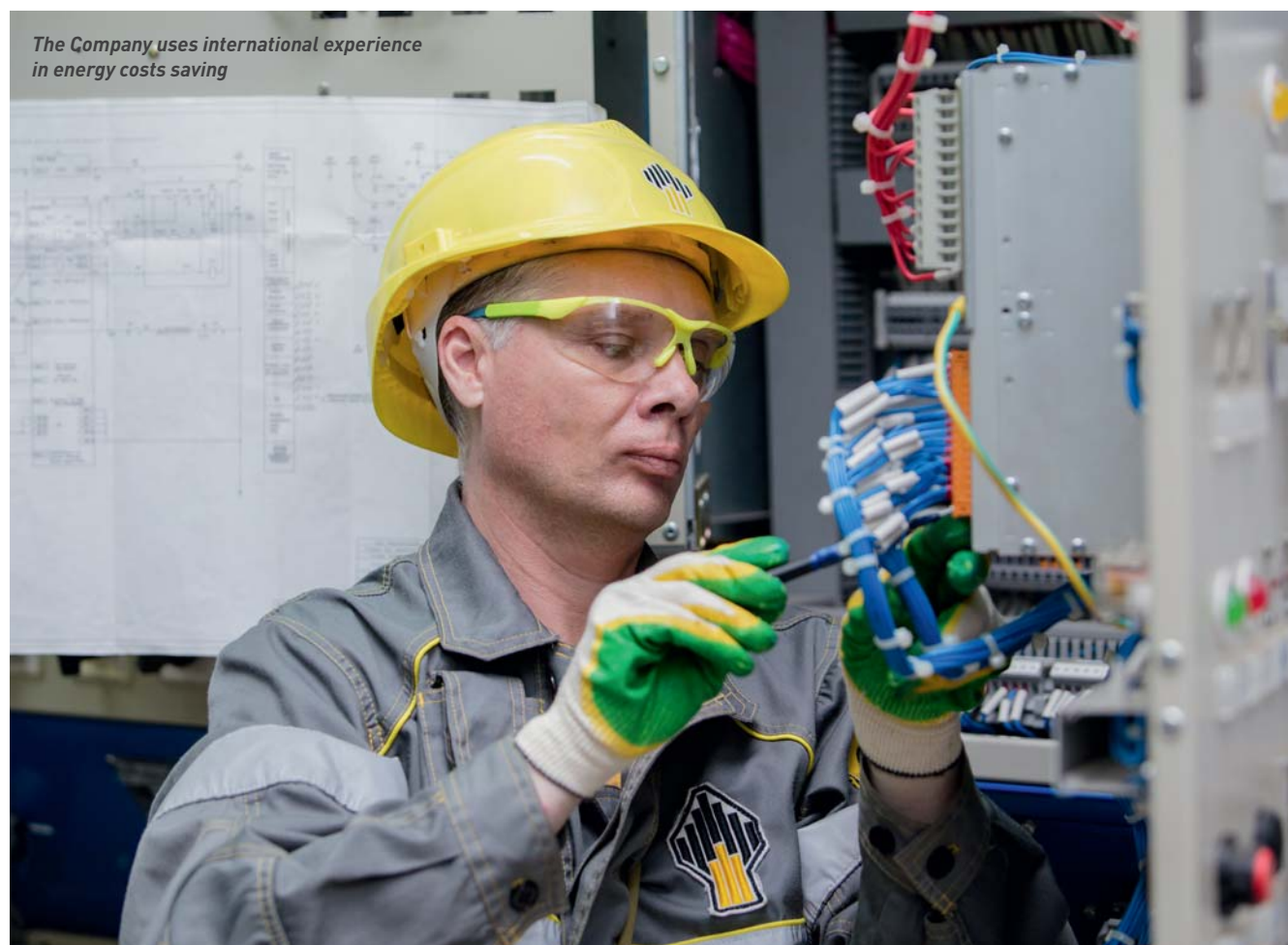
The total volume of consumption of fuel and energy resources for the Company<sup>1</sup> in 2015 amounted to 23,215 tons per thousand tce.

The distribution of energy consumption in 2015 year by production activities is shown in Table 1. Also in 2015, in the framework of updating the Energy Saving Program, the Energy Saving Program of Rosneft for 2016-2020 was developed and approved by the Board of Directors, under which the total savings of fuel and energy resources for 5 years amount to 5,586 thousand tce or RUB 43,825 mln.

Activity	Consumption of fuel and energy resources			In tons per thousand tce	Share, %
	Electricity, thousand kWh	Heat, thousand Gcal	Fuel, thousand tons		
Oil and gas production	34,679,126	2,370	1,668	14,646	63.1 %
Oil refining	4,078,976	13,270	3,048	7,555	32.5 %
Petrochemicals and gas processing	296,123	2,689	226	819	3.5 %
Marketing and distribution	288,685	45		106	0.5 %
Service	172,207	195		88	0.4 %
<b>TOTAL</b>	<b>39,515,117</b>	<b>18,569</b>	<b>4,941</b>	<b>23,215</b>	<b>100 %</b>

1. Data for assets that were in the consolidation perimeter of Rosneft as at 2015.

2. The Program's version effective in 2015 was approved by the Rosneft Board of Directors on December 12, 2014. The Updated 2016-2020 Rosneft Energy Saving Program is approved by the Board of Directors on December 18, 2015.



*The Company uses international experience in energy costs saving*

## IMPLEMENTATION OF ENERGY EFFICIENCY AND ENERGY SAVING POLICIES

In 2013, the Company management made a decision to implement an Energy Management Systems to its production activities in accordance with GOST R ISO 50001:2012. The implementation of this decision will enable

the use of international best practices to reduce energy consumption and move to a qualitatively new level of raising energy efficiency and energy saving at the Company.

In 2015, a model organizational structure of units by energy efficiency and energy saving with completed staffing was developed and approved for oil and gas

production and refining companies of the Group. KPIs were set for the leaders of work groups on energy saving, which have an effect on the annual bonus.

In 2014, the Energy Efficiency Commission updated the Energy Efficiency Roadmap of Rosneft for 2015-2017. All the activities are implemented in due time.

Activity	2015 savings			In tons per thousand tce	Share, %
	Electricity, thousand kWh	Heat, thousand Gcal	Fuel, thousand tons		
Oil and gas production	1,910,424	9	24	672.9	66.4
Oil refining	61,190	574	163	329.5	32.5
Petrochemicals and gas processing	6,379	18	0.3	5.3	0.5
Marketing and distribution	12,671	4	0.3	5.4	0.5
Service	2003	1	0.4	1.3	0.1
<b>TOTAL</b>	<b>1,992,665</b>	<b>606</b>	<b>188</b>	<b>1,014</b>	<b>100 %</b>



## ELECTRIC POWER DEVELOPMENT

In 2015, as part of the energy supply projects for prospective loads and improvement of the reliability of power supply to oil and gas production and refining companies of the Group, construction and commissioning were completed of the following significant energy facilities:

**CJSC Vankorneft:** Two-chain 220 kV HVL, SS Mangazeya – connection of 110 kV HVL (in 220 kW size) of GTPP - OPS-1 (21 km).

The first stage of technical connection of the Vankor power district to the Tyumen energy system with 60 MW maximum (allowed) capacity.

**LLC RN-Yuganskneftegaz:** 110/35/6 kV SS (pad 86) 2x40 MVA with 110 kW HVL.

**OJSC Tomskneft VNK:** Upgrade of 110/35/6 kV Krapivinskaya SS. Replacement of 2x25 MVA transformers with 2x40 MVA.

**JSC Orenburgneft:** GPP of Pokrovskaya complex gas treatment facility 2x4.3 MW.

### OOO RN Uvatneftegaz:

1. 110/35/6 kV South Petyegskaya SS 2x16 MVA with 110 kW HVL;
2. 110/6 kV Bush 10 Ust-Tegusky field 2x6.3 MVA with 110 kW HVL;
3. 110/6 kV Bush 11 Ust-Tegusky field 2x6.3 MVA with 110 kW HVL;
4. Rostekhnadzor permit was issued for commissioning of gas turbine power plant of 60 MW GTPP of Ust-Tegusky field (phase 2) and 24 MW GTPP of Tyamkinsky field.

### LLC RN-Severnaya Neft :

1. 5 MW PP at Labagansky field (phase 1) based on DGU;
2. 3 MW PP at Intermediate OPS based on DGU;
3. 2x1,6 MW Gas and diesel Unit at PJSC Vostsibneftegaz.

**PJSC Vostsibneftegaz:** 2x1,6 MW Gas and diesel Unit.

**LLC RN-Tuapse Refinery:** Rostekhnadzor permit was issued for commissioning of the first

startup complex of GTP-HPP of the Tuapse Refinery with 141 MW capacity (dated 13.11.2015 No. 304-15).

**JSC Syzran Refinery:** 110/6 kV SS main step-down substation 2 (re-construction of 110 kW indoor switchgear, replacement of 2x40 MVA transformers, construction of new 6 kW indoor switchgear with load transfer). Rostekhnadzor permit was issued for commissioning of electrical equipment (dated October 10, 2015 No. C-27).

**JSC Ryazan NPK:** 35/6 kV SS MSDS 3 (replacement of 2x16 MVA power transformers).

Rostekhnadzor permit was issued for commissioning of MSDS 3 (dated June 6, 2015 No. 5-27-A-537/1-2015).

By the end of 2015, the generating capacity of own energy sources of the Company amounted to 1,603 MW and increased by 41 MW (2.5 % increase of installed electric capacity), and transformer capacity in 110 kV voltage class increased by 167 MVA.

## 6.7. EQUIPMENT AND TECHNOLOGY LOCALIZATION

THE COMPANY'S STRATEGIC GOAL WITH REGARD TO EQUIPMENT AND TECHNOLOGY LOCALIZATION IS TO ENSURE IMPLEMENTATION OF ITS STRATEGIC PRIORITIES REGARDING EFFICIENT DEVELOPMENT OF ITS RESOURCE BASE WITH A MAXIMUM RETURN FOR ALL SHAREHOLDERS AND MINIMUM IMPACT ON THE ENVIRONMENT.



*The Zvezda ship building complex shall be the key facility of the new naval mechanical engineering and shipyard materials manufacturing plants*

### INDUSTRIAL AND SHIPBUILDING CLUSTER IN THE FAR EAST

In the mid-2015 a Rosneft Group company – JSC STS (the company engaged in up-to-date shipbuilding technologies) acquired 75% minus 2 shares of JSC DCSS, constructing the largest civil shipbuilding yard in Russia — the Zvezda shipbuilding complex, estimated annual capacity of 330 thousand tons of metalwork.

Zvezda complex shall not only be a modern shipbuilding facility, but a crucially new efficient industrial cluster in the Far East of Russia.

Zvezda shipbuilding complex shall be the center of marine engineering and shipbuilding materials manufactur-

ing. Zvezda is a unique complex due to revolutionary engineering solutions applied at the design state, allowing it to become one of the most up-to-date shipbuilding facilities in the world.

To provide for the facility operation Rosneft signed for all the shipbuilding orders placement at JSC DSCC in June 2014. Under the agreement at the Eastern Economic Forum in September, 2015 Rosneft and JSC DCSS signed a contract for a pilot order placement for four Icebreaker-7 procurement ships. PJSC Sovkomflot also signed an agreement for all the shipbuilding orders placement at JSC DSCC in June, 2014. Gazprom and Novatek signed agreements for all the shipbuilding orders placement at JSC DSCC in January 2016.

To raise efficiency of the constructed shipbuilding yard, getting the required technologies and localize manufacturing Rosneft cooperates with a wide range of process partners — world leaders in the key shipbuilding segments, including General Electric. The Company aims at 70 % localization in Russian territory under all shipbuilding projects, including equipment procurement and works performed by the Zvezda complex.

In order to attract foreign technological competences, in 2015 we signed a cooperation agreement in terms of design and construction of service vessels and offshore drilling rigs with a number of Russian and foreign process partners, and started designing of promising models of vessels.

#### **RESULTS OF THE APPLIED ENGINEERING AND SAPPHIRE TRAINING CENTER IN A JOINT VENTURE WITH GE IN 2015. PLANS FOR 2016**

In 2015, General Electric and the Applied Engineering and Sapphire Training Center established a joint venture in St. Petersburg.

#### **OIL AND GAS PROJECTS**

Sapphire Center provides engineering support to projects of construction of compressor stations and gas turbine power plants at Srednebotuobinskoye oil and gas condensate field and Kuyumbinskoye oil and gas fields.

In 2015 the Sapphire center performed analysis of advantages and disadvantages of APG pumping technologies technologies for reservoir pressure maintenance systems for Taas-Yuryakh Neftegazobodycha. Then the best technology was selected and compressor equipment procurement was performed.

The Sapphire center specialists also performed technical analysis and issued recommendations for selecting power generation for the projects at Srednebotuobinskoye and Kuyubinskoye fields.

#### **SAPPHIRE SEA PROJECTS**

As part of the joint shipbuilding projects of Rosneft and GE for the development of the Zvezda shipbuilding complex in Vladivostok, Sapphire Center is designing basic solutions for propulsion systems for ships and rudder propellers, as well as programs for potential localization of rudder propellers and ship electrical equipment in Russia.

In order to promote the cooperation of Rosneft and GE in the field of hydrocarbon production technologies, Sapphire developed options for placing an industrial site for production wellhead equipment and Christmas trees, and a list of equipment was made for localization and analysis of the main production facilities.

Sapphire is directly engaged in a pilot project of Rosneft and GE for remote monitoring and control of equipment at the Ryazan Refinery.

Pursuant to the agreement between Rosneft and General Electric, in 2016 we plan to perform testing of 20 electric submersible pumps at RN-Yuganskneftegaz, RN-Stavropolneftegaz and Samotlorneftegaz fields. In the process of commercial testing Sapphire rendered full range of services within the project's lifecycle, including preparation, potential wells selection, consulting in terms of starting-up and termination of electric submersible pumps and issuing reports on testing results.

#### **ORGANIZATION AND DELIVERY OF TECHNICAL TRAINING**

##### **ONE OF THE PRIORITIES OF THE SAPPHIRE CENTER IS TRAINING AND RETRAINING OF HIGHLY QUALIFIED PERSONNEL FOR THE NEEDS OF ROSNEFT.**

In 2015, in order to support the Company's localization projects, Sapphire Center delivered five technical trainings in various fields including shipbuilding, energy efficiency, gas monetization, downhole operations, and drilling. More than 80 employees of the Central Staff and the Group companies took part in the training, which

was in Moscow and St. Petersburg. In the feedback questionnaires, the participants commented the trainings and noted that the knowledge gained could be applied in the implementation of the Company's projects.

In 2016-2017, the Center plans to train more than 250 employees, managers, and technical specialists of Rosneft under 14 technical programs designed to meet the most urgent tasks of the Company.

#### **DEVELOPMENT OF AN INDUSTRIAL CLUSTER OF OIL SERVICE ENTERPRISES FOR OFFSHORE PROJECTS IN THE ARCTIC ZONE OF THE RUSSIAN FEDERATION**

In 2015, pursuant to the Russian President Vladimir Putin's resolution No. Pr-1553 dated July 11, 2013, and the Russian Government No. 243-r dated February 18, 2015, Rosneft Group completed the acquisition of a 100 %-one block of shares of JSC Shipyard 82, which located in the Roslyakovo residential district of Murmansk.

On the territory of Shipyard 82 and the adjacent land areas and water areas, in addition to the coastal support base there will be an industrial oil service cluster consisting of the following:

- multipurpose dry docks with caisson gates for the production of concrete foundations of oil and gas production platforms and refineries for production of liquefied natural gas of coastal location;
- platform for modular assembly of topsides;
- plant for wellhead reinforcement production;
- equipment assembly and production shop for elimination of accidental oil spills;
- coastal infrastructure for docking topsides and concrete foundations of drilling platforms.

In 2016 we are to develop new substantiation of investments for the above industrial platform development with account of continuing ship repair operations of the plant and development of new oil service production units with participation of process partners.

## 6.8. CONTRACTORS AND SUPPLIERS RELATIONS

ROSNEFT IS THE BIGGEST CONSUMER OF GOODS, WORKS AND SERVICES AMONG BOTH RUSSIAN PRIVATE AND PUBLICLY OWNED COMPANIES. THE ANNUAL SCOPE OF GOODS, WORKS AND SERVICES PROCUREMENT BY ROSNEFT AND THE GROUP COMPANIES FROM THE THIRD COUNTERPARTS MAKES RUB 1.4 TLN.

The procurement is performed to cover the needs of business segments in goods, works and services in due time, full scope, and good quality, and with maximum commercial efficiency.



THE COMPANY IS  
FOCUSED ON LONG-  
TERM RELATIONS WITH  
SUPPLIERS

RUB **1.4** TRILLION

PROCUREMENT OF GOODS, WORKS  
AND SERVICES FROM THE THIRD-  
PARTY CONTRACTORS

2015 key achievements in procurement:

1. To raise economic efficiency of procurements the Company (as a vertically integrated holding enterprise) performs consolidated procurement of goods, works and services for the group companies. Such approach conforms to the recommendations of the federal executive bodies (letter of the Ministry of Industry and Trade of the Russian Federation on improvement of procurement centralization No. NG-54957/05 of December 07, 2015). Materials and equipment procurement is centralized at Rosneft at the level of 79%, including Head office responsibility materials at the level of 60%, regional procurement operators with decision-making by the Head Office at the level of 10%, other regional procurement at the level of 9%.
2. To get discounts for the scope and prices fixation in Rubles we turn to long-term agreements. The total amount of materials, equipment and works procurement under long-term agreements (including listed and framework agreements) in 2015 made RUB 260 bln (three-year demand). Moving towards long-term agreements the Company develops uniform requirements to procured products. Information on the annual demand in materials and equipment is posted on the Company's website. The following long-term procurement agreements are already signed: wellhead equipment, metering units, well screens, pumps, oil submersible cable.
3. To provide for the uniform principles and approaches to procurement the Uniform Company Regulation on Goods, Works and Services Procurement and Standard Procurement Documents are implemented at Rosneft and the Group companies. Besides the maximum transparency is provided by publishing procurement plans, information on procurement procedure and results, as well as on performance and conclusion of the relevant agreements (information on over 99% procurements is available in the Internet).
4. To raise efficiency of procurement operations SAP SRM System was implemented in 144 key Group



companies. We also developed transparent system-level process from procurement planning through making decision of the result of procurement.

5. To raise efficiency of procurement operations the Company initiated 3,399 procurements totaling RUB 652 bln and registered 6,247 suppliers at the CJSC TEK-Torg Electronic Trading Platform (the Rosneft Section).
6. The Company is interested in long-term relations with the suppliers. The Company internal regulations provide for a long-term accreditation (18 months) significantly cutting costs of potential suppliers taking part in procurement procedures. The number of supplies accredited by the Company to take part in procurement grew on 8 % in 2015 compared to 2014.

7. The Company is implementing the Import Substitution Program approved in 2015. The share of the procured Russian goods in 2015 made 83 %. The Company Regulation on Goods, Works and Services Procurement enables the Company to prioritize procurement of domestic goods, works and services in the cases and according to the procedure stated in the current legislation.
8. The Company develops interaction with small and medium business entities. To expand the access of small and medium business entities to the Company's procurement, we signed an agreement with the Federal Small and Medium Businesses Development Corporation and continuously perform operations in line with the standards and regulations of the Government of the Russian Federation. As required by Russian legislation, for the reporting

period from July 01, 2015 through December 31, 2015 Rosneft concluded the agreements (including the Group companies' agreements) with small and medium business entities totaling RUB 13.5 bln or making 28.5% of the estimated base. We actively communicate with the representatives of the regional authorities to engage small and medium business entities in procurement procedures and to raise their awareness.



*The Company is focused on long-term cooperation with the suppliers*

## 6.9. SCIENCE AND INNOVATION

**69 APPLICATIONS**

FOR PATENTS SUBMITTED IN 2015,  
INCLUDING 5 APPLICATIONS, SUB-  
MITTED OUTSIDE THE COUNTRY

**RUB 116.9 BLN**

INNOVATIONS EXPENSES  
IN 2015

Continuous growth of the Company's technological potential is stipulated by the 2011-2015 Innovative Development Program (approved by the Board of Directors on April 01, 2011, Minutes No. 34). The document meets the requirements of regulatory, planning, and policy documents at the national, regional and corporate levels. Its targets and goals contribute to the performance of the Rosneft Long-Term Development Program.

The program consists of the following blocks:

- targeted innovation projects;
- targeted programs for modernization and increasing production efficiency;
- measures to improve innovation activity.

Innovative projects of the Program are focused on the following business lines:

- Geology and difficult oil production,
- Gas production and processing,
- Offshore exploration,
- Oil refining and petrochemicals,
- IT and management solutions.

Rosneft's innovative activities are aimed at the development and implementation of the newest technologies to achieve the following objectives:

- Upstream segment:
  - replenishment of hydrocarbon reserves at the level of at least 100 % of the current production;
  - increase of hydrocarbon recovery rates on new deposits, development of systematic measures to increase oil and gas yield on existing fields;
  - efficient use of associated gas (95%);
  - development of technologies for cost-effective involvement of unconventional and hard-to-recover hydrocarbon reserves in the development.
- Downstream segment:
  - increase of the degree of oil refining;
  - introduction of new technologies for processing heavy residues and oil and gas chemistry;
  - development of its own catalysts (import substitution).

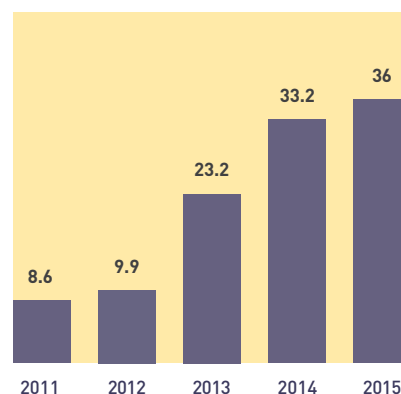
In 2015 the Company started updating its Innovative Development Program for 2016-2020 according to the Directives of the Government of the Russian Federation No. DM-P36-6057 of August 09, 2014 and No. DM-P36-7563 of November 07, 2015, and due to the termination timelines of the current Program performance (2011-2015).

In 2015, the innovation expenses of the Company amounted to RUB 116.9 bln while R&D costs amounted to RUB 36 bln.

All the planned activities for 2015 were fulfilled.

IN THE MODERN WORLD, THE LEVEL OF TECHNOLOGICAL DEVELOPMENT IS ONE OF THE MAIN FACTORS OF COMPETITIVENESS AND KEY TO SUSTAINABLE DEVELOPMENT OF A COMPANY.

R&D funding, RUB bln



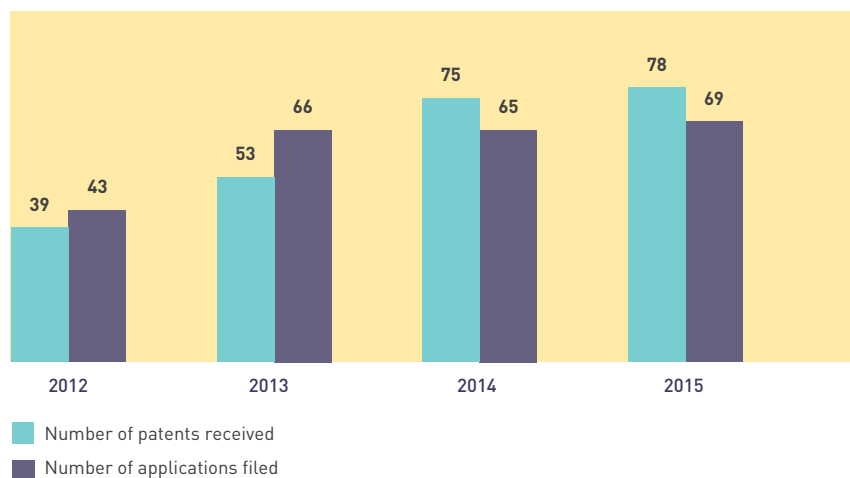
### TARGETED INNOVATION PROJECTS

In the reported year, growth of patent activity was continued and special attention was paid to the implementation of R&D results and securing intellectual property rights. As a result of the implementation of targeted innovation projects in 2015, the Company filed 69 applications for security documents including five abroad.

### The main results achieved in 2015 on key projects:

- The Company organized systematic work on research of promising gas fields of the Berezovskaya suite. A program of targeted field studies on additional exploration of the Berezovskaya suite was developed and approved. According to the 2015 assessment, the resource potential

### Number of patents received and applications filed for inventions and utility models as well as certificates of state registration of software products



of the Berezovskaya suite exceeds 5 trillion m<sup>3</sup> free gas. The planned development of reserve localization technologies and their cost-effective development will allow to put the reserves on the balance sheet of Rosneft and to increase the capitalization of the Company.

- The development of computer technology for processing three-dimensional seismic data, which is aimed at the research of unconventional hydrocarbon deposits in cavernous fractured reservoirs, was completed.

The developed technology has a number of advantages over similar technologies developed by leading oil and gas companies (Shell, Total, Saudi Aramco). The technology makes it possible not only to allocate scattered waves to forecast increased fracturing zones but also to determine the possible orientation of cracks by the scattered waves and predict fluid saturation in fracturing zones.

Especially effective is the use of this technology in the process of research of different reserves, which are widespread in Eastern Siberia, the Timan-Pechora oil and gas province, and on the Arctic shelf.

- Research was continued to assess the prospects of Upper Jurassic deposits in the license areas in the activity zone of LLC RN-Yuganskneftegaz,

two wells were completed by drilling with coring and recording of an expanded GIS complex, which will enable a qualitative study of the object and design of a multi-stage hydraulic fracturing.

- Pilot projects were implemented at Pirazlomnoye field by LLC RN-Yuganskneftegaz to test its own technology for developing low-permeability reservoirs based on horizontal wells with multiple transverse fractures for hydraulic fracturing. The results showed high potential of the technology to increase well production.

The following was also developed as part of the project:

- infill drilling technology in marginal zones drilled by directional wells of low permeability reservoirs. The technology allows for a multiple increase the effectiveness of the development of this collector type. A patent application for the technology was filed.
- a software unit to optimize the modes of EDCP systems, the implementation of which only at LLC RN-Yuganskneftegaz will potentially increase the production by 1,000 tons/day.
- A new technology of acid gases removal (CO<sub>2</sub>, H<sub>2</sub>S and mercaptans) from associated gas was developed based on the method of acid gas absorption through porous hollow fiber membranes in amine

solutions (pertraction). Successful completion of the project will provide multiple reduction in capital and operating costs compared with traditional methods.

- Development was completed of a software unit for calculating a 3D formation model for geological support of horizontal drilling and sidetracking, which surpasses the existing analogs. The 3D formation model, in contrast to the standard one, improves the accuracy of calculation of synthetic logging.

In addition, the Company developed a software unit for combined calculation of detailed hydrodynamic models, which has no analogs, improves calculation accuracy, and reduces the time of modeling super-large fields (Priobskoye, Pirazlomnoye, Samotlor, Vankor, etc.) including the ones characterized by the presence of gas caps and high permeability formations/interlayers.

- The concept and the calculation core of the corporate hydraulic fracturing simulator were developed. According to test results, the developed algorithms surpass Western commercial analogs in calculating speed. The development of the unique competences in the field of geological and technical activities will allow the Company to improve the economic efficiency of oil services and to eliminate dependence on imported technology.

## Arctic shelf

- Rosneft with the participation of the Arctic Research Center and experts of the Arctic and Antarctic Research Institute organized the Kara-Winter-2015 and Kara-Summer-2015 expeditions, in which 35 hummocks and four icebergs were studied comprehensively, morphometric parameters of ice formations and physical and mechanical properties of ice were measured, and large-scale experiments on research of dynamic processes in the sea ice — iceberg system were performed. Aerial filming was performed of glacier fronts on the east coast of Novaya Zemlya and glaciers and icebergs of the Severnaya Zemlya and Franz Josef Land archipelagos. Maintenance of six automatic weather stations and 13 autonomous oceanographic buoy stations was performed.

The Kara-Winter-2015 research expedition became the most ambitious Arctic expedition in the world by scale and composition over the past 20 years.

## GTL

- A mini-channel reactor and a technology of the Fischer-Tropsch process in a compact version of the GTL (Gas-to-liquid) technology, which provides processing of natural/associated gas into synthetic oil. Implementation of this technology will provide an extra 20 mln tons of oil per year by processing natural/associated gas directly at the fields. The main advantages of the GTL technology are:
  - compact size allowing to use GTL on hard-to-reach and remote fields (including offshore projects),
  - block-modular design of the facility that enables easy scaling for different capacity fields.
- A laboratory technique was designed for determining the compatibility of mineral and synthetic oil. Research has confirmed the compatibility of mineral oil with products that are obtained by Fischer-Tropsch synthesis, which allows their joint transportation via oil pipelines.

## Refining and Petrochemicals

- IDW and hydrofinishing catalysts were developed that are used to produce low sulfur, winter, and arctic diesel fuel (Euro-5). Implementation of this project will enable import substitution of catalysts at two-stage hydrofining and IDW unit, at the Company's refineries.
- Development of catalysts for hydrofining of diesel fractions and pre-hydrofining of gasoline fractions was completed. Pilot industrial operation catalysts in the amount of 200kg was completed. Independent comparative tests of hydrofining catalyst were performed with domestic and foreign analogs, which showed its competitiveness compared with the foreign analogs. Implementation of these catalysts will make the Company independent of supplies of foreign-made catalysts for hydrofining of diesel fractions and pre-hydrofining of gasoline fractions.
- A modern technology was designed for producing synthetic PAO oils with a high viscosity index (140–170), low pour point (–50°–65°), and excellent thermal oxidative stability. The developed technology has a number of advantages, such as lack of wastewater and toxic gas emissions as well as useful oligomerization heat. In 2015, the development of initial data was completed for the design of a pilot plant producing synthetic PAO base oil with 300 tons/year capacity of (OPU PAO-300).
- The development of anti-corrosion additives for environmental safety class 5 motor gasoline was completed. A multifunctional additive formula was designed, which includes the developed anti-corrosion additive. This project will enable import substitution of the multifunctional additive. Implementation of this project will allow the Company to produce the multifunctional additive from domestic raw materials and complete import substitution of foreign analogs.

## Polymer materials

- A laboratory technology was designed for production of diethyl ruthenium catalyst for dicyclo-

pentadiene polymerization with 6 kg/year capacity. This volume allows to produce up to 120 tons of new polymeric and composite materials based on polydicyclopentadiene with unique mechanical properties.

- The development of initial data was completed for the design of an industrial plant for dicyclopentadiene production (98.5 wt%) from the C5 pyrolysis fraction with 4,000 t/year capacity.

## INTERNATIONAL COOPERATION

In 2015, a Center for Advanced Research and Technology was established together with General Electric; its task is to improve the existing technologies of partner companies and to develop new technologies for mutual benefit.

The first project agreement was signed for the development of an improved performance heat exchanger for liquefied natural gas plants (LNG). Draft technical specifications are worked out for conclusion of project agreements for the development of the following technology:

- renewable energy sources to improve the energy efficiency of pipeline transportation of hydrocarbons (remote control and diagnostic systems);
- plants with an organic Rankine cycle to reduce the thermal impact of refineries on the environment.

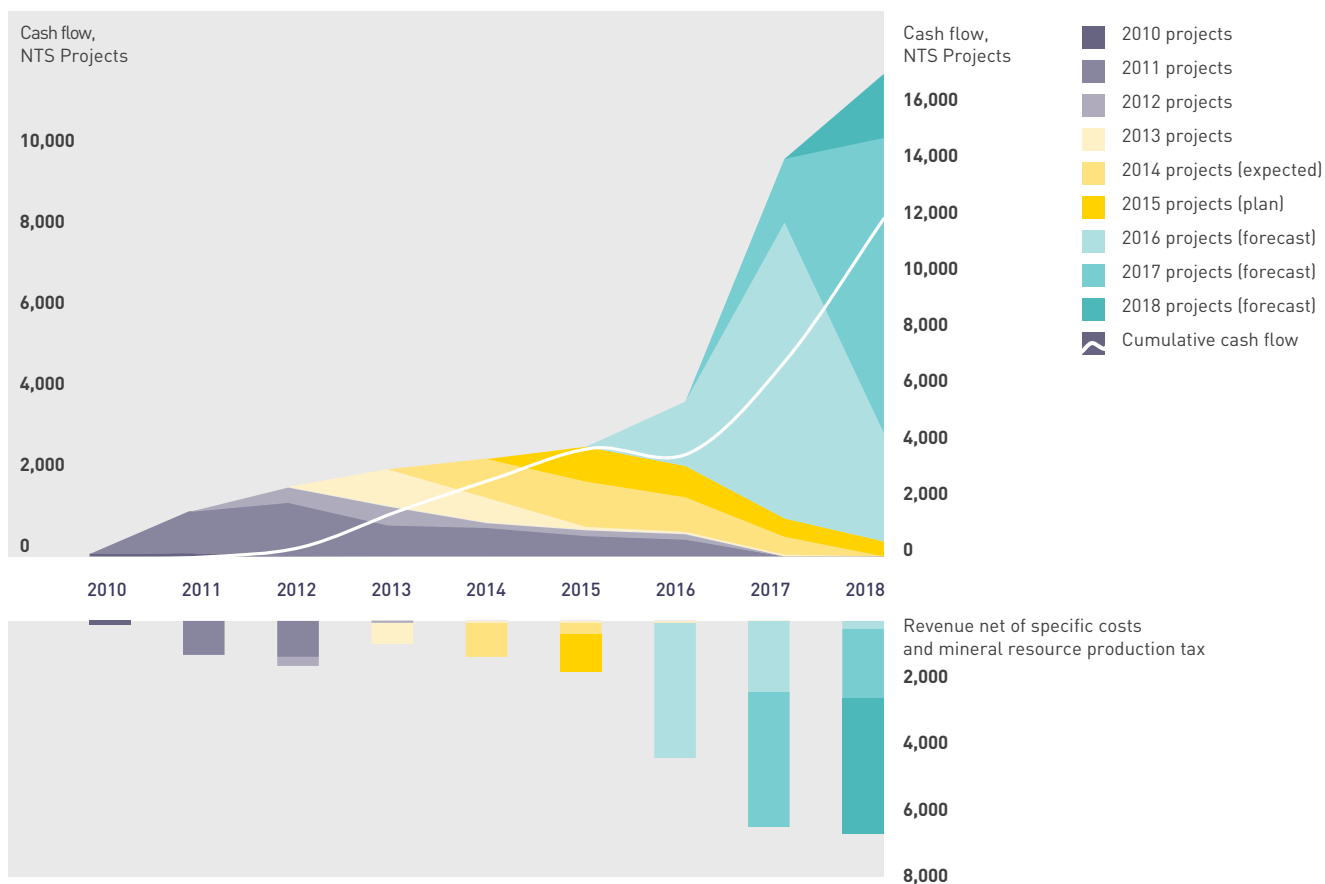
## METHODICAL SUPPORT OF INNOVATIVE ACTIVITY

As part of the systematic work on the development and improvement of innovative activity of the Company in 2015, the following were developed and approved:

- Management of Innovation Efficiency Company Standard;
- Management of Innovation Projects Company Standard;
- Order of development (updating) and implementation of the Rosneft innovative development program;
- On the procedure and rules of the one stop shop system for imple-



## Cash flow, NTS Projects



- mentation of innovative products Company Regulations;
- Guidelines Comprehensive assessment of innovation efficiency (calculation of the integral key performance indicator of innovation activity) Methodical Guidelines.

Thus, the Company has established an integrated system for managing the efficiency of innovative projects based on the best practices and standards. The system allows to identify risks of innovative projects in due time, to improve their performance, and to achieve mass effect from the technology implementation.

### ADAPTATION AND IMPLEMENTATION OF ADVANCED TECHNOLOGIES IN 2015

Within the framework of attracting promising efficient technologies developed by domestic and foreign companies to the Company, in 2015, testing, adaptation, and adoption of new technologies was organized within the framework of the New Technolo-

gies System (NTS) and the Pilot Test Program (PTP) projects.

During the tests, the key features and technologies were determined and the assessment was conducted on the feasibility and effectiveness of their use in the geological and technical conditions of the Company. According to the technology applicability analysis, the 2016–2017 implementation plan was generated.

In 2015, 7 subsidiaries completed tests of 21 technologies in 4 areas within the NTS framework:

- fracturing and stimulation of wells;
- machine mining;
- new well technology;
- field development technology.

In 2015, 98 tests were performed within the NTS framework, in which 51 thousand tons of additional oil were produced and costs were reduced by RUR 66.1 mln.

In 2015, 240 pilot test projects were implemented in 8 areas:

- drilling and completion of wells;
- fracturing and stimulation of wells;
- machine mining;
- ground infrastructure and pipelines;
- new well technology;
- field development technology;
- use of chemicals in industrial processes;
- energy and energy efficiency.

In 2015, tests on 137 NTS projects were completed within the NTS framework. The additional oil production from the tests amounted to 68 thousand tons, and reduction of costs, RUB 294 mln.

As a result of NTS and PTP projects of 2011–14, in 2015, implementation of 137 successfully tested efficient technologies was organized with an overall budget of RUB 15,883.8 mln, additional oil production of 2,668 thousand tons, and an economic effect of RUB 1,642.7 mln.

# **APPENDIX 1**

## **CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT**

## Independent auditor's report

### TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF ROSNEFT OIL COMPANY

We have audited the accompanying consolidated financial statements of Rosneft Oil Company and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2015, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Audited entity's responsibility for the consolidated financial statements

Management of Rosneft Oil Company is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

#### Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these consolidated financial statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The audit procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Rosneft Oil Company and its subsidiaries as at December 31, 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### 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 80 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.

#### D.E. Lobachev

General director  
Ernst & Young LLC

March 29, 2016

#### Details of the audited entity

Name: Rosneft Oil Company  
Record made in the State Register of Legal Entities on July 19, 2002, State Registration Number 1027700043502.  
Address: Russia 115035, Moscow, Sofiyskaya Embankment, 26/1.

#### Details of the auditor

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.  
Ernst & Young LLC is a member of Self-regulatory organization of auditors "Russian Audit Chamber" (Association) ("SRO APR"). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

## Consolidated Balance Sheet

Rosneft Oil Company  
in billions of Russian rubles

	Notes	As of December 31,	
		2015	2014
ASSETS			
Current assets			
Cash and cash equivalents	20	559	216
Restricted cash	20	2	1
Other short-term financial assets	21	986	723
Accounts receivable	22	367	554
Inventories	23	219	233
Prepayments and other current assets	24	271	404
Total current assets		2,404	2,131
Non-current assets			
Property, plant and equipment	25	5,895	5,666
Intangible assets	26	48	49
Other long-term financial assets	27	510	281
Investments in associates and joint ventures	28	353	347
Bank loans granted		18	14
Deferred tax assets	17	25	24
Goodwill	26	227	215
Other non-current non-financial assets	29	8	9
Total non-current assets		7,084	6,605
Assets held for sale	8	150	–
Total assets		9,638	8,736
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	30	476	494
Loans and borrowings and other financial liabilities	31	1,040	1,216
Income tax liabilities		8	39
Other tax liabilities	32	138	162
Provisions	33	28	36
Prepayment on long-term oil and petroleum products supply agreements	34	120	80
Other current liabilities		7	4
Total current liabilities		1,817	2,031
Non-current liabilities			
Loans and borrowings and other financial liabilities	31	2,283	2,190
Deferred tax liabilities	17	579	594
Provisions	33	143	107
Prepayment on long-term oil and petroleum products supply agreements	34	1,785	887
Other non-current liabilities	35	39	46
Total non-current liabilities		4,829	3,824
Liabilities associated with assets held for sale	8	63	–
Equity			
Share capital	37	1	1
Additional paid-in capital	37	507	493
Other funds and reserves		(768)	(500)
Retained earnings		3,146	2,878
Rosneft shareholders' equity		2,886	2,872
Non-controlling interests	18	43	9
Total equity		2,929	2,881
Total liabilities and equity		9,638	8,736



## 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,	
		2015	2014
REVENUES AND EQUITY SHARE IN PROFITS/(LOSSES) OF ASSOCIATES AND JOINT VENTURES			
Oil, gas, petroleum products and petrochemicals sales	9	5,071	5,440
Support services and other revenues		70	75
Equity share in profits/(losses) of associates and joint ventures	28	9	(12)
Total revenues and equity share in profits/(losses) of associates and joint ventures		5,150	5,503
COSTS AND EXPENSES			
Production and operating expenses		575	469
Cost of purchased oil, gas, petroleum products and refining costs		530	495
General and administrative expenses		130	114
Pipeline tariffs and transportation costs		542	471
Exploration expenses		13	19
Depreciation, depletion and amortization	25, 26	450	464
Taxes other than income tax	10	1,277	1,195
Export customs duty	11	925	1,683
Total costs and expenses		4,442	4,910
Operating income		708	593
Finance income	12	55	30
Finance expenses	13	(269)	(219)
Other income	14	75	64
Other expenses	14	(72)	(54)
Foreign exchange differences		86	64
Cash flow hedges reclassified to profit or loss	6	(123)	–
Income before income tax		460	478
Income tax expense	17	(104)	(128)
Net income		356	350
Net income attributable to:			
• Rosneft shareholders		355	348
• non-controlling interests	18	1	2
Net income attributable to Rosneft per common share (in RUB) – basic and diluted	19	33.50	32.84
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,	
		2015	2014
<b>Net income</b>		<b>356</b>	<b>350</b>
<b>Other comprehensive (loss)/income – to be reclassified to profit or loss in subsequent periods</b>			
Foreign exchange differences on translation of foreign operations		(194)	(87)
Foreign exchange cash flow hedges	6	(92)	(498)
Loss from changes in fair value of financial assets available-for-sale		–	(1)
Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent period	6, 17	18	100
<b>Total other comprehensive loss – to be reclassified to profit or loss in subsequent periods, net of tax</b>		<b>(268)</b>	<b>(486)</b>
<b>Total comprehensive income/(loss), net of tax</b>		<b>88</b>	<b>(136)</b>
Total comprehensive income/(loss), net of tax, attributable to:			
• Rosneft shareholders		87	(138)
• non-controlling interests		1	2

## 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 earn- ings	Total share- holders' equity	Non-controlling interests	Total equity
Balance at January 1, 2014	10,598	1	477	(14)	2,666	3,130	39	3,169
Net income	–	–	–	–	348	348	2	350
Other comprehensive loss	–	–	–	(486)	–	(486)	–	(486)
<b>Total comprehensive (loss)/income</b>	–	–	–	(486)	348	(138)	2	(136)
Acquisition of non-controlling interest in a subsidiary (Note 18)	–	–	16	–	–	16	(32)	(16)
Dividends declared on common stock (Note 37)	–	–	–	–	(136)	(136)	–	(136)
<b>Balance at December 31, 2014</b>	<b>10,598</b>	<b>1</b>	<b>493</b>	<b>(500)</b>	<b>2,878</b>	<b>2,872</b>	<b>9</b>	<b>2,881</b>
Net income	–	–	–	–	355	355	1	356
Other comprehensive loss	–	–	–	(268)	–	(268)	–	(268)
<b>Total comprehensive (loss)/income</b>	–	–	–	(268)	355	87	1	88
Change of non-controlling interest in subsidiaries (Note 18)	–	–	14	–	–	14	32	46
Disposal of subsidiaries	–	–	–	–	–	–	1	1
Dividends declared on common stock (Note 37)	–	–	–	–	(87)	(87)	–	(87)
<b>Balance at December 31, 2015</b>	<b>10,598</b>	<b>1</b>	<b>507</b>	<b>(768)</b>	<b>3,146</b>	<b>2,886</b>	<b>43</b>	<b>2,929</b>

## Consolidated Statement of Cash Flows

Rosneft Oil Company  
in billions of Russian rubles

	Notes	For the years ended December 31,	
		2015	2014
OPERATING ACTIVITIES			
Net income		356	350
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	25, 26	450	464
Loss on disposal of non-current assets	14	22	18
Impairment of assets	14	6	2
Dry hole costs		2	4
Foreign exchange (gain)/loss		(93)	146
Cash flow hedges reclassified to profit or loss	6	123	–
Equity share in losses/(profits) of associates and joint ventures	28	(9)	12
Gain on disposal of investments in associates and joint ventures	14	(15)	(56)
Loss from disposal of subsidiaries and non-production assets	14	11	6
Movements in bad debt provision		10	2
Gain on notes write-off	31	(20)	–
Gain from liability write off		(17)	–
Finance expenses	13	269	219
Finance income	12	(55)	(30)
Income tax expense	17	104	128
Changes in operating assets and liabilities:			
Decrease/(increase) in accounts receivable, gross		82	(89)
Decrease/increase in inventories		17	(27)
Increase in restricted cash		(1)	–
Decrease/increase in prepayments and other current assets		134	(72)
(Decrease)/increase in accounts payable and accrued liabilities		(47)	145
(Decrease)/increase in other tax liabilities		(22)	1
Increase in current provisions		3	4
Increase in other current liabilities		3	1
Increase in other non-current liabilities		23	16
Increase in long-term prepayment on oil and petroleum products supply agreements	34	938	497
Interest paid on long-term prepayment on oil and petroleum products supply agreements		(17)	(11)
Long-term loans granted by subsidiary banks		(32)	(19)
Repayment of long-term loans granted by subsidiary banks		28	17
Acquisition of trading securities		(4)	(19)
Proceeds from sale of trading securities		9	1

## Consolidated Statement of Cash Flows

Rosneft Oil Company  
in billions of Russian rubles

	Notes	For the years ended December 31,	
		2015	2014
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES BEFORE INCOME TAX AND INTEREST</b>		<b>2,258</b>	<b>1,728</b>
Income tax payments		(112)	(115)
Interest received		31	12
Dividends received		18	1
<b>Net cash provided by operating activities</b>		<b>2,195</b>	<b>1,626</b>
<b>INVESTING ACTIVITIES</b>			
Capital expenditures		(595)	(533)
Acquisition of pipeline capacity rights		–	(16)
Acquisition of licenses and auction fees		(1)	(28)
Acquisition of short-term financial assets		(327)	(547)
Proceeds from sale of short-term financial assets		213	341
Acquisition of long-term financial assets	27	(104)	–
Financing of joint ventures		(23)	(173)
Acquisition of interest in associates and joint ventures	28	(49)	(21)
Proceeds from sale of investments in associates and joint ventures	28	95	21
Acquisition of subsidiaries, net of cash acquired	7	(31)	(28)
Sale of property, plant and equipment		4	3
Placements under reverse REPO agreements		(5)	(9)
Receipts under reverse REPO agreements		10	11
<b>Net cash used in investing activities</b>		<b>(813)</b>	<b>(979)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from short-term loans and borrowings	31	825	274
Repayment of short-term loans and borrowings		(678)	(215)
Proceeds from long-term loans and borrowings	31	208	362
Repayment of long-term loans and borrowings		(1,125)	(817)
Interest paid		(137)	(96)
Proceeds from bonds issuance	31	–	35
Repayment of other financial liabilities		(143)	(12)
Proceeds from sale of non-controlling interest in subsidiary	18	46	–
Dividends paid to shareholders		(87)	(136)
Acquisition of non-controlling interests in subsidiaries		–	(169)
<b>Net cash used in financing activities</b>		<b>(1,091)</b>	<b>(774)</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>291</b>	<b>(127)</b>
Cash and cash equivalents at the beginning of the year	20	216	275
Effect of foreign exchange on cash and cash equivalents		52	68
<b>Cash and cash equivalents at the end of the year</b>	<b>20</b>	<b>559</b>	<b>216</b>

## Notes to the Consolidated Financial Statements, December 31, 2014

### 1. GENERAL

Open joint stock company ("OJSC") Rosneft Oil Company ("Rosneft") and its subsidiaries (collectively, the "Company") are principally engaged in the exploration, development, production and sale of crude oil and gas and the refining, transportation and sale of petroleum products in the Russian Federation and in certain international markets.

Rosneft State Enterprise was incorporated as an open joint stock company on December 7, 1995. All assets and liabilities previously managed by Rosneft State Enterprise were transferred to the Company at their book value effective on that date together with the Government of the Russian Federation (the "State") ownership in other privatized oil and gas companies. 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 an Open Joint Stock Company "Oil Company Rosneft". Such transfers represented a 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 OJSC ROSNEFTEGAS. As of December 31, 2005, 100% of the shares of Rosneft less one share were owned by OJSC ROSNEFTEGAS and one share was owned by the Russian Federation Federal Agency for the Management of Federal Property. Subsequently, OJSC ROSNEFTEGAS's ownership interest decreased through additional issuance of shares during Rosneft's Initial Public Offering ("IPO") in Russia, an issuance of Global Depository Receipts ("GDR") for the shares on the London Stock Exchange and the share swap realized during the merger of Rosneft and certain subsidiaries during 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"), OJSC ROSNEFTEGAS sold 5.66% of Rosneft shares to BP plc. ("BP"). As of December 31, 2015 OJSC ROSNEFTEGAS' ownership interest in Rosneft was 69.50%.

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 for 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 OJSC AK Transneft. The Company exports certain quantities of crude oil through bypassing the OJSC 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.

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).

### 2. BASIS OF PREPARATION (CONTINUED)

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 President of the Company on March 29, 2016.

Subsequent events have been evaluated through March 29, 2016, 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. The 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.

Acquisition date 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 interest over the fair value of net identifiable assets acquired and liabilities assumed. If the aggregate of 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 investment in associates includes the carrying value of the investment 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 investment 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 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, non-current liabilities related to derivative instruments. The recognition and classification of a gain or loss that results from recognition of an adjustment of a derivative instrument at fair value depends on the purpose for issuing or holding the derivative instrument. Gains and losses from derivatives that are not accounted for as hedges under International Accounting Standard ("IAS") 39 Financial Instruments: Recognition and Measurement are recognized immediately in the profit or loss for the period.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Subsequent to initial recognition, the fair value of financial assets at fair value that are quoted in an active market is defined as bid prices for assets and ask prices for issued liabilities as of the measurement date.

If no active market exists for financial assets, the Company measures the fair value using the following methods:

- analysis of recent transactions with peer instruments between independent parties;
- current fair value of similar financial instruments;
- discounting future cash flows.

The discount rate reflects the minimum return on investment an investor is willing to accept before starting an alternative project, given its risk and the opportunity cost of forgoing other projects.

Loans issued and accounts receivable include non-derivative financial instruments with fixed or determinable payments that are not quoted in an active market, not classified as financial assets held for trading and have not been designated as at fair value through profit or loss or available for sale. If the Company cannot recover all of its initial investment in the financial asset due to reasons other than deterioration of its quality, the financial asset is not included in this category. After initial recognition, loans issued and accounts receivable are measured at amortized cost using the effective interest rate method ("EIR"), less impairment losses. The EIR amortization is included in Finance income in the consolidated statement of profit or loss. The losses arising from impairment or gains from impairment reversals are recognized in the consolidated statement of profit or loss.

The Company does not classify financial assets as held to maturity if, during either the current financial year or the two preceding financial years, the Company has sold, transferred or exercised a put option on more than an insignificant (in relation to the total) amount of such investments before maturity unless: (1) the financial asset was close enough to maturity or the call date so that changes in the market rate of interest did not have a significant effect on the financial asset's fair value; (2) after substantially all of the financial asset's original principal had been collected through scheduled payments or prepayments; or (3) due to an isolated non-recurring event that is 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 the 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 for accounting purposes 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, 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.

Oil and gas properties (development assets) costs include 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

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
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 and reassessing the useful life of an asset 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 for 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 loss, 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 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 not limited to) indications that the debtors or a group of debtors is 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 related to the use of 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 lease 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 assets 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 a discounting 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 period for such assets are not determinable.

Because of the reasons described above the fair value of an asset retirement (decommissioning) obligation of 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

From 2012 Russian tax legislation allows income taxes to be calculated on a consolidated basis. The main subsidiaries of the Company were therefore combined into the Consolidated group of taxpayers (Note 40). For subsidiaries which are not included in the Consolidated group of taxpayers, income tax was 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;
- the 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 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, value-added tax ("VAT")) are deducted from revenues. Non-refundable 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. A 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 nominated 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 a regular way sales entered into and continued to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements. A 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 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 item and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuations in price or 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, 2015.

The following new standard was applied for the first time in 2015:

- Defined Benefit Plans: Employee Contributions — Amendments to IAS 19 Employee Benefits. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

The application of this standard had no significant impact on the Company's financial position or results of operations.

## 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», Topic «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», Topic «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 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.:

- obtaining more detailed information on reserves (either as a result of more detailed engineering calculations or additional exploration drilling activities);
- conducting supplemental activities to enhance oil recovery;
- changes 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. The Company is currently assessing the impact of the standard on the consolidated financial statements.



In May 2014, the IASB issued an amendment to IFRS 11 Joint Arrangements, entitled Accounting for Acquisitions of Interests in Joint Operations. 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. The amendment is effective for annual periods beginning on or after January 1, 2016, with earlier application permitted. The Company is currently assessing the impact of the amendment on the consolidated financial statements.

In May 2014, the IASB issued amendments to IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets, entitled Clarification of Acceptable Methods of Depreciation and Amortization. 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. These amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company does not expect the amendments to have a material impact 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 postponed the date the entities must change these aspects of accounting for the transactions between the investors and equity accounted investees. Application of the amendments, initially planned for annual periods beginning on or after January 1, 2016, was 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 December 2014, the IASB issued amendments to IAS 1 Presentation of Financial Statements. These amendments are part of the initiative to improve presentation and disclosure in financial reports. These amendments are effective for annual periods beginning on or after January 1, 2016 with earlier application permitted. The Company does not expect the amendments to have a material impact on the consolidated financial statements.

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.

## 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,	
	2015	2014
Total debt	3,323	3,406
Cash and cash equivalents	(559)	(216)
Other short-term financial assets and certain long-term deposits	(1,070)	(723)
Net debt	1,694	2,467
Total equity	2,929	2,881
Total capital employed	4,623	5,348
Net debt to capital employed ratio, %	36.6 %	46.1 %

### 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 nominated 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 nominated in foreign currencies.

The carrying values of monetary assets and liabilities nominated in foreign currencies are presented in the table below:

	Assets		Liabilities	
	As of December 31,		As of December 31,	
	2015	2014	2015	2014
US\$	1,828	1,150	(2,793)	(2,687)
EUR	121	124	(113)	(163)
Total	1,949	1,274	(2,906)	(2,850)

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 nominated borrowings as a hedge of the expected highly probable U. S. dollar nominated 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 2019 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 2015 are presented in the table below:

	US\$ million	The equivalent amount at the CBR exchange rate as of December 31, 2015, RUB billion
Nominal amount as of December 31, 2014	29,490	2,149
Hedging instruments designated	20,963	1,527
Realized cash flow foreign exchange hedges	(3,113)	(226)
Hedging instruments de-designated	(43,422)	(3,165)
<b>Nominal amount as of December 31, 2015</b>	<b>3,918</b>	<b>285</b>

The impact of foreign exchange cash flow hedges recognized in other comprehensive income is set out below:

	2015			2014		
	Before income tax	Income tax	Net of tax	Before income tax	Income tax	Net of tax
<b>Total recognized in other comprehensive (loss)/ income as of the beginning of the year</b>	<b>(498)</b>	<b>100</b>	<b>(398)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Foreign exchange effects recognized during the year	(215)	43	(172)	(498)	100	(398)
Foreign exchange effects reclassified to profit or loss	123	(25)	98	-	-	-
<b>Total recognized in other comprehensive (loss)/ income for the year</b>	<b>(92)</b>	<b>18</b>	<b>(74)</b>	<b>(498)</b>	<b>100</b>	<b>(398)</b>
<b>Total recognized in other comprehensive (loss)/ income as of the end of the year</b>	<b>(590)</b>	<b>118</b>	<b>(472)</b>	<b>(498)</b>	<b>100</b>	<b>(398)</b>

The schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of December 31, 2015, is presented below:

Year	2016	2017	2018	2019	Total
Reclassification	(147.5)	(147.5)	(147.5)	(147.5)	(590)
Income tax	29.5	29.5	29.5	29.5	118
<b>Total, net of tax</b>	<b>(118)</b>	<b>(118)</b>	<b>(118)</b>	<b>(118)</b>	<b>(472)</b>

The expected reclassification is calculated using the Central Bank of Russia ("CBR") exchange rate as of December 31, 2015 and may be different using actual exchange rates in the future.

#### Sensitivity analysis for foreign exchange risk on financial instruments

The level of currency risk is assessed on a monthly basis using a 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 as a result of the depreciation/(appreciation) of the Russian ruble against the U. S. dollar and euro.

	U.S. dollar effect		Euro effect	
	2015	2014	2015	2014
Currency rate change in %	27.22%	28.10 %	27.69 %	28.59 %
Gain/(loss)	115/(115)	267/(267)	(11)/1	(8)/8
Equity	(379)/379	(148)/148	(41)/41	(34)/34

#### 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, 2015, the Company's variable rate liability, based on LIBOR and EURIBOR alone, totaled RUB 2,337 billion (net of interest payable). In 2015 and 2014, variable rate funds raised by the Company were primarily nominated in U. S. dollars and euros.

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 LIBOR 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
2015	+5	(1)
	-5	1
2014	+3	(1)
	-3	1

The potential impact of a change in EURIBOR is insignificant.

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, 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, 2015, 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, 2014	On demand	12 months	1 to 5 years	> 5 years	Total
Loans and borrowings	–	1,181	1,604	870	3,655
Finance lease liabilities	–	6	10	7	23
Accounts payable to suppliers and contractors	–	272	–	–	272
Salary and other benefits payable	–	55	–	–	55
Banking customer accounts	62	–	–	–	62
Other accounts payable	–	34	–	–	34
Derivative financial liabilities	–	137	–	–	137

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

Loans and borrowings above exclude certain Yukos related borrowings and promissory notes payable that were carried in the books of the former Yukos subsidiaries that the Company acquired at auctions for the sale of Yukos's assets.

## 7. ACQUISITIONS OF SUBSIDIARIES AND SHARES IN JOINT OPERATIONS

### Acquisitions in 2015

#### Acquisition of AET-Raffineriebetriebsgesellschaft mbH

In November 2015 the Company acquired a 66.67% ownership interest in AET-Raffineriebetriebsgesellschaft mbH, which represents a 16.67% effective interest in PCK Raffinerie GmbH 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 planned transaction involving the reorganization 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.

As of December 31, 2015, the Company had not yet completed the fair value estimation of AET-Raffineriebetriebsgesellschaft mbH's assets acquired and liabilities assumed. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months from 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	2
Inventories	2
Prepayments and other current assets	1
<b>Total current assets</b>	<b>5</b>
NON-CURRENT ASSETS	
Property, plant and equipment	22
<b>Total non-current assets</b>	<b>22</b>
<b>Total assets</b>	<b>27</b>

LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	1
<b>Total current liabilities</b>	<b>1</b>
NON-CURRENT LIABILITIES	
Deferred tax liabilities	2
Other non-current liabilities	1
<b>Total non-current liabilities</b>	<b>3</b>
<b>Total liabilities</b>	<b>4</b>
<b>Total identifiable net assets at fair value</b>	<b>23</b>
<b>Total consideration transferred</b>	<b>23</b>

Had the AET-Raffineriebetriebsgesellschaft mbH 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 5,156 billion and RUB 356 billion, respectively, for the year ended December 31, 2015.

#### 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).

As of December 31, 2015 the Company had not yet completed the fair value estimation of TWS's assets acquired and liabilities assumed. The allocation of the purchase price to the fair value of the assets acquired and liabilities assumed will be finalized within 12 months from 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	4
Inventories	2
Cash and cash equivalents	1
<b>Total current assets</b>	<b>7</b>
NON-CURRENT ASSETS	
Property, plant and equipment	5
<b>Total non-current assets</b>	<b>5</b>
<b>Total assets</b>	<b>12</b>
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	1
<b>Total current liabilities</b>	<b>1</b>
Non-current liabilities	
Deferred tax liabilities	1
<b>Total non-current liabilities</b>	<b>1</b>
<b>Total liabilities</b>	<b>2</b>
<b>Total identifiable net assets at fair value</b>	<b>10</b>
<b>Total consideration transferred</b>	<b>10</b>

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 nine month period ended 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.

#### Acquisitions in 2014

##### Acquisition of LLC Orenburg Drilling Company

In February 2014 the Company obtained control over LLC Orenburg Drilling Company ("ODC"). The acquisition of a 100% interest in this company was completed in April 2014. The consideration amounted to US\$ 247 million (RUB 8.8 billion at the CBR official exchange rate at the date of the transaction).

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
<b>Total current assets</b>	<b>4</b>
NON-CURRENT ASSETS	
Property, plant and equipment	6
Intangible assets	1
<b>Total non-current assets</b>	<b>7</b>
<b>Total assets</b>	<b>11</b>
LIABILITIES	
Current liabilities	
Accounts payable and accrued liabilities	3
Loans and borrowings	1
<b>Total current liabilities</b>	<b>4</b>
NON-CURRENT LIABILITIES	
Loans and borrowings	1
Deferred tax liabilities	1
<b>Total non-current liabilities</b>	<b>2</b>
<b>Total liabilities</b>	<b>6</b>
<b>Total identifiable net assets at fair value</b>	<b>5</b>
Goodwill	4
<b>Total consideration transferred</b>	<b>9</b>

Goodwill in the amount of RUB 4 billion relates to the expected synergies arising from the improved efficiency of drilling project implementation at the Company's greenfields and brown-fields through cost control at each stage of well construction. Accordingly, the goodwill was fully attributed to the Exploration and production segment.

In the fourth quarter of 2014 the allocation of the purchase price of ODC was finalized. The acquisition of ODC did not contemplate any contingent consideration.

##### Acquisition of assets from Weatherford International plc.

On July 31, 2014, the Company completed the acquisition of a controlling interest in 8 entities engaged in drilling and workover services in Russia and Venezuela from Weatherford International plc (the "Weatherford assets") for a total consideration of RUB 18 billion (US\$ 0.5 billion at the CBR official exchange rate at the date of the transaction). This acquisition allows the Company to strengthen its position in the drilling and workover services market and to increase the efficiency of drilling and hydrocarbons production.

The allocation of the purchase price of Weatherford assets was finalized in the second quarter of 2015. The impact of the finalized estimate on the consolidated balance sheet and statement of profit or loss for 2014 was not significant.

The following table summarizes the Company's allocation of the purchase price to the fair value of assets acquired and liabilities assumed:



<b>ASSETS</b>	
<b>Current assets</b>	
Accounts receivable	6
Inventories	2
<b>Total current assets</b>	<b>8</b>
<b>NON-CURRENT ASSETS</b>	
Property, plant and equipment	16
Deferred tax asset	1
<b>Total non-current assets</b>	<b>17</b>
<b>Total assets</b>	<b>25</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	5
<b>Total current liabilities</b>	<b>5</b>
<b>NON-CURRENT LIABILITIES</b>	
Deferred tax liabilities	2
<b>Total non-current liabilities</b>	<b>2</b>
<b>Total liabilities</b>	<b>7</b>
<b>Total identifiable net assets at fair value</b>	<b>18</b>
<b>Total consideration transferred</b>	<b>18</b>

**Acquisition of CJSC Bishkek Oil Company**

In September 2014 the Company acquired a 100% interest in four entities of the Bishkek Oil Company ("BOC") engaged in the retail and wholesale of petroleum products in the Republic of Kyrgyzstan through its own network of gas stations and a tank farm. The acquisition consideration amounted to US\$39 million (RUB 1.5 billion at the CBR official exchange rate at the date of the transaction), including contingent consideration. The BOC purchase price allocation was completed in the second quarter of 2015. The impact of the finalized estimate on the consolidated balance sheet and statement of profit or loss for 2014 was not significant.

**8. ASSETS HELD FOR SALE**

As of December 31, 2015 the Company classified certain assets as assets held for sale based on the Board of Directors decisions and binding agreements with the buyers of the assets.

The assets and liabilities of JV Ruhr Oel GmbH ("ROG") are classified as held for sale in the consolidated balance sheet as of December 31, 2015 and measured at the lower of their carrying amount or fair value less costs to sell, as presented in the table below:

<b>ASSETS</b>	
<b>Current assets</b>	
Accounts receivable	26
Inventories	2
Prepayments and other current assets	2
<b>Total current assets</b>	<b>30</b>
<b>NON-CURRENT ASSETS</b>	
Property, plant and equipment	110
Investments in associates and joint ventures	3
<b>Total non-current assets</b>	<b>113</b>
<b>Total assets held for sale</b>	<b>143</b>
<b>LIABILITIES</b>	
<b>Current liabilities</b>	
Accounts payable and accrued liabilities	13
Loans and borrowings and other financial liabilities	2
Other tax liabilities	3
Provisions	3
<b>Total current liabilities</b>	<b>21</b>
<b>NON-CURRENT LIABILITIES</b>	
Loans and borrowings and other financial liabilities	2
Deferred tax liabilities	8
Other non-current liabilities	31
<b>Total non-current liabilities</b>	<b>41</b>
<b>Total liabilities associated with assets held for sale</b>	<b>62</b>
<b>Net assets associated with assets held for sale</b>	<b>81</b>
<b>Amounts included in accumulated other comprehensive income</b>	
Foreign exchange differences on translation of foreign operations	38
<b>Other funds and reserves associated with assets held for sale</b>	<b>38</b>

**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 2015:

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>2,487</b>	<b>5,152</b>	<b>97</b>	<b>(2,586)</b>	<b>5,150</b>
Including: Equity share in profits of associates and joint ventures	2	6	1	–	9
<b>COSTS AND EXPENSES</b>					
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
<b>Total costs and expenses</b>	<b>1,889</b>	<b>4,980</b>	<b>159</b>	<b>(2,586)</b>	<b>4,442</b>
<b>OPERATING INCOME</b>	<b>598</b>	<b>172</b>	<b>(62)</b>	<b>–</b>	<b>708</b>
Finance income	–	–	55	–	55
Finance expenses	–	–	(269)	–	(269)
<b>Total finance expenses</b>	<b>–</b>	<b>–</b>	<b>(214)</b>	<b>–</b>	<b>(214)</b>
<b>OTHER INCOME</b>	<b>–</b>	<b>–</b>	<b>75</b>	<b>–</b>	<b>75</b>
Other expenses	–	–	(72)	–	(72)
Foreign exchange differences	–	–	86	–	86
Cash flow hedges reclassified to profit or loss	–	–	(123)	–	(123)
<b>Income before income tax</b>	<b>598</b>	<b>172</b>	<b>(310)</b>	<b>–</b>	<b>460</b>
Income tax expense	(120)	(34)	50	–	(104)
<b>Net income</b>	<b>478</b>	<b>138</b>	<b>(260)</b>	<b>–</b>	<b>356</b>

Operating segments in 2014 (restated):

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Adjustments	Consolidated
<b>Total revenues and equity share in profits of associates and joint ventures</b>	<b>2,144</b>	<b>5,438</b>	<b>90</b>	<b>(2,169)</b>	<b>5,503</b>
Including: Equity share in profits of associates and joint ventures	(10)	(2)	–	–	(12)
<b>COSTS AND EXPENSES</b>					
Costs and expenses other than depreciation, depletion and amortization	1,366	5,129	120	(2,169)	4,446
Depreciation, depletion and amortization	383	71	10	–	464
<b>Total costs and expenses</b>	<b>1,749</b>	<b>5,200</b>	<b>130</b>	<b>(2,169)</b>	<b>4,910</b>
<b>OPERATING INCOME</b>	<b>395</b>	<b>238</b>	<b>(40)</b>	<b>–</b>	<b>593</b>
Finance income	–	–	30	–	30
Finance expenses	–	–	(219)	–	(219)
<b>Total finance expenses</b>	<b>–</b>	<b>–</b>	<b>(189)</b>	<b>–</b>	<b>(189)</b>
<b>OTHER INCOME</b>	<b>–</b>	<b>–</b>	<b>64</b>	<b>–</b>	<b>64</b>
Other expenses	–	–	(54)	–	(54)
Foreign exchange differences	–	–	64	–	64
Cash flow hedges reclassified to profit or loss	–	–	–	–	–
<b>Income before income tax</b>	<b>395</b>	<b>238</b>	<b>(155)</b>	<b>–</b>	<b>478</b>
Income tax expense	(79)	(48)	1	–	(128)
<b>Net income</b>	<b>316</b>	<b>190</b>	<b>(156)</b>	<b>–</b>	<b>350</b>

Oil and gas and petroleum products and petrochemical sales comprise the following (based on the country indicated in the bill of lading):

	2015	2014
International sales of crude oil, petroleum products and petrochemicals	3,690	4,090
International sales of crude oil and petroleum products – CIS, other than Russia	198	170
Domestic sales of crude oil, petroleum products and petrochemicals	995	1,012
Sales of gas	188	168
<b>Total oil, gas, petroleum products and petrochemicals sales</b>	<b>5,071</b>	<b>5,440</b>

The Company is not dependent on any of its major customers or any one particular customer as there is a liquid market for crude oil and petroleum products. As of December 31, 2015, the amount of current receivables from the Company's largest customer totaled RUB 37 billion, or around 12 % 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:

	2015	2014
Mineral extraction tax	1,091	982
Excise tax	103	139

	2015	2014
Property tax	31	28
Social charges	47	38
Other	5	8
<b>Total taxes</b>	<b>1,277</b>	<b>1,195</b>

#### 11. EXPORT CUSTOMS DUTY

Export customs duty for the years ended December 31 comprises the following:

	2015	2014
Export customs duty on oil sales	683	1,224
Export customs duty on petroleum products and petrochemicals sales	242	459
<b>Total export customs duty</b>	<b>925</b>	<b>1,683</b>

#### 12. FINANCE INCOME

Finance income for the years ended December 31 comprises the following:

	2015	2014
<b>Interest income on:</b>		
Deposits and certificates of deposit	19	12
Loans issued	24	10
Notes receivable	3	2
Bonds	2	3
Current/settlement accounts	2	1
Other interest income	—	1
<b>Total interest income</b>	<b>50</b>	<b>29</b>
Net gain from operations with derivative financial instruments	4	—
Gain from disposal of financial assets	—	1
Other finance income	1	—
<b>Total finance income</b>	<b>55</b>	<b>30</b>

#### 13. FINANCE EXPENSES

Finance expenses for the years ended December 31 comprise the following:

	2015	2014
<b>Interest expense on:</b>		
Loans and borrowings	(91)	(57)
Prepayment on long-term oil and petroleum products supply agreements (Note 34)	(58)	(28)
Other interest expenses	(2)	(2)
<b>Total interest expenses</b>	<b>(151)</b>	<b>(87)</b>
Net loss from operations with derivative financial instruments	(104)	(122)
Increase in provision due to the unwinding of a discount	(13)	(9)
Loss from disposal of financial assets	—	(1)
Other finance expenses	(1)	—
<b>Total finance expenses</b>	<b>(269)</b>	<b>(219)</b>

The weighted average rate used to determine the amount of borrowing costs eligible for capitalization is 8.83% and 5.42% p. a. in 2015 and 2014, respectively.

#### 14. OTHER INCOME AND EXPENSES

Other income for the years ended December 31 comprises the following:

	2015	2014
Gain from the sale of LLC Yugragazpererabotka (Note 27)	—	56
Liability write-off (Note 41)	37	—
Compensation payment for licenses from joint venture parties	—	1
Effect from disposal of investments in affiliated companies (Note 28)	15	—
Insurance indemnity (Note 41)	17	—
Other	6	7
<b>Total other income</b>	<b>75</b>	<b>64</b>

Other expenses for the years ended December 31 comprise the following:

	2015	2014
Sale and disposal of property, plant and equipment and intangible assets	(22)	(18)
Disposal of companies and non-production assets	(11)	(6)
Impairment of assets	(6)	(2)
Social payments, charity, sponsorship, financial aid	(14)	(12)
Other	(19)	(16)

	2015	2014
Total other expenses	(72)	(54)

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:

	2015	2014
Salary	195	178
Statutory insurance contributions	47	39
Expenses on non-statutory defined contribution plan	5	5
Other employee benefits	10	9
Total personnel expenses	257	231

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, 2015 and 2014 amounted to RUB 40 billion and RUB 25 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:

	2015	2014
Less than 1 year	25	22
From 1 to 5 years	71	60
Over 5 years	200	173
Total future minimum lease payments	296	255

#### 17. INCOME TAX

Income tax expenses for the years ended December 31 comprise the following:

	2015	2014
Current income tax	123	223
Prior period adjustments	(2)	(5)
Current income tax expense	121	218
Deferred tax relating to the origination and reversal of temporary differences	(17)	(90)
Deferred income tax benefit	(17)	(90)
Total income tax expense	104	128

Except for the applicable regional tax relief, the Russian income tax rate of 20 % was applied to companies domiciled in the Russian Federation in 2015 and 2014. The income tax rate may vary from 20 % for subsidiaries incorporated in other jurisdictions. The rate is calculated according to local fiscal 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,	
	2015	2014	2015	2014
Short-term accounts receivable	5	3	2	1
Property, plant and equipment	8	8	—	3
Short-term accounts payable and accrued liabilities	8	12	(4)	5
Other current liabilities	23	31	(8)	26
Long-term loans and borrowings and other financial liabilities	6	3	3	—
Long-term provisions	9	12	(3)	—
Tax loss carry forward	96	67	28	58
Other	9	4	5	—
Less: deferred tax liabilities offset	(139)	(116)	—	—
Deferred tax assets	25	24	23	93
Property, plant and equipment and other	(463)	(447)	(14)	(6)
Mineral rights	(255)	(263)	8	3
Less: deferred tax assets offset	139	116	—	—
Deferred tax liabilities	(579)	(594)	(6)	(3)
Deferred income tax benefit			17	90
Net deferred tax liabilities	(554)	(570)		
Recognized in the consolidated balance sheet as following				
Deferred tax assets	25	24		
Deferred tax liabilities	(579)	(594)		
Net deferred tax liabilities	(554)	(570)		

The reconciliation of net deferred tax liabilities is as follows:



	2015	2014
<b>As of January 1</b>	<b>(570)</b>	<b>(634)</b>
Deferred income tax benefit, recognized in the consolidated statement of profit or loss	17	90
Acquisition of subsidiaries and shares in joint operations (Note 7)	(6)	(1)
Deferred tax expenses recognized in other comprehensive income	(3)	(2)
Reclassification to/(from) assets held for sale (Note 8)	8	(23)
<b>As of December 31</b>	<b>(554)</b>	<b>(570)</b>

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:

	2015	2014
<b>Income before income tax</b>	<b>460</b>	<b>478</b>
Income tax at statutory rate of 20 %	92	96
Increase/(decrease) resulting from:		
Effect of income tax rates in other jurisdictions	3	5
Effect of income tax relief	(18)	(15)
Effect of tax on dividends received from non-resident company	—	32
Effect from change in unrecognized deferred tax assets	23	9
Effect of non-taxable income and non-deductible expenses	4	1
<b>Income tax</b>	<b>104</b>	<b>128</b>

Unrecognized deferred tax assets in the consolidated balance sheet for the years ended December 31, 2015 and 2014 amounted to RUB 37 billion and RUB 14 billion, respectively, related to unused tax losses. Tax loss carry forwards available for utilization by the Company expire in 2016–2025. 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 before their expiration.

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 should increase the tax base of the controlling entities in 2016. The consequences of taxation of subsidiaries' profits, including the taxation of controlled foreign companies, are accounted for within deferred tax liabilities.

#### 18. NON-CONTROLLING INTERESTS

Non-controlling interests include:

	As of December 31, 2015			As of December 31, 2014		
	Non-controlling interest, (%)	Non-controlling interest in net assets	Non-controlling interest in net income	Non-controlling interest, (%)	Non-controlling interest in net assets	Non-controlling interest in net income
LLC Taas-Yuriakh Neftegazodobycha	20.00	31	—	—	—	—
OJSC Grozneftegaz	49.00	3	—	49.00	3	—
SIA ITERA Latvija	34.00	2	1	34.00	1	-
OJSC Rosneft Sakhalin	45.00	2	—	45.00	2	—
JSC Russian Regional Development Bank (VBRR)	15.33	1	—	15.33	1	—
CJSC TZK Sheremetyevo	25.10	1	—	25.10	1	-
CJSC Vankorneft	—	—	—	—	—	3
Non-controlling interests in other entities	various	3	—	various	1	(1)
<b>Non-controlling interests as of the end of the year</b>		<b>43</b>	<b>1</b>		<b>9</b>	<b>2</b>

In November 2015 the Company completed the sale of 20 % of LLC Taas-Yuriakh Neftegazodobycha, a Company subsidiary, to BP Russian Investments Ltd for US\$ 750 million (RUB 55 billion at the CBR official exchange rate as of December 31, 2015) on a zero net debt basis.

#### 19. EARNINGS PER SHARE

For the years ended December 31 basic and diluted earnings per share comprise the following:

	2015	2014
Net income attributable to shareholders of Rosneft	355	348
Weighted average number of issued common shares outstanding (millions)	10,598	10,598
<b>Total basic and diluted earnings per share (RUB)</b>	<b>33.50</b>	<b>32.84</b>

#### 20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	As of December 31,	
	2015	2014
Cash on hand and in bank accounts in RUB	39	117
Cash on hand and in bank accounts in foreign currencies	393	84
Deposits	124	12
Other	3	3
<b>Total cash and cash equivalents</b>	<b>559</b>	<b>216</b>

Cash accounts nominated in foreign currencies represent primarily cash in U. S. dollars.  
Deposits are interest bearing and nominated primarily in RUB.  
Restricted cash comprises the obligatory reserve of subsidiary banks with the CBR in the amount of RUB 2 billion and RUB 1 billion as of December 31, 2015 and 2014, respectively.

## 21. OTHER SHORT-TERM FINANCIAL ASSETS

Other short-term financial assets comprise the following:

	As of December 31,	
	2015	2014
<b>FINANCIAL ASSETS AVAILABLE-FOR-SALE</b>		
Bonds and promissory notes	46	65
Stocks and shares	129	61
<b>FINANCIAL ASSETS HELD-TO-MATURITY</b>		
Bonds	1	6
<b>LOANS AND ACCOUNTS RECEIVABLE</b>		
Loans granted	3	1
Loans issued to associates	2	7
Notes receivable, net of allowance	83	57
Deposits and certificates of deposit	714	512
<b>HELD-FOR-TRADING FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS</b>		
Corporate bonds	5	9
State bonds	3	5
<b>Total other short-term financial assets</b>	<b>986</b>	<b>723</b>

As of December 31, 2015 and 2014 available-for-sale bonds and notes comprise the following:

Type of security	2015			2014		
	Balance	Interest rate p. a.	Date of maturity	Balance	Interest rate p. a.	Date of maturity
Corporate bonds	6	3.72–17.0 %	January 2016 — September 2032	7	3.72–11.0 %	February 2015 — October 2026
State and municipal bonds	2	8.0–14.5 %	October 2017 — January 2025	—		
Promissory notes	38	10.25 %–11.1 %	September 2019 — September 2020	58	9.5 %–15.0 %	September 2015 — September 2019
<b>Total</b>	<b>46</b>			<b>65</b>		

As of December 31, 2015 and 2014 held-to-maturity bonds comprise the following:

Type of security	2015			2014		
	Balance	Interest rate p. a.	Date of maturity	Balance	Interest rate p. a.	Date of maturity
Corporate bonds	1	5.3–8.8 %	February 2016 — April 2017	3	8.75–10.5 %	March 2015 — November 2015
State and municipal bonds	—			3	7.0 %	June 2015
<b>Total</b>	<b>1</b>			<b>6</b>		

As of December 31, 2015, notes receivable include corporate notes receivable that are nominated in euro with a nominal interest rate of 2.843 % p. a. and with maturity through April 2016 and corporate notes receivable that are nominated in U. S. dollars with a nominal interest rate of 4.357 % p. a. and with maturity through August 2016.

As of December 31, 2014, notes receivable include corporate notes receivable that are nominated in euro with a nominal interest rate of 2.843 % p. a. and with maturity through April 2016 and nominally interest-free corporate notes receivable that are nominated in RUB with a weighted average effective interest rate of 8.62 % p. a. with maturity through September 2015.

As of December 31, 2015, deposits and certificates of deposit nominated 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 nominated in RUB amount to RUB 18 billion and bear interest rates ranging from 8.15 % to 14.0 % p. a.

As of December 31, 2014, deposits and certificates of deposit nominated in U. S. dollars amount to RUB 468 billion and bear interest rates ranging from 0.45 % to 4.0 % p. a. Deposits and certificates of deposit nominated in RUB amount to RUB 44 billion and bear interest rates ranging from 8.0 % to 10.65 % p. a.

As of December 31, 2015 and 2014 trading securities comprise the following:

Type of security	2015			2014		
	Balance	Interest rate p. a.	Date of maturity	Balance	Interest rate p. a.	Date of maturity
Corporate bonds	5	5.375–11.3 %	February 2016 — September 2032	9	5.375–11.3 %	February 2015 — September 2044
State and municipal bonds	3	6.9–10.9 %	November 2016 — February 2036	5	6.9–12.0 %	August 2015 — February 2036
<b>Total</b>	<b>8</b>			<b>14</b>		

## 22. ACCOUNTS RECEIVABLE

Accounts receivable include the following:

	As of December 31,	
	2015	2014
Trade receivables	318	413
Banking loans to customers	33	32
Other accounts receivable	37	120

	As of December 31,	
	2015	2014
<b>Total</b>	<b>388</b>	<b>565</b>
Allowance for doubtful accounts	(21)	(11)
<b>Total accounts receivable, net of allowance</b>	<b>367</b>	<b>554</b>

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, 2015 and 2014.

As of December 31, 2015 and 2014 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,	
	2015	2014
Crude oil and gas	62	70
Petroleum products and petrochemicals	99	115
Materials and supplies	58	48
<b>Total</b>	<b>219</b>	<b>233</b>

Materials and supplies mostly include spare parts. Petroleum products and petrochemicals include those designated both for sale and for own use.

For the years ended December 31:

	2015	2014
Cost of inventories recognized as an expense during the period	690	640

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,	
	2015	2014
Value added tax and excise receivable	144	162
Prepayments to suppliers	58	40
Settlements with customs	31	142
Profit tax advance payments	29	49
Other	9	11
<b>Total prepayments and other current assets</b>	<b>271</b>	<b>404</b>

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
<b>Cost as of January 1, 2014</b>	5,104	1,197	81	6,382
Depreciation, depletion and impairment losses as of January 1, 2014	(955)	(196)	(18)	(1,169)
<b>Net book value as of January 1, 2014</b>	<b>4,149</b>	<b>1,001</b>	<b>63</b>	<b>5,213</b>
Prepayments for property, plant and equipment as of January 1, 2014	4	49	9	62
<b>Total as of January 1, 2014</b>	<b>4,153</b>	<b>1,050</b>	<b>72</b>	<b>5,275</b>
<b>COST</b>				
Acquisition of subsidiaries (Note 7)	22	—	—	22
Additions	411	226	16	653
Disposals	(41)	(6)	(3)	(50)
Reclassification from assets held for sale	151	—	—	151
Foreign exchange differences	138	48	11	197
Cost of asset retirement (decommissioning) obligations	(17)	—	—	(17)
<b>As of December 31, 2014</b>	<b>5,768</b>	<b>1,465</b>	<b>105</b>	<b>7,338</b>
<b>DEPRECIATION, DEPLETION AND IMPAIRMENT LOSSES</b>				
Depreciation and depletion charge	(385)	(71)	(7)	(463)
Disposals and other movements	21	5	1	27
Impairment of assets	(1)	(2)	—	(3)
Foreign exchange differences	(103)	(17)	(2)	(122)
<b>As of December 31, 2014</b>	<b>(1,423)</b>	<b>(281)</b>	<b>(26)</b>	<b>(1,730)</b>
<b>Net book value as of December 31, 2014</b>	<b>4,345</b>	<b>1,184</b>	<b>79</b>	<b>5,608</b>
Prepayments for property, plant and equipment as of December 31, 2014	6	47	5	58
<b>Total as of December 31, 2014</b>	<b>4,351</b>	<b>1,231</b>	<b>84</b>	<b>5,666</b>

	Exploration and production	Refining and distribution	Corporate and other unallocated activities	Total
<b>COST</b>				
Acquisition of subsidiaries (Note 7)	5	42	—	47
Additions	518	184	14	716
Disposals	(34)	(6)	(6)	(46)
Reclassification to assets held for sale (Note 8)	—	(194)	—	(194)
Foreign exchange differences	99	27	7	133
Cost of asset retirement (decommissioning) obligations	27	—	—	27
<b>As of December 31, 2015</b>	<b>6,383</b>	<b>1,518</b>	<b>120</b>	<b>8,021</b>
<b>DEPRECIATION, DEPLETION AND IMPAIRMENT LOSSES</b>				
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)
<b>As of December 31, 2015</b>	<b>(1,845)</b>	<b>(288)</b>	<b>(35)</b>	<b>(2,168)</b>
Net book value as of December 31, 2015	4,538	1,230	85	5,853
Prepayments for property, plant and equipment as of December 31, 2015	9	27	6	42
<b>Total as of December 31, 2015</b>	<b>4,547</b>	<b>1,257</b>	<b>91</b>	<b>5,895</b>

The cost of construction in progress included in property, plant and equipment was RUB 1,273 billion and RUB 1,083 billion as of December 31, 2015 and 2014, respectively.

The depreciation charge for the years ended December 31, 2015 and 2014 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 6 billion and RUB 4 billion, respectively.

The Company capitalized RUB 99 billion (including RUB 48 billion capitalized interest expense) and RUB 54 billion (including RUB 39 billion capitalized interest expense) of expenses on loans and borrowings in 2015 and 2014, respectively.

During 2015 and 2014 the Company received government grants for capital expenditures in the amount of RUB 11 billion and RUB 10 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:

	2015	2014
<b>Cost as of January 1</b>	<b>246</b>	<b>175</b>
<b>Impairment losses as of January 1</b>	<b>(10)</b>	<b>(10)</b>
<b>Net book value as of January 1</b>	<b>236</b>	<b>165</b>
<b>COST</b>		
Capitalized expenditures	12	26
Reclassified to development assets	(13)	(13)
Reclassification from assets held for sale	—	53
Expensed	(1)	(3)
Foreign exchange differences	7	8
<b>Cost as of December 31</b>	<b>251</b>	<b>246</b>
<b>IMPAIRMENT LOSSES</b>		
Impairment of assets	(3)	—
<b>Impairment losses as of December 31</b>	<b>(13)</b>	<b>(10)</b>
<b>Net book value as of December 31</b>	<b>238</b>	<b>236</b>

#### Provision for asset retirement (decommissioning) obligations

The provision for asset retirement (decommissioning) obligations was RUB 59 billion and RUB 37 billion as of December 31, 2015 and 2014, 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
<b>Cost as of January 1, 2014</b>	<b>23</b>	<b>22</b>	<b>45</b>	<b>210</b>
<b>Amortization as of January 1, 2014</b>	<b>(5)</b>	<b>(5)</b>	<b>(10)</b>	<b>—</b>
<b>Net book value as of January 1, 2014</b>	<b>18</b>	<b>17</b>	<b>35</b>	<b>210</b>
<b>COST</b>				
Additions	—	17	17	—
Acquisition of subsidiaries (Note 7)	—	1	1	5
Disposals	—	(3)	(3)	—
Foreign exchange differences	4	—	4	—
<b>As of December 31, 2014</b>	<b>27</b>	<b>37</b>	<b>64</b>	<b>215</b>
<b>AMORTIZATION</b>				
Amortization charge	(2)	(3)	(5)	—
Disposal of amortization	—	1	1	—
Foreign exchange differences	(1)	—	(1)	—
<b>As of December 31, 2014</b>	<b>(8)</b>	<b>(7)</b>	<b>(15)</b>	<b>—</b>



	Rights for land lease	Other intangible assets	Total intangible assets	Goodwill
Net book value as of December 31, 2014	19	30	49	215
<b>COST</b>				
Additions	7	—	7	—
Acquisition of subsidiaries (Note 7)	—	—	—	13
Disposals	(1)	(7)	(8)	(1)
Foreign exchange differences	3	—	3	—
As of December 31, 2015	36	30	66	227
<b>AMORTIZATION</b>				
Amortization charge	(3)	(2)	(5)	—
Disposal of amortization	—	3	3	—
Foreign exchange differences	(1)	—	(1)	—
As of December 31, 2015	(12)	(6)	(18)	—
Net book value as of December 31, 2015	24	24	48	227

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. Considering the significance of macroeconomic changes in the fourth quarter of 2015, the Company re-performed the test as of December 31, 2015, applying revised macroeconomic forecasts. The excess of fair value over identified net assets comprised RUB 3,061 billion and RUB 326 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 2015 and 2014.

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,	
	2015	2014
Goodwill		
Exploration and production	75	75
Refining and distribution	152	140
<b>Total</b>	<b>227</b>	<b>215</b>

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 the segment and discounted using a rate, that reflects current market assessments of the time value of money and the risks specific to the 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 calculation

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 13.1% p. a. in 2015 (11.0% p. a. in 2014).
- **The estimated average annual RUB/U. S. dollar exchange rate** The average annual RUB/U. S. dollar exchange rate applied was as follows: RUB 68.0, RUB 66.0 and RUB 62.5 for 2016, 2017 and from 2018 onwards, respectively.
- **Oil and petroleum products prices** The forecasted Urals oil price applied was as follows: RUB 2,924, RUB 3,168 and RUB 3,313 per barrel for 2016, 2017 and from 2018 onwards, respectively. 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 23.5 thousand per tonne, RUB 25.1 thousand per tonne and RUB 26.2 thousand per tonne for 2016, 2017 and from 2018 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 2027.

As of December 31, 2015 and 2014 the Company did not have any intangible assets with indefinite useful lives. As of December 31, 2015 and 2014 no intangible assets have been pledged as collateral.

#### 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 14.4% 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 prices — the long-term decrease in oil prices below RUB 2,980 per barrel for the period 2016 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 2016 onwards) in the weighted average price of petroleum products [excluding petrochemicals] below RUB 25.6 thousand per tonne holding oil prices at forecast levels.

## 27. OTHER LONG-TERM FINANCIAL ASSETS

Other long-term financial assets comprise the following:

	As of December 31,	
	2015	2014
Bonds	4	4
Bank deposits	112	6
Financial assets available for sale:		
Shares of OJSC INTER RAO UES	1	1
Shares of OJSC Russian Grids	1	1
Shares of AS Latvijas Gaze, ASE esti GAAS	4	3
Shares of SARAS S. p. A.	16	—
Shares of CJSC Modern Shipbuilding Technology	4	—

	As of December 31,	
	2015	2014
Long-term loans issued to associates and joint ventures	360	259
Long-term loans	4	—
Loans to employees	1	2
Other	3	5
<b>Total other long-term financial assets</b>	<b>510</b>	<b>281</b>

Pursuant to contracts, long-term loans issued to associates and joint ventures are mostly US\$ nominated and have a maturity of three to nine years and bear interest rates ranging from 3.5% to 14.5% 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, 2015 and 2014, there were no overdue long-term financial assets for which no impairment provision was created.

As of December 31, 2015 and 2014, shares were impaired in the amount of RUB 1 billion and RUB 1 billion, respectively.

No long-term financial assets were pledged as collateral as of December 31, 2015 and 2014.

As of December 31, 2015 and 2014, 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, 2015, %	As of December 31,	
			2015	2014
JOINT VENTURES				
LLC Polar Lights Company	Russia	—	—	1
Rosneft Shell Caspian Vent.	Russia	51.00	1	1
Taihu Ltd (OJSC Udmurtneft)	Cyprus	51.00	29	21
Lanard Holdings Ltd	Cyprus	50.00	18	18
CJSC Arktikshelfneftegaz	Russia	50.00	2	3
LLC National Oil Consortium	Russia	80.00	29	27
OJSC NGK Slavneft	Russia	49.94	144	143
Petroperija S. A., PetroMonagas S. A.	Venezuela	various	15	9
PETROVICTORIA S. A.	Venezuela	40.00	31	25
NVGRES Holdings Limited (NVGRES LLC)	Cyprus	25.01	5	4
CJSC Messoyakhaneftgaz	Russia	50.00	—	—
CJSC Modern Shipbuilding Technology	Russia	9.89	—	4
RN Pechora	Russia	50.10	8	—
Pipeline consortiums	various	various	—	3
ASSOCIATES				
Saras S. p. A.	Italy	12.00	—	17
Petrocas Energy International Limited	Cyprus	49.00	10	8
CJSC Purgaz	Russia	49.00	48	55
Other associates	various	various	13	8
Total associates and joint ventures			353	347

The equity share in profits/(losses) of associates and joint ventures comprise the following:

	The Company's share as of December 31, 2015, %	Share in income/(loss) of equity investees	
		2015	2014
Taihu Ltd	51.00	12	11
OJSC NGK Slavneft	49.94	1	(17)
CJSC Purgaz	49.00	(6)	—
National Oil Consortium LLC	80.00	(6)	—
PetroMonagas S. A.	16.67	5	(2)
Saras S. p. A.	12.00	2	—
Other	various	1	(4)
<b>Total equity share in (losses)/profits of associates and joint ventures</b>		<b>9</b>	<b>(12)</b>

The unrecognized share of losses of associates and joint ventures comprise the following:

Name of investee	As of December 31,	
	2015	2014
LLC Veninest	2	4
LLP Adai Petroleum Company	6	4
Boqueron S. A.	1	—
<b>Total unrecognized share of losses of associates and joint ventures</b>	<b>9</b>	<b>8</b>

Financial information of significant associates and joint ventures as of December 31, 2015 and 2014 is presented below:

Taihu Ltd	As of December 31,	
	2015	2014
Cash and cash equivalents	1	1
Accounts receivable	23	24
Other current assets	2	2
Other non-current assets	83	82
<b>Total assets</b>	<b>109</b>	<b>109</b>
Short-term loans and borrowings	(26)	(11)
Income tax liabilities	(1)	(1)
Other current liabilities	(13)	(16)
Long-term loans and borrowings	—	(27)
Deferred tax liabilities	(6)	(6)
Other non-current liabilities	(6)	(7)
<b>Total liabilities</b>	<b>(52)</b>	<b>(68)</b>
<b>Net assets</b>	<b>57</b>	<b>41</b>
The Company's share, %	51.00	51.00
The Company's total share in net assets	29	21

Taihu Ltd	2015	2014
Revenues	109	116
Finance income	6	6
Finance expenses	(1)	(1)
Depreciation, depletion and amortization	(5)	(4)
Other expenses	(78)	(90)
<b>Income before income tax</b>	<b>31</b>	<b>27</b>
<b>Income tax</b>	<b>(7)</b>	<b>(6)</b>
<b>Net income</b>	<b>24</b>	<b>21</b>
The Company's share, %	51.00	51.00
The Company's total share in net income	12	11

The Company's share of the currency translation effect amounted to a loss of RUB 4 billion and RUB 10 billion for the years ended December 31, 2015 and 2014, respectively, which was included in foreign exchange differences in the translation of foreign operations in the consolidated statement of other comprehensive income for 2015 and 2014.

OJSC NGK Slavneft	As of December 31,	
	2015	2014
Cash and cash equivalents	8	14
Accounts receivable	5	7
Other current assets	11	10
Other non-current assets	418	415
<b>Total assets</b>	<b>442</b>	<b>446</b>
Short-term loans and borrowings	(27)	(44)
Tax liabilities	(15)	(15)
Other current liabilities	(26)	(30)
Long-term loans and borrowings	(55)	(47)
Deferred tax liabilities	(14)	(11)
Other non-current liabilities	(16)	(13)
<b>Total liabilities</b>	<b>(153)</b>	<b>(160)</b>
<b>Net assets</b>	<b>289</b>	<b>286</b>
The Company's share, %	49.94	49.94
The Company's total share in net assets	144	143

OJSC NGK Slavneft	2015	2014
Revenues	224	197
Finance income	2	1
Finance expenses	(5)	(30)
Depreciation, depletion and amortization	(50)	(54)
Other expenses	(163)	(150)
<b>Loss before income tax</b>	<b>8</b>	<b>(36)</b>
<b>Income tax</b>	<b>(6)</b>	<b>1</b>
<b>Net loss</b>	<b>2</b>	<b>(35)</b>
The Company's share, %	49.94	49.94
The Company's total share in net income/(loss)	1	(17)

CJSC Purgaz	As of December 31,	
	2015	2014
Current assets	3	3
Non-current assets	8	8
Total assets	11	11
Current liabilities	(13)	(1)
Non-current liabilities	(1)	(1)
Total liabilities	(14)	(2)
Net assets	(3)	9
The Company's share, %	49.00	49.00
The Company's total share in net assets	(2)	4
Goodwill	50	51
Total investment	48	55

CJSC Purgaz	2015	2014
Revenue	13	12
Cost of sales	(12)	(11)
Other expenses	(13)	(1)
Profit before tax	(12)	—
Income tax	—	—
Net income	(12)	—
The Company's share, %	49.00	49.00
The Company's total share in net loss	(6)	—

#### ***OJSC NGK Slavneft***

As a result of the TNK-BP acquisition in 2013 the Company obtained a 49.9% interest in OJSC NGK Slavneft. The investment in OJSC NGK Slavneft of RUB 173 billion at the acquisition date is accounted for as an investment in a joint venture using the equity method.

OJSC NGK Slavneft holds licenses for the exploration and production of oil and gas at 31 license areas located in West Siberia and the Krasnoyarsk region. The annual production of OJSC NGK Slavneft is 15 million tonnes of crude oil. The crude oil produced (excluding export) is processed at OJSC NGK Slavneft's refineries. The OJSC NGK Slavneft's refineries process over 11 million tonnes of hydrocarbons and produce over 5 million tonnes of gasoline annually.

#### ***Investments in Venezuela***

As a result of the TNK-BP acquisition in 2013 the Company obtained equity interests in certain assets in Venezuela. The most significant of these investments is in PetroMonagas S. A. in which the Company holds a 16.7% interest. The investment in Venezuela of RUB 17 billion is accounted for as an investment in a joint venture using the equity method.

PetroMonagas S. A. is engaged in the exploration and development of oil and gas fields in the eastern part of the Orinoko Basin. In 2015 PetroMonagas S. A. produced 7.6 million tonnes of oil and 1.1 billion cubic meters of gas. PetroMonagas S. A. is an integrated project involving extra-heavy crude oil extraction and the upgrading, production and export of synthetic crude oil.

On May 23, 2013 the Company entered into a joint venture agreement with Corporación Venezolana del Petróleo, a subsidiary of Petróleos de Venezuela S. A. ("PDVSA"), a Venezuelan state oil company. On November 14, 2013 the Petrovictoria S. A. joint venture was incorporated to explore the heavy oil of Project Carabobo-2 in Venezuela. On August 27, 2014 the Company paid a 40% of bonus in the amount of \$440 million (RUB 16 billion at the CBR official exchange rate at the transaction date) for participation in Petrovictoria S. A. as a minority partner.

#### ***LLC National Oil Consortium***

In January 2013 the Company acquired an additional 20% ownership interest in LLC National Oil Consortium ("NOC") for RUB 6 billion. As a result of this acquisition and the TNK-BP acquisition, the Company's interest in NOC increased to 60%. NOC provides financing for the exploration project at Junin-6 block in Venezuela jointly with a subsidiary of PDVSA. The interest in NOC continues to be accounted for as an equity investment due to joint control under the shareholders' agreement.

On December 23, 2014 the Company and OJSC Lukoil entered into an agreement on the Company's acquisition of a 20% share in the NOC for the consideration of RUB 8 billion. The acquisition was completed in January 2015. Following the transaction, the Company's ownership interest in NOC increased to 80%, with the remaining 20% interest owned by OJSC Gazprom Neft.

#### ***Sale of interest in Saras S. p. A***

In October 2015 the Company sold an 8.99% share in Saras S. p. A. ("Saras") for euro 162.4 billion (RUB 11.3 billion at the CBR official exchange rate at the transaction date). The gain from the sale is RUB 8 billion comprising RUB 4 billion of the difference between the carrying value of the investment in the associate and the sale price, and RUB 4 billion of the revaluation of the remaining 12% share to the market value on the basis of the sale price. The Company's remaining share in Saras was reclassified to Other long-term financial assets as available for sale investments.

#### ***Sale of interest LLC Polar Lights Company***

In December of 2015 the Company sold its 50% share in LLC Polar Lights Company for US\$97.6 million (RUB 6.9 billion at the CBR official exchange rate at the transaction date). The gain from the sale totaled RUB 6.9 billion.

#### ***Sale of interest in LLC Yugragazpererabotka***

In February 2014 the Company entered into an agreement to sell 49% of LLC Yugragazpererabotka, owned through OJSC RN Holding, a subsidiary of the Company, to OJSC Sibur-Holding. The transaction was completed in March 2014. Proceeds from the disposal of the interest in LLC Yugragazpererabotka amounted to RUB 56 billion at the CBR official exchange rate at the date of the disposal.

#### ***Acquisition of interest in Petrocas Energy International Limited and creation of a joint venture***

In December 2014 the Company established a joint venture with Petrocas Energy International Limited ("Petrocas") by acquiring a 49% interest in its share capital. The payment of US\$144 million (RUB 9.3 billion at the CBR official exchange rate at the transaction date) was made in January 2015.

Petrocas owns and operates high-technology storage assets in oil and petroleum products logistics as well as the largest retail network of 140 branded gas stations in Georgia, and engages in trading activities in the Caspian and Black Sea regions.

#### ***Creation of RN-Pechora joint venture***

In December 2015 the Company and Alltech Group established a joint venture aimed at developing gas production and marketing projects in the Nenets Autonomous District. The Company's share in the joint venture is 50.1%. The Company's investment amounted to RUB 7.5 billion and was accounted for as an investment in a joint venture using the equity method.

## **29. OTHER NON-CURRENT NON-FINANCIAL ASSETS**

Other non-current non-financial assets comprise the following:



	As of December 31,	
	2015	2014
Long-term advances issued	6	6
Other	2	3
<b>Total other non-current non-financial assets</b>	<b>8</b>	<b>9</b>

### 30. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities comprise the following:

	As of December 31,	
	2015	2014
<b>FINANCIAL LIABILITIES</b>		
Accounts payable to suppliers and contractors	263	272
Salary and other benefits payable	63	55
Banking customer accounts	69	62
Dividends payable (Note 37)	1	—
Other accounts payable	26	34
<b>Total financial liabilities</b>	<b>422</b>	<b>423</b>
<b>NON-FINANCIAL LIABILITIES</b>		
Short-term advances received	54	71
<b>Total accounts payable and accrued liabilities</b>	<b>476</b>	<b>494</b>

In 2015 current accounts payable were settled within 44 days (2014: 41 days) on average. Interest rates on banking customer accounts range from 0.00 % to 5.00 % 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,	
		2015	2014
<b>LONG-TERM</b>			
Bank loans	RUB	41	143
Bank loans	US\$, Euro	1,741	2,067
Bonds	RUB	138	138
Eurobonds	US\$	483	408
Customer deposits	RUB	6	6
Customer deposits	US\$, euro	2	5
Borrowings	RUB	5	—
Borrowings	Euro	—	6
Promissory notes payable	US\$	3	2
Other borrowings	US\$	383	278
Other borrowings	RUB	15	—
Less: current portion of long-term loans and borrowings		(561)	(877)
<b>Long-term loans and borrowings</b>		<b>2,256</b>	<b>2,176</b>
Finance lease liabilities		31	18
Less: Current portion of long-term finance lease liabilities		(4)	(4)
<b>Total long-term loans and borrowings and other financial liabilities</b>		<b>2,283</b>	<b>2,190</b>
<b>SHORT-TERM</b>			
Bank loans	RUB	100	53
Customer deposits	RUB	30	18
Customer deposits	US\$, euro	19	6
Promissory notes payable — Yukos related (Note 41)	RUB	—	20
Obligations under a repurchase agreement	RUB	—	13
Other borrowings	RUB	—	15
Other borrowings	US\$	222	73
Current portion of long-term loans and borrowings		561	877
<b>Short-term loans and borrowings and current portion of long-term loans and borrowings</b>		<b>932</b>	<b>1,075</b>
Current portion of long-term finance lease liabilities		4	4
Short-term liabilities related to derivative financial instruments		104	137
<b>Total short-term loans and borrowings and other financial liabilities</b>		<b>1,040</b>	<b>1,216</b>
<b>Total loans and borrowings and other financial liabilities</b>		<b>3,323</b>	<b>3,406</b>

#### *Long-term loans and borrowings*

Long-term bank loans comprise the following:

Currency	Interest rate p. a.	Maturity date	As of December 31,	
			2015	2014
US\$	LIBOR + 1.00 % — LIBOR + 3.50 %	2016–2029	1,665	1,964
EUR	EURIBOR + 0.35 % — EURIBOR + 2.40 %	2016–2020	79	108
RUB	7.50 %–15.8 %	2016–2021	41	143
<b>Total</b>			<b>1,785</b>	<b>2,215</b>
Debt issue costs			(3)	(5)
<b>Total long-term bank loans</b>			<b>1,782</b>	<b>2,210</b>

Long-term bank loans from foreign banks to finance special-purpose business activities nominated 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 for contractual revenue in the amount of the late loan repayments, which the purchaser generally remits directly through transit currency accounts with the lender banks. The outstanding balance of Accounts receivable arising from such contracts amounts to RUB 27 billion and RUB 22 billion as of December 31, 2015 and 2014, 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\$31.04 billion to finance the acquisition of TNK-BP. The first debt agreement of US\$4.09 billion was entered into with a syndicate of foreign banks for 5 years at floating rates. The second debt agreement was entered into with a syndicate of foreign banks at floating rates in the amount of US\$12.74 billion for 2 years. The third debt agreement was entered into with a syndicate of foreign banks at floating rates for 2 years in the amount of US\$11.88 billion. The fourth debt agreement in the amount of US\$2.33 billion was entered into with a syndicate of foreign banks for 5 years at floating rates. In December 2013 the Company partially repaid a long-term loan from international banks in the amount of US\$5.1 billion. In 2014, the Company partially repaid two out of four unsecured long-term loans from international banks in the amount of US\$12.40 billion (RUB 603 billion at the CBR official exchange rate at the transaction date), including US\$0.76 billion (RUB 28 billion at the CBR official exchange rate at the transaction date) repaid early. In February 2015, the Company repaid early an unsecured long-term loan (attracted to finance the TNK-BP acquisition) and interest to international banks in the amount of US\$7.2 billion (RUB 473 billion at the CBR official exchange rate at the transaction date). As of December 31, 2015 the total debt for the above loans amounted to US\$4.48 billion (RUB 327 billion at the CBR official exchange rate as of December 31, 2015).

In March 2014, the Company drew down funds under a long-term fixed rate unsecured loan from a Russian bank for a total amount of RUB 12.5 billion repayable in the first quarter of 2017. In July-August 2014, the Company drew down funds under a floating rate long-term unsecured loans from Russian banks in the total amount of RUB 18.1 billion equivalent at the CBR official exchange rate as of December 31, 2014 for a term of 5 to 10 years.

In November 2014, the Company drew down funds under a long-term fixed rate loan from a Russian bank in the total amount of RUB 15 billion, repayable in the fourth quarter of 2018. In November 2015 this loan was repaid early.

In November 2015, the Company drew down funds under long-term fixed rate loan from a Russian bank in the total amount of RUB 15 billion, repayable in the fourth quarter of 2018.

In May 2015, the Company repaid early unsecured long-term loans and interest to international banks in the amount of US\$0.6 billion (RUB 30 billion at the CBR official exchange rate at the payment date), assumed through the TNK-BP acquisition.

Non-convertible interest-bearing RUB nominated bearer bonds in circulation comprise the following:

Security ID	Date of issue	Total volume in RUB billions	Coupon (%)	As of December 31,	
				2015	2014
Bonds	04,05	October 2012	20	8.6 %	20
Bonds	07,08	March 2013	30	8.0 %	31
Bonds	06,09,10	June 2013	40	7.95 %	40
SE Bonds*	50-05, 50-06	December 2013	40	7.95 %	11
SE Bonds	50-01, 50-07	February 2014	35	8.90 %	36
SE Bonds*	50-02, 50-03, 50-04				
	50-08, 50-09, 50-10				
	50-11, 50-12, 50-13				
	50-14	December 2014	225	11.9 %**	—
SE Bonds*	50-15, 50-16				
	50-17, 50-24	December 2014	400	13.4 %**	—
SE Bonds*	50-18, 50-19, 50-20				
	50-21, 50-22, 50-23				
	50-25, 50-26	January 2015	400	11.9 %**	—
<b>Total long-term RUB bonds</b>				<b>138</b>	<b>138</b>

\* On the reporting date these issues are partially used as an instrument under REPO transactions.

\*\* For the coupon period effective as of December 31, 2015.

All of the above mentioned bonds are issued with a maturity period of 6 or 10 years with quarterly and semi-annual coupon payments, respectively. The bonds 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 subsequent bonds circulation. Such purchase/repayment of the bonds does not constitute an early redemption.

Corporate Eurobonds comprise the following:

	Coupon rate [%]	Currency	Maturity	As of December 31,	
				2015	2014
Eurobonds (Series 1)	3.149 %	US\$	2017	74	57
Eurobonds (Series 2)	4.199 %	US\$	2022	147	114
Eurobonds (Series 7)	6.250 %	US\$	2015	—	29
Eurobonds (Series 2)	7.500 %	US\$	2016	76	61
Eurobonds (Series 4)	6.625 %	US\$	2017	61	48
Eurobonds (Series 6)	7.875 %	US\$	2018	86	68
Eurobonds (Series 8)	7.250 %	US\$	2020	39	31
Total long-term Eurobonds				483	408

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. Eurobonds were placed in two tranches at a nominal value: one in the amount of US\$1.0 billion (RUB 73 billion at the CBR official exchange rate as of December 31, 2015) with a coupon of 3.149 % p. a. and a maturity in March 2017, and the other in the amount of US\$2.0 billion (RUB 146 billion at the CBR official exchange rate as of December 31, 2015) with a coupon of 4.199 % p. a. and maturity in March 2022. The funds received will be used for general corporate purposes.

Eurobonds of the second, fourth, sixth, seventh and eighth series were assumed through the acquisition of TNK-BP.

In February 2015, the Company fully repaid Eurobonds (Series 7) in the amount of US\$0.5 billion (RUB 34.5 billion at the CBR official exchange rate at the transaction date) assumed through the TNK-BP acquisition.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, nominated in RUB and foreign currencies. As of December 31, 2015, RUB nominated deposits bear interest rates ranging from 0.01 % to 13.25 % p. a. and deposits nominated in foreign currencies bear interest rates ranging from 0.01 % to 4.30 % p. a.

In the fourth quarter of 2015 the Company attracted other long-term fixed rate borrowed funds under repurchase agreements in the total amount of RUB 15 billion, repayable in the fourth quarter of 2018. Its own corporate bonds were used as an instrument for those transactions.

In December 2015 the Company settled other long-term floating rate borrowings under repurchasing agreements operations and entered into new transactions under more favorable terms. As of December 31, 2015 the liabilities of the Company under those transactions totaled the equivalent of RUB 383 billion (at the CBR official exchange rate as of December 31, 2015) repayable in the fourth quarter of 2017 and the first quarter of 2018. Its 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, 2015 and 2014 the Company was in compliance with all restrictive financial and other covenants contained in its loan agreements.

#### Short-term loans and borrowings

In the third quarter of 2014, the Company drew down funds from a Russian bank under fixed rate debt agreement totaling RUB 51.9% billion. All funds were repaid in March 2015.

In July 2015, the Company fully repaid a short-term loan and interest to a local bank in an amount equivalent to RUB 22 billion at the CBR official exchange rate at the transaction date.

In January-February 2015, the Company received short-term floating rate loans from a local bank totaling RUB 100 billion.

Customer deposits represent fixed-term deposits placed by customers with the Company's subsidiary banks, nominated in RUB and foreign currencies. As of December 31, 2015 the RUB nominated deposits bear interest rates ranging from 0.01% to 13.60% p. a. and deposits nominated in foreign currencies bear interest rates ranging from 0.01% to 5.40% p. a.

In March-June 2015, certain OJSC Yukos Oil Company related promissory notes payable were returned to the Company pursuant to relevant agreements (Note 41).

In 2014–2015 the Company received cash under repurchase agreements and recognized these transactions as a collateralized loan. As of December 31, 2014, the liabilities of the Company under repurchase agreements and the fair value of the securities transferred amounted to RUB 13 billion and RUB 13.5 billion, respectively. In 2015 the Company fully met its obligations in relation to these repurchase agreements.

In the fourth quarter of 2015 the Company fully met its obligations in relation to other short-term fixed rate borrowings attracted under repurchase agreements in November 2014 and entered into new long-term fixed rate borrowings, repayable in the fourth quarter of 2018. Its own corporate bonds were used as an instrument for those transactions.

In 2014–2015 the Company attracted other short-term floating rate borrowings under repurchase agreements. As of December 31, 2015 and 2014, the liabilities of the Company under those transactions amounted to the equivalent of RUB 222 billion (at the CBR official exchange rate as of December 31, 2015) and to the equivalent of RUB 73 billion (at the CBR official exchange rate as of December 31, 2014), respectively. Its own corporate bonds were used as an instrument for those transactions. In 2015 the Company met its obligations in relation to other short-term floating rate borrowings under repurchase agreements, attracted in 2014–2015.

In the third quarter of 2015 the Company entered into a long-term river transportation services contract under "take or pay" terms through 2028 and recognized financial lease liabilities in a total amount of RUB 15 billion.

In 2015 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, 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
<b>Total</b>	<b>64</b>	<b>(33)</b>	<b>31</b>

	As of December 31, 2014		
	Minimum lease payments	Finance expense	Present value of minimum lease payments
Less than 1 year	6	(2)	4
From 1 to 5 years	10	(2)	8
Over 5 years	7	(1)	6
<b>Total</b>	<b>23</b>	<b>(5)</b>	<b>18</b>

Finance leases entered into by the Company do not contain covenants and are long-term agreements, with certain leases having purchase options at the end of the lease term. Finance leases are nominated 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,	
	2015	2014
Plant and machinery	12	18
Vehicles	21	6
<b>Total cost</b>	<b>33</b>	<b>24</b>
Less: accumulated depreciation	(9)	(12)
<b>Total net book value of leased property</b>	<b>24</b>	<b>12</b>

#### Liabilities related to derivative financial instruments

Short-term liabilities related to derivative financial instruments include liabilities related to cross-currency rate swaps and currency forward transactions.

In accordance with its foreign currency and interest rate risk management policy the Company enters into cross-currency rate swap transactions and currency forward transactions 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 and the currency forward transactions 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, 2015		Interest rate type	Fair value of the liabilities as of December 31,	
			US\$ million	RUB billion*		2015	2014
Swaps	2012	2015	—	—	fixed	—	54
Swaps	2012	2017	641	47	floating	21	9
Swaps	2013	2018	2,138	156	floating	59	14
Swaps	2014	2015	—	—	fixed	—	29
Swaps	2014	2019	1,010	74	floating	24	6
Forwards	2012	2015	—	—	—	—	25
<b>Total</b>			<b>3,789</b>	<b>277</b>		<b>104</b>	<b>137</b>

\* the equivalent nominal amount at the CBR official exchange rate as of December 31, 2015.

In 2015 the Company settled derivative financial instruments opened in 2012–2014 for a nominal amount of US\$4,494 million (RUB 327 billion at the CBR official exchange rate as of December 31, 2015).

### 32. OTHER SHORT-TERM TAX LIABILITIES

Other short-term tax liabilities comprise the following:

	As of December 31,	
	2015	2014
Mineral extraction tax	63	69
VAT	49	55
Excise duties	15	11
Personal income tax	1	1
Property tax	8	7
Other	2	19
<b>Total other tax liabilities</b>	<b>138</b>	<b>162</b>

### 33. PROVISIONS

	Asset retirement obligations	Environmental remediation provision	Legal, tax and other claims	Total
<b>As of January 1, 2014, including</b>	94	33	11	138
Non-current	91	24	1	116
Current	3	9	10	22
Provisions charged during the year (Note 41)	4	4	16	24
Increase/(decrease) in the liability resulting from:				
Changes in estimates	(6)	2	(1)	(5)
Change in the discount rate	(15)	(1)	—	(16)
Unwinding of discount	7	2	—	9
Utilized	(1)	(5)	(1)	(7)
<b>As of December 31, 2014, including</b>	<b>83</b>	<b>35</b>	<b>25</b>	<b>143</b>
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)
Change 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)
<b>As of December 31, 2015, including</b>	<b>123</b>	<b>35</b>	<b>13</b>	<b>171</b>
Non-current	119	23	1	143
Current	4	12	12	28

Asset retirement (decommissioning) obligations represent an estimate of the costs of liquidating wells, the reclamation of sand pits, slurry ponds, 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 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 the current market prices. The prepayment is settled through the physical deliveries of crude oil and petroleum products.

The prepayments started to be reimbursed in 2015. The Company considers these contracts to be regular sale 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.

	2015	2014
<b>As of January 1</b>	<b>967</b>	<b>470</b>
Received	1,027	497
Reimbursed	(89)	—
<b>Total prepayment on long-term oil and petroleum products supply agreements</b>	<b>1,905</b>	<b>967</b>
Less current portion	(120)	(80)
<b>Long-term prepayment as of December 31</b>	<b>1,785</b>	<b>887</b>

The shipments of oil in accordance with the terms of the prepayment contracts started on January 1, 2015. The off-set of prepayments made during the first nine months of 2015 amounted to RUB 89 billion (US\$ 2.86 billion at the CBR official exchange rate at the prepayment dates, the prepayments are not revalued at each balance sheet date).

### 35. OTHER NON-CURRENT LIABILITIES

Other non-current liabilities comprise the following:



	As of December 31,	
	2015	2014
Ruhr Oel GmbH liabilities due to BP (Note 8)	—	24
Shelf projects liabilities	26	19
Liabilities for investing activities	12	1
Other	1	2
<b>Total other non-current liabilities</b>	<b>39</b>	<b>46</b>

Other non-current liabilities mostly comprise shelf project liabilities and liabilities for investing activities.

### 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:

	2015	2014
State Pension Fund	37	34
NPF Neftegarant	5	5
<b>Total pension contributions</b>	<b>42</b>	<b>39</b>

### 37. SHAREHOLDERS' EQUITY

#### Common shares

As of December 31, 2015 and 2014:

<b>Authorized common shares</b>	
quantity, millions	10,598
amount, billions of RUB	0.6
<b>Issued and fully paid shares</b>	
quantity, millions	10,598
amount, billions of RUB	0.6
<b>Nominal value of 1 common share, RUB</b>	<b>0.01</b>

Since 2011 the Company has distributed dividends in the amount of 25% of IFRS net income attributable to the Company's shareholders. According to Russian legislation the basis of distribution is identified as the current period net profit of OJSC Rosneft Oil Company calculated in accordance with Russian accounting standards.

On June 27, 2014, the Annual General Meeting of Shareholders approved dividends on the Company's common shares for 2013 in the amount of RUB 136 billion, or RUB 12.85 per share. The dividends were paid in the third quarter of 2014.

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.

During the third quarter of 2014, additional paid-in capital of the Company increased by RUB 16 billion as a result of the acquisition of non-controlling interests in subsidiaries.

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).

### 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, 2015			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
<b>Current assets</b>				
Held-for-trading	4	4	—	8
Available-for-sale	2	173	—	175
<b>NON-CURRENT ASSETS</b>				
Available-for-sale	—	26	—	26
Derivative financial instruments	—	—	—	—
<b>Total assets measured at fair value</b>	<b>6</b>	<b>203</b>	<b>—</b>	<b>209</b>
Derivative financial instruments	—	(104)	—	(104)
<b>Total liabilities measured at fair value</b>	<b>—</b>	<b>(104)</b>	<b>—</b>	<b>(104)</b>

	Fair value measurement as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
<b>Current assets</b>				
Held-for-trading	8	6	—	14
Available-for-sale	1	125	—	126
<b>NON-CURRENT ASSETS</b>				
Available-for-sale	—	5	—	5
Derivative financial instruments	—	—	—	—
<b>Total assets measured at fair value</b>	<b>9</b>	<b>136</b>	<b>—</b>	<b>145</b>
Derivative financial instruments	—	(137)	—	(137)
<b>Total liabilities measured at fair value</b>	<b>—</b>	<b>(137)</b>	<b>—</b>	<b>(137)</b>

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 recognized in these consolidated financial statement approximate their fair value.

There were no transfers of financial liabilities between Level 1 and Level 2 during the period.

	Carrying value as of December 31,		Fair value (Level 2) as of December 31,	
	2015	2014	2015	2014
<b>Financial liabilities</b>				
<b>Financial liabilities at amortized cost:</b>				
Loans and borrowings with a variable interest rate	(2,441) *	(2,413)	(2,137) *	(1,994)
Loans and borrowings with a fixed interest rate	(748)	(838)	(777)	(736)
Financial lease liabilities	(31)	(18)	(31)	(18)

\* including financial instruments designated as hedging instruments with a carrying value of RUB 285 billion and a fair value of RUB 250 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 2015 and 2014 the Company entered into transactions with shareholders and companies controlled by shareholders (including enterprises directly or indirectly controlled by the Russian Government and the BP Group), associates and joint ventures, key management and pension funds (Note 35).

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms as transactions between unrelated parties.

The disclosure of related party transactions is presented on an aggregate basis for shareholders and companies controlled by shareholders, joint ventures and associates, and non-state pension funds. In addition, there may be additional disclosures of certain significant transactions (balances and turnovers) with certain related parties.

In the course of its ordinary business, the Company enters into transactions with other companies controlled by the Russian Government. In the Russian Federation, electricity and transport tariffs are regulated by the Federal Antimonopoly Service, an authorized governmental agency of the Russian Federation. Bank loans are recorded based on market interest rates. Taxes are accrued and paid in accordance with applicable tax law. The Company sells crude oil and petroleum products to related parties in the ordinary course of business at prices close to average market prices. Gas sale prices in the Russian market are regulated by the Federal Antimonopoly Service.

#### Transactions with shareholders and companies controlled by shareholders

##### Revenues and income

	2015	2014
Oil, gas, petroleum products and petrochemicals sales	443	171
Support services and other revenues	2	—
Finance income	11	2
Other income	17	—
	<b>473</b>	<b>173</b>

##### Costs and expenses

	2015	2014
Production and operating expenses	4	8
Cost of purchased oil, gas, petroleum products and refining costs	131	9
Pipeline tariffs and transportation costs	447	395
Other expenses	11	6
Financial expenses	62	44
	<b>655</b>	<b>462</b>

##### Other operations

	2015	2014
Purchase of financial assets and investments in associates	—	(1)
Proceeds from sale of subsidiaries stock	46	—
Loans received	1	13
Loans repaid	(4)	(26)
Loans and borrowings issued	(13)	—
Deposits placed	(155)	(187)
Deposits repaid	—	83

*Settlement balances*

	As of December 31,	
	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	316	24
Accounts receivable	62	18
Prepayments and other current assets	36	38
Other financial assets	480	283
Assets held for sale	26	—
	920	363
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	42	8
Loans and borrowings and other financial liabilities	190	159
Liabilities associated with assets held for sale	44	—
	276	167

**Transactions with joint ventures**

Crude oil is purchased from joint ventures at Russian domestic market prices.

*Revenues and income*

	2015	2014
Oil, gas, petroleum products and petrochemicals sales	13	10
Support services and other revenues	3	2
Finance income	18	2
	34	14

*Costs and expenses*

	2015	2014
Production and operating expenses	3	1
Cost of purchased oil, gas, petroleum products and refining costs	168	115
Pipeline tariffs and transportation costs	8	10
Other expenses	3	2
	182	128

*Other operations*

	2015	2014
Loans received	—	5
Loans repaid	(4)	—
Loans and borrowings issued	(21)	(11)

*Settlement balances*

	As of December 31,	
	2015	2014
<b>ASSETS</b>		
Accounts receivable	19	15
Prepayments and other current assets	1	1
Other financial assets	320	246
	340	262
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	25	23
Loans and borrowings and other financial liabilities	2	5
	27	28

**Transactions with associates**

*Revenues and income*

	2015	2014
Oil, gas, petroleum products and petrochemicals sales	12	11
Support services and other revenues	—	1
Finance income	1	2
	13	14

**Costs and expenses**

	2015	2014
Production and operating expenses	1	6
Cost of purchased oil, gas, petroleum products and refining costs	6	—
Other expenses	3	3
	10	9

**Other operations**

	2015	2014
Loans and borrowings issued	—	(1)

**Settlement balances**

	As of December 31,	
	2015	2014
<b>ASSETS</b>		
Accounts receivable	2	17
Other financial assets	14	19
	16	36
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	1	2
	1	2

**Transactions with non-state pension funds**

**Costs and expenses**

	2015	2014
Other expenses	5	3

**Settlement balances**

	As of December 31,	
	2015	2014
<b>Liabilities</b>		
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 Rosneft Oil Company OJSC 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 2,779 million in 2015 and 2014, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 376 million and RUB 260 million, respectively, with the increase due to a change in the social security contributions calculation rules). Short-term benefits do not include a onetime bonus paid in 2015 for the achievements in implementing major projects in 2014 (the discovery of Kara oil and gas province, the commencement of commercial production at Berkut, the world's largest drilling platform, in the Sea of Okhotsk, the development of major projects in the Asia-Pacific region), following state awards by the President of the Russian Federation, and a part of 2014 compensation paid in 2015. Short-term gross benefits for 2015 were previously disclosed in accordance with the Russian securities law on information disclosure. There were no post-employment, severance or share-based benefits paid. There was no wages indexation in 2015.

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 Warnig — 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 state employee members of the Board of Directors (Andrey Belousov, Alexander Novak), nor to Mr. Igor Sechin, the Chairman of the Management Board, for their Board of Directors service.

On June 27, 2014, 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. Matthias Warnig — US\$580,000 (RUB 19.6 million at the CBR official exchange rate on June 27, 2014); Mr. Andrey Kostin — US\$560,000 (RUB 18.9 million at the CBR official exchange rate on June 27, 2014); Mr. Nikolai Laverov — US\$550,000 (RUB 18.6 million at the CBR official exchange rate on June 27, 2014); Mr. John Mack — US\$580,000 (RUB 19.6 million at the CBR official exchange rate on June 27, 2014); Mr. Alexander Nekipelov — US\$630,000 (RUB 21.3 million at the CBR official exchange rate on June 27, 2014); Mr. Donald Humphreys — US\$560,000 (RUB 18.9 million at the CBR official exchange rate on June 27, 2014); Mr. Sergey Chemezov — US\$530,000 (RUB 17.9 million at the CBR official exchange rate on June 27, 2014). Remuneration does not include compensation of travel expenses. No remuneration was paid to state employee members of the Board of Directors, nor 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	2015		2014	
			Preferred and common shares	Voting shares	Preferred and common shares	Voting shares
			%	%	%	%
<b>EXPLORATION AND PRODUCTION</b>						
PJSC Orenburgneft	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00



Name	Country of incorporation	Core activity	2015		2014	
			Preferred and common shares	Voting shares	Preferred and common shares	Voting shares
			%	%	%	%
JSC Samotlorneftegaz	Russia	Oil and gas development and production	100.00	100.00	100.00	100.00
OJSC 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	100.00	100.00	100.00	100.00
RN-Yuganskneftegaz LLC	Russia	Oil and gas production operator services	100.00	100.00	100.00	100.00
<b>REFINING, MARKETING AND DISTRIBUTION</b>						
JSC RORC	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Angarsk Petrochemical Company	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Novokuybyshev Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
LLC RN-Komsomolsky Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Syzran Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Achinsk Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
JSC Kuybyshev Refinery	Russia	Petroleum refining	100.00	100.00	100.00	100.00
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
<b>OTHER</b>						
OJSC RN Holding	Russia	Holding company	100.00	100.00	100.00	100.00
Neft-Aktiv LLC	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	84.67	84.67	84.67	84.67

#### 41. CONTINGENCIES

##### Russian business environment

Russia continues economic reforms and the development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of the economic, financial and monetary measures taken by the Government. Management believes it is taking the appropriate measures to support the sustainability of the Company's business in the current circumstances.

In 2015, the Russian economy was impacted by a significant drop in crude oil prices and a significant devaluation of the Russian ruble, as well as by sanctions imposed on Russia by several countries in 2014. The ruble interest rates remained at high levels following the Central Bank of Russia's key rate increase in December 2014 with a subsequent gradual reduction in 2015. The combination of the above resulted in 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 the appropriate measures to support the sustainability of the Company's business in the current circumstances.

In 2014, the USA and EU issued a number of sectorial sanctions. These sanctions restrict certain U. S. and EU persons from providing financing, goods and services in support of exploration or production of deep water, Arctic offshore, or shale projects that have a potential to produce oil in the Russian Federation to certain entities. The Company considers these sanctions in its activities, continuously monitors them and analyses the effect of the sanctions on the Company's financial position and results of operations.

During 2014 and 2015 economic and political instability in Ukraine was increasing. The Company's assets and liabilities, related to its activities in Ukraine are recognized based on the appropriate measurements as of December 31, 2015. The Company continues to monitor the situation in Ukraine and to execute a number of measures in order to minimize the effects of possible risks. The risk assessment is constantly reviewed in order to reflect the current situation.

##### 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.

##### Legal claims

In 2006, Yukos Capital S. a. r. l. ("Yukos Capital") initiated separate international commercial arbitration proceedings against OJSC Yuganskneftegaz, OJSC Samaraneftegaz and OJSC Tomskneft VNK alleging, as grounds for its claims, defaults under various ruble-nominated loans with principal amounts totaling RUB 11.2 billion (OJSC Yuganskneftegaz), RUB 4.35 billion (OJSC Tomskneft VNK) and RUB 2.4 billion (OJSC Samaraneftegaz) plus interest at 9% per annum under each loan. During 2006–2007, international arbitration tribunals issued awards in favor of Yukos Capital, after which Yukos Capital filed claims with various Russian and non-Russian courts seeking recognition and enforcement of the aforementioned international arbitration awards.

During 2007–2013, various Russian arbitration courts declared the above loan agreements to be void; moreover, a competent Russian court annulled the arbitral awards against OJSC Yuganskneftegaz and declined recognition and enforcement in Russia of the arbitral awards against OJSC Tomskneft and OJSC Samaraneftegaz.

The arbitral awards against OJSC Yuganskneftegaz were enforced in the Netherlands despite their annulment by a competent court. Although the Company opposes the judgments of the Netherlands courts for recognition and enforcement of the arbitral awards, on August 11, 2010, it complied with these judgments and made corresponding payments in respect of the claim brought against the Company. In foreign jurisdictions, the aforementioned disputes continued in England, seeking payment of the interest accrued on the arbitral award against Rosneft, in the USA, seeking enforcement of international arbitration awards against OJSC Samaraneftegaz and, in France, Ireland, and Singapore, seeking enforcement of award against OJSC Tomskneft VNK.

Further, Yukos International (UK) B. V. initiated proceedings in the Netherlands claiming damages of up to US\$333 million (RUB 24 billion at the CBR exchange rate at December 31, 2015), plus statutory interest with effect from February 7, 2011, plus costs, against the Company and other co-respondents unrelated to the Company. In these proceedings, Yukos International (UK) B. V. alleged damages supposedly caused by an order by the Amsterdam court to freeze a bank account in 2008. On February 11, 2015, the Amsterdam District Court issued a judgment granting the claim of Yukos International (UK) B. V. that the orders to freeze the funds held in the bank account were issued improperly, but rejected the procedure for calculating damages used by the claimant, pointing out that the damages issue, including the question of whether Yukos International (UK) B. V. is liable itself for the damages it allegedly suffered, should be considered in separate court proceedings.

In March 2015, Rosneft and a number of its subsidiaries including OJSC Samaraneftgaz, OJSC Tomskneft VNK and OJSC ANHK entered into a Settlement Deed with Yukos Finance B.V., Yukos Capital S. a. r. l, Stichting Administratiekantoor Yukos International, Stichting Administratiekantoor Financial Performance Holdings, Consolidated Nile, LP, General Nile, LLC, Yukos International (UK) B. V., Luxtona Limited, Financial Performance Holdings B. V., Yukos Hydrocarbons Investments Limited, CN & GN (PTC) Ltd. and with individuals controlling these entities. Pursuant to the terms and conditions of the Settlement Deed, the parties released all mutual claims and resolved all pending judicial and other disputes including the above disputes, and undertook not to bring any other claims against each other in the future in relation to the bankruptcy and liquidation of Yukos Oil Company. The Deed does not provide for any cash or other payments on the part of Rosneft or its subsidiaries. On March 31, 2015, the parties closed the transaction and executed all the documents necessary for the dismissal of all pending proceedings in the Netherlands, England, Russia, the U.S. A. and other jurisdictions.

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 to OJSC RN Holding, TNK-BP Limited and certain other defendants in the amount of US\$1.5 billion (RUB 109 billion at the CBR official exchange rate on December 31, 2015) claiming the recovery of damages and compensation of moral damages caused by the allegedly illegal takeover of the shares of LLC Corporation Yugraneft owned by Norex. 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 September 12, 2013, the New York Court of Appeals accepted Norex's claim and accepted the appeal for consideration. The hearing was held on May 6, 2014. On June 27, 2014 the New York Court of Appeals issued a decision, satisfying Norex's complaint and sent the case to the court of first instance. The hearing was held on January 12, 2015. On August 25, 2015 the Supreme Court of the State of New York dismissed Norex's lawsuit. On September 29, 2015 Norex requested to be allowed to appeal to the Appeals Board of the Supreme Court of the State of New York. The Court's decision is expected.

In October-November 2014 former minority shareholders of OJSC RN Holding filed a lawsuit against the Company claiming the recovery of damages caused by the forced redemption of shares. Cases are pending before the Court of First Instance.

On December 31, 2015, First National Petroleum Corporation ("FNPC") filed a lawsuit with the Arbitration Institute of the Stockholm Chamber of Commerce against OJSC Tyumenneftgaz ("TNG"), a subsidiary of Rosneft, seeking compensation of losses in the amount of US\$200 million (RUB 15 billion at the CBR official exchange rate on December 31, 2015) plus interest and arbitration costs for the presumptive breach of the joint venture agreement on Tumtex between FNPC and TNG. The hearing is expected.

The amount and timing of any outflow related to the above claims cannot be estimated reliably.

Rosneft and its subsidiaries are involved in other litigations which arise 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.

The current regime of penalties and interest with respect to reported and discovered violations of Russian laws, decrees and related regulations is severe. Interest and penalties are levied when an understatement of a tax liability is discovered. As a result, the amounts of penalties and interest can be significant in relation to the amounts of unreported taxes.

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 three-year period.

Effective January 1, 2012, the rules for defining market prices for fiscal control purposes were changed and the list of entities that could be recognized as interdependent entities and the list of controlled transactions were expanded. Due to the absence of legal 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 to the consolidated financial statements posed 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 (profit margins) for the controlled transactions annually.

As part of the new regime for fiscal control over the pricing of related party transactions in 2012–2014 the Company and the Federal Tax Service have signed a pricing agreement with respect to the taxation of oil sales transactions in Russia.

Due to the fact that the Company has provided the Russian Federal Tax Service and the regional tax authorities with sufficient explanations concerning the related party transactions made during 2012–2013, the Federal Tax Service did not exercise its right to conduct an examination of the calculation and payment of taxes on related party transactions made during 2012–2013. The period for the Federal Tax Service to make such decisions expired on June 30, 2014 and December 31, 2015 respectively. The Company believes that the risks concerning the related party transactions in 2015 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).

The Company management believes that the creation of the consolidated group of taxpayers does not significantly change the tax burden of the Company for the purpose of these consolidated financial statements.

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 covered the terms of beneficial ownership, fiscal residence of legal entities, and income tax rules for controlled foreign companies. The Company management 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 2010–2015. Rosneft and these subsidiaries are disputing a number of claims by the Federal Tax Service in pre-court and court appeals. The Company 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 421 billion and RUB 351 billion as of December 31, 2015 and 2014, respectively.

#### **Environmental liabilities**

The Company periodically evaluates its environmental liabilities pursuant to environmental regulations. Such liabilities are recognized in the consolidated financial statements as and when identified. Potential liabilities that could arise as a result of changes in existing regulations or regulation of civil litigation or of changes in environmental standards cannot be reliably estimated but may be material. With the existing system of control, management believes that there are no material liabilities for environmental damage other than those recorded in these consolidated financial statements.

In June 2014, an accident took place at the Company's Achinsk refinery. In December 2015, the Company and international insurance companies completed the assessment and calculation of insurance payments, and signed an agreement on the amount of insurance indemnity payable for damages caused by the production break and recovery of the damaged and destroyed property at the Achinsk refinery. The total amount of the insurance indemnity amounted to RUB 17 billion (Note 14).

#### **Other matters**

In August 2014, the Company and North Atlantic Drilling Limited ("NADL") signed a framework agreement anticipating the Company's acquisition of shares in NADL through an exchange of assets and investments in NADL share capital. In April 2015, the Company and NADL agreed to extend the date of termination of the Framework Agreement to May 31, 2017, until which date the parties have the right to effectively terminate the transaction at any time at no cost. The addendum signed also provides for possible renegotiations of the terms of the transaction.

In September 2015 the Company and ONGC Videsh Limited ("ONGC") entered into sale purchase agreement and a shareholders agreement on the sale of 15% of OJSC Vankorneft to ONGC. As of the date of these consolidated financial statements the parties had not yet complied with all of the conditions precedent, including obtaining the necessary regulatory approvals, in order to complete the transaction in accordance with the terms and conditions of the sale purchase agreement.

## **42. EVENTS AFTER THE REPORTING PERIOD**

In March 2016, the Company and Oil India, Indian Oil and Bharat Petroresources entered into a legally binding share sale agreement of a 29.9% interest in LLC Taas-Yuryakh Neftegasodobysha. The document provides for the entry of the Indian companies' consortium into the joint venture established by the Company and BP on the basis of LLC Taas-Yuryakh Neftegasodobysha. The Company will retain a controlling share in the joint venture. The transaction will be closed after the set of condition precedents is met.

### 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:	
	2015	2014
Oil and gas properties related to proved reserves	6,132	5,522
Oil and gas properties related to unproved reserves	251	246
Total capitalized costs	6,383	5,768
Accumulated depreciation and depletion	(1,845)	(1,423)
Net capitalized costs	4,538	4,345

#### 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:	
	2015	2014
Acquisition of properties — proved oil and gas reserves	5	28
Acquisition of properties — unproved oil and gas reserves	8	15
Exploration costs	16	27
Development costs	506	379
Total costs incurred	535	449

#### The results of operations relating to oil and gas production are presented below

Consolidated subsidiaries and joint operations

	For the years ended December 31:	
	2015	2014 (restated)
Revenue	2,485	2,154
Production costs (excluding production taxes)	(278)	(254)
Selling, general and administrative expenses	(100)	(75)
Exploration expense	(13)	(19)
Depreciation, depletion and amortization	(359)	(383)
Taxes other than income tax	(1,139)	(1,018)
Income tax	(120)	(79)
Results of operations relating to oil and gas production	476	326

#### Reserve quantity information

Beginning from 2014 the Company discloses its reserves calculated in accordance with the Petroleum Resources Management System (PRMS). For the purposes of the evaluation of reserves as of December 31, 2015 and 2014 the Company used the 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 2016 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, 2015 and 2014 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

	2015	2014
	mLn boe	mLn boe
Beginning of year	40,607	39,330
Revisions of previous estimates	761	2,398
Extensions and discoveries	691	566
Improved recovery	—	—
Purchase of new reserves	—	—
Sale of reserves	—	—

	2015	2014
	mln boe	mln boe
Production	(1,700)	(1,687)
<b>END OF YEAR</b>	<b>40,359</b>	<b>40,607</b>
of which:		
Proved reserves under PSA Sakhalin 1	276	220
Proved reserves of assets in Canada	4	5
Proved reserves of assets in Vietnam	19	24
Proved developed reserves	19,068	18,034
Minority interest in total proved reserves	118	63
Minority interest in proved developed reserves	48	43

#### 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

	2015	2014
Future cash inflows	80,084	78,961
Future development costs	(3,975)	(3,934)
Future production costs	(42,578)	(41,894)
Future income tax expenses	(6,145)	(6,157)
Future net cash flows	27,386	26,976
Discount for estimated timing of cash flows	(17,636)	(17,694)
Discounted value of future cash flows as of the end of year	9,750	9,282

#### Share of other (minority) shareholders in discounted value of future cash flows

Consolidated subsidiaries and joint operations

	UOM	2015	2014
Share of other (minority) shareholders in discounted value of future cash flows	RUB bln	50	15

#### Changes therein relating to proved oil and gas reserves

Consolidated subsidiaries and joint operations

	2015	2014
Discounted value of future cash flows as of the beginning of year	9,282	6,136
Sales and transfers of oil and gas produced, net of production costs and taxes other than income taxes	(968)	(807)
Changes in price estimates, net	238	3,282
Changes in estimated future development costs	(130)	109
Development costs incurred during the period	506	379
Revisions of previous reserves estimates	184	677
Increase in reserves due to discoveries, less respective expenses	167	161
Net change in income taxes	(79)	(1,019)
Accretion of discount	928	614
Net changes due to purchases (sales) oil and gas fields	—	—
Other	(378)	(250)
Discounted value of future cash flows as of the end of year	9,750	9,282

#### Company's share in costs, inventories and future cash flows of the joint ventures and associates

	UOM	2015	2014
Share in capitalized costs relating to oil and gas producing activities (total)	RUB bln	208	54
Share in results of operations for oil and gas producing activities (total)	RUB bln	2	(10)
Share in estimated proved oil and gas reserves	mln boe	1,932	2,069
Share in estimated proved developed oil and gas reserves	mln boe	1,130	1,244
Share in discounted value of future cash flows	RUB bln	424	417



# APPENDIX 2

## KEY RISK FACTORS

Type	Description and mitigation	Risk management operations
<b>INDUSTRY-WIDE RISKS</b>		
Related to crude oil, gas and petroleum product prices	<p>Crude oil, gas and petroleum product prices are key factors that impact the Rosneft financial performance and indirectly, its operations. The prices of the Company's products mainly depend on the global market environment, as well as demand and supply balance in some regions of Russia. Rosneft's abilities to control its own product prices are significantly limited.</p> <p>A decline in oil, gas and petroleum product prices has an adverse impact on Rosneft's performance and financial standing.</p> <p>Decreasing prices may result in less profitable oil and gas production by the Company which will in turn entail the reduction of Rosneft's effective reserves and financial viability of exploration.</p>	<p>Rosneft has sufficient capabilities to re-distribute its commodity flows in case of a significant price difference between the domestic and international markets.</p> <p>Furthermore, the Company may promptly reduce its CAPEX and OPEX to fulfill its commitments in case of a sharp decline in oil, gas, and petroleum product prices.</p> <p>Besides, negative impact of price risk on financial performance of the Company is partially offset by FX rates changing (Natural hedge effect).</p>
Related to the dependency on monopoly service providers of oil, gas, and petroleum product transport and their tariffs	<p>Rosneft depends on monopoly service providers of oil, gas, and petroleum product transport and cannot control the infrastructure they operate and payments they charge. JSC Transneft is a national monopoly providing oil and petroleum product transport services via its main pipelines. During their cooperation, the Company did not incur any substantial loss due to failures or leaks in Transneft pipelines.</p> <p>However, any serious failure in Transneft pipeline operation or limited access to Transneft capacities may disrupt oil and petroleum product export and adversely impact Rosneft's performance and financial standing.</p> <p>Rosneft similarly to other Russian oil producers, shall pay for Transneft transportation services. Transneft charges are regulated by the Federal Tariffs Service. Transneft periodically increases charges for the use of its network. Tariff increase results in higher costs for the Company which adversely impacts its performance and financial standing.</p> <p>Similar risks may result from the use of Gazprom's pipeline system.</p> <p>The Company is dependent on the railway transportation of its oil and petroleum products. Russian Railways (hereinafter, RZhD) is a national monopoly rendering railway transportation services. RZhD tariffs are subject to anti-monopoly control and traditionally they tend to grow. Further tariff increase entails higher costs for oil and petroleum product export and may have a negative effect on the Company's performance and financial standing.</p>	<p>Rosneft takes into account negative impact of changes in the natural monopolies' rate for hydrocarbons transportation for the Company future business operations planning. Decisions to change transportation flows and optimize the schedule of the Company products supply via the oil and gas pipeline system of Russia are made depending on the amount of the risk impact.</p>
Related to geographical and climatic conditions	<p>The regions where Rosneft operates have a stable climate and are mainly 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.</p> <p>Delays at export terminals can be caused by climate peculiarities at their locations.</p> <p>Rosneft exports some oil via its own offshore terminals and Transneft-controlled terminals. Petroleum products are exported via its offshore terminals in Tuapse (Krasnodar Territory) and Nakhodka (Primorsky Territory).</p> <p>Export via the terminals in the Black Sea to Mediterranean ports may be limited by the capacity of the Bosphorus and weather conditions of the Black Sea (storms) in fall. Complex ice conditions in winter may require the shutdown of export terminals in the Baltic Sea and DeKastri (Khabarovsk Territory).</p> <p>Any long delay in export terminal operation may have a negative effect on the Company's performance and financial standing.</p>	<p>Rosneft offers options for redistribution of commodity flows with account of climatic conditions, including alternatives for oil and petroleum products transfer as well as the shipment schedule adjustment.</p>
Related to the sale of own gas	<p>The key factor that may have negative impact on gas sales of the Company — failure to take the required volume of gas by the consumers. The natural gas sales are also affected by the factors as follows:</p> <ul style="list-style-type: none"> <li>Nonconformance to the current Gazprom requirements to the quality of gas sent to gas transportation system, which may entail the risk of restricting the volume of gas accepted by the transportation system due to qualitative parameters as well as Gazprom penalties.</li> <li>Risk of Gazprom's restriction of the Company gas accepting to the transportation system by the volume of undistributed scopes.</li> </ul>	<p>The Company diversifies the consumers portfolio to ensure the planned gas consumption scopes, and lays claims to ensure efficient cash funds receipt for the sold gas.</p> <p>Mitigation of risk due to the quality of gas sent to the natural gas transportation system may be performed by carrying out technical steps to raise the quality indicators up to the set standards.</p> <p>The Company performs constant monitoring of conditions and ensures non-discriminating access to the Gazprom gas transportation system.</p> <p>We also developed the action plan for mitigating the occurred risk of restricted access to the transportation system, including changes in gas supply schedules, volumes redistribution among various consumers and alternative gas supply scenarios to the consumers via the third producers.</p>
Related to actual reserves	<p>Oil and gas reserves are mere estimates and are inevitably uncertain. Actual reserves may significantly differ from these estimates.</p> <p>Oil and gas reserves mentioned in this Report are estimations mainly based on the results of analytical work performed by DeGolyer&amp;MacNaughton, Rosneft's independent consultant for oil production technology.</p> <p>An oil production technology is subjective evaluation of underground oil and natural gas reserves which may not be accurately measured. Estimation and scoping of profitably recovered oil and gas reserves, production volumes, future funds, as well as expense periods for reserves development inevitably depend on a number of variables and assumptions.</p> <p>Many of the assumptions used for reserves estimation do not depend on the Company and may turn out to be false with time. Estimation of reserves and use of alternative calculation systems according to the Russian classification system inevitably imply a high degree of uncertainty. The accuracy of estimation of any reserves and resources depends on the quality of available information and interpretation of oil production technology and geological data available. Post-evaluation exploration drilling, data interpretation, testing, and production may require significant upward or downward adjustment of Rosneft reserves and resources.</p> <p>Moreover, different specialists responsible for reserves and resources estimation may evaluate reserve and funds differently using the same data. Actual production volumes, revenue, and costs related to reserves and resources might significantly differ from the operations estimate.</p> <p>Uncertainty is related to the Russian reserves classification system. It can consider geological factors only and ignores the feasibility of production.</p> <p>Prospecting drilling also entails multiple risks, including the risk of the oil companies' failure to find pay oil or gas zones.</p>	<p>Rosneft is a global leader in oil production and has extensive resources which minimize any risk of lower oil production as a result of future reserves re-estimation.</p>

Type	Description and mitigation	Risk management operations
Related to actual reserves	<p>The Company performs prospecting in different geographical regions, including areas with unfavorable climate conditions and high costs. Well drilling, infrastructure, and operation costs are often uncertain. Therefore, Rosneft may incur additional costs or will have to downscale, suspend, or terminate drilling due to many factors. They include contingent geological conditions, abnormally high or low formation pressure; unforeseen non-homogeneity of geological formations; equipment breakdown or emergencies; unfavorable weather conditions; shortage or untimely delay of drilling rigs and equipment.</p> <p>If Rosneft cannot perform efficient exploration or acquire assets with proven reserves, its proven reserves will decrease as it produces oil and gas and developed fields are depleted. The Company's future production efforts significantly depend on successful detection, acquisition, and development of oil- and gas-bearing fields. If Rosneft attempts do not pay off, it will have fewer proven reserves and decrease its hydrocarbon production, which will in turn have an adverse effect on the Company's performance and financial standing.</p>	
Competition-related	<p>There is strong competition within the oil and gas industry. Rosneft mainly competes with other leading Russian oil and gas companies to:</p> <ul style="list-style-type: none"> <li>• obtain exploration and development licenses at auctions and during bidding procedures held by Russian authorities;</li> <li>• acquire other Russian companies that might hold licenses or existing assets related to hydrocarbon production;</li> <li>• engage leading independent services companies with limited services capacity;</li> <li>• purchase equipment for capital construction facilities in case of shortage;</li> <li>• mobilize more skilled and experienced staff;</li> <li>• acquire existing retail sites and land plots to established new retail sites;</li> <li>• purchase or receive access to refining capacities.</li> </ul> <p>The Company is one of the industry leaders in Russia and globally which significantly improves its competitive positions. It has an extensive new project portfolio to maintain and improve its competitive standing in the future.</p> <p>By selling its products in the domestic and international markets, Rosneft bears risks of stiffer competition</p>	<p>The following measures are taken to minimize risks during the sale of petroleum products in the highly competitive domestic market.</p> <ul style="list-style-type: none"> <li>• The Company plans to utilize its refining capacities based on market forecasts to prevent excess stock of individual petroleum products.</li> <li>• 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 own refining facilities and contractors covering almost all Russian regions.</li> <li>• The Company rebuilds its refineries to satisfy the growing demand for high-octane gasoline and low-sulfur petroleum products which will in particular increase refinery volumes and yield.</li> <li>• The Company maintains a focus on the development of own filling stations and facilities that meet the newest 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 corporate clients, the system for petroleum product delivery via filling stations is implemented on a wide scale using electronic cards, together with a filling station services system accepting the cards issued by other market players.</li> </ul> <p>The most effective response measure to stiffer competition risks in the crude oil and petroleum product market includes geographical diversification which is instrumental with re-distributing products between regions.</p>
<b>COUNTRY AND REGIONAL RISKS</b>		
Related to the country and region of operation	<p>Rosneft operates in all federal districts of the Russian Federation. Our prospects and potential social and economic risks are outlined in the Program of Mid-Term Social and Economic Development of the Russian Federation. The Company believes that the risk of war conflicts, civil commotion, strikes, and announcement of a state of emergency in the regions where it operates is insignificant.</p> <p>The Company comments on the impact of the risks related to changes in foreign policy. It also encounters 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. The risks related to operation in such countries are in many respects similar to or may be higher than in Russia, also due to possible changes in foreign policy.</p>	<p>In case of any risks related to the political, economical, or social situation in Russia on the whole, or in some regions, or any risks related to global economic instability, the Company will take every effort to limit its negative effect. Its actions will depend on a specific situation and will be determined on a case-by-case basis.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• take every effort to maintain the projects that are currently developed with its support;</li> <li>• closely work with the executive authorities of the Russian Federation and its constituent entities and municipal governments;</li> <li>• optimize and curtail costs.</li> </ul>
<b>FINANCIAL RISKS</b>		
Currency risks	<p>A significant portion of Rosneft's gross revenue is oil and petroleum product export. Therefore, any FX fluctuations on RUB impact the Company's financial performance which is a currency risk factor.</p>	<p>The Company identifies and manages FX risks by using complex approach allowing for natural (economic) hedging application. To perform short-term FX risk management the Company selects a foreign currency for free cash funds balancing among Russian ruble, US dollar and other foreign currencies.</p> <p>Long-term FX risk management strategy of the Company provides for using derivative and non-derivative instruments to mitigate potential openness to the risk of FX fluctuations.</p>
Changes in interest rates	<p>Being a major borrower, Rosneft is exposed to the risks related to changes in interest rates. The main source of borrowings is an international credit market. The majority of the Company's loan portfolio consists of USD 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. The growth of loan fees for the Company may have a negative effect on its solvency and liquidity.</p> <p>As at end of 2015, the Company had the following credit ratings assigned by leading rating agencies: Moody's [Ba1], S&amp;P [BB+].</p>	<p>The Company analyses exposure to interest rates changes, including development of various scenarios to assess the influence of interest rate changes to financial indicators.</p>

Type	Description and mitigation	Risk management operations
Inflation	Inflation rates in the Russian Federation significantly impact the Company's performance.	Planning business operations we take into account the impact of inflation growth rate to financial performance of the Company, including the impact of the cost of procured materials and equipment as well as the rate of the contractors' services cost changes. We develop activities to mitigate risk impact, including the search of alternative contractors and suppliers of materials and equipment.
<b>LEGAL RISKS</b>		
Related to inspections by the regulator	Based on Order No. 824/14 dated December 31, 2014 of the Federal Antimonopoly Service, Rosneft was included in the 2015 legal entity and sole proprietor field inspection plan. FAS of Russia issued Order No. 882/15 dated September 25, 2015 and No. 1004/15 dated October 26, 2015 to conduct a scheduled field inspection from September 29, 2015 through December 29, 2015. The inspection was aimed at checking compliance by the Company with Russian anti-trust laws during its operations in 2013 and 2014. FAS of Russia drew up Inspection Report No. 368 dated December 25, 2015 based on the inspection results. The Company submitted its objections to the Inspection Report subject to compliance with the established administrative procedures.	Rosneft continuously monitors amendments to the current legislation, resolutions of the supreme courts and follows the trends of legal precedents. In the case of any legal precedents Rosneft submits the proposal for updating the legislation and applies to the state bodies for explanations and recommendations for implementing the specific regulations.
Related to the amendment to currency laws	Rosneft is actively involved in foreign trade and has FX assets and liabilities. Therefore, government currency regulation impacts the Company's business. Generally, there were no significant amendments to Russian currency laws that could impact Rosneft operations in the reporting period.	Rosneft performs ongoing monitoring of the resolutions on currency regulation and control procedures, made by the supreme court and assesses legal precedents. In the case of any legal precedents Rosneft submits the proposal for updating the legislation and applies to the state bodies for explanations and recommendations for implementing the specific regulations.
Related to the amendment to tax laws	Rosneft is a major tax payer with its operations built on the principles of good faith and transparency of information for tax authorities. The Company pays VAT, excise, income tax, severance tax, property tax, land tax, as well as other taxes and duties. Tax laws are subject to rapid changes,	Rosneft implements ongoing monitoring of amendments to tax laws, evaluates, and forecasts the degree of the potential impact of such amendments on its operations, follows the appearing legal precedents with account of amendment to the legislation related to the Company business field, the Company specialists regularly take part in various task forces developing tax laws.
Related to amendments to customs regulation	Rosneft is actively involved in foreign trade. Therefore, the Company faces some risks related to amendments to government regulation of foreign trade and customs laws governing the procedure for goods movement across the border, determination, and use of customs procedures, determination, enactment, and collection of customs charges. Review of the most significant changes in the customs regulations of the Russian Federation is given in Par. 1.7. of the Annual Report. Probability of any risks due to the effected amendments to the customs regulations in the reporting period in low.	Rosneft implements ongoing monitoring of amendments to customs laws, evaluates, and forecasts the degree of the potential impact of such amendments on its operations, the Company specialists regularly take part in various task forces developing customs laws. Throughout 2015 the Rosneft specialists were actively involved in development of the EEU Customs code within the task forces and expert groups at various platforms of the European Economic Committee and the federal state bodies of the Russian Federation to promote the Company's initiatives for mitigating customs risks.
Related to the amendment to anti-trust laws	<p>Rosneft has a significant share in the wholesale gasoline, diesel fuel, jet kerosene, and fuel oil market. Therefore, the Company shall meet additional requirements aimed at protecting competition and might face risks related to any amendments to anti-trust laws. Anti-trust regulation is in line with the federal laws of the Russian Federation and related regulations that were amended during the reporting period, and these amendments could affect the Company's operations.</p> <p>Federal Law No. 275-FZ dated October 05, 2015 significantly amended Federal Law on Protection of Competition (the so called "the fourth anti-trust package") effective from January 05, 2016. In particular, the following key amendments can be pointed out as capable of impacting the Company's operations.</p> <ul style="list-style-type: none"> <li>The Law contains a rule that allows the Government of the Russian Federation to set indiscriminating access to commodities in a specific commodity market if FAS of Russia establishes that an entity holding a share above 70 % in this commodity market misused its dominant position;</li> <li>The Law was amended to the extent of the provisions establishing a collegial body in the central office of FAS of Russia authorized to revise any regulations of FAS regional divisions so that these regulations could be appealed both in court and in the superior anti-trust authority.</li> <li>The Law was amended to abolish the register of entities with a market share in a specific commodity market of over 35 %.</li> <li>Furthermore, the list of offenses subject to warning from FAS of Russia to discontinue any actions (omission) that violate antitrust laws was significantly expanded. Apart from misuse of dominant position in the form of imposing unfavorable conditions or conditions that do not pertain to the subject of an agreement and unjustified refusal to sign an agreement, avoidance of signing of an agreement, this list includes misuse of dominant position in the form of different pricing of the same commodity and discriminating conditions.</li> <li>The consent is to be obtained from FAS of Russia to sign agreements on joint activity between competitors in the Russian Federation if the total value of assets exceeds the maximum values stipulated by law.</li> <li>FAS of Russia shall make an opinion before the end of anti-trust law case review on any circumstances of the case that grants any persons involved more opportunity to impact the outcome after receiving information on the merits of charges before the case is settled.</li> </ul> <p>A new joint order of FAS of Russia and the Ministry of Energy of the Russian Federation was enacted on April 25, 2015 on Approval of the minimum amount of petroleum products and individual categories of oil and gas refining products sold in the stock-exchange and requirements for stock trading involving transactions with petroleum products and individual categories of oil and gas refining products by an entity taking a dominant position in the relevant commodity markets and invalidation of Order No. 313/13/225 dated April 30, 2013 of FAS of Russia and the Ministry of Energy of Russia (hereinafter, the Order).</p>	<p>Rosneft preforms ongoing monitoring of the resolutions on anti-trust regulation and control procedures, made by the supreme court and assesses legal precedents. In the case of any legal precedents Rosneft submits the proposal for updating the legislation and applies to the state bodies for explanations and recommendations for implementing the specific regulations.</p> <p>In 2015 the Company enacted the Regulation for General pricing principles and the procedure for selling motor fuel in the domestic market of the Russian Federation, approved by the FAS of Russia.</p>



Type	Description and mitigation	Risk management operations
Related to the amendment to anti-trust laws	The Order expanded the list of commodities to be sold at the stock-exchange by the entities with a dominant positions in the relevant commodity market: it also included LHGs (CPBM — commercial propane/butane mix, CP — commercial propane; CB — commercial butane, AGP&B — autogas (propane and butane), AGP — autogas (propane)). Once the Order is enacted and to generate objective stock indicators to be recognized by the market regulator, the Company shall ensure monthly sales of minimum petroleum product and gas refinery volumes at the exchange established by the Order subject to compliance with other stock trading established by the Order. The Company fully observes the specified requirements.	
Legal statutory regulation of subsoil	<p>Compliance with the requirements for subsoil regulation is one of the key components of the Company's core operation regulation which involves ongoing monitoring of amendments to industry laws for Rosneft to take them into account in its operations.</p> <p>A series of amendments were made to the subsoil laws in the reporting year:</p> <ul style="list-style-type: none"> <li>• Key amendments were primarily related to geological information.</li> <li>• Additionally to statutory information breakup into source and interpreted, imperative deadlines were determined for subsoil users to set conditions for information use, also for business purposes as follows: three years for source information and five years for interpreted information. Afterwards the rights to geological information will pass to the state;</li> <li>• There is a possibility and maximum deferral periods for payment of subsoil charges in instalments in case of the occurrence of events specified in the license;</li> <li>• A procedure was developed to obtain rights to subsoil use for re-injection of associated water and process water of subsoil users generated during hydrocarbon exploration and production.</li> </ul> <p>Apart from the aforementioned general amendments, the regulation of federal subsoil areas was also amended as follows:</p> <ul style="list-style-type: none"> <li>• Some provisions of the regulations governing exploration and mining in federal areas during and after prospecting were aligned with the Subsoil Law;</li> <li>• The scope of authority of the Ministry of Economic Development of Russia was adjusted to the extent of procedures for rights to federal subsoil use and issuance of permits for the creation, operation, and use of artificial islands, structures, and installations, as well as the scope of authority of the bodies endorsing drilling conditions.</li> </ul> <p>These adjustments pertain to the regulations governing federal subsoil areas and are intended to optimize the existing procedures.</p> <p>It is worth noting that although significant, subsoil law amendments did not have a substantial impact on the Company's operations.</p>	At present the Company is actively involved in law-making to develop the optimal and minimum required lists of geological information to be submitted to the funds. This shall allow the Company to keep the right of possessing the key geological information and, as a result, commercial value of the Rosneft capital assets — sites of subsurface resources.
Legal statutory regulation of land use	<p>The enforcement of land laws is one of Rosneft priorities since land is the Company's key property.</p> <ul style="list-style-type: none"> <li>• The Land Code of the Russian Federation was significantly amended during the reporting period as part of land use regulation. Despite substantial amendments that mainly affected the purchase and provision of government-owned or municipal land plots and provision of rights to land plots during an auction, the so called "preemptive" procedure for the acquisition of rights to land plots for some entities was provided. Such entities also include license holders which will benefit the Company.</li> <li>• However, administrative liability for non-compliance with land laws stiffened: administrative fines grew, in particular fines for non-compliance with the established requirements and mandatory land improvement and protection measures and measures aimed at soil protection and mitigation of another environmental impact resulting in land deterioration.</li> </ul> <p>The above changes shall economically stimulate the land users to keep the land plot in satisfactory condition.</p>	Rosneft performs ongoing monitoring of the amendments to the applicable legislation, resolutions and control procedures, made by the supreme court and assesses legal precedents. In the case of any legal precedents Rosneft submits the proposal for updating the legislation and applies to the state bodies for explanations and recommendations for implementing the specific regulations. The Company continuously sticks to land protection principles as an integral part of the environment.
Industrial and environmental safety	<p><b>Environmental safety:</b></p> <p>The Federal Law No. 89-FZ, On Industrial and Consumer Waste, as of June 24, 1998, was amended with the prohibition to operations with the Hazard Class 1 to 4 waste (except for detoxification and placement) without the relevant license for such waste collection, transportation, handling, and recycling.</p> <p>The transition period was extended until July 01, 2016.</p> <p><b>Industrial safety:</b></p> <p>Many of Rosneft's facilities are categorized as hazardous facilities. In order to prevent production risks, Rosneft is guided by statutory provisions pertaining to the regulation of hazardous industrial facilities.</p> <p>The following actions were taken during the reporting period as part of safety regulations at hazardous industrial facilities:</p> <ul style="list-style-type: none"> <li>• rules for the development of emergency containment and response were changed, requirements for operators were expanded, and safety requirements for some work types and operation of some facilities were revised;</li> <li>• federal executive authorities responsible for registration of the hazardous industrial facilities they control in the State Register were specified;</li> <li>• it was determined that amendments could be made to the annual scheduled inspection plan of legal entities and sole proprietors in case of changes in the hazard class of an industrial facility to be inspected;</li> <li>• requirements for the information to be submitted to the licensing authority to obtain or reissue a license for the operation of explosive, fire and chemically hazardous industrial facilities of Hazard Classes 1, 2, and 3 were revised.</li> </ul> <p>The aforementioned amendments will not significantly impact the operations of Group companies related to the operation of hazardous industrial facilities.</p>	Due to the amendments to the Federal Law No. 89-FZ, On Industrial and Consumer Waste, as of June 24, 1998, and transition period prolongation, the Company and the Group companies made efforts to align their operations with statutory requirements throughout the reporting period. This will provide availability of Hazard Class 1 to 4 waste collection, transportation, handling, and recycling licenses.
Related to the court proceedings in progress the Company is involved in	<p>Rosneft has been or is currently involved in the following court processes which may have a significant impact on its financial performance:</p> <p>1. Since 2006, the Company has had court proceedings re demands YUKOS Capital S. a. r. l. against OJSC Yuganskneftegaz (Rosneft predecessor) to recover an alleged debt under the awards based on four loan agreements in the amount of about RUB 12.9 billion, demands of Glendale Group Ltd. regarding the recovery of about RUB 3.53 billion as principal, interest, penalty fee, and expenses due under eight promissory notes of OJSC Yuganskneftegaz, and the demands of Yukos International UK BV regarding a loss of up to USD 333 million plus interest allegedly inflicted by the order of the Amsterdam Court on freezing of a number of assets. These disputes were detailed earlier in the Company's quarterly reports.</p> <p>Rosneft and some of its subsidiaries signed a Dispute Settlement Agreement in March 2015 with some companies, including YUKOS Capital S. a. r. l., Yukos International UK BV, and Financial Performance Holdings B.V. (successor of Glendale Group Ltd.) which resolved the aforementioned disputes. Under the Agreement, Rosneft and the said companies abandoned their mutual claims and terminated the court proceedings. The Agreement does not provide for any cash or other payments by Rosneft or its subsidiaries.</p>	Rosneft performed regular monitoring of the judgments passed by supreme courts and evaluates the law enforcement trend in district arbitration courts, actively uses and applies it both during protection of its rights and legal interests in court and when settling any legal issues during its operations. Therefore, the risks related to changes in court practice are considered minor.

Type	Description and mitigation	Risk management operations
Related to the court proceedings in progress the Company is involved in	<p>2. Rosneft is involved in the bankruptcy procedure of JSC NNGC Sakhneftegaz to recover its funds under individual loan agreements and suretyship agreements totally worth RUB 1.3 billion. A provision was created to cover the entire debt. The register of the creditors' claims includes Rosneft's demands worth RUB 1,625,526,926.64 (with interest accrued).</p> <p>3. Former JSC RN-Holding shareholders filed claims against Rosneft in October and November 2014 to recover losses inflicted by incorrect (according to the claimants) determination of a share price during mandatory buyout. In the first instance the court rejected the claims. The appealation court currently reviews of the claimants' appeals.</p> <p>Rosneft is involved in a number of other court proceedings which have arisen during its operations. According to Rosneft management, the outcome of such court proceedings will not have a significant effect on the Company's performance or financial standing.</p>	
EU and US sanctions	<p>The United States and EU introduced a number of sectoral changes in 2014. These sanctions stipulate restrictions for US and EU persons to provide new financing to the persons specified in US and EU regulations, as well as work, goods, and services which may be used by certain persons in the Russian Federation for deep water exploration, oil production, oil exploration and production in the Arctic, and slate oil projects.</p>	<p>The Company takes these sanctions into account in its operations and is consistently monitoring the sanctions to minimize their adverse effects.</p>

# **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 of Bank of Russia (hereinafter referred as the "CGC") has been prepared with due regard to the special aspects provided for in clause 70.4. of the 'Regulations on Disclosure of Information by Issuers of Securities' approved by the Bank of Russia as of December 30, 2014 No 454-P, using the form recommended by the MICEX Stock Exchange for companies whose shares are admitted to on-exchange trading.<sup>1</sup>

Rosneft Corporate Governance System is developed according to the requirements of the Russian legislation, the MICEX listing rules, the CGC principles and recommendations, the international standards for corporate conduct and business ethics, and the disclosure and transparency procedures. As declared by the Rosneft Board of Directors, the Company conforms to the majority of CGC principles and recommendations. Essential aspects of the corporate governance model and practices, as well as the information on our conformance to the CGC principles and recommendations, are specified in the Corporate Governance System section of the Annual Report and herein.

Compliance with the highest standards of corporate governance and maximum information transparency are critical factors to increase the investment attractiveness and economic efficiency of the Company's operations that contribute to strengthening the confidence of investors and contractors, reducing the Company's risks of inefficient use of resources, and increasing its value and the well-being of its shareholders.

During the reporting year, the Company continued working on the improvement of the corporate governance model and practices. Pursuant to the Activity Plan for the implementation of the key CGC provisions in the Company's operations, as approved February 27, 2015 by the Board of Directors (the "roadmap"), the following key internal documents were developed/updated and approved to regularize the corporate governance principles — the Corporate Governance Code, the Corporate and Business Conduct Code, the Internal Audit Policy, the Policy 'Risk Internal Control and Management', the Dividend Policy, the Regulations 'On the Corporate Secretary', the Regulations on the Induction of Members of the Board of Directors, the Regulations on the Remuneration and Reimbursement of Expenses of Members of the Board of Directors, the Regulations on the Remuneration and Reimbursement of Expenses of Members of the Audit Commission, the Standard of Payments and Benefits for Top Managers. These documents were developed in view of the CGC recommendations Methodology Explanations (Instructions/Recommendations) of the RF Ministry of Economic Development (and of the Federal Agency for State Property Management).

The assessment of compliance with the CGC provisions was carried out by the Company with the use of a critical approach based on the Corporate Governance Quality Self-Assessment Methodology in State-Owned Companies, approved by the order of the Federal Agency for State Property Management as of August 22, 2014 No 306; this Methodology involves the analysis and assessment of the Company's implementation of recommendations for the corporate governance principles contained in the CGC (Part B). The Assessment Methodology included the comparison of the Company practices with the detailed CGC recommendations set out in Part B of the CGC.<sup>2</sup>

The Company's work, aimed at improving the corporate governance in the reporting period, allowed reaching the 88% implementation of CGC recommendations by the Company, in particular, in terms of the observance of shareholders' rights, the Company's compliance with the CGC recommendations is 91%, in terms of organizing the activities of the Board of Directors — 80%, in terms of organizing the activities of the executive bodies — 87%, in terms of disclosure of information about the Company's operations — 97%, in terms of risk management, internal control and internal audit — 94%, in terms of corporate social responsibility, business conduct and compliance — 84%.

The Report contains all the CGC recommendations contained in the form recommended by the MICEX Stock Exchange and other CGC recommendations not complied with (not complied with in full) by the Company within the reporting period, with a rationale behind the non-compliance (partial compliance) with individual CGC recommendations and an indication of alternative arrangements and instruments used by the Company, or of corporate governance improvement plans.

In cases where at least one of the detailed CGC recommendations was not complied with adequately, the corresponding item was recognized by the Company to have been complied with in part in the assessment below. In cases where all the detailed recommendations in an item were not complied with, the item was recognized by the Company to have not been complied with. Individual CGC recommendations not applicable to Rosneft activities (about 6% of the recommendations given in Part B of the CGC) have not been included in this Report.

<sup>1</sup> MICEX information letter No.31-14/236 as of March 13, 2015.

<sup>2</sup> Part B contains 356 CGC recommendations.



Item No.	Corporate governance principle or key criterion (recommendation)	Brief description of where the principle or key criterion is not complied with	Explanation of primary causes, factors and circumstances resulted in the fact that the principle or key criterion is not complied with or complied with not in full; description of alternative corporate governance arrangements and tools in use, other explanations (if necessary)
<b>I. SHAREHOLDER RIGHTS AND EQUITABLE TREATMENT OF SHAREHOLDERS IN THE EXERCISE OF THEIR RIGHTS</b>			
1.1.	The Company shall ensure fair and equitable treatment of all shareholders in the exercise of their right to participate in the Company management. The corporate governance system and practices should ensure equitable treatment of all shareholders — owners of shares of one class (type), including minority (small) shareholders and foreign shareholders, and equal treatment thereof by the Company.		
1.1.1.	<p>The Company has approved the internal document defining the basic procedures for the preparation, convening and holding of General Meeting of Shareholders, that conforms to the Corporate Governance Code recommendations, including the Company's obligation to:</p> <ul style="list-style-type: none"> <li>Notify shareholders of the General Meeting of Shareholders and provide them with access to the materials, including posting the announcement and materials on the Company website not later than 30 days before the date of the meeting (unless a longer term is provided for by the laws of the Russian Federation);</li> <li>Disclose the date of preparation of the list of persons entitled to attend the General Meeting of Shareholders, not later than 7 days before the date;</li> <li>Submit to the General Meeting of Shareholders additional information and materials on the agenda in accordance with the Corporate Governance Code recommendations.</li> </ul>	Complied with in part. These principles (except for the period of disclosure of the notice of the General Meeting of Shareholders) are not formalized in the internal documents of the Company.	<p>The CGC recommendations were implemented by the Company in preparation for the annual General Meeting of Shareholders as of year-end 2014:</p> <ul style="list-style-type: none"> <li>Access to information (materials) of the General Meeting of Shareholders was provided 30 days before the General Meeting;</li> <li>The information of the date of preparation of the list of persons entitled to attend the General Meeting of Shareholders was disclosed by the Company not later than 7 days before the date (the date of the list — May 04, 2015 (close of business), the date of disclosure — April 24, 2015);</li> <li>The Company's website contains information about access to the venue of the General Meeting of Shareholders, as well as model proxy form for the participation in the General Meeting of Shareholders;</li> <li>Materials for the General Meeting of Shareholders contain details of the initiators of items proposed for the agenda of the General Meeting of Shareholders and candidates nominated to the Board of Directors and the Audit Commission of the Company. Materials for the General Meeting of Shareholders also contain position of the Board of Directors of the Company with regard to the agenda of the General Meeting of Shareholders as of year-end 2014, as well as minority opinions of members of the Board of Directors of the Company in respect to each agenda item.</li> </ul> <p>In accordance with the Activity Plan for the implementation of the CGC recommendations in the Company's operations, the appropriate changes to the Rosneft Charter and Regulations of the General Meeting of Shareholders are planned.</p>
1.1.2.	The Company entered into liability to provide shareholders, during the preparation and holding of the General Meeting of Shareholders, with the opportunity to ask members of the management and supervisory bodies, the Audit Committee, the Chief Accountant, the Company's auditors, and the nominees to the management and supervisory bodies questions about the Company's operations. This liability is enshrined in the Charter or in the internal documents of the Company.	Complied with.	<p>The corresponding opportunity of shareholders and liability of the Company are provided for by clauses 6.6.2 and 6.6.3 of the Regulations of the General Meeting of Shareholders of Rosneft.</p> <p>The aforementioned individuals are present at the General Meeting of Shareholders.</p>
1.1.3.	The Company entered into liability to adhere to the principle of inadmissibility of actions that may lead to an artificial reallocation of corporate control (for example, voting with quasi-treasury stock, making decision to pay dividends on preferred shares in the conditions of limited financial resources, making decisions not to pay dividends on preferred shares prescribed by the Charter if there are sufficient resources for the payment). This liability is enshrined in the Charter or in the internal documents of the Company.	Complied with in part. The Charter and internal documents of the Company do not provide for the inadmissibility of voting with quasi-treasury stock, of approving dividend payment on preferred shares in the conditions of limited financial resources, etc.	<p>This obligation is de facto performed by the Company. In the period of operation of the CGC, no case of voting with quasi-treasury stock at the General Meeting of Shareholders was recorded. No quasi-treasury stock was present in the Company during the reporting period. No placement of preferred shares is provided for in the Company (clause 5.2 of the Charter).</p>
1.1.4.	<p>The Charter or internal documents of the Company provide for the receipt by the shareholder, whose rights are recorded in the Register, on the basis of the shareholder application, of the notice of the General Meeting of Shareholders and the access to the General Meeting materials in an electronic form.</p> <p>The Company provides shareholders with the opportunity to participate in the vote by filling an electronic voting form, for example — via a personal account on the Company's website, subject to adequate security and protection, as well as unique identification (authentication) of persons taking part in the General Meeting.</p> <p>Considering its technical capacity, the Company is committed to providing for a procedure for making requests for access to information and documents of the Company that is convenient for shareholders (in particular, the Company regulates the use of modern means of communication and exchange of information in an electronic form).</p> <p>Provision of information and documents to shareholders by the Company shall be performed by a method convenient for shareholders in a convenient form, including electronic media and modern means of communication (taking into account the desires of those who submitted requests to provide documents and information of shareholders in the form they were provided, confirming the authentication of copies documents and the method of delivery).</p>	Complied with.	<p>The option of obtaining by the shareholder, whose rights are recorded in the Register, of the notice of the General Meeting of Shareholders and the access to the General Meeting materials in an electronic form is provided for in clause 5.2.2. Regulations on the General Meeting of Shareholders of Rosneft. The implementation of the system of providing shareholders with information in an electronic form, as well as the processing system of requests received in an electronic form is provided for by the Activity Plan for the implementation of the CGC recommendations in the Company's operations before the end of 2018.</p> <p>The option of voting with the use of electronic means is provided for by clauses 9.1.3, 9.10.3 of the Charter, clause 3.1 of the Corporate Governance Code, and clause 8.1.3 of the Regulations on the General Meeting of Shareholders of Rosneft.</p> <p>Provided legislative control, the Company will be ready to implement the appropriate practices (currently, the development of shareholders personal accounts is underway).</p>
1.1.5.	The Company created the necessary organizational and technical conditions to ensure functioning of a forum regarding the General Meeting agenda on the Company's website during the period of preparation for the General Meeting.	Not complied with.	<p>The implementation of this CGC recommendation in the Company's operations is unnecessary, taking into account the opportunity to discuss the agenda during the Meeting, and if needed — through social networking.</p>
1.2.	<b>Shareholders must be given fair and equitable opportunity to participate in the Company's profits by receiving dividends.</b>		
1.2.1.	The Company has approved an internal document that defines the Company dividend policy, in compliance with recommendations of the Corporate Governance Code, and provides for, inter alia, the following:	Complied with.	<p>Rosneft Dividend Policy approved by the Board of Directors as of June 05, 2015 is a public document available on the official corporate website at: <a href="http://www.rosneft.ru/Investors/corgov/">http://www.rosneft.ru/Investors/corgov/</a>.</p>

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1.2.1.	<ul style="list-style-type: none"> <li>The procedure for determining the share of the net income (for companies that prepare consolidated financial statements, — the minimum portion (share) of the consolidated net income) used for the payment of dividends, the conditions under which the dividends are declared;</li> <li>The minimum size of dividends on Company shares in different classes (types);</li> <li>The obligation to disclose the document defining the Company dividend policy on the Company's website.</li> </ul>		In determining the size of dividend to be recommended to the General Meeting of Shareholders, the Board of Directors is guided by the value of net income determined according to the Company's financial statements prepared in accordance with the requirements of Russian Accounting Standards and the Company's consolidated financial statements prepared in accordance with the requirements of International Financial Reporting Standards. The recommended amount to be paid in dividends is determined by the Board of Directors subject to the Company's financial performance within the reporting year, and is usually equal to at least 25% of the Company's net income in accordance with the International Financial Reporting Standards. Only one class of shares is to be placed in the Company — ordinary shares (clause 5.2. of the Charter);
<b>II. BOARD OF DIRECTORS OF THE COMPANY</b>			
2.1.	<b>The Board of Directors decides on the main strategic guidelines of the Company's operations in the long term, the key performance indicators of the Company, provides the strategic management of the Company, determines the basic principles and approaches to the risk management and internal control system, controls the activities of the executive bodies, decides on the Company policy of remuneration of members of the Board of Directors and the executive bodies, and performs other core functions.</b>		
2.1.1.	<p>The Company has its Board of Directors which:</p> <ul style="list-style-type: none"> <li>Decides on the main strategic guidelines of the Company's operations in the long term, and the key performance indicators of the Company;</li> <li>Supervises the activities of the Company's executive bodies;</li> <li>Determines the principles and approaches to the risk management and internal control within the Company;</li> <li>Decides on the Company policy of remuneration of members of the Board of Directors, the executive bodies and other key employees of the Company.</li> </ul>	Complied with.	The respective functions are enshrined in the Charter of Rosneft.
2.1.2.	The Company which is the controlling entity determines the powers of the Board of Directors in respect to the development strategy and performance assessment of controlled companies. The Company which has a significant number of controlled companies determines the powers of the Board of Directors in respect to the nomination of candidates to the executive bodies and the candidates to the Boards of Directors of the controlled companies.	Complied with in part. Not complied with regard to referring nomination of candidates to the executive bodies and the candidates to the Boards of Directors of the controlled companies to the competence of the Board of Directors.	In accordance with clause 10.2.1 (2) of Charter of Rosneft, the Board of Directors of Rosneft approves the strategy covering the operations of Rosneft itself, and the operations of the Rosneft controlled companies as a whole. The Charter of Rosneft refers the decision-making on the nomination of candidates to the executive bodies and the candidates to the Boards of Directors of the controlled companies to the competence of the executive bodies of the Company (clauses 12.10 (7), 12.11 (1), 11.10 (19) and 11.11 (2, 5) of the Charter of Rosneft, due to the number of companies controlled by the Company and the strategic roles of the Board of Directors. The Board of Directors of Rosneft decides on the position of the Company on the strategic issues of the operations of the controlled companies.
2.2.	<b>The Board of Directors should be an effective and professional Company management body able to make objective independent judgments and decisions that meet the interests of the Company and its shareholders. The Chairman of the Board of Directors should contribute to the most effective implementation of the functions assigned to the Board of Directors. Meetings of the Board of Directors, the preparation for them and participation in them by members of the Board of Directors must ensure the effective operation of the Board of Directors.</b>		
2.2.1.	Persons, holding executive positions and (or) being employed by a competing legal entity, are not elected to the Board of Directors.	Not complied with.	<p>The Board of Directors of the Company includes persons nominated by the Company's shareholder — BP Russian Investments Limited R. Dudley (Group Chief Executive of the BP group of companies) and G. Quintero (Regional President Brazil, Uruguay, Venezuela and Colombia (BP Energy do Brasil and BP Brasil Ltda).</p> <p>Compliance with this CGC recommendation violates the statutory right of Company shareholders to nominate, at their discretion, candidates to the Board of Directors.</p>
2.2.2.	Chairman of the Board of Directors is an Independent Director, or senior Independent Director from among the elected Independent Directors, who coordinates the activities of the Independent Directors and is responsible for interaction with the Chairman of the Board of Directors.	Not complied with.	<p>According to the Resolution of the Government of the Russian Federation No 738 on the election of the Chairman of the Board of Directors, members of the Board of Directors — representatives of the state shall vote under the directives of the Russian Federation, thus expressing the will of the shareholder, which may not be restricted by the Company.</p> <p>Professional agent was the Chairman of the Board of Directors of the Company in 2015.</p> <p>Position of Senior Independent Director in the the Board of Directors of the Company is not available.</p> <p>Also, the recommended responsibilities of the senior Independent Director in their implementation may have a negative impact on the exercise of the rights of other members of the Board of Directors, including Independent Directors, as the coordination of interaction may be regarded by other Independent Directors as an infringement of their rights (the right to interaction, giving demands, receiving information, etc.)</p>
2.2.3.	<p>Internal documents of the Company provide for the procedure for preparation and holding of meetings of the Board of Directors, which gives members of the Board of Directors the opportunity to properly prepare for the meetings and sets out, inter alia:</p> <ul style="list-style-type: none"> <li>Period of notice for members of the Board of Directors about the forthcoming meeting;</li> <li>Deadlines for sending documents for voting (voting forms) and receiving the completed documents for voting (voting forms) in case of meetings in absentia;</li> <li>The option of giving and considering a written opinion on the agenda items for the members of the Board of Directors, who are absent at the physical meeting;</li> <li>The option of discussing and voting via conference communication, including videoconferencing.</li> </ul>	Complied with.	These provisions are enshrined in the Regulations on the Board of Directors of Rosneft.
2.2.4.	The most important matters are addressed at the meetings of the Board of Directors held in person. The list of such matters corresponds to the Corporate Governance Code recommendations <sup>1</sup> .	Complied with.	<p>Clause 10.5.4 if the Charter provides for in-person consideration of the most important matters related to the Company's operations:</p> <ul style="list-style-type: none"> <li>Determination of the priority directions in the Company's operations;</li> <li>Approval of the long-term development strategy of the Company and monitoring its implementation;</li> </ul>

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2.2.4.			<ul style="list-style-type: none"> <li>Approval of financial and economic activity plans (business plans, budgets) of the Company and monitoring their implementation;</li> <li>Matters relating to the preparation and holding of the General Meeting of Shareholders of the Company;</li> </ul> <p>In addition to requirements provided for in the Charter, the Rosneft Corporate Governance Code approved by the Board of Directors contains some matters the Board of Directors seeks to address at physical meetings. Also, the form of meetings of the Board of Directors is determined by the Chairman of the Board of Directors during the convening of the meeting, taking into account the substance of the matter under consideration and opinions of the Directors. Each of the Directors shall be entitled to point out the expediency of considering a particular matter at a physical meeting, taking into account the substance and significance of the matter for the Company.</p>
2.2.5.	The Company has approved an internal document defining the Company policy in respect to the ownership by members of the Board of Directors of Company's shares and shares of legal entities controlled by the Company	Complied with in part. Not complied with in respect to availability of the Company policy as a separate internal document.	<p>The introduction of a separate Company's internal document determining the procedure for the ownership by members of the Board of Directors of Company's shares and shares of (stake in) legal entities controlled by the Company is provided for in the Activity Plan for the implementation of the CGC recommendations in the Company's operations not later than 2017.</p> <ul style="list-style-type: none"> <li>At the same time, the Regulations on the Board of Directors of Rosneft and the Regulations on Remuneration and Reimbursement of Expenses of Members of the Board of Directors of Rosneft provide for the general standards and responsibilities of members of the Board of Directors during their transactions with the Company's shares;</li> <li>To notify the Board of Directors (through the Chairman of the Board of Directors and/or the Corporate Secretary of the Company) of the intent to make, in their own name, transactions with securities of the Company or its subsidiaries and affiliates, and to disclose details of transactions with these securities.</li> </ul> <p>In the event the General Meeting of Shareholders of Rosneft decides to pay remuneration to the members of the Board of Directors in the form of the Company's shares, not to sell the majority of the Company's shares they hold (50% and more Company's shares obtained by the member of the Board of Directors), and not to use any hedging arrangements for at least 1 (one) year after the withdrawal from the Board of Directors.</p>
2.2.6.	Charter or internal documents of the Company provide for the right of a shareholder holding a certain percentage of voting shares (shareholders holding in the aggregate a certain percentage of voting shares) to request the convening of a meeting of the Board of Directors to consider the most important matters related to the Company's operations. This threshold is set as not more than 2 percent of voting shares (in cases where the law has established other requirements for the size of the relevant threshold of voting shares, this recommendation is not applicable)	Not complied with.	<p>The Board of Directors takes into account shareholders' proposals on the matters submitted to the Board of Directors.</p> <p>Given the number of shareholders of the Company (over 100 thousand), provisions for such a right would create a substantial risk of increasing the load on the Board of Directors.</p>
2.2.7.	<p>The Company's Charter provides for a number of matters, decisions on which are adopted by a special majority or majority of all the elected members of the Board of Directors (in case the matter has been referred to the competence of the Board of Directors):</p> <ul style="list-style-type: none"> <li>Approval of the priority directions in the Company's operations and the financial and economic activity plan;</li> <li>Approval of the Company dividend policy;</li> <li>Making decisions on listing of Company's shares and/or Company's securities convertible into its shares;</li> <li>Determination of the value of Company's important transactions and approval thereof;</li> <li>Presenting to the General Meeting of Shareholders on matters of reorganization or liquidation of the Company;</li> <li>Presenting to the General Meeting of Shareholders on matters of increase or reduction of the authorized capital of the Company, determining the price (monetary value) of the property contributed as payment for the additional shares of the Company;</li> <li>Presenting to the General Meeting of Shareholders on matters relating to making amendments to the Company's Charter, approval of important transactions of the Company, listing and delisting of Company's shares and/or securities convertible into its shares;</li> <li>Accepting recommendations in respect to voluntary or mandatory proposals received by the Company;</li> <li>Accepting recommendations in respect to the size of dividends on the Company's shares;</li> <li>Making decisions on substantive matters in respect to the operations of legal entities controlled by the Company.</li> </ul>	Complied with in part. Not complied with in respect to individual matters referred to in the recommendation.	<p>Clause 10.5.5 of the Charter of Rosneft provides for some matters decisions on which are adopted by a special majority of the members of the Board of Directors.</p>
2.2.8.	<p>The Regulations on the Board of Directors of Rosneft provide for the consideration of material aspects of the operations of legal entities controlled by the Company at the meetings held in person (in cases where such matters have been referred to the competence of the Board of Directors)</p> <p>(material aspects of the operations of legal entities controlled by the Company shall mean transactions of legal entities controlled by the Company, as well as other aspects of their operations, which, in the Company's opinion, have a significant impact on the financial position, financial performance and changes in the financial position of the group of entities that includes the Company and legal entities controlled by the Company).</p>	Complied with in part. Not complied with in respect to regulatory consolidation of this rule in the Regulations on the Board of Directors of Rosneft.	<p>This rule is not provided for in the Regulations on the Board of Directors of Rosneft, however, in accordance with clause 5.2 of the Corporate Governance Code of Rosneft, the Board of Directors seeks to address matters of material aspects of legal entities controlled by the Company at physical meetings.</p>

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<b>2.3.</b>	<b>The Board of Directors should include a sufficient number of Independent Directors.</b>		
2.3.1.	Independent Directors shall be not less than one third of all the elected members of the Board of Directors. Independent Directors shall conform with the independence criteria recommended by the Corporate Governance Code. The Board of Directors shall ensure the disclosure of information in respect of loss of Independent Director status by a member of the Board of Directors. Company's internal documents provide for the procedures to be applied in case of loss of Independent Director status by a member of the Board of Directors.	Complied with in part. Not complied with in respect of the number of Independent Directors in the Board of Directors.	From among nine members of the Board of Directors elected by the annual General Meeting of Shareholders of Rosneft as of June 17, 2015, only 2 meet the independence criteria (D. Humphreys, O. V. Viyugin). Pursuant to clause 5.1 of the Corporate Governance Code of Rosneft and clause 2.1.2 of the Regulations on the Board of Directors of Rosneft, Independent Directors should be not less than one-third of the total number of members of the Board of Directors, and the Board of Directors must include at least 3 Independent Directors. The Independent Director criteria are provided for in the Regulations on the Board of Directors of Rosneft. D. Humphreys and O. V. Viyugin have fully met the independence criteria provided for in Appendix 1 to the Regulations on the Board of Directors of Rosneft and recommended by the CGC. Evaluation of independence of members of the Board of Directors is provided by the Human Resources and Remuneration Committee of the Board of Directors. Pursuant to the Activity Plan for the implementation of the CGC recommendations in the Company's operations, the Regulations on the Information Policy are planned to be updated before the end of 2016 to include the rule for the need to disclose information about the loss of Independent Director status by a member of the Board of Directors.
2.3.2.	The Board of Directors (the Nomination / HR Committee) assesses the compliance of candidates to the Board of Directors with the independence criteria.	Complied with in part. No assessment of the compliance of candidates to the Board of Directors by the Human Resources and Remuneration Committee of the Board of Directors was provided in 2015.	This CGC principle has been enshrined in clause 2.2.5. of the Regulations on the Board of Directors of Rosneft. Also, the relevant function is assigned to the Human Resources and Remuneration Committee of the Board of Directors in clause 1.3.1 of the Regulations on the Human Resources and Remuneration Committee of the Board of Directors of Rosneft, according to which the Committee provides preliminary assessment of candidates to the Board of Directors (which may include assessment of independence of the candidates). Pursuant to the Activity Plan for the implementation of the CGC recommendations in the Company's operations, the assessment of compliance of candidates to the Board of Directors with independence criteria is planned to be put into practice as from 2016.
<b>2.4.</b>	<b>The Board of Directors shall create committees for the preliminary consideration of the most important matters of the Company.</b>		
2.4.1.	The Board of Directors has established the Audit Committee consisting of independent directors, the functions of which are set out in the internal documents and comply with the Corporate Governance Code recommendations <sup>2</sup> .	Complied with in part. Not complied with in respect to the inclusion of only independent directors into the Audit Committee of the Board of Directors.	The Board of Directors has created 3 committees (Audit Committee, Human Resources and Remuneration Committee, Strategic Planning Committee). Considering this: <ul style="list-style-type: none"> <li>Quantitative composition of the Board of Directors is nine (9) members.</li> <li>Recommendations and restrictions under the CGC (for the number of committees' members of at least 3 persons and the maximum number of committees in which members of the Board of Directors may participate, the minimum number of independent directors on the Board Committee (2 persons), as well as the need to form committees, on the basis of the relevant expertise competence of members of the Board of Directors), the implementation of the CGC principle of independence of all Audit Committee members does not seem possible.</li> </ul> As of December 31, 2015, 2 of 3 members of the Audit Committee met the independence criteria (one of them is the Chairman of the Committee)
2.4.2.	The Board of Directors has established a Remuneration Committee (may be combined with Nomination/HR Committee) consisting of independent directors, the functions of which comply with the Corporate Governance Code recommendations <sup>3</sup> .	Complied with in part. Not complied with in respect to the inclusion of only independent directors into the Human Resources and Remuneration Committee of the Board of Directors.	The Board of Directors has created a Human Resources and Remuneration Committee, the functions of which cover the matters provided by the CGC for the Nomination Committee and the Remuneration Committee Considering this: Quantitative composition of the Board of Directors is nine (9) members. Recommendations and restrictions under the CGC (for the number of committees' members of at least 3 persons and the maximum number of committees in which members of the Board of Directors may participate, the minimum number of independent directors on the Board Committee (2 persons), as well as the need to form committees, on the basis of the relevant expertise of members of the Board of Directors), the implementation of the CGC principle of independence of all Human Resources and Remuneration Committee members does not seem possible.
2.4.3.	The Board of Directors has created a dominating/HR Committee (may be combined with Remuneration Committee) consisting mostly of independent directors, the functions of which comply with the Corporate Governance Code recommendations <sup>4</sup> .		
<b>2.5.</b>	<b>The Board of Directors should provide performance assessment of the Board of Directors, its Committees and members of the Board of Directors.</b>		
2.5.1.	Performance assessment of the Board of Directors is held on a regular basis at least once a year, and at least once every three years it is provided with assistance of an external organization (consultant).	Complied with.	In April-June 2015, self-assessment of the Board of Directors with the same membership as in the corporate year 2014-2015 was conducted on the basis of a survey form approved by the Human Resources and Remuneration Committee. The results of the self-assessment were submitted for consideration to the Human Resources and Remuneration Committee and the Board of Directors, upon the consideration of which the Company has developed a plan of operational improvement of the Company's Board of Directors. Pursuant to the Activity Plan for the implementation of the CGC recommendations in the Company's operations, engagement of an independent consultant is planned starting with 2017 (which corresponds to the CGC recommendation in respect of independent assessment to be provided once in 3 years).

### III. CORPORATE SECRETARY OF THE COMPANY

3.1	Effective interaction with current shareholders, coordination of Company's activities to protect the rights and interests of shareholders, support for the effective work of the Board of Directors shall be provided by Corporate Secretary (or, a special structural unit headed by Corporate Secretary).
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3.1.1.	Corporate Secretary reports to the Board of Directors, and is appointed to and removed from office by a decision or with consent of the Board of Directors.	Complied with.	The role, reporting relationship, the procedure for appointment and termination of appointment, functions, responsibilities and remuneration of the Corporate Secretary are set out in the Regulations on Corporate Secretary of OJSC Rosneft Oil Company, approved by the Board of Directors June 11, 2015, which include all the CGC recommendations.
3.1.2.	The Company has approved an internal document defining the rights and obligations of the Corporate Secretary (Regulations on the Corporate Secretary), the content of which complies with the Corporate Governance Code recommendations <sup>5</sup> .	Complied with.	In practice, the Corporate Secretary of the Company performs everything that is provided for in the CGC and the Regulations.
3.1.3.	Corporate Secretary position may not be combined with any other functions in the Company. Corporate Secretary is charged with functions in accordance with the Corporate Governance Code recommendations. <sup>4</sup> Corporate Secretary has sufficient resources to carry out its functions.	Complied with in part. Not complied with in respect to the limitation of functions performed by Corporate Secretary.	The functions of Corporate Secretary of the Company are assigned to the Director of Corporate Governance Department. This corresponds to the clarifications of the Federal Agency for State Property Management with regard to the possibility of combining the position of Corporate Secretary with the position of the Secretary of the Board of Directors or any other position that provides for the performance of obligations under the corporate governance procedures. In addition, such practices are sustainable in the context of involvement of Corporate Secretary in the processes of the Company's operations related to its corporate governance as a legal entity and as a group.
<b>IV. THE REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS, THE EXECUTIVE BODIES AND OTHER KEY EMPLOYEES OF THE COMPANY</b>			
4.1.	<b>The level of remuneration paid by the Company should be sufficient to engage, motivate and retain individuals with the required competence and qualifications. Payment of remuneration to members of the Board of Directors, the executive bodies and other key employees of the Company must be made in accordance with the remuneration policy adopted in the Company.</b>		
4.1.1.	All payments, benefits and privileges granted to members of the Board of Directors, executive bodies and other key employees of the Company have been regulated.	Complied with.	The procedure for payment of remuneration to the members of the Board of Directors is governed by the Regulations on the Remuneration and Reimbursement of Expenses of Members of the Board of Directors of Rosneft approved by the Board of Directors as of April 09, 2015. Basic principles of the remuneration and other incentive payments to the executive bodies and other key employees of the Company are set out in the Rosneft Standard for Payments and Reimbursements for Top Managers approved by the Board of Directors as of April 23, 2015.
4.2.	<b>The system of remuneration for members of the Board of Directors must ensure the convergence of financial interests of the Directors with the long-term financial interests of shareholders.</b>		
4.2.1.	The Company shall not apply forms of remuneration for members of the Board of Directors other than fixed annual remuneration.	Complied with.	The Regulations on the Remuneration and Reimbursement of Expenses of Members of the Board of Directors of Rosneft approved by the Board of Directors as of April 09, 2015 do not provide for such possibility.
4.2.2.	Within the Company, members of the Board of Directors may not participate in option programs, and the right to sell their Company's shares shall not be conditional on achievement of certain performance indicators.	Complied with.	
4.3.	<b>The system of remuneration for the executive bodies and other key employees of the Company should provide for dependence of the remuneration on the Company's performance and their personal contribution to the achievement of this result.</b>		
4.3.1.	The Company has implemented the long-term incentive programs for members of the executive bodies and other key employees of the Company.	Complied with in part. No long-term incentive programs for members of the executive bodies and other key employees have been implemented in the Company.	Pursuant to the Rosneft Standard for Payments and Reimbursements for Top Managers approved by the Board of Directors as of April 23, 2015, for the purposes of aligning the interests of top managers and shareholders of the Company by tying in the labor payment of top managers to the increase in the value of Rosneft shares in the long term, top managers are entitled to participate in the option programs approved by the Board of Directors.
<b>V. THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM</b>			
5.1.	<b>The Company should have a well-functioning risk management and internal control system designed to provide reasonable assurance in achieving the goals set for the Company.</b>		
5.1.1.	The Board of Directors has defined the principles and approaches to the organization of risk management and internal control system within the Company.	Complied with.	November 16, 2015, the Board of Directors approved the Company Policy on risk management and internal control system defining the following: <ul style="list-style-type: none"> <li>Goals, objectives, common principles and components of the risk management and internal control system of the Company;</li> <li>Distribution of authority of persons as part of the risk management and internal control system.</li> </ul>
5.1.2.	The Company has established a separate structural unit for risk management and internal control.	Complied with.	The Company has established the Internal Control Department and the Risk Department.
5.1.3.	The Company has developed and implemented its Anti-Corruption Policy that defines the measures aimed at the development of the corporate culture, the organizational structure, the anti-corruption rules and procedures.	Complied with.	The Company has approved the Company Policy on the prevention of involvement in corrupt activities and the Company Policy on the prevention of corporate fraud.
5.2.	<b>For the purposes of a systematic independent evaluation of the reliability and efficiency of the risk management and internal control system and corporate governance practices, the Company should arrange internal audit activities.</b>		
5.2.1.	The Company has a separate structural unit performing the internal audit functions, which reports to the Board of Directors. The functions of this unit comply with the Corporate Governance Code recommendations; these functions include, in particular: <ul style="list-style-type: none"> <li>Performance assessment of the internal control system;</li> <li>Performance assessment of the risk management system;</li> <li>Assessment of the corporate governance (if Corporate Governance Committee is not available).</li> </ul>	Complied with.	The Company has established Internal Audit Service that includes <ol style="list-style-type: none"> <li>(1) Operational Audit Department,</li> <li>(2) Corporate Audit Department,</li> <li>(3) Regional Audit Department,</li> <li>(4) Office for Economic and Organizational Analysis,</li> <li>(5) Office for Internal Audit Methodology and Management with report directly to the Head of the Internal Audit Service of Rosneft with the functions specified.</li> </ol>
5.2.2.	The Head of the Internal Audit Service reports to the Board of Directors, and is appointed to and removed from office by a decision of the Board of Directors.	Complied with.	The relevant function is provided for in clause 10.2.1 (19) of the Charter.
5.2.3.	The Company has approved the Internal Audit Policy (the Regulations on the Internal Audit) defining the internal audit goals, objectives and functions.	Complied with.	The Company Internal Audit Policy was approved by the Board of Directors as of January 30, 2015.
<b>VI. DISCLOSURE OF INFORMATION ABOUT THE COMPANY, INFORMATION POLICY OF THE COMPANY</b>			
6.1.	<b>The Company and its operations should be transparent to shareholders, investors and other stakeholders.</b>		

Item No.	Corporate governance principle or key criterion (recommendation)	Brief description of where the principle or key criterion is not complied with	Explanation of primary causes, factors and circumstances resulted in the fact that the principle or key criterion is not complied with or complied with not in full; description of alternative corporate governance arrangements and tools in use, other explanations (if necessary)
6.1.1.	<p>The Company has approved an internal document that defines the Company information policy in compliance with the Corporate Governance Code recommendations. The Company information policy includes the following methods of interaction with investors and other stakeholders:</p> <ul style="list-style-type: none"> <li>• A special page on the Company's website that contains answers to standard questions from shareholders and investors, a regularly updated calendar of corporate events of the Company, as well as other useful shareholder and investor information;</li> <li>• Regular meetings of members of the executive bodies and other key employees of the Company with analysts;</li> <li>• Regular presentations (including in the form of teleconferences and webcasts) and meetings with members of the management bodies and other key employees of the Company including those contributing to the publication of accounting (financial) statements of the Company or related to the major investment projects and Company strategic development plans.</li> </ul>	Complied with.	The Company has introduced the Regulations on the Information Policy of Rosneft approved by the Board of Directors as of April 14, 2011, which provide for all the CGC recommended methods of Company interaction with investors and other stakeholders.
6.1.2.	The implementation of the Company information policy is provided by the executive bodies of the Company. The supervision over proper information disclosure and compliance with the information policy are ensured by the Board of Directors.	Complied with.	The relevant rule is provided for in section 7 of the Corporate Governance Code of Rosneft.
6.1.3.	The Company has established procedures for the coordination between all the functions and structural units of the Company, involved in the information disclosure or whose activities may result in the need to disclose information.	Complied with.	<p>The relevant rule is provided for in section 7 of the Corporate Governance Code of Rosneft.</p> <p>The Company has also introduced the Regulations on the Disclosure of Information in the Securities Market defining the procedure for interaction between the structural units of the Company during the disclosure of information in the securities market.</p>
<b>6.2</b>	<b>The Company should timely disclose complete, current and accurate information about the Company to enable informed decision-making by shareholders and investors of the Company.</b>		
6.2.1.	In the event of a significant share of foreign investors in the capital, the Company executes, along with the disclosure of information in Russian, disclosure of the most significant information about the Company (including the notices of the General Meeting of Shareholders, the Annual Report of the Company) in a foreign language, accepted in the financial market.	Complied with.	The official Company's website is maintained in the Russian and English languages ( <a href="http://www.rosneft.ru/">http://www.rosneft.ru/</a> and <a href="http://www.rosneft.com/">http://www.rosneft.com/</a> ).
6.2.2.	The Company has provided the disclosure of information not only about itself, but also about legal entities controlled by and having substantial significance for the Company.	Complied with.	The information is disclosed by the Company in the section 'Disclosure of Information' at: <a href="http://www.rosneft.ru/Investors/information/">http://www.rosneft.ru/Investors/information/</a> .
6.2.3.	The Company discloses annual and interim (semi-annual) consolidated or individual financial statements prepared in accordance with the International Financial Reporting Standards (IFRS). Annual consolidated or individual financial statements are disclosed along with the auditor's report and interim (semi-annual) consolidated or individual financial statements — along with the report on the audit review or the auditor's report.	Complied with.	The financial statements are disclosed by the Company on the official website at: <a href="http://www.rosneft.ru/Investors/statements_and_presentations/">http://www.rosneft.ru/Investors/statements_and_presentations/</a> .
6.2.4.	The Company has disclosed a special memorandum containing plans in respect to the Company of the entity controlling the Company. This memorandum is prepared in accordance with the Corporate Governance Code recommendations <sup>7</sup> .	Not complied with.	The Company is not aware of a memorandum containing the plans and intentions of the entity controlling the Company, in relation to the Company. The Company does not influence the decision-making of the controlling entity, therefore this CGC principle is not applicable.
6.2.5.	The Company has provided the disclosure of details of the biographical data of members of the Board of Directors, including information on whether they are independent directors, as well as prompt disclosure of information about the loss of Independent Director status by a member of the Board of Directors.	Complied with.	This information is disclosed at the Company's official website at: <a href="http://www.rosneft.ru/about/board/">http://www.rosneft.ru/about/board/</a> .
6.2.6.	The Company has disclosed information on the capital structure in accordance with the Corporate Governance Code recommendations.	Complied with.	This information is disclosed on the Company's official website at: <a href="http://www.rosneft.ru/Investors/structure/share_capital/">http://www.rosneft.ru/Investors/structure/share_capital/</a> .
6.2.7.	<p>The Annual Report of the Company provides additional information recommended by the Corporate Governance Code:</p> <ul style="list-style-type: none"> <li>• A brief overview of the most important transactions, including inter-related transactions entered into by the Company and legal entities controlled by the Company during the past year;</li> <li>• A report on the performance of the Board of Directors (including Committees of the Board of Directors) during the year, containing, inter alia, information about the number of physical meetings (meetings in absentia), the participation of each member of the Board of Directors in the meetings, the description of the most important issues and the most difficult problems considered at the meetings of the Board of Directors and Committees of the Board of Directors, and the main recommendations the Committees have given to the Board of Directors;</li> <li>• Information about the direct or indirect possession of Company's shares by members of the Board of Directors and the executive bodies of the Company;</li> <li>• Information about conflict of interests between members of the Board of Directors and the executive bodies (including those associated with the participation of these persons in the management bodies of the Company's competitors);</li> </ul>	<p>Complied with in part.</p> <p>Not complied with in respect to the information in the Annual Report concerning:</p> <p>The aggregate remuneration for the year for a group of at least five highest paid members of the executive bodies and other key employees of the Company, broken down by each type of remuneration;</p> <p>The remuneration for the sole executive body for the year.</p>	This CGC principle is planned to be introduced in the Company's operations in accordance with the Activity Plan for the implementation of the CGC recommendations in the Company's operations in 2018.

Item No.	Corporate governance principle or key criterion (recommendation)	Brief description of where the principle or key criterion is not complied with	Explanation of primary causes, factors and circumstances resulted in the fact that the principle or key criterion is not complied with or complied with not in full; description of alternative corporate governance arrangements and tools in use, other explanations (if necessary)
6.2.7.	<ul style="list-style-type: none"> <li>Description of the system of remuneration for members of the Board of Directors, including the size of the individual remuneration as of year-end for each member of the Board of Directors (broken down to the base remuneration and supplementary remuneration for chairing the Board of Directors, for chairing (membership) in the Committees of the Board of Directors, the amount of participation in the long-term incentive program, the extent of participation in the option program, if any, by each member of the Board of Directors), the amount of compensation costs associated with participation in the Board of Directors, as well as Company costs of liability insurance for Directors as members of the management bodies;</li> <li>Information about the aggregate remuneration for the year: <ul style="list-style-type: none"> <li>a) For a group of at least five of the highest paid members of the executive bodies and other key employees of the Company, broken down by each type of remuneration;</li> <li>b) For all members of the executive bodies and other key employees of the Company, who are covered by the Company's remuneration policy, with a breakdown by each type of remuneration;</li> </ul> </li> <li>Information about the remuneration of the sole executive body for the year, received or be received from the Company (or, a legal entity from among the group of companies, which includes the Company) broken down by each type of remuneration, both for the performance of its duties as the sole executive body and on other grounds.</li> </ul>		
6.3.	<b>Provision of information and documents at the request of the shareholders by the Company shall be implemented in accordance with the principles of equal and unhindered access.</b>		
6.3.1.	Pursuant to the Company information policy, shareholders of the Company holding the same number of voting shares in the Company are provided with equal access to the Company information and documents.	Complied with.	Regulations on the Information Policy of OJSC Rosneft Oil Company and on the provision of information to Rosneft shareholders, approved by the Board of Directors as of April 14, 2011, contain the principles of granting access to information to shareholders.
6.3.2.	The Company information policy provides for the option of receiving by shareholders of the required information about the legal entities controlled by the Company. In order to provide shareholders with this information, the Company shall make efforts necessary to obtain such information from the relevant legal entity controlled by the Company.	Complied with in part. Not complied with in respect to the provision of information on the basis of individual shareholder requests.	Shareholders have access to information about the legal entities controlled by the Company as disclosed by the Company in accordance with legal requirements, including in the Issuer's quarterly report. Recommendation regarding the provision of information on the basis of individual shareholder requests cannot be effectively implemented in the framework of the current law: shareholders are entitled to receive information about the Company; the provision of information about a legal entity controlled by the Company may result in disclosure of information constituting a trade secret, confidential or insider information.
<b>VII. SIGNIFICANT CORPORATE ACTIONS</b>			
7.1.	<b>Actions that significantly affect or may affect the structure of the share capital and the financial status of the Company and, accordingly, the status of shareholders (significant corporate actions) shall be carried out under fair terms that ensure respect for the rights and interests of shareholders and other stakeholders.</b>		
7.1.1.	<p>The Company's Charter contains a list (criteria) of transactions or other actions that are significant corporate actions, the consideration of which is referred to the competence of the Board of Directors, including:</p> <ul style="list-style-type: none"> <li>Reorganization of the Company, acquisition of 30 percent or more of Company's voting shares (takeover), increase or decrease in the authorized capital of the Company, listing and delisting of Company's shares;</li> <li>Sale of shares of (stake in) legal entities controlled by and having substantial significance for the Company, following which the Company loses control over such legal entities;</li> <li>Transactions, including inter-related transactions, in respect to the property of the Company or legal entities controlled by the Company, the value of which exceeds the amount specified in the Company's Charter or which is of substantial significance for the Company's operations;</li> <li>Creation of a legal entity controlled by and having substantial significance for the Company's operations;</li> <li>Transfer of treasury and quasi-treasury shares by the Company.</li> </ul>	Complied with in part. Not complied with in respect to the referral of the transfer of treasury and quasi-treasury shares by the Company to significant corporate actions. Pursuant to the requirement of the Law on Joint-Stock Companies and the Charter, making decision on applying for Company's shares delisting is referred to the competence of the General Meeting of Shareholders and not the Board of Directors. Acquisition of 30 percent or more of Company's voting shares (takeover) is not expressly provided for by the Company's Charter.	Significant corporate actions, consideration of which or making proposals on which, has been referred to the competence of the Board of Directors of the Company shall include matters provided for by clauses 9.3.3 (1) – (4), 10.2.1 (21), 10.2.4 (6), 10.2.5 – 10.2.7, 10.2.13 (2, 3, 4 (ii)) of the Company's Charter. For the term of the Corporate Governance Code, such significant corporate actions as transfer of Company's treasury and quasi-treasury shares, delisting of Company's shares, acquisition of 30 percent or more of Company's voting shares have not been implemented. No obstacle to the implementation of this CGC principle exists.
7.2.	<b>The Company shall ensure such a procedure for the implementation of significant corporate actions, as to enable shareholders to receive timely full information about such actions, give them the opportunity to influence such actions and ensure the observance and adequate level of protection of their rights in the implementation of such actions.</b>		
7.2.1.	<p>The Company's internal documents have established the pari passu principle for all Company's shareholders in the implementation of significant corporate actions affecting the rights and legitimate interests of shareholders, and also secured additional measures to protect the rights and legitimate interests of Company's shareholders under the Corporate Governance Code, including:</p> <ul style="list-style-type: none"> <li>Engagement of an independent appraiser with excellent reputation in the market and experience in appraisal activities in the relevant field, or provision of reasons not to engage the independent appraiser in determining the value of the assets acquired or disposed under major transaction or interested party transaction;</li> </ul>	Complied with in part. The Company's internal documents do not contain requirements to the experience and reputation of the appraiser, the appraisal procedure, the additional grounds of affiliation of members of the Board of Directors and the Company's top managers.	Pursuant to subclause (7) clause 1 Art. 65 of the Law on Joint-Stock Companies and clause 10.2.1. (13) of the Charter, the Board of Directors determines the price (monetary value) of property in cases stipulated by the Law on Joint-Stock Companies. Independent appraisers are selected in accordance with the tender procedures approved by the Company's internal documents relating to the procurement of goods, work and services, which provide a non-biased selection of appraisers not only on the criterion of minimum cost of services, but also on availability of a consistent business reputation and significant experience in the relevant field.

Item No.	Corporate governance principle or key criterion (recommendation)	Brief description of where the principle or key criterion is not complied with	Explanation of primary causes, factors and circumstances resulted in the fact that the principle or key criterion is not complied with or complied with not in full; description of alternative corporate governance arrangements and tools in use, other explanations (if necessary)
7.2.1.	<ul style="list-style-type: none"> <li>Determination of the price of Company's shares in their acquisition and redemption by an independent appraiser with an excellent reputation in the market and experience in appraisal activities in the relevant field, taking into account the weighted average share price over a reasonable period of time, excluding the effect associated with the entering into the relevant transaction by the Company (in particular, without taking into account changes in share prices in connection with the dissemination of information about the relevant transaction of the Company), and excluding the discount for the sale of shares as part of the non-controlling interest;</li> <li>Extension of the list of grounds on which members of the Board of Directors and other persons stipulated by law may be deemed to be interested in the Company's transactions company with a view to assessing the actual relatedness of the relevant persons.</li> </ul>		<p>Pursuant to the requirements of clauses 1 and 3 Art. 75 of the Law on Joint-Stock Companies, the redemption of shares shall be made at the price determined by the Board of Directors, but not less than the market value to be determined by an independent appraiser.</p> <p>Having been a public company since 2006, the Company in the commission of acts that result in the right to redemption of shares must engage an independent appraiser. The appraisal procedure (the procedure for determining a fair price) shall be determined by the appraiser on its own, taking into account the requirements of appraisal standards and best industry practices. Provisions in the Company's documents for elective requirements to the nature of appraisal is not appropriate and could lead to the restriction of access of shareholders and investors to the best appraisal services as defined from open bidding procedures. The actual observance of this principle will be provided by the engagement of first-class appraisers based on the results of transparent bidding procedures.</p> <p>The Company makes efforts to identify the actual affiliation of the Company's top managers on the basis of the Assignment of the Chairman of the RF Government No VP-P13-9308 dated December 11, 2011 and the Rosneft Order No 728 dated December 23, 2011. This information is taken into account in the determination of stakeholders in the framework of coordination of materials by the Company's structural units in proposing approval of transactions to the Board of Directors. In respect to reflecting this CGC principle in the Charter, the Company considers the following: Shareholders and members of the Board of Directors having the right to demand the recognition of such transactions void shall not have legally defined (as part of the disclosure and the provision of information to shareholders) ways to obtain information about managers of contractors (not members of the management bodies) for the purpose of identifying affiliation and effective contesting such interested party transactions. In view of the above, pursuant to the current laws (taking into account actual measures by the Company to identify the affiliation), introduction of amendments into the Charter cannot be regarded as an effective measure to improve the protection of shareholders' rights.</p>
7.2.2.	<p>Consideration of transactions that do not meet the criteria of major transactions established by the law, but are of substantial significance for the Company has been referred by the Charter to the competence of the Board of Directors, by applying to them the statutory procedure for entering into major transactions by the Company and/or by referring them to the competence of the Board of Directors with the adoption of a decision on their approval by majority — of not less than three fourths of the votes — or of all elected (non-retired) members of the Board of Directors. The Company has defined arrangements for prior consideration and approval by the Board of Directors of the transactions entered into by third parties on their behalf, but at the expense of the Company, which, if entered into in the name of the Company would constitute major or interested party transactions.</p>	<p>Complied with in part. Not complied with in respect to special majority requirement to make decisions and the said arrangements in relation to transactions with third parties which are not Companies of the Group.</p>	<p>The approval of transactions of the Company or Companies of the Group in amounts of more than 1.5 billion US dollars and gift transactions in amounts of more than 50 million US dollars has been referred by the Charter of OSJC Rosneft Oil Company to the competence of the Board of Directors (clauses 10.2.7, 10.2.13 (2) of the Charter). These transactions are approved by a simple majority of votes.</p> <p>The arrangements for prior consideration and approval by the Board of Directors in respect of transactions entered into by the Companies of the Group at the Company's expense, which, if entered into in the name of the Company, would be deemed to be major transactions (thus, the Company's major transactions far exceed the material threshold of 1.5 billion US dollars, established for any transactions of Companies of the Group that require the approval of the Board of Directors). In respect to transactions of third parties (not referred by the Charter to the category of Companies of the Group), as well as interested party transactions, these arrangements have not been provided.</p> <p>Extension of the scope of these arrangements is unreasonable due to significant increase in the number of transactions that require the approval of the Board of Directors.</p>

1 Set out in clause 168 part B of the Corporate Governance Code.

2 Set out in clause 172 part B of the Corporate Governance Code.

3 Set out in clause 180 part B of the Corporate Governance Code.

4 Set out in clause 186 part B of the Corporate Governance Code.

5 Set out in clause 217 part B of the Corporate Governance Code.

6 Set out in clause 218 part B of the Corporate Governance Code.

7 Set out in clause 279 part B of the Corporate Governance Code.



# **APPENDIX 4**

## **DELIVERY OF INSTRUCTIONS AND DIRECTIVES OF THE PRESIDENT AND THE GOVERNMENT OF THE RUSSIAN FEDERATION**

## 1. CORE/NON-CORE ASSET DIVESTMENT

### 1.1. NON-CORE ASSET DIVESTMENT PROGRAM.

Subclause j, clause 1 of the Instruction of the President of the Russian Federation No. Pr-3668 of December 06, 2011.  
Subclause c, clause 2 of the Decree of the President of the Russian Federation On the Long-Term State Economic Policy No. 596 of May 07, 2012.  
The Instruction of the First Deputy Chairman of the Government of the Russian Federation, I.I. Shuvalov No. ISH-P13-6768 of November 13, 2012.

Rosneft is continuously performing optimization of assets owned by the Company, its subsidiaries and affiliates. Non-Core and Tail Assets Divestment Program was developed and is being consistently implemented in the Company in line with the Corporate Property Management Policy and the Standard for Non-Core and Tail Assets Divestment, developed in the Company and approved by the Board of Directors, as well as with the resolutions of management bodies. Execution of the Company's Non-Core Assets Divestment Program is supervised by the Rosneft Board of Directors. The scheduled review of this issue took place on May 12, 2015 (Minutes 33) and the respective analysis of the execution track record was approved.

The Company reports on the execution of non-core assets divestment to Rosimushchestvo and the Ministry of Economic Development on a regular basis (letters No. LK-4195 of May 26; LK-6339 of July 17, 2015; LK-6966 of July 28, 2015; No. LK-11817 of October 12, 2015).

The Standard sets the key principles for non-core and tail assets management and the relevant procedures, stages and deadlines for their implementation.

The Company annually classifies the relevant assets as non-core or tail, and performs their appraisal, technical audit and economic and legal expert analysis.

During the reporting year the Company performed the following:

- disposal of shares (stocks) in 8 Group companies and other Rosneft business entities;
- sales of 5 wells at Kolvinskoye field belonging to the Company but located in the license areas of third parties;
- update of the list of fixed assets not used by the Company (672 facilities including idle pipelines and power transmission lines due to the production completion; complex facilities required by a limited group of purchasers, tank farms, fuel stations, wells in the license areas of third parties; civil facilities (apartments, residential buildings, hotels, resort centers)). Preparation of assets for divestment;
- liquidation of 25 Group companies (including 5 foreign companies, for the purpose of deoffshorization among the rest).

Sales of shares (stocks) in 31 companies and liquidation of 98 companies of the Group and other Rosneft business entities (including 37 foreign companies) as well as sales of some other non-core assets are to be performed in 2016 - 2019. Cash funds received from implementation of the non-core and tail assets divestment program shall contribute to the Company investment program performance and implementation of its strategic objectives.

On May 12, 2015 the Company Board of Directors approved the Analysis of Rosneft Non-Core Asset Divestment Program as of January 01, 2015 in accordance with Rosimushchestvo letter No. OD-11/15898, of April 22.04.2015. On Performance of the Decree of the President of the Russian Federation No. 596 as of May 07, 2012, approved the analysis of the Rosneft non-core assets divestment program as of January 01, 2015.

#### Information on Rosneft non-core asset divestment in 2015

Non-core asset	Inventory No. (if applicable)	Balance sheet line containing the asset as of the reporting date before asset divestment	Bookkeeping accounts includ- ing analytics, showing income and expenditure from asset disposal (91.1xxx/91.2xxx)	Book value of asset, RUB k	Actual cost of divestment, RUB k	Deviation of actual cost of divestment from book value (RUB k)	Reason for actual cost deviation from asset book value
Zhemchuzhina Sibiri, CJSC		1170	91.1 Revenue from selling investments in other entities 91.2 Cost of investments in other entities	10,794.5	15,000.1	4,205.6	Shares sold at the negotiated price
Transneft-Terminal, LLC		1170	91.1 Revenue from selling investments in associated companies 91.2 Cost of investments in associated companies	250.0	105,500.1	105,250.0	Shares sold at the negotiated price
Okhabank, LLC		RN: 1170 VBRR: 1150	RN: 91.1 Revenue from selling investments in associated companies 91.2 Cost of investments in associated companies VBRR: 91.1 Revenue from sell- ing investments in subsidiaries 91.2 Cost of investments in subsidiaries	63,642.7	178,464.0	114,821.3	Shares sold at the negotiated price
Kolek-Eganef, CJSC		1170	NNP: 9101061100 Revenue from selling shares 9111062100 Book value of shares Nizhnevartovskneft: 91.1 Re- venue from selling investments to other entities 91.2 Cost of investments in other entities	46.5	46.5		
Chernomornerftegaz, CJSC		1170	91.1 Revenue from selling investments in other entities 91.2 Cost of investments in other entities	5.0	5.0		
YUM-Estate, LLC		1170	91.1 Revenue from selling investments in subsidiaries 91.2 Cost of investments in subsidiaries	800,321.6	2,170,000.0	1,369,678.4	Asset divestment at market price determined by inde- pendent appraiser
Energoneft-Tomsk, LLS		1170	91.1 Revenue from selling investments in subsidiaries 91.2 Cost of investments in subsidiaries	10.0	45,000.0	44,990.0	Asset divestment at market price determined by inde- pendent appraiser
AIKB, CJSC Yenisei United Bank		1170	9101130200 Revenue from other non-marketable long-term securities 9110130202 Cost of other non-marketable long-term securities	1311.6	1,000.0	-311.6	Asset divestment at market price determined by inde- pendent appraiser

Information on Rosneft non-core asset divestment in 2015							
Non-core asset	Inventory No. (if applicable)	Balance sheet line containing the asset as of the reporting date before asset divestment	Bookkeeping accounts includ- ing analytics, showing income and expenditure from asset disposal (91.1xxx/91.2xxx)	Book value of asset, RUB k	Actual cost of divestment, RUB k	Deviation of actual cost of divestment from book value (RUB k)	Reason for actual cost deviation from asset book value
Well No.4, purpose: pros- pecting	12000159	1150	9101030100 Revenue from selling fixed assets (w/o VAT); 9110030200 Remaining book value of fixed assets sold	3,732	19,876.2	16,144.2	Asset divestment at market price determined by inde- pendent appraiser
Well No.11, purpose: pros- pecting	12000160	1150	9101030100 Revenue from selling fixed assets (w/o VAT); 9110030200 Remaining book value of fixed assets sold	3,732	11,880.4	8,148.4	Asset divestment at market price determined by inde- pendent appraiser
Well No.20, purpose: pros- pecting	12000161	1150	9101030100 Revenue from selling fixed assets (w/o VAT); 9110030200 Remaining book value of fixed assets sold	3,732	20,113.0	16,381.0	Asset divestment at market price determined by inde- pendent appraiser
Well No.62, purpose: pros- pecting	12000162	1150	9101030100 Revenue from selling fixed assets (w/o VAT); 9110030200 Remaining book value of fixed assets sold	3,732	25,479.1	21,747.1	Asset divestment at market price determined by inde- pendent appraiser
Well No.64, purpose: exploration	12000163	1150	9101030100 Revenue from selling fixed assets (w/o VAT); 9110030200 Remaining book value of fixed assets sold	3,732	22,651.2	18,919.2	Asset divestment at market price determined by inde- pendent appraiser
Total				895,042.0	2,615,015.6	1,719,973.6	

## 2. PROCUREMENT OF GOODS, WORKS AND SERVICES

### 2.1. APPROVAL OF THE PROCUREMENT REGULATION. PROCUREMENT TRANSPARENCY IMPROVEMENT.

Federal Law No.223-FZ, On Procurement of Goods, Works and Services by Specific Legal Entities.  
Instruction of the Government of the Russian Federation No. ISH-P13-8685 of December 17, 2012.

On April 03, 2015 The Rosneft Board of Directors approved a new version of the corporate Provision on Procurement of Goods, Works and Services for the text see official website of the Company or the Integrated Information System (<http://zakupki.gov.ru>), that:

- sets 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 process of procurement operations;
- specifies the key stages of works, goods and services procurement, including the procedures for preparation and performance of procurement and the relevant contracts signing and performance;
- indicates the provisions for small and medium business entities involvement in the procurement;
- offers the option of performing online procurement.

### 2.2. PROVISION OF PROCUREMENT EFFICIENCY FROM SMALL AND MEDIUM BUSINESS ENTITIES, INCLUDING PROCUREMENT OF INNOVATIONS AND HIGH-TECH PRODUCTS.

Decree of the Government of the Russian Federation No. 867-r of May 29, 2015.  
Directives of the Government of the Russian Federation No. 6362p-P13 of October 24, 2013 and No. 7377p-P13 of October 07, 2013.

On January 22, 2014 the Rosneft Board of Directors reviewed the solutions for expanding the access of small and medium business entities to Rosneft procurement in order to perform the Directives of the Government of the Russian Federation No.6362p-P13 of October 24, 2013 and No. 7377p-P13 of October 07, 2013.  
During the reporting year the Company held comprehensive events to increase the efficiency of procurement operations, including:

- establishment and continuous activity of Advisory Council, information on the council activities is posted on the Rosneft corporate website (<http://zakupki.rosneft.ru/consult>);
- development and approval of internal documents as follows:
  - The Company Regulation on Procurement of Goods, Works and Services (new version);
  - Rosneft Regulation on the Advisory Council activities including social audit of procurement efficiency from small and medium business entities;
  - The Company Regulation on operation procedure for a single contact system, established to implement innovative products;
  - The Company classification principles for the Objects of Innovative Activities, stating uniform regulations and criteria for classifying the Company goods, works and services as innovations according to the Order of the Ministry of Industry and Trade of the Russian Federation No. 1618 of November 01, 2012;
  - The Company Guidelines on the Products Life Cycle Assessment, stating the procedure for application of "product life cycle cost" assessment criterion.
- amendment of the Company local regulations in terms of specifying the details of small and medium business entities involvement in procurement procedures of the Company;
- collection of innovative solutions proposed by the potential contractors including small and medium business entities, via one contact point on the Rosneft website ([http://www.rosneft.ru/science\\_and\\_innovation/](http://www.rosneft.ru/science_and_innovation/));
- development and approval of 2016-2020 Innovative Products Procurement Plan (posted in the Integrated Information System (<http://zakupki.gov.ru>));
- approval and introduction of KPI for the Company top managers as follows (1) procurement share of small and medium business entities (in 2015 procurement share of small and medium business entities made 28.5% (RUB 13.5 bn) of RUB 47.4 bn estimates base), (2) innovative development and admission of small and medium business entities;
- initiation of 3399 procurements by the Company in 2015 totaling to RUB 652 bn in order to increase the quantity of online procurement procedures using Tektorg e-trading facility (Rosneft section). 6247 suppliers are registered on Tektorg (Rosneft section). In 2016 100% of competitive procurements are to be transferred to e-trading facilities.

### 2.3. GROWING PROCUREMENTS OF RUSSIAN-MANUFACTURED PRODUCTS.

Instructions of the President of the Russian Federation upon the presidium meeting of the State Council of the Russian Federation of February 20, 2009.  
Subclause 4, clause. 1 of the list of instructions of the President of the Russian Federation No. Pr-2821 of December 05, 2014, Instruction of the Government of the Russian Federation No. AD-P9-9176 of December 08, 2014, Directives of the Government of the Russian Federation No. 1346p-P13 of March 05, 2015.  
Directives of the Government of the Russian Federation No. 3425p-P13 of June 01, 2015.

The Company Board of Directors developed and approved the strategies (list of events) for the scheduled step-by-step replacement of foreign products (works or services) procurement with the Russian equivalents in terms of technical standards and application properties, applied in performing investment projects and current business operations according to the principles of economic and process feasibility (Minutes No. 35 of June 05, 2015).  
The above events, their performance indicators as well as the steps to facilitate involvement of the small and medium business entities are included in the updated Rosneft Long-Term Development Program approved by the Rosneft Board of Directors on December 18, 2015.  
Section 15.1 of the Company Regulation on Procurement of Goods, Works and Services, Priority of Russian goods as well as works and services performed by citizens of the Russian Federation, specifications of the small and medium business entities involvement into procurement procedures, provides for:

- priority of Russian goods as well as works and services performed by citizens of the Russian Federation in the cases and according to the procedures set by the effective legislation;
- the customer's right to apply the relevant priorities and specifications, if directly indicated in procurement documents, or if the relevant standards were directly stipulated by the effective legislation. In addition, the Program of import substitution and localization of foreign equipment manufacturing on the territory of the Russian Federation for both medium-term and long-term perspective till 2025 was developed and is being implemented in the Company.

The Company Regulation on Procurement of Goods, Works and Services fully meets the requirements of the Directives of the Government of the Russian Federation No. 3425p-P13 as of June 01, 2015 and allows the Company to sign long-term agreements for supply of any products including coal products.

### 3. DETERMINATION OF DIVIDEND AMOUNT

Decree of the Government of the Russian Federation No. 774-r of June 29, 2006 [as revised by the Decree of the Russian Federation No. 2083-r of November 12, 2012].

According to the Dividend Policy approved by the Board of Directors, determining the amount of dividends recommended to the General Shareholders Meeting, the Board of Directors shall take into account the amount of net income on the basis of the Rosneft financial statements (under RAS) and on the basis of the Rosneft consolidated financial statements (under IFRS).

Recommended dividend amount shall be determined by the Rosneft Board of Directors according to the annual financial results of Rosneft business operations and, as a rule, amounts to at least 25% of the Rosneft net income under IFRS.

Rosneft was the first state-owned company to pay dividends in the amount of at least 25% of its net income.

Since 2011 Rosneft has been allocating 25% of its net income under IFRS for payment of dividends.

In full compliance with Rosneft dividend policy the General Shareholders Meeting on June 17, 2015 resolved to pay dividends in the amount of 25% of Rosneft's net income for 2014 under IFRS. Thus, Rosneft's net income was distributed as follows:

- net income RUB 501,324.3 mln;
- dividend payment RUB 87,011.0 mln;
- investments, operational and social development of Rosneft RUB 414,313.3 mln.

### 4. ANNUAL REPORT STRUCTURE

Resolution of the Government of the Russian Federation No. 1214, On Improvement of Management Procedure for Open Joint Stock Companies in federal ownership and Federal State Unitary Enterprises, of December 31, 2010. Directives of the Government of the Russian Federation No. 2007p-P13 of April 06, 2015.

Paragraph 2 of minutes of the meeting called by the First Deputy Chairman of the Government of the Russian Federation, I.I. Shuvalov No. ISH-P13-47pr of June 02, 2015. Directives of the Government of the Russian Federation No. 5024p-P13 July 31, 2015.

Rosneft 2015 Annual Report is developed according to the requirements to annual reporting of the Regulation of the Bank of Russia No. 454-P of December 30, 2014, taking into account sample structure of an annual report of a joint stock company in federal ownership, approved by the Resolution of the Government of the Russian Federation No. 1214 of December 31, 2010 [as revised by the Government Resolution No. 1211 of November 10, 2015] and the requirements of the Directives of the Government of the Russian Federation No. 2007p-P13 of April 06, 2015 and No. 5024-P13 of July 31, 2015.

### 5. STRATEGY DEVELOPMENT AND UPDATE, EFFICIENCY, LONG-TERM PLANNING

#### 5.1. DEVELOPMENT AND APPROVAL OF INNOVATIVE DEVELOPMENT PROGRAMS.

Clause b, paragraph 1 of the List of Instructions of the President of the Russian Federation No. Pr-307 of February 07, 2011, Directive of the Government of the Russian Federation No. 1221p-P13 of March 24, 2011.

Address to the Federal Assembly of the Russian Federation as of November 12, 2010.

Meeting minutes of the Government Commission for Advanced Technology and Innovation No. 1 of January 30, 2012.

List of Instructions of the President of the Russian Federation No. Pr-3086 of December 27, 2013, Reference to the materials of the RF Government Meeting as of January 30, 2014, minutes No.3.

According to subclause b, clause 1 of the List of Instructions of the President of the Russian Federation No. Pr-307 of February 07, 2011, Directives of the Government of the Russian Federation No. 1221p-P13 of March 24, 2011, the Rosneft Innovative Development Program was approved by resolution of the Rosneft Board of Directors as of April 01, 2011.

The Program structure meets the requirements to innovative development programs of state-owned joint stock companies, state corporations and federal state unitary enterprises in accordance with recommendations approved by resolution of the Government Commission for Advanced Technology and Innovation.

The key guidelines, KPI and the events of the Innovative Development Program are integrated into the Rosneft Long-Term Development program approved by resolution of the Rosneft Board of Directors on December 18, 2015. The list of KPI of the Long-Term Development Program includes integrated KPI of innovative activities.

#### 5.2. DEVELOPMENT AND APPROVAL OF THE INVESTMENT PROGRAM.

List of Instructions of the President of the Russian Federation No. Pr-3086 of December 27, 2013, Reference to the materials of the RF Government Meeting as of January 30, 2014, Minutes No.3.

2016-2017 Investment Program is approved by the Rosneft Board of Directors within the Rosneft Business Plan on December 18, 2015.

#### 5.3. DEVELOPMENT AND APPROVAL OF THE JOINT-STOCK COMPANY STRATEGY AND THE LONG-TERM DEVELOPMENT PROGRAM.

Recommendations on development of innovative development programs approved by the decision of the the Government Commission for Advanced Technology and Innovation of August 03, 2010, Minutes 4.

Par. 2, clause 2 of Minutes of the meeting called by the First Deputy Chairman of the Government of the Russian Federation, I.I. Shuvalov No. ISH-P13-98pr of October 03, 2013.

Subclauses 32 and 34, clause 1, of the Instruction of the President of the Russian Federation No. Pr-3086 of December 27, 2013, Instruction of the Government of the Russian Federation No. DM-P13-9589 of December 30, 2013 Directives of the Government of the Russian Federation No. 4955p-P13 of July 17, 2014.

Directives of the Government of the Russian Federation No. 3984p-P13 of June 24, 2015.

Key events 6.2.-6.4. of the Action Plan for improving labor efficiency, approved by the Directive of the Government of the Russian Federation No. 1250-r of July 09, 2014 and the Directives of the Government of the Russian Federation No. 7389p-P13 of October 31, 2014.

Paragraph 2.3. of section I of meeting Minutes No. 4 of the Military and Industrial Commission under the Government of the Russian Federation of April 25, 2014.

Directives of the Government of the Russian Federation No. 3666p-P13 of June 11, 2015.

Subclause B, clause. 2 of the Instruction of the President of the Russian Federation No. Pr-1627 of July 01, 2014, Instruction of the Government of the Russian Federation No. ISH-P8-6196 of August 15, 2014 and No.06-P8-5496 of July 22, 2014, the Directives of the Government of the Russian Federation No. 7439p-P13 of November 5, 2014.

The Instruction of the Chairman of the Government of the Russian Federation, D.A. Medvedev No.DM-P36-7661 of November 12, 2015.

The following Rosneft documents were approved by resolution of the Rosneft Board of Directors of December 09, 2014: Development Strategy by 2030, Long-Term Development Program, Standard for Audit Inspection of the Rosneft Long-term Development Program Implementation and the Company Provision on the Company Performance Indicators.

The Rosneft Strategy and Long-Term Development Program set strategic objectives for the Company development and the list of events held to achieve the above objectives (in terms of operations, investment and finance, management, HR).

Strategy among the rest includes:

- a list of KPI and their target values;
- development strategy of investment and financial functions in Rosneft;
- forecast for scientific and technical development, upgrading and improvement of the applied technologies;
- strategy for energy saving and energy efficiency.

The Company strategic development objectives are available on the Rosneft corporate website: <http://www.rosneft.ru/news/pressrelease/09122014.html>.

The Company internal policies for certain business streams, including Innovative Development Program, Energy Saving Program, Investment Program and other documents were taken into account for development of the Long-Term Development Program.

From 2015 the Company issues an annual report on the Long-Term Development Program implementation for the previous period and performs an independent audit of its performance. The Company selected an independent expert entity - LLC Ernst and Young, approved by the Audit Committee under the Rosneft Board of Directors, to perform the first annual audit of the Long-Term Development Program implementation in 2014. The audit results were reviewed by the Rosneft Board of Directors on June 05, 2015 and submitted at the Annual General Shareholders Meeting on results of 2014.

The Long-Term Development Program is annually updated on the basis of the audit results. Directives of the Government of the Russian Federation regarding the Long-Term Development Program, additionally communicated to the Company, shall be executed and included in the Program update cycle. Thus, to perform the Directives of the Government of the Russian Federation No. 4955p-P13 of July 17, 2014, No. 7558p-P13 of November 12, 2014, No.1346p-P13 of March 05, 2015, No. 2303p-P13 of April 16, 2015 and to improve the quality of planning, on December 18, 2015 the Board of Directors approved the updated Long-Term Development Program containing the following arrangements approved by the Board of Directors on December 09, 2014 and June 05, 2015:

- strategies for improving efficiency and transparency of operations including the activities on operating costs reduction by 2-3% p.a.;
- strategies for import substitution of products (works and services) procurement;
- strategies for raising labor productivity as well as the Company labor productivity targets.

The list of KPI of the Company top managers for 2016 includes labor productivity indicators in accordance with the approved Business Plan of the Company.

Efficiency improvement indicators, aimed at lean manufacturing, are an integral part of the current KPI system for the top managers and the heads of structural divisions of the Company.

The labor contract of the Rosneft President includes the obligation to ensure performance of the approved Strategy and Long-Term Development Program of the Company.



Intermediate results of the Long-Term Development Program implementation in 2015 were reviewed by the Rosneft Board of Directors at the meeting in presentia held on December 18, 2015.  
Reports of the Long-Term Development Program performance shall be annually submitted to the General Shareholders Meeting.

#### 5.4. DEVELOPMENT AND APPROVAL OF INTERNAL REGULATIONS COVERING THE COMPANY OPERATIONS.

Instruction of the President of the Russian Federation No. Pr-3013 of December 27, 2014.  
Instructions of the Government of the Russian Federation No. ISH-P13-1818 of March 23, 2015 and No. ISH-P13-4148 of June 24, 2015.  
Directives of the Government of the Russian Federation No. 3984p-P13 of June 24, 2015.

According to the guidelines, approved by the Government of the Russian Federation (No. ISH-P13-4148 of June 24, 2015), the following Company documents have been developed, approved and put into effect:

- The Company Policy on Internal Audit;
- The Company Policy on Operating and Investment Efficiency Improvement;
- The Company Policy on Risk Management and Internal Control System;
- The Company Policy on Onshore Oil Production;
- The Company Policy on Offshore Hydrocarbons Exploration and Production;
- The Company Policy on Gas Business;
- The Company Standard for the Corporate Risk Management System;
- The Company Regulation on the procedure for development (amendment) and performance of the Rosneft Innovative Development Program;
- The Company Regulation on operation procedure for a single contact system, established to implement innovative products;
- The Company Standard for Innovative Activities Efficiency Management;
- The Company Standard for the Corporate Scientific and Project Complex Quality Management System. Quality Manual;
- Regulation on Oil Products Quality Management System.

The Directives were implemented in full by Rosneft. The Directive Performance Report was submitted to Rosimushchestvo on November 30, 2015 and January 13, 2016.

#### 5.5. IMPROVEMENT OF INTEGRATED STRUCTURES ACTIVITIES.

Paragraph 4 of minutes of the meeting called by the Deputy Chairman of the Government of the Russian Federation, D.O Rogozin No. RD-P13-45pr of June 15, 2012.  
Paragraph 1 of the Instruction of the President of the Russian Federation No. Pr-1032 of May 07, 2014, Instruction of the Government of the Russian Federation No. ISH-P13-3464 of May 13, 2014, Instruction of the President of the Russian Federation No. Pr-2821 of December 05, 2014.  
Directives of the Government of the Russian Federation No. 5110p-P13 of August 08, 2014 and No. 1796p-P13 of March 26, 2015.

Maintenance of activities and annual analysis of establishment of the United Treasury for the Company, its subsidiaries and affiliates.

Centralization of treasury functions of the Rosneft Group companies was implemented in 2005 by establishing the United Treasury on the basis of the Company Financial Service and the corporate bank JSC VBRR.

Current business processes and corporate treasury systems are approved by the Ministry of Finance of the Russian Federation.

Business processes for liquidity management, budgeting and acceptance of financial operations of the Group companies are stated in the relevant policies and internal regulations of the Company.

#### 5.6. INTEGRATION OF RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE OF THE BANK OF RUSSIA INTO THE COMPANY OPERATIONS.

Instruction of the Government of the Russian Federation No. DM-P36-46pr of August, 28, 2014.  
Instruction of the Government of the Russian Federation No. ISH-P13-5859 of July 31, 2014.  
Directives of the Government of the Russian Federation No. 5667p-P13 of September 02, 2014.  
Directives of the Government of the Russian Federation No. 989p-P13 of February 20, 2015.

Upon analysis of the Rosneft corporate governance standards and the provisions of Corporate Governance Code of the Bank of Russia, Action Plan for integration of key Code provisions was developed in the Company and approved by the BoD resolution as of February 27, 2015. In 2015, the Company consistently worked on the plan implementation.

On June 11, 2015 the Board of Directors approved the Rosneft Corporate Governance Code (substituting the 2006 Corporate Conduct Code), regulating the key principles of the Rosneft corporate governance system, which complies with international best standards.

Information on observing the principles and recommendations of the Corporate Governance Code of the Bank of Russia, including the list of recommendations not covered by internal documents of the Company and comments explaining impossibility to apply the relevant recommendations to the Company, as well as description of alternative mechanisms and tools of corporate governance are included in the Company Annual Report.

#### 5.7. INCLUSION OF THE RESERVATION ON THE POSSIBILITY TO PERFORM SETTLEMENTS IN RUBLES INTO NEW EXPORT CONTRACTS.

Subclause 1, clause 1, section I of meeting minutes of the National Council on Financial Solvency Provision No. 7 of April 10, 2015 and the Directive of the Government of the Russian Federation No. 4807p-P13 of July 23, 2015.

Today most of the oil products sales agreements of the Group companies signed with the CIS contractors provide an option to perform settlement in rubles.

Work on including a clause on settlements in rubles in agreements signed with foreign contractors is carried out along with risk assessment of clients loss and sales reduction (clients walkout due to extra forex expenses), as well as risks related to the Russian ruble devaluation that may lead to decreased revenue from oil products export sales.

#### 5.8. ENSURING ENERGY EFFICIENCY OF THE COMPANY.

Instruction of the Government of the Russian Federation of June 19, 2008.  
Federal Law No. 261-FZ, On Energy Saving and Energy Efficiency: part 2, art. 15, ch. 4, art. 25 ch.7.  
Order of the Ministry of Energy of the Russian Federation No. 182 of April 19, 2010.

The Rosneft five-year Energy Efficiency Program was developed and is being annually updated in the Company. At present the Group companies implement the Rosneft Energy Efficiency Program for 2016 - 2020, approved by the Rosneft Board of Directors as of December 18, 2015.

#### 5.9. ENSURING ENVIRONMENTAL RESPONSIBILITY MECHANISMS OF THE COMPANY.

Subclause "k", clause. 1 of the list of Instructions of the President of the Russian Federation No. Pr-1640 of June 06, 2010.

On August 07, 2012 the Rosneft Board of Directors approved the Procedure for Applying Voluntary Mechanisms of Environmental Responsibility and Obligatory Regular Publication of Non-Financial Reports on Rosneft Sustainable Development. Rosneft has a corporate system of optional liability insurance. The Company applies insurance of optional liability for environmental damage as a risk management tool, allowing transfer of financial losses from insurable risks realization to insurance agencies. The current comprehensive liability insurance program for 2014-2016, including the section concerning liability for environmental damage, protects the interests of Rosneft, its subsidiaries, affiliates and/or associated companies in terms of potential liability arising from current and future operations across the whole scope of the Company activities.

### 6. ACTIVITIES PERFORMED BY MANAGEMENT AND SUPERVISION BODIES

#### 6.1. ENSURING TRANSPARENCY OF THE COMPANY FINANCIAL AND BUSINESS ACTIVITIES.

Instructions of the Government of the Russian Federation No. VP-P13-9308 of December 28, 2011, No. IS-P13-80 of January 12, 2012, No. IS-P13-127 of January 13, 2012, No. VP-P24-1269 of March 05, 2012.  
Article 92 of Federal Law No. 208-FZ, On Joint Stock Companies, as of December 26, 1995.  
Chapter VIII of Order of FFMS of Russia No.11-46/pz-n, On Approval of the Provision on Information Disclosure by Equity Securities Issuers, as of October 04, 2011.  
Order of the Ministry of Economic Development of the Russian Federation No. 208, On Approval of Information Disclosure Procedure for Joint Stock Companies in federal (municipal) ownership and Federal State (Municipal) Unitary Enterprises, as of May 11, 2011.

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 Anti-Corruption Convention of October 31, 2003 and ratified by the Russian Federation in 2006, as well as in the follow-up to the RF Federal Law On Anti-Corruption Enforcement, regulations aimed at transparency enhancement and anti-corruption enforcement are applied in Rosneft as in 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.

Par. 7, clause 2 of minutes of the meeting called by the First Deputy Chairman of the Government of the Russian Federation, I.I. Shuvalov No. ISH-P13-98pr of October 03, 2013. Instruction of the President of the Russian Federation No. Pr-113 of January 17, 2012. Instructions of the Government of the Russian Federation No.VP-P13-459 of January 27, 2012 and No. ISH-P13-7501 of December 07, 2012.

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. Strategies aimed at raising (i) operating and investment efficiency of business activities, (ii) transparency of business operations, (iii) investment appeal as well as at (iv) procuring the consumers in the domestic market with fuel and energy recourses of standard quality and at acceptable prices, and (v) meeting the requirements of process and environment safety shall be an integral part of the updated Long-Term Development Program of the Company.

#### **6.2. REMUNERATION OF THE COMPANY MANAGEMENT AND EMPLOYEES, KPI SYSTEM DEVELOPMENT.**

Instruction of the President of the Russian Federation No. Pr-825 of April 06, 2009. Instructions of the Government of the Russian Federation No. VP-P13-1823 of April 06, 2009, No. VP-P13-2099 of April 20, 2009, No. VZ-P13-4252 of July 28, 2009, No. ISH-P13-2232 of April 08, 2010, No. KA-P13-8297 of December 04, 2010. Par. 3, clause 2 of minutes of the meeting called by the First Deputy Chairman of the Government of the Russian Federation, I.I. Shuvalov No. ISH-P13-98pr of October 03, 2013. Subclauses 4, 5 of Instruction of the President of the Russian Federation No. Pr-1474 of July 05, 2013. Instruction of the Government of the Russian Federation No. ISH-P13-2043 of March 27, 2014. Directives of the Government of the Russian Federation No. 3984p-P13 of June 24, 2015. Instruction of the President of the Russian Federation No. Pr-2821 of May 12, 2014. Instruction of the Government of the Russian Federation No. DM-P13-9024 of December 04, 2014. Directives of the Government of the Russian Federation No. 2303p-P13 of April 16, 2015.

The corporate top management incentive system based on KPI performance has been in place since 2009. Rosneft KPI system includes:

- financial and economic indicators (TSR, EBITDA, ROACE, cost saving, net income);
- industry-wide indicators (production volume, hydrocarbon reserves replacement).

KPIs for the Company top management are developed according to the guidelines of the Company Development Strategy and Long-Term Development Program.

The following activities were performed in Rosneft 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 the Rosneft General Director and CEOs of the Group companies.

The Regulations provide for annual bonus payment upon results of the relevant individual KPI performance by each top manager.

- amendment of the Rosneft Regulation on annual bonus payment to middle managers, specialists and employees of the Company administration.

The Regulation provides for annual bonus payment upon results of the relevant individual KPI performance by middle managers. The rest of the employees of the Rosneft 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 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.

In 2015, the strategies for achieving the indicator of operating costs reduction by at least 2-3% p.a. was developed in the Company and approved by the Board of Directors. The strategies are included in the updated Long-Term Development Program.

KPI of top managers of business streams for 2015 include the indicator of costs reduction by at least 3%.

The labor contract of the Rosneft President includes the obligation to ensure performance of the approved Strategy and Long-Term Development Program of the Company.

#### **6.3. INSURANCE OF THE LIABILITY OF INDEPENDENT DIRECTORS REPRESENTING THE INTERESTS OF THE RUSSIAN FEDERATION.**

Instruction of the President of the Russian Federation No. Pr-2206 of August 03, 2011.

Taking into account the scale of Rosneft projects, materiality and significance of delivered transactions, as well as wide use of foreign law for project deals structuring and Rosneft stock trading at international exchanges, the Company has been providing liability insurance to the Company management members for eight years now, including independent members of the Board of Directors. Insurance is intended to compensate to 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, the insurance contract terms and conditions shall remain identical to the previously applied contract, and the total liability insurance coverage amount (indemnity limit) shall be 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 PROJECTS AUDIT.**

The Instruction of the First Deputy Chairman of the Government of the Russian Federation, I.I. Shuvalov No. ISH-P9-8314 of November 19, 2013. Directives of the Government of the Russian Federation No. 2988p-P13 of 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 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 investments and projects management determine the procedure for supervision over investment project implementation at all stages of its life cycle, from initiation through completion. The Company 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 the meeting minutes in the Ministry of Economic Development of the Russian Federation No. 53-OF of 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.

# **APPENDIX 5**

**MAIN INTERNAL REGULATIONS  
WHICH ARE USED AS A BASIS  
FOR THE CURRENT ANNUAL  
REPORT GENERATION,  
INCLUDING MAIN INTERNAL  
REGULATIONS ON INTERNAL  
AUDIT PERFORMANCE AND RISK  
MANAGEMENT AND INTERNAL  
CONTROL SYSTEMS ACTIVITIES.**

The current Annual Report is developed based on the following local (internal) regulations of Rosneft:

- Charter;
- Rosneft Corporate Governance Code;
- Rosneft Code of Business Conduct and Corporate Ethics;
- Provisions on Rosneft General Shareholder Meeting;
- Provisions on Rosneft Board of Directors;
- Provisions on the Audit Committee of Rosneft Board of Directors;
- Provisions on the HR and Remuneration Committee of Rosneft Board of Directors;
- Provisions on the Strategic Planning Committee of Rosneft Board of Directors;
- Provisions on Remuneration and Compensation of Expenses of Rosneft Board members;
- Provisions on Procedure of Development and Operations of Rosneft Board of Directors' Committees;
- Provisions on Rosneft Collective Executive Body (Management Board);
- Provisions on Rosneft Single Executive Body (President);
- Regulations on Top Managers Payment and Compensation;
- Provisions on Rosneft Audit Commission;
- Provisions on Remuneration and Compensation to Rosneft Audit Commission members;
- Provisions on Rosneft Corporate Secretary;
- Provisions on Rosneft Information Policy;
- Provisions on Information Disclosure to Shareholders;
- Provisions on Insider Information;
- Rosneft Dividend Policy;
- Company's Policy on Anti-Corruption Activities;
- Company's Policy on Internal Audit;
- Company's Policy on Risk Management and Internal Control Systems;
- Company's Environment Protection Policy;
- Company's Policy on Industrial and Occupational Safety.



# **APPENDIX 6**

## **AUDIT REPORT ON THE FINANCIAL STATEMENTS OF ROSNEFT OIL COMPANY FOR THE YEAR ENDED 31 DECEMBER 2015**

## Independent auditor's report

### TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF ROSNEFT OIL COMPANY

We have audited the accompanying financial statements of OJSC Rosneft Oil Company which consist of the balance sheet as at 31 December 2015, income statement for 2015 and appendices thereto.

#### Audited entity's responsibility for the financial statements

The management of OJSC 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.

#### Auditor's responsibility

Our responsibility is to express an opinion on the fairness of these statements based on our audit.

We conducted our audit in accordance with the federal standards on auditing effective in the Russian Federation and International Standards on Auditing. 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 OJSC Rosneft Oil Company as at 31 December 2015, its financial performance and its cash flows for 2015 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

Partner  
Ernst & Young LLC

29 March 2016

#### Details of the audited entity

Name: OJSC Rosneft Oil Company  
Record made in the State Register of Legal Entities on 19 July 2002; State Registration Number 1027700043502.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 26/1.

#### Details of the auditor

Name: Ernst & Young LLC  
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027739707203.  
Address: Russia 115035, Moscow, Sadovnicheskaya naberezhnaya, 77, building 1.  
Ernst & Young LLC is a member of self-regulatory organization of auditors «Russian Audit Chamber» [Association] («SRO APR»). Ernst & Young LLC is included in the control copy of the register of auditors and audit organizations, main registration number 10201017420.

## Balance sheet At 31 December 2015

Rosneft Oil Company  
Monetary unit: kRUB

Explanatory note	Item	Line code	At 31 December	At 31 December	At 31 December
<b>ASSETS</b>					
<b>I. Non-current assets</b>					
6	Intangible assets	1110	20,933,757	20,276,532	9,646,678
8	Research and development results	1120	2,514,742	2,595,082	1,952,071
7	Intangible exploration assets	1130	74,650,436	64,928,439	36,457,262
7	Tangible exploration assets	1140	11,338,131	10,015,844	5,582,686
5	Fixed assets	1150	1,003,328,496	956,824,133	838,018,865
	Income-bearing investments in tangible assets	1160	-	-	-
11	Financial investments	1170	3,945,699,651	3,816,440,204	2,401,568,509
21	Deferred tax assets	1180	120,214,709	73,523,479	16,008,063
9	Other non-current assets	1190	34,679,041	38,320,987	44,977,476
	<b>Total for Section I</b>	<b>1100</b>	<b>5,213,358,963</b>	<b>4,982,924,700</b>	<b>3,354,211,610</b>
<b>II. Current assets</b>					
10	Inventories	1210	107,207,260	114,414,155	95,983,700
10	Value-added tax on purchased assets	1220	51,445,066	56,191,201	59,707,919
15,18	Accounts receivable	1230	2,025,601,916	1,847,735,638	848,191,801
	including:				
	Accounts receivable expected to be settled within 12 months after the reporting date	1231	891,163,442	858,676,950	755,221,100
	Accounts receivable expected to be settled in over 12 months after the reporting date	1232	1,134,438,474	989,058,688	92,970,701
11	Financial investments (other than cash equivalents)	1240	1,637,719,899	645,291,444	425,964,971
12	Short-term derivative financial instruments at fair value through profit or loss	1241	-	-	88,015
12	Long-term derivative financial instruments at fair value through profit or loss	1242	-	-	773,849
14	Cash and cash equivalents	1250	402,389,690	127,975,011	199,904,499
	Other current assets	1260	12,151,470	13,614,675	7,646
	including:				
	Unbilled accrued revenue under construction contracts	1261	-	-	-
	<b>Total for Section II</b>	<b>1200</b>	<b>4,236,515,301</b>	<b>2,805,222,124</b>	<b>1,630,622,400</b>
	<b>Balance</b>	<b>1600</b>	<b>9,449,874,264</b>	<b>7,788,146,824</b>	<b>4,984,834,010</b>
<b>LIABILITIES</b>					
<b>III. Equity and reserves</b>					
1.19	Share capital (pooled capital, charter capital, partners' contributions)	1310	105,982	105,982	105,982
19	Treasury shares	1320	-	-	-
19	Revaluation of non-current assets	1340	15	15	15
19	Additional capital (without revaluation)	1350	113,244,694	113,261,430	113,276,744
19	Reserve capital	1360	5,299	5,299	5,299
13	Other funds and reserves	1365	(471,888,054)	(398,110,282)	-
20	Retained earnings (uncovered loss)	1370	1,792,963,117	1,640,545,004	1,275,039,243
	<b>Total for Section III</b>	<b>1300</b>	<b>1,434,431,053</b>	<b>1,355,807,448</b>	<b>1,388,427,283</b>
<b>IV. Non-current liabilities</b>					
16	Loans and borrowings	1410	4,081,526,948	3,230,812,633	1,729,241,793
21	Deferred tax liabilities	1420	69,693,400	58,997,819	43,735,992
24	Provisions	1430	40,469,001	37,705,894	38,242,591
	Long-term derivative financial instruments at fair value through profit or loss	1440	-	-	-
16	Other liabilities	1450	1,784,929,682	886,778,534	470,151,376
	<b>Total for Section IV</b>	<b>1400</b>	<b>5,976,619,031</b>	<b>4,214,294,880</b>	<b>2,281,371,752</b>
<b>V. Current liabilities</b>					
16	Loans and borrowings	1510	494,337,961	864,389,446	622,881,018
15,18	Accounts payable	1520	1,416,028,642	1,197,024,178	671,333,226
	Deferred income	1530	1,571,330	144,815	63,798
24	Provisions	1540	22,443,697	19,212,252	14,820,150
12	Short-term derivative financial instruments at fair value through profit or loss	1545	104,081,673	136,952,201	5,688,020
	Other liabilities	1550	360,877	321,604	248,763
	<b>Total for Section V</b>	<b>1500</b>	<b>2,038,824,180</b>	<b>2,218,044,496</b>	<b>1,315,034,975</b>
	<b>BALANCE</b>	<b>1700</b>	<b>9,449,874,264</b>	<b>7,788,146,824</b>	<b>4,984,834,010</b>

## Income statement For the 2015 reporting year

Rosneft Oil Company  
Monetary unit: kRUB

Explanatory note	Item	Line code	For January- December 2015	For January- December 2014
20.26	Revenue	2110	3,831,094,945	4,299,680,200
20	Cost of sales	2120	(2,612,932,721)	(2,451,243,380)
20	Oil and gas reserves exploration and estimation expenses	2130	(17,007,609)	(15,103,523)
	Gross income (loss)	2100	1,201,154,615	1,833,333,297
20	Selling expenses	2210	(1,018,103,482)	(1,610,827,753)
20	General and administrative expenses	2220	(66,251,075)	(66,620,484)
	Operating income (loss)	2200	116,800,058	155,885,060
20	Income from equity participation in other entities	2310	440,667,780	507,777,727
20	Interest receivable	2320	140,152,094	64,866,869
16.20	Interest payable	2330	(327,398,599)	(129,651,537)
20	Gains from changes in the fair value of derivative financial instruments	2333	111,422,887	1,727
20	Losses from changes in the fair value of derivative financial instruments	2334	(74,488,087)	(127,866,895)
17.20	Other income	2340	143,439,564	162,688,723
13,17,20	Other expenses	2350	(377,310,911)	(127,328,483)
20	<b>Income (loss) before tax</b>	<b>2300</b>	<b>173,284,786</b>	<b>506,373,191</b>
	Current income tax	2410	47,768,608	36,578,563
21	Including permanent tax assets (liabilities)	2421	119,534,206	186,244,916
21	Change in deferred tax liabilities	2430	(10,695,581)	(15,261,827)
21	Change in deferred tax assets	2450	46,691,230	57,515,416
	Other	2460	(17,635,788)	(83,529,045)
	Tax on prior year income	2461	836,088	17,290,555
	Imputed income tax	2464	-	-
	Income tax re-distribution within consolidated taxpayer group	2465	(27,434)	(1,292,030)
13	Tax effect of the results of other operations not included in net income (loss) for the period	2466	(18,444,442)	(99,527,570)
22	<b>Net income (loss)</b>	<b>2400</b>	<b>239,413,255</b>	<b>501,676,298</b>
	<b>FOR REFERENCE</b>			
	Result of the revaluation of non-current assets not included in net income (loss) for the period	2510	-	-
13.19	Result from other operations not included in net income (loss) for the period	2520	(73,794,508)	(398,125,596)
	<b>Comprehensive income for the period</b>	<b>2500</b>	<b>165,618,747</b>	<b>103,550,702</b>
22	Basic earnings (loss) per share, RUB per share	2900	22.59	47.34

President of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet  
(Contract No. 100014/09679D dated 6 April 2015)

V.A. Surkov



## Statement of changes in equity for the 2015 reporting year

Rosneft Oil Company  
Monetary unit: kRUB

Item	Line code	Share capital	Treasury shares	Additional capital	Reserve capital	Other funds and reserves	Retained earnings (uncovered loss)	Total
Equity at 31 December 2013	3100	105,982	-	113,276,759	5,299	-	1,275,039,243	1,388,427,283
<b>FOR THE 2014 REPORTING YEAR</b>								
Total increase in equity:	3210	-	-	9,194	-	-	501,692,346	501,701,540
Including:								
Net income	3211	x	x	x	x	x	501,676,298	501,676,298
Revaluation of property	3212	x	x	-	x	-	x	-
Earnings directly increasing equity	3213	x	x	9,194	x	-	16,048	25,242
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	-	-	(24,508)	-	(398,110,282)	(136,186,585)	(534,321,375)
Including:								
Loss	3221	x	x	x	x	x	-	-
Revaluation of property	3222	x	x	-	x	-	x	-
Expenses directly decreasing equity	3223	x	x	(24,508)	x	(398,110,282)	x	(398,134,790)
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	(136,186,585)	(136,186,585)
Change in additional capital	3230	x	x	-	x	-	-	x
Change in reserve capital	3240	x	x	x	-	x	-	x
Equity at 31 December 2014	3200	105,982	-	113,261,445	5,299	(398,110,282)	1,640,545,004	1,355,807,448
<b>FOR THE 2015 REPORTING YEAR</b>								
Total increase in equity:	3310	-	-	15,722	-	-	239,429,153	239,444,875
Including:								
Net income	3311	x	x	x	x	x	239,413,255	239,413,255
Revaluation of property	3312	x	x	-	x	-	x	-
Earnings directly increasing equity	3313	x	x	15,722	x	-	15,898	31,620
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	-	-	(32,458)	-	(73,777,772)	(87,011,040)	(160,821,270)
Including:								
Loss	3321	x	x	x	x	x	-	-
Revaluation of property	3322	x	x	-	x	-	x	-
Expenses directly decreasing equity	3323	x	x	(32,458)	x	(73,777,772)	x	(73,810,230)
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	(87,011,040)	(87,011,040)
Change in additional capital	3330	x	x	-	x	-	-	x
Change in reserve capital	3340	x	x	x	-	x	-	x
Equity at 31 December 2015	3300	105,982	-	113,244,709	5,299	(471,888,054)	1,792,963,117	1,434,431,053

President of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet  
(Contract No. 100014/09679D dated 6 April 2015)

V.A. Surkov

## Statement of changes in equity for the 2015 reporting year

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 2013	Change in equity for 2014		At 31 December 2014
			Through net income (loss)	Through other factors	
Total equity					
Before adjustments	3400	1,388,359,416	501,324,290	(534,296,133)	1,355,387,573
Adjustment due to:					
Changes in the accounting policy	3410	67,867	352,008	-	419,875
Correction of errors	3420	-	-	-	-
After adjustments	3500	1,388,427,283	501,676,298	(534,296,133)	1,355,807,448
Including:					
Retained earnings (uncovered loss):					
Before adjustments	3401	1,274,971,376	501,324,290	(136,170,537)	1,640,125,129
Adjustment due to:					
Changes in the accounting policy	3411	67,867	352,008	-	419,875
Correction of errors	3421	-	-	-	-
After adjustments	3501	1,275,039,243	501,676,298	(136,170,537)	1,640,545,004
Other equity items that have been adjusted (By items)					
Before adjustments	3402	113,388,040	-	(398,125,596)	(284,737,556)
Adjustment due to:					
Changes in the accounting policy	3412	-	-	-	-
Correction of errors	3422	-	-	-	-
After adjustments	3502	113,388,040	-	(398,125,596)	(284,737,556)

### 3. Net assets

Item	Line code	At 31 December 2015	At 31 December 2014	At 31 December 2013
Net assets	3600	1,434,431,053	1,355,814,561	1,388,491,081

President of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet  
(Contract No. 100014/09679D dated 6 April 2015)

V.A. Surkov

## Statement of cash flows for the 2015 reporting year

Rosneft Oil Company  
Monetary unit: kRUB

Item	Line code	For the 2015 reporting year	For the 2014 reporting year
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Total proceeds</b>	<b>4110</b>	<b>5,725,793,303</b>	<b>5,760,646,373</b>
Including:			
From the sale of products, goods, work and services	4111	4,709,414,133	4,857,613,816
Lease payments, license payments, royalties, commissions and other similar payments	4112	125,157,453	113,059,260
From resale of financial investments	4113	-	12,373,182
Other proceeds	4119	891,221,717	777,600,115
<b>Total cash disbursements</b>	<b>4120</b>	<b>(4,451,267,732)</b>	<b>(4,722,726,687)</b>
Including:			
Payments to suppliers (contractors) for raw materials, work and services	4121	(3,258,900,354)	(4,022,603,294)
Payroll-related payments	4122	(27,737,080)	(23,976,322)
Interest on debt obligations	4123	(219,080,002)	(81,107,628)
Income tax	4124	(2,137,733)	(15,221,473)
Exploration costs	4128	(10,499,340)	(13,421,255)
Other payments	4129	(932,913,223)	(566,396,715)
<b>Net cash flows from operating activities</b>	<b>4100</b>	<b>1,274,525,571</b>	<b>1,037,919,686</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Total proceeds</b>	<b>4210</b>	<b>1,795,255,507</b>	<b>852,901,252</b>
Including:			
From sale of non-current assets (other than financial investments)	4211	397,631	6,416
From sale of shares (interests) in other entities	4212	6,973,058	-
From repayment of loans issued and sale of debt securities (receivables from other parties)	4213	1,378,019,323	331,399,383
Dividends, interest on debt financial instruments and similar proceeds from equity participation in other entities	4214	397,968,793	506,001,126
Other proceeds	4219	11,896,702	15,494,327
<b>Total payments</b>	<b>4220</b>	<b>(2,463,384,926)</b>	<b>(2,455,099,603)</b>
Including:			
Purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	4221	(125,986,501)	(173,273,415)
Purchase of shares (interests) in other entities	4222	(169,119,011)	(256,721,722)
Purchase of debt securities (receivables from other parties), provision of loans to other parties	4223	(2,103,528,398)	(1,942,511,610)
Interest on debt obligations included in the value of the investment asset	4224	-	-
Exploration assets	4228	(20,856,545)	(41,296,236)
Other payments	4229	(43,894,471)	(41,296,620)
<b>Net cash flows used in investing activities</b>	<b>4200</b>	<b>(668,129,419)</b>	<b>(1,602,198,351)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Total proceeds</b>	<b>4310</b>	<b>2,037,853,494</b>	<b>1,910,810,190</b>
Including:			
Loans and borrowings received	4311	1,637,853,504	1,250,825,747
Cash contributions of shareholders (participants)	4312	-	-
Issue of shares, increase in interests	4313	-	-
Issue of bonds, promissory notes and other debt securities, etc.	4314	399,999,990	659,984,443
Other proceeds	4319	-	-
<b>Total payments</b>	<b>4320</b>	<b>(2,420,311,078)</b>	<b>(1,457,429,764)</b>
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	(86,989,905)	(136,088,774)
Repayment (redemption) of promissory notes and other debt securities, repayment of loans and borrowings	4323	(2,333,321,173)	(1,321,340,990)
Other payments	4329	-	-
<b>Net cash flows from financing activities</b>	<b>4300</b>	<b>(382,457,584)</b>	<b>453,380,426</b>
<b>Net cash flows for the reporting period</b>	<b>4400</b>	<b>223,938,568</b>	<b>(110,898,239)</b>
<b>Balance of cash and cash equivalents at the beginning of the reporting period</b>	<b>4450</b>	<b>127,975,011</b>	<b>199,904,499</b>
<b>Balance of cash and cash equivalents at the end of the reporting period</b>	<b>4500</b>	<b>402,389,690</b>	<b>127,975,011</b>
<b>Effect of changes in the exchange rate of foreign currency to the ruble</b>	<b>4490</b>	<b>50,476,111</b>	<b>38,968,751</b>

President of Rosneft Oil Company

I.I. Sechin

General Director of LLC RN-Uchet  
(Contract No. 100014/09679D dated 6 April 2015)

V.A. Surkov

## EXPLANATORY NOTES TO THE BALANCE SHEET AND THE INCOME STATEMENT OF ROSNEFT OIL COMPANY FOR THE 2015 REPORTING YEAR

These Explanatory Notes to the balance sheet and the income statement constitute an integral part of the financial statements of Rosneft Oil Company for the 2015 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 2015.

### 1. ENTITY AND TYPES OF ACTIVITY

#### Company description

Open 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.

The Company is a legal entity that operates on the basis of its Charter and the laws of the Russian Federation.

#### Legal address (location) of the Company:

Legal address of the Company: 26/1 Sofiyskaya Embankment, Moscow, Russian Federation, 115035.

#### Governing bodies of the Company

##### General Shareholders' Meeting of the Company

The General Shareholders' Meeting is the supreme governing body of the Company. The scope of authority of the General Shareholders' Meeting of the Company, the procedure for convening and holding it and its proceedings are determined in accordance with federal laws, the Charter of the Company and the Regulation on the General Shareholders' Meeting of the Company. The address of the place for holding the General Shareholders' Meeting is determined by the Company's Board of Directors.

The annual General Shareholders' Meeting is held not earlier than two months and not later than six months after the end of the financial year.

The General Shareholders' Meeting is chaired by the Chairman of the Company's Board of Directors or, in his absence, a member of the Board of Directors selected by the decision of the Board of Directors.

##### Board of Directors of the Company

The Company's Board of Directors is responsible for the general management of the Company's activities, except for the matters that fall within the authority of the General Shareholders' Meeting according to federal laws and the Charter of the Company.

The members of the Company's Board of Directors are elected by the General Shareholders' Meeting to serve until the next annual General Shareholders' Meeting.

The Board of Directors of Rosneft Oil Company that served as of 31 December 2015 was formed by the decision of the General Shareholders' Meeting of the Company held on 17 June 2015.

As of 31 December 2015, the Board of Directors of Rosneft Oil Company comprises:

Andrey Igorevich Akimov	Member of the Board of Directors of Rosneft Oil Company, Chairman of the Management Board of Joint-stock Company Gazprombank
Andrey Removich Belousov	Chairman of the Board of Directors of Rosneft Oil Company, Assistant to the President of the Russian Federation
Matthias Arthur Warnig	Deputy Chairman of the Board of Directors of Rosneft Oil Company, Managing Director of Nord Stream AG (Switzerland)
Oleg Vyacheslavovich Viyugin	Member of the Board of Directors of Rosneft Oil Company, non-executive director, Chairman of the Board of Directors of PAO MDM Bank
Robert Warren Dudley	Member of the Board of Directors of 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 Ordóñez Quintero	Member of the Board of Directors of Rosneft Oil Company, Director of BP Petróleo y Gas, S. A., President of BP Exploración de Venezuela S. A.;
Alexander Valentinovich Novak	Member of the Board of Directors of Rosneft Oil Company, Minister of Energy of the Russian Federation
Igor Ivanovich Sechin	Deputy Chairman of the Board of Directors of Rosneft Oil Company, Chairman of the Management Board of Rosneft Oil Company
Donald Humphreys	Member of the Board of Directors of Rosneft Oil Company, non-executive director

In accordance with clause 2 of Article 64 of the Federal Law, On Joint-stock Companies, and the Regulation on the Calculation and Payment of Remuneration and Compensations for Expenses to the Members of the Board of Directors of the Company, remuneration to the members of the Board of Directors during the period when they perform their duties is paid on the basis of a decision of the General Shareholders' Meeting.

On 17 June 2015, the annual General Shareholders' Meeting (unnumbered minutes) 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 530,000  
Andrey Removich Bokarev: USD 530,000  
Matthias Warnig: USD 580,000  
Nikolay Pavlovich Laverov: USD 580,000  
Aleksandr Dmitrievich Nekipelov: USD 660,000  
Donald Humphreys: USD 580,000  
Artur Nikolaevich Chilingarov: USD 530,000

These amounts are net of reimbursement for business trip expenses. In 2015, no remuneration shall be paid to the members of the Board of Directors of Rosneft Oil Company who are government officials (Andrey Removich Belousov, Aleksandr Valentinovich Novak) and the Chairman of the Board of Rosneft Oil Company (Igor Ivanovich Sechin) for performing their duties as the members of the Board of Directors of Rosneft Oil Company.

As of 31 December 2015, the Company fulfilled its obligation and paid remuneration to the above members of the Board of Directors of Rosneft Oil Company for the period during which they performed their duties.

##### Sole executive body of the Company

The President of Rosneft Oil Company is its sole executive body.

Igor Ivanovich Sechin was appointed President of the Company by the decision of the Board of Directors of Rosneft Oil Company (Minutes No. 22 of the Board of Directors' meeting dated 23 May 2012) and took office on 24 May 2012. Igor Ivanovich Sechin was appointed as the sole executive body of the Company for a new 5-year period by decision of the Board of Directors of Rosneft Oil Company dated 30 April 2015 (Minutes No. 32 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 2015, members of the Management Board of the Company include:



1.	Igor Ivanovich Sechin	President, Chairman of the Management Board of Rosneft Oil Company
2.	Yuri Ivanovich Kalinin	Deputy Chairman of the Management Board, Vice President for HR and Social Policy at Rosneft Oil Company
3.	Eric Maurice Liron	First Vice President of Rosneft Oil Company in charge of production
4.	Larisa Vyacheslavovna Kalanda	State Secretary, Vice President of Rosneft Oil Company in charge of communication with the authorities
5.	Didier Casimiro	Vice President for Refining, Petrochemical, Commerce and Logistics at Rosneft Oil Company
6.	Vasily Nikolaevich Yurchenko	Acting Vice President - Vice President, Head of Security at Rosneft Oil Company
7.	Yury Anatolyevich Narushevich	Vice President for Internal Services at Rosneft Oil Company
8.	Runje Zeljko	Vice President for Offshore Projects at Rosneft Oil Company
9.	Svyatoslav Igorevich Slavinskiy	Vice President for Economics and Finance at Rosneft Oil Company
10.	Andrey Shishkin	Vice President for Energy and Localization at Rosneft Oil Company
11.	Petr Ivanovich Lazarev	Financial Director of Rosneft Oil Company

The Board of Directors of Rosneft Oil Company made the following decisions with respect to the Management Board of the Company:  
Early termination of powers of A. V. Votinov and I. V. Pavlov and appointment of Yu. A. Narushevich and A. N. Shishkin as the members of the Management Board (Minutes No. 29 dated 24 April 2015);  
Early termination of powers of I. V. Maydannik as the member of the Management Board (Minutes No. 36 dated 16 June 2015);  
Early termination of powers of R. R. Sharipov and N. M. Mukhitov as the members of the Management Board, appointment of V. N. Yurchenko as the member of the Management Board, and reduction in the number of members of the Management Board of Rosneft Oil Company from 13 to 11 people (Minutes No. 6 dated 5 October 2015).  
No remuneration, bonuses or other compensations shall be 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 2015, the **Audit Commission** of the Company comprises:

1.	Alexey Anatolievich Afonyashin	Deputy Director, Department of State Regulation of Tariffs, Infrastructure Reform and Energy Efficiency, Russian Ministry of Economic Development
2.	Oleg Sergeevich Zenkov	Advisor to Deputy Minister who is the Head of the Federal Property Management Agency (Rosimushchestvo)
3.	Sergey Ivanovich Poma	Deputy Chairman of the Management Board of the National Association of Securities Market Participants (NAUFOR, a self-regulatory non-profit organization)
4.	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)
5.	Tatyana Vladimirovna Fisenko	Director of the Budget Planning and Accounting Department of the Ministry of Energy of the Russian Federation (Russian Ministry of Energy)

The members of the Company's Audit Commission received no remuneration for their service on the Audit Commission in 2015.

#### **Structure of the Company's share capital\***

Information about the shareholders of Rosneft Oil Company as of 31 December 2015 is presented below:

OJSC ROSNEFTEGAZ held 7,365,816,383 common shares in Rosneft Oil Company, representing 69.5% of the total number of common shares and the share capital of the Company.

Non-banking Credit Organization Closed Joint-Stock Company National Settlement Depository (NSD) was the nominee for 3,189,547,616 common shares in Rosneft Oil Company, representing 30.1% 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 or the nominees for 1,582,062 common shares in Rosneft Oil Company, representing 0.01% of the total number of common shares and the share capital of the Company.

Individuals held 41,199,398 common shares in Rosneft Oil Company, representing 0.39% of the total number of common shares and the share capital of the Company.

The Russian Federation, acting through the Federal Property Management Agency, held 1 common share in Rosneft Oil Company, representing 0.000000009% of the total number of common shares and the share capital of the Company.

32,357 common shares in Rosneft Oil Company, representing 0.0003% 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), 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:

1. 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.
2. Investing, including transactions with securities.
3. Managing the fulfillment of orders placed by the federal government and regional consumers of the products made by the Company and its subsidiaries and associates, including deliveries of oil, gas and oil products.
4. 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 associates, 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 and associates.
5. Leasing out immovable and other property, using leased property.
6. Assisting in securing the interests of the Russian Federation when it prepares and implements production sharing agreements for subsurface areas and hydrocarbon deposits.
7. Managing advertising and publishing activities, conducting exhibitions, fairs, auctions, etc.
8. Intermediary, consulting, marketing and other activities, including foreign economic activities (including export/import operations), performing work and providing services on a contractual basis.
9. Ensuring the protection of the Company's employees and property.
10. 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.

#### **The Company has the following branches and representative offices:**

1. A branch in the Chechen Republic located at: 7/84 Revolution Av., Grozny, 364051
2. A representative office in the North Caucasus located at: 54 Krasnaya St., Krasnodar, 350610
3. A representative office in the Yamalo-Nenets Autonomous District located at: 3 microdistrict 10, Gubkinsky, 629830
4. A representative office in the Far East located at: 17 Khabarovskaya St., Sakhalin Region, Yuzhno-Sakhalinsk, 693010
5. A representative office in the Stavropol Territory located at: 5, 50 let Pionerii St., Neftekumsk, 356880
6. A representative office in the Khanty-Mansi Autonomous District (Yugra) located at: 26 Lenina St., Nefteyugansk, 628309
7. A representative office in the Komi Republic located at: 1 Priplyarnaya St., Usinsk, 169710
8. A representative office in the Khabarovsk Territory located at: 22 Shevchenko St., Khabarovsk, 680000

9. A representative office in the Asia Pacific region located at: Central International Trade Center, Tower D, 6A, Jianguomenwai Av., Chaoyang District, Beijing, PRC, 100022  
10. A representative office in the Middle East located at: Office A 1101, Tower C6, Sector W35, Bainunah St., Bateen area, Abu Dhabi, UAE-.

At the end of 2015, the average headcount of the Company was 4,083 persons, up 50 persons year on year. The increase in the headcount was due to organizational and staff changes aimed at increase in the efficiency of business processes: the Company implemented the unified supply system, segregated the functions of the customer and provider of oilfield services, and reorganized its occupational health and safety system and capital construction management system.

## 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 2015 reporting year were prepared in accordance with the Law and Accounting Statements.

## 3. CHANGES IN OPENING BALANCES IN THE FINANCIAL STATEMENTS FOR THE 2015 REPORTING YEAR

To ensure the comparability of financial statements, the adjustment of opening balances was reflected in line with the changes in the accounting policy:

11. Expenditures for conducting 3D and 4D seismic surveys in support of the production drilling at commercially recoverable oil and gas fields, are capitalized (previously included in oil and gas reserves exploration and estimation expenses).
  12. Costs related to exploration and appraisal off-shore drilling, and work-in-progress are capitalized (previously included in oil and gas reserves exploration and estimation expenses).
  13. Oil and gas reserves exploration and estimation expenses are considered in calculating gross income (costs were transferred from line 2230 to line 2130 in the income statement). This adjustment is a change in the presentation of information and has no impact on the financial result.
  14. Translation differences arising on the translation of foreign currency denominated assets and liabilities are recognized in the income statement on a net basis in line 2340, Other income, or line 2350, Other expenses, (previously included on a gross basis: positive translation differences were included in other income, negative translation differences - in other expenses). This adjustment is a change in the presentation of information about the amount of income and expenses and has no impact on the financial result.
  15. Interest payments related to swap transactions were recognized on a net basis for 2014 based on the applied method on netting of interest payments related to swap transactions in 2015. This adjustment is a change in the presentation of information about the amount of income and expenses and has no impact on the financial result.
- The Company also adopted the following changes in the accounting policy and the key changes in estimates which did not result in a retrospective restatement of comparable indicators:
- Line 2220, *Administrative expenses*, was changed to *General and administrative expenses*, in the income statement.
  - The procedure for accounting and reporting the property tax was changed: starting 1 January 2015, the property tax is allocated to expense accounts (Cost of sales, General and administrative expenses, Commercial costs, Other expenses) in accordance with appropriate property designation.

Table 1 Changes in the opening balances of the balance sheet (kRUB)

Item Date	LLine	As previously reported	As currently reported	Changes	Reason
<b>ASSETS</b>					
<b>Intangible assets</b>					
At 31 December 2013	1110	9,586,295	9,646,678	60,383	According to changes in the accounting policies, (1) expenditures for conducting 3D and 4D seismic surveys in support of the development at commercially recoverable oil and gas fields, in progress as of 31 December of prior reporting periods are capitalized.
At 31 December 2014	1110	19,823,242	20,276,532	453,290	
<b>Tangible exploration assets</b>					
At 31 December 2013	1140	5,558,235	5,582,686	24,451	According to changes in the accounting policies, (2) costs related to exploration and appraisal off-shore drilling, and works in progress as of 31 December of prior reporting periods are capitalized.
At 31 December 2014	1140	9,944,290	10,015,844	71,554	
<b>Deferred tax assets</b>					
At 31 December 2013	1180	16,025,030	16,008,063	(16,967)	Deferred tax assets are adjusted in accordance with changes in the accounting policies, related to (1) capitalization of expenditures for conducting 3D and 4D seismic surveys and (2) costs related to exploration and appraisal off-shore drilling.
At 31 December 2014	1180	73,628,448	73,523,479	(104,969)	
<b>BALANCE</b>					
At 31 December 2013	1600	4,984,766,143	4,984,834,010	67,867	
At 31 December 2014	1600	7,787,726,949	7,788,146,824	419,875	
<b>LIABILITIES</b>					
<b>Retained earnings (uncovered loss)</b>					
At 31 December 2013	1370	1,274,971,376	1,275,039,243	67,867	Effect of changes in the accounting policies (1) and (2) subject to deferred taxes recalculation.
At 31 December 2014	1370	1,640,125,129	1,640,545,004	419,875	
<b>BALANCE</b>					
At 31 December 2013	1700	4,984,766,143	4,984,834,010	67,867	
At 31 December 2014	1700	7,787,726,949	7,788,146,824	419,875	

Table 2 Changes in the income statement (kRUB)

Description	Line	As previously reported for 2014	Changes	As currently reported for 2014	Reason
Oil and gas reserves exploration and estimation expenses	2130	-	(15,103,523)	(15,103,523)	According to changes in the accounting policies, (3) oil and gas reserves exploration and estimation expenses are considered in calculating gross income (costs were transferred from line 2230 to line 2130 in the income statement). According to changes in the accounting policies related to (1) capitalization of expenditures for conducting 3D and 4D seismic surveys and (2) costs related to exploration and appraisal off-shore drilling.
Gross income (loss)	2100	1,848,436,820	(15,103,523)	1,833,333,297	
Oil and gas reserves exploration and estimation expenses	2230	(15,543,533)	15,543,533	-	
Operating income (loss)	2200	155,445,050	440,010	155,885,060	

Description	Line	As previously reported for 2014	Changes	As currently reported for 2014	Reason
Interest receivable	2320	66,169,534	(1,302,665)	64,866,869	(5) Adjustment of interest payments related to swap transactions for 2014 recorded on a net basis, based on the applied method of netting interest payments on swap transactions in 2015.
Interest payable	2330	(130,954,202)	1,302,665	(129,651,537)	
Other income	2340	1,258,575,874	(1,095,887,151)	162,688,723	(4) Translation differences arising on the translation of foreign currency denominated assets and liabilities are recognized in the income statement on a net basis in line 2340, Other income, or line 2350, Other expenses.
Other expenses	2350	(1,223,215,634)	1,095,887,151	(127,328,483)	
Income (loss) before tax	2300	505,933,181	440,010	506,373,191	
Change in deferred tax assets	2450	57,603,418	(88,002)	57,515,416	Deferred tax assets are adjusted in accordance with changes in the accounting policies, related to (1) capitalization of expenditures for conducting 3D and 4D seismic surveys and (2) costs related to exploration and appraisal off-shore drilling.
Net income (loss)	2400	501,324,290	352,008	501,676,298	
Comprehensive financial result for the period	2500	103,198,694	352,008	103,550,702	
Basic earnings (loss) per share, RUB per share	2900	47.30	0.04	47.34	

Corrections were made to the Explanatory Notes to the balance sheet and the income statement for the 2015 reporting year in line with the above information to ensure data comparability.

#### 4. INFORMATION ABOUT THE ACCOUNTING POLICY

The Company developed its accounting policy in accordance with the principles established by Accounting Statement 1/2008, Accounting Policies of an Organization, approved by 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 2015 are reflected below in the respective Explanatory Notes to the balance sheet and the income statement for the 2015 reporting year.

The Company does not intend to make any significant changes to its 2016 accounting policies as of the date of signing these Explanatory notes.

#### 5. FIXED ASSETS AND CAPITAL CONSTRUCTION IN PROGRESS

Assets intended for use in the manufacturing of products, performance of work and provision of services, or for administrative needs over their useful lives of more than 12 months are accounted for as fixed assets.

Fixed assets include buildings, structures, machinery, equipment, measuring and control instruments and devices, computers, vehicles, tools, fixtures and fittings, etc. Fixed assets also include land plots and natural resources. The Russian Classifier of Fixed Assets approved by 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 507,946 million and RUB 512,950 million, respectively.

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 3 Information on fixed assets (kRUB)

Group of fixed assets	Period	At the beginning of the period		Changes for the period				At the end of the period	
		Historical cost	Accumulated depreciation	Additions	Disposals		Depreciation charge	Historical cost	Accumulated depreciation
					Historical cost	Accumulated depreciation			
Total fixed assets	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
	2014	874,486,715	343,558,938	143,707,458	956,509	577,492	102,324,065	1,017,237,664	445,305,511

Group of fixed assets	Period	At the beginning of the period		Changes for the period				At the end of the period	
		Historical cost	Accumulated depreciation	Additions	Disposals		Depreciation charge	Historical cost	Accumulated depreciation
					Historical cost	Accumulated depreciation			
Buildings and structures	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
	2014	734,512,530	289,563,944	127,717,729	715,461	400,182	83,749,189	861,514,798	372,912,951
Machinery, equipment, vehicles	2015	151,679,986	71,108,447	8,918,497	232,965	182,795	17,753,395	160,365,518	88,679,047
	2014	135,954,971	53,001,709	15,951,835	226,820	164,069	18,270,807	151,679,986	71,108,447
Total other fixed assets	2015	4,042,880	1,284,113	187,191	74,209	70,713	233,260	4,155,862	1,446,660
	2014	4,019,214	993,285	37,894	14,228	13,241	304,069	4,042,880	1,284,113
Including fixed assets that are not depreciated	2015	2,328,789	-	-	720	-	-	2,328,069	-
	2014	2,323,857	-	5,062	130	-	-	2,328,789	-

The historical cost of fixed assets as of 31 December 2015 amounted to RUB 1,128,693 million. It increased in comparison with 2014, as new assets were put into operation. Fixed assets that were put into operation amount to RUB 113,553 million.

Table 4 Information on fixed assets requiring state registration (kRUB)

	At 31 December 2015	At 31 December 2014	At 31 December 2013
Fixed assets whose title has not yet been registered	252,799,313	260,170,117	248,126,006
Including fixed assets whose registration documents have not yet been accepted by the state authorities	251,518,608	253,970,461	245,392,407

Table 5 Information on the use of fixed assets (kRUB)

Groups of fixed assets	At 31 December 2015	At 31 December 2014	At 31 December 2013
Total assets leased out (historical cost), including	1,033,294,250	917,937,906	757,457,095
Buildings	45,422,791	42,441,273	34,561,052
Structures	838,692,221	737,371,853	610,020,301
Mothballed fixed assets (historical cost)	29,629,845	21,745,044	21,035,314
Total fixed assets leased (contract or cadastral value), including	62,186,922	53,019,747	55,171,387
Land plots	55,319,378	48,571,323	49,619,737
Other fixed assets	6,867,544	4,448,424	5,551,650
Change in the value of fixed assets as a result of supplementary construction, retrofitting, refurbishment, or partial liquidation	18,466,682	16,305,272	15,451,296

Table 6 Information on capital investments in progress (kRUB)

Capital investments in progress by type of asset	At 31 December 2015	At 31 December 2014	At 31 December 2013
Equipment for installation	19,318,500	23,631,453	16,523,231
Construction in progress, including	405,039,886	347,192,735	279,910,164
Advances issued for construction, acquisition, manufacturing of fixed assets (net of VAT)	48,125,961	60,878,375	53,526,109
Other assets	11,913,830	14,067,792	10,657,693
<b>Total</b>	<b>436,272,216</b>	<b>384,891,980</b>	<b>307,091,088</b>

In 2015, the value of work performed under capital construction projects amounted to RUB 178,976 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 4,287 million (net of VAT).

Advances issued for construction, acquisition and manufacturing of fixed assets include the share of advances paid to purchase fixed assets with a value of up to RUB 40,000 per unit included in inventories. It is impossible to determine the final value of assets before the completion of the work performed to render them fit for use. Therefore, as of the reporting date, advances for acquisition are recognized within capital expenditures.

## 6. INTANGIBLE ASSETS

Intangible assets include:

- Exclusive right of a patent holder to an invention, industrial design or utility model
- Exclusive right to computer software and databases
- Exclusive right to integrated circuit topologies
- Exclusive right to a trademark, service mark, or appellation of origin
- Exclusive right to selection achievements
- Exclusive right to trade secrets (know-how)
- Oil and gas production licenses
- Exclusive subsoil use rights when entering into international agreements that give the right to implement oil and gas exploration and production projects in a foreign jurisdiction or in the Russian Federation (licenses, concession agreements, subsoil use contracts, agreements on the provision of a participating interest, etc.)
- Geological exploration and production licenses (mixed licenses), provided that the production of mineral resources in the license area is commercially viable; such licenses are accounted for in the same way as costs arising in connection with the exploration and appraisal of fields until it is confirmed that production is commercially viable
- Other mineral licenses (for the construction of underground gas storage facilities, the production of conventional mineral resources and the abstraction of underground water)
- Deliverables of 3D and 4D seismic surveys (including designing, field works, supervising, processing, interpretation, lease of forest plot) in support of the development at commercially recoverable oil and gas fields
- Information received as the result of drilling the offshore appraisal and exploration wells abandoned as successful due to technological reasons at commercially recoverable fields
- Digital and electronic maps, as well as other spatial data
- Complex items comprising several protected intellectual properties (including those combining exclusive and non-exclusive rights):
  - Multimedia product
  - Audiovisual works (cinematic works or works involving media similar to those used in cinema (TV movies, videos, etc.))
  - Website, etc.
- Other intangible assets

Geological exploration and production licenses (mixed licenses) are accounted for in the same way as costs arising in connection with the exploration and appraisal of fields until it is confirmed that production is commercially viable.

Intangible assets are recognized at their actual (historical) cost determined in accordance with Accounting Statement 14/2007, Intangible Assets, approved by Order No. 153n of the Russian Ministry of Finance dated 27 December 2007.

When an intangible asset is created in-house, the related costs are to be capitalized beginning from the development stage, i. e. when the Company can demonstrate:

- The technical feasibility of creating the intangible asset
- Its intention and ability to create the intangible asset and use it
- How the intangible asset will generate probable economic benefits
- The availability of sufficient technical, financial and other resources to complete development and use the intangible asset
- Ability to reliably estimate costs related to the intangible asset during its development

Costs incurred at the research stage are not capitalized and are treated as either expenses relating to ordinary activities or other expenses, depending on the purpose of research.

Intangible assets created in-house mean:

- Intangible assets created by the Company's employees when performing their job duties
- Intangible assets resulting from the work performed by contractors under contracts that carry the risks of negative results for the Company

The Company created the following intangible assets in the reporting period:

- Exclusive right to computer software and databases with a historical cost of kRUB 264,759
- Patents with a historical cost of kRUB 535,646
- Multimedia products with a historical cost of kRUB 12,914
- Digital forest management maps with a historical cost of kRUB 92,644

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 5 years
Oil and gas production licenses *	9 to 106 years
Geological exploration and production licenses (mixed license) *	15 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)	5 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 7 Information on intangible assets (kRUB)

Groups of intangible asset	Period	At the beginning of the period		Changes for the period				At the end of the period	
		Historical cost	Accumulated amortization	Additions	Disposals		Amortization charge	Historical cost	Accumulated amortization
					Historical cost	Accumulated amortization			
Total intangible assets:	2015	20,512,505	1,116,129	1,201,432	44,388	44,348	1,258,972	21,669,549	2,330,753
	2014	9,960,078	825,988	10,611,033	58,606	58,605	348,746	20,512,505	1,116,129
Trademarks	2015	7,917	4,283	2,907	-	-	1,171	10,824	5,454
	2014	7,823	3,363	94	-	-	920	7,917	4,283
Patents	2015	37,404	6,298	535,646	-	-	13,065	573,050	19,363
	2014	27,919	4,041	9,485	-	-	2,257	37,404	6,298
Exclusive rights to computer software and databases	2015	922,023	814,063	264,759	42,099	42,099	185,029	1,144,683	956,993
	2014	834,491	605,968	87,532	-	-	208,095	922,023	814,063



Groups of intangible asset	Period	At the beginning of the period		Changes for the period				At the end of the period	
		Historical cost	Accumulated amortization	Additions	Disposals		Amortization charge	Historical cost	Accumulated amortization
					Historical cost	Accumulated amortization			
Oil and gas production licenses (including mixed exploration and production licenses issued after commercial viability is confirmed)	2015	19,469,444	237,644	238,716	74	34	986,390	19,708,086	1,224,000
	2014	8,982,015	123,625	10,487,431	2	1	114,020	19,469,444	237,644
Other licenses	2015	810	475	-	3	3	33	807	505
	2014	792	435	18	-	-	40	810	475
Information received as the result of drilling the offshore appraisal and exploration wells abandoned as successful due to technological reasons	2015	-	-	38,482	-	-	122	38,482	122
	2014	-	-	-	-	-	-	-	-
Other intangible assets	2015	74,907	53,366	120,922	2,212	2,212	73,162	193,617	124,316
	2014	107,038	88,556	26,473	58,604	58,604	23,414	74,907	53,366

Table 8 Information on intangible assets created by the Company (kRUB)

Historical cost by group of intangible assets	At 31 December 2015	At 31 December 2014	At 31 December 2013
Total, including	1,904,958	1,027,942	963,056
Patents	566,658	31,012	21,527
Exclusive rights to computer software and databases	1,144,683	922,023	834,491
Other	193,617	74,907	107,038

Table 9 Information on investments in progress made to create intangible assets (kRUB)

Investments in progress	At 31 December 2015	At 31 December 2014	At 31 December 2013
Total investments in the creation of individual intangible assets, including by types:	1,594,961	880,156	512,588
Trademarks	19,751	1,043	2,079
Patents	1,010	321	51
Exclusive rights to computer software and databases	734,256	387,902	428,795
3D and 4D seismic surveys	829,705	453,290	60,383
Other intangible assets	10,239	37,600	21,280

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 10 Information on intangible assets received by the Company for use (kRUB)

Cost by group of intangible assets	At 31 December 2015	At 31 December 2014	At 31 December 2013
Total, including	5,789,962	9,144,588	7,487,854
Non-exclusive rights to software programs, rights of access to information resources, trademarks with Olympic symbols	5,789,962	9,144,588	7,487,854

Table 11 Information on fully amortized intangible assets (kRUB)

Intangible assets	At 31 December 2015	At 31 December 2014	At 31 December 2013
Total, including	971,283	637,822	131,334
Trademarks	26	26	26
Patents	243	243	5
Exclusive rights to computer software and databases	918,537	598,680	93,608
Oil and gas production licenses	854	164	29
Other licenses	64	64	21
Other	51,559	38,645	37,645

## 7. 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 appraisal/exploration drilling
- 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 at the reporting date, the Company annually tests exploration assets for any indication of impairment when making the decision on the commercial viability of oil and gas production in 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 the 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 appraisal/exploration drilling, 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 12. Information on exploration assets (kRUB)

Groups of licenses	Period	At the beginning of the period		Changes in cost over the period		At the end of the period	
		Cost	Accumulated impairment losses	Additions	Disposals	Cost	Accumulated impairment losses
Tangible exploration assets	2015	10,087,080	71,236	14,665,097	13,414,046	11,338,131	-
	2014	5,582,686	-	29,655,070	25,150,676	10,087,080	71,236
Intangible exploration assets, including	2015	64,928,636	197	12,564,944	14,799	77,478,781	2,828,345
	2014	40,210,659	3,753,397	33,224,409	8,506,432	64,928,636	197
License to use subsurface resources with the right of extraction	2015	42,337,678	44	770,053	44	43,107,687	2,828,153
	2014	40,208,491	3,753,151	10,625,012	8,495,825	42,337,678	44
License to use subsurface resources without the right of extraction	2015	320	153	38	9	349	192
	2014	431	246	12	123	320	153
Information on the results of drilling of successfully liquidates appraisal/exploration wells	2015	22,582,574	-	10,601,808	-	33,184,382	-
	2014	-	-	22,582,574	-	22,582,574	-
Costs related to acquiring of mineral rights for oil and gas reserves	2015	8,064	-	1,193,045	14,746	1,186,363	-
	2014	1,737	-	16,811	10,484	8,064	-

Increase in intangible exploration assets in 2015 was mainly due to the information received as a result of offshore appraisal/exploration drilling in the amount of RUB 10,602 million.

As of the reporting date in 2015, impairment of intangible exploration assets amounted to RUB 2,828 million.

The disposal of tangible exploration assets in 2015 was mainly due to the transfer of the value of Universitetskaya 1, an appraisal well in the Kara Sea abandoned as successful, totaling RUB 10,602 million to intangible exploration assets and expensed costs related to the construction of appraisal/exploration wells which did not produce oil flow (dry wells) totaling RUB 1,396 million, and due to putting into operation of fixed assets totaling RUB 1,340 million.

## 8. RESEARCH AND DEVELOPMENT RESULTS

Research and development results include costs incurred during the stage of development of R&D work in progress (recorded as investments in non-current assets) and completed (recognized as intangible assets/R&D).

The Company's costs are recognized in the accounts as R&D in progress if all of the following conditions are met:

- R&D contracts indicate that in the course of work new scientific knowledge is expected to be produced and/or used (information which is unknown, given the current level of technology)
- It is assumed that the positive result of R&D activities will create an opportunity for future economic benefits
- It is assumed that the positive completion of R&D activities will make it possible to demonstrate the use of its results in production for management requirements
- The amount of expenses can be defined and confirmed

When R&D projects are developed in-house, the related costs are capitalized from the beginning of the project stage if the Company is able to demonstrate:

- The technical feasibility of developing such R&D projects
- Its intention and ability to develop and use an R&D project
- How the R&D project is likely to generate economic benefits
- The availability of sufficient technical, financial and other resources to complete the development of and use the R&D projects
- The ability to reliably measure costs related to the development of the R&D project
- R&D projects developed in-house include:
- R&D projects developed by Company employees in the course of performing their job duties
- R&D projects resulting from contractor work under contracts in respect of which the Company bears the risk of negative results

R&D costs incurred at the research stage are not capitalized and are recognized as expenses relating to ordinary activities or other expenses depending on the purpose of the research. R&D costs are written off to expenses relating to ordinary activities on the first day of the month following the month in which the actual use of the obtained results began.

Upon the completion of R&D activities, in the event of a positive result, the costs related to R&D in progress form the value of R&D project. In the event of a negative result, R&D costs are written off to other expenses.

The R&D project value is written off on a monthly basis using the straight-line method in the amount of 1/12 of the annual amount.

In the event that the use of an R&D project is suspended, the related costs in the form of a monthly write-off amount are to be recognized as other expenses during the period for which the use of the R&D project has been suspended.

Where the Company early terminates using the results of R&D activities in accordance with Order «On writing off R&D expenses», R&D expenses are taken to other expenses.

The write-off period for R&D costs is determined by the Company based on the expected period of use of the results from these activities. This period may not exceed 5 years.

This period for most significant R&D deliverables is as follows:

- Technology for development of tight Turonian gas deposits — 5 years
- Technology for development of extra-heavy crude oil fields — 5 years

Table 13. R&D results profile (kRUB)

R&D description	Period	At the beginning of the period		Change over the reporting period			At the end of the period	
		Historical cost	Part of the value written off to expenses	Additions	Disposals	Part of the value written off to expenses	Historical cost	Part of the value written off to expenses
R&D	2015	201,031	631	221,453	158,959	19,416	263,525	19,206
	2014	18,250	2,802	196,353	13,572	1,934	201,031	631

Changes in R&D project value written-off in the amount of kRUB 841 in 2015 and kRUB 4,105 in 2014 were made in the course of reclassifying R&D projects to intangible assets at net book value upon receipt of protection documents.

Table 15 R&D in progress and pending registration (kRUB)

R&D description	Period	At the beginning of the period	Change over the reporting period			At the end of the period
			Costs for the period	Costs expensed as unsuccessful	Recognized as intangible assets, R&D or fixed assets	
Costs of R&D in progress	2015	2,394,682	807,390	-	931,649	2,270,423
	2014	1,936,623	1,242,119	-	784,060	2,394,682

## 9. OTHER NON-CURRENT ASSETS

Other non-current assets include assets which are assumed to produce economic benefits over a period exceeding 12 months. This line includes 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 15. Information on other non-current assets (kRUB)

Other non-current assets by type	At 31 December 2015	At 31 December 2014	At 31 December 2013
Deferred expenses with the write-off period exceeding 12 months - total	4,234,168	3,016,936	2,921,159
including:			
Software	3,627,501	2,594,189	1,599,324
Rights to use Olympic symbols	211,374	422,747	1,321,835
Catalyzes	395,293	-	-
ARO asset	30,329,710	35,163,938	42,056,317
Additional borrowing costs (long-term)	115,163	140,113	-
Total	34,679,041	38,320,987	44,977,476

## 10. RESERVES, VALUE ADDED TAX, EXCISES ON SELF-PRODUCED PETROLEUM PRODUCTS

Inventories are accounted for at their actual cost calculated based on the amount of actual acquisition/production costs, net of value added tax and other recoverable taxes (except in instances stipulated by Russian law).

Upon disposal, inventories are depreciated using the following methods:

- Oil, construction materials, equipment, spare parts, fuel, packaging, fixtures and fittings, instruments and tools, other inventories – by the cost of every inventory unit (inventory unit is a consignment)
- Oil products – by the average cost of production broken down by refinery
- Self-produced semi-finished products – by the average cost of production broken down by refinery
- Self-produced oil and gas – by the average cost of production broken down by operator

Special protective clothes handed over for use are accounted for as materials. The value of special protective clothes with the service life of more than 12 months is depreciated using the straight-line method over the specified period of its use. The value of special protective clothes with the service life of less than 12 months is written off when the clothes are handed over for use.

Materials, fuel, spare parts and other material resources are recorded at their actual acquisition cost.

Work in progress and finished products are recorded at their actual cost; goods are recorded at their acquisition cost.

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 16 Information on the VAT and excise duties (kRUB)

Tax	At 31 December 2015	At 31 December 2014
Input value added tax claimed	44,205,770	56,191,201
Excise duty assessed upon accounting for straight-run gasoline, benzene, orthoxylene, paraxylene	7,239,296	-

Table 17. Information on inventories (kRUB)

Inventories by type	At 31 December 2015		At 31 December 2014		At 31 December 2013	
	Cost	Allowance for impairment	Cost	Allowance for impairment	Cost	Allowance for impairment
Total	107,241,362	[34,102]	114,473,644	[59,489]	96,045,041	[61,341]
Raw materials	12,005,826	[10,195]	12,906,302	[14,964]	11,670,020	[26,938]
Costs related to work in progress	9,536,322	x	7,555,253	x	7,104,345	x
Finished products and goods	85,699,214	[23,907]	94,012,089	[44,525]	76,902,044	[34,403]
Deferred expenses	-	-	-	-	368,632	-

A decrease in the value of inventories is due to higher volumes of inventories forwarded to production and shipped to buyers. In 2013-2015, inventories were not pledged.

Table 18. Information on the movements of inventories and allowances for their impairment in the reporting period (kRUB)

Inventories by type	Book value of inventories *		Movements in allowance			Uncovered loss on impairment of inventories
	Additions	Disposals	Allowance accrued in the reporting period	Allowance reversed due to disposal of inventories	Allowance write-off	
Total	7,478,939,337	7,486,171,619	7,756	10,565	22,578	-
Raw materials	1,074,329,046	1,075,229,522	2,433	7,201	1	-
Costs related to work in progress	2,445,989,889	2,444,008,820	x	x	x	x
Finished products and goods	3,958,620,402	3,966,933,277	5,323	3,364	22,577	-

\* Cost values are presented subject to transfer of inventories by types upon change of their allocation and repeated involvement in production

## 11. 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 2015, the allowance for impairment of financial investments amounts to RUB 25,296 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.

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).

Table 19 Information on financial investments (kRUB)

Financial investments by type	At 31 December 2015	At 31 December 2014	At 31 December 2013
Total	5,583,419,550	4,461,731,648	2,827,533,480
Long-term investments - total	3,945,699,651	3,816,440,204	2,401,568,509
Units and shares	2,491,390,235	2,395,855,245	2,058,883,618
Long-term loans issued	1,184,279,012	1,248,105,908	262,082,376
Other long-term financial investments	270,030,404	172,479,051	80,602,515
Short-term investments - total	1,637,719,899	645,291,444	425,964,971
Short-term loans issued	702,770,801	65,310,081	251,626,492
Deposits	686,478,240	501,028,860	129,304,982
Promissory notes and bonds received	81,084,602	17,829,983	24,183,850
Accounts receivable acquired under the assignment agreements	72,043	87,782	89,481
Other short-term financial investments	167,314,213	61,034,738	20,760,166

The change in the 2015 long-term financial investments from RUB 3,816,440 million to RUB 3,945,700 million was mainly due to the increase in investments in share capitals of subsidiaries in the amount of RUB 153,340 million and reclassification of the investment units in the amount of RUB 58,340 million to short-term investments; decrease in loans issued in the amount of RUB 63,827 million, including due to issue and debt reclassification; change in other financial investment in the amount of RUB 97,551 million mainly due to placement of long-term deposits.

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 2015) of long-term financial investments whose market value can be determined is RUB 388 million (income). The amount of income was taken to the financial result and recorded as other income.

The change in the 2015 short-term financial investments from RUB 645,291 million to RUB 1,637,720 million was mainly due to the reclassification of loans in the amount of RUB 631,872 million from long-term debt; increase in placement of short-term deposits in the amount of RUB 185,449 million; and increase in investments in promissory notes and other short-term investments.

Table 20. The list of subsidiaries and associates

No.	Name of the entity	Actual value of a financial investment at 31 December 2015 [kRUB]	Company's interest	
			Interest in share capital (%)	Percentage of voting shares (%)
OIL PRODUCING ENTITIES				
1	LLC RN-Severnaya Neft	6,249,936	100.00	
2	LLC RN-Yuganskneftegaz	14,166,170	100.00	
3	LLC RN-Krasnodarneftegaz	2,976,488	100.00	
4	LLC RN-Purneftegaz	8,527,192	100.00	
5	LLC RN-Stavropolneftegaz	3,355,057	100.00	
6	LLC RN-Sakhalinmorneftegaz	2,879,435	100.00	
7	JSC Vankorneft	18,082,633	100.00	100.00
8	PJSC Rosneft-Dagneft	368,085	68.70	91.60
9	PJSC Grozneftegaz	43	51.00	51.00
10	JSC RN Ingushneft	51	51.00	51.00
11	LLC NGK ITERA	251,337,010	99.999982	
12	JSC Dagneftegaz	131,832	40.00	40.00
13	PJSC VCNG	7,480,493	25.94	25.94

No.	Name of the entity	Actual value of a financial investment at 31 December 2015 (kRUB)	Company's interest	
			Interest in share capital (%)	Percentage of voting shares (%)
14	PETROVICTORIA S. A.	15,903,920	40.00	
	<b>REFINERIES</b>			
15	LLC RN-Tuapse Refinery	279,447	100.00	
16	LLC RN-Komsomolsk Refinery	573,357	100.00	
17	JSC VNHK	576,384	100.00	100.00
18	PJSC NK Rosneft - MZ Nefteprodukt	108,102	65.42	65.42
	<b>OIL PRODUCT SUPPLY ENTITIES</b>			
19	LLC RN-Nakhodkanefteprodukt	1,050,611	100.00	
20	LLC RN-Arkhangelsknefteprodukt	546,456	100.00	
21	LLC RN-Tuapsenefteprodukt	2,028,708	100.00	
22	LLC RN-VNP	97,910	100.00	
23	JSC NK Rosneft-Stavropolye	238,201	100.00	100.00
24	LLC RN-Bunker	10	100.00	
25	LLC RN-Krasnoyarsknefteprodukt	10	100.00	
26	LLC RN-Novosibirsknefteprodukt	20	100.00	
27	LLC RN-Chechennefteprodukt	10	100.00	
28	LLC RN-Ekaterinburgnefteprodukt	10	100.00	
29	LLC RN-Chelyabinsknefteprodukt	10	100.00	
30	LLC RN-Ingushnefteprodukt	100	100.00	
31	LLC RN-Aero	240,010	100.00	
32	LLC RN-Trade	480,010	99.9999	
33	PJSC NK Rosneft-Kubannefteprodukt	612,569	89.50	96.61
34	PJSC NK Rosneft - Kabardino-Balkarskaya Fuel Company	1,044,977	99.81	99.81
35	PJSC NK Rosneft-Kurgannefteprodukt	113,043	83.32	90.33
36	PJSC NK Rosneft - Karachaevo-Cherkessknefteprodukt	57,161	85.99	85.99
37	PJSC NK Rosneft-Smolensknefteprodukt	190,953	66.67	86.97
38	PJSC NK Rosneft-Altaynefteprodukt	51,260	64.18	64.18
39	PJSC NK Rosneft-Yamalnefteprodukt	48,622	49.52	49.52
40	PJSC NK Rosneft-Murmansknefteprodukt	6,676	45.38	60.51
41	JSC NK Rosneft-ARTAG	30	38.00	50.67
42	LLC RN-Abkhazia	47	51.00	
43	LLC Yu-Kuban	9,215	49.00	
	<b>OTHER ENTITIES</b>			
	<b>Holdings</b>			
44	Rosneft Limited	1,707,564,188	100.00	100.00
45	Rosneft Industrial Holdings Limited	464	22.90	
46	LLC RN-Pererabotka	10	100.00	
47	LLC RN-Aktiv	24,153,386	99.9996	
48	LLC RN-Kommerciya	4,520	100.00	
49	LLC RN-Resource	1,500	99.99	
50	LLC RN-Razvedka i dobycha	122,691,408	99.99992	
51	LLC RN-Gaz	804,054	99.9934	
	<b>Sakhalin projects group</b>			
52	JSC RN-Shelf-Dal'niy Vostok	32,124	100.00	100.00
53	LLC West Kamchatka Holding B.V.	3,040	60.00	60.00
54	JSC RN-Astra	10	100.00	100.00
55	LLC RN-Shelf-Arktika	4,950	99.00	
56	JSC Rosneft-Sakhalin	110	55.00	55.00
	<b>Foreign Projects Division</b>			
57	LLC RN-Foreign Projects	32,361,878	100.00	
58	LLC RN-Foreign Investments	685,000	100.00	
59	LLC RN-Exploration	28,099	99.996	
60	LLC Rosneft Shell Caspian Ventures Ltd	316	51.00	51.00
61	LLC NPC	18,037,889	60.00	
	<b>Servicing entities</b>			
62	LLC RN-Burenie	25,152,767	100.00	
63	LLC RN-Service	5,693,422	50.60	
64	CJSC RN-Energoneft	20	100	100
65	LLC RN-Pozharnaya bezopasnost	203,461	100.00	
66	LLC Dubininskoye	26,015,000	100.00	
67	JSC RN-Mamontovo	9,952,145	100.00	100.00
68	LLC RN-Inform	10	100.00	
69	LLC RN-Uchet	10	100.00	



No.	Name of the entity	Actual value of a financial investment at 31 December 2015 (kRUB)	Company's interest	
			Interest in share capital (%)	Percentage of voting shares (%)
70	OJSC Purnefteotdacha	309	61.54	61.54
71	LLC PSC RN-Okhrana	32,021	99.98	
72	LLC KNPZ-Service	30	100.00	
73	LLC RN-Vedomstvennaya Okhrana	60,000	100.00	
<b>Financial institutions</b>				
74	JSC RRDB	2,758,375	84.67	84.67
<b>Scientific entities</b>				
75	LLC Arctic Scientific Center	300,000	66.67	
76	LLC RN-SakhalinNIPImorneft	33,799	100.00	
77	LLC RN-UfaNIPIneft	77,010	100.00	
78	LLC NK Rosneft-NTC	4,825,480	100.00	
79	LLC RN-KrasnoyarskNIPIneft	10	100.00	
<b>Logistics and transportation</b>				
80	LLC Rosneft-Mongolia	76,134	100.00	
81	JSC RN-Trans	8,902,080	100.00	100.00
82	LLC Vostok Asia Transit	2,294	66	
83	JSC Rosnefteflot	352,612	100.00	100.00
84	LLC TK-BA	374,337	33.33	
<b>Other entities</b>				
85	JSC Sakhalinmorneftegaz-Shelf	3,750	100.00	100.00
86	LLC YUKOS CIS Investment	28,787	100.00	
87	LLC RN-Shelf of Abkhazia	96	100.00	
88	JSC Okhinskaya TETS	1,288,499	81.99	81.99
89	LLC Vostok-Energy	56,100	51.00	
90	LLC Pursatkom	1,742	49.00	
91	CJSC Rosshelf	248,326	26.42	26.42
92	CJSC Neftyanoe Khozaistvo Publishing House	4	25.00	25.00
93	CJSC Ros&Neft	12	25.00	25.00
94	LLC Neftyanik Kubani Health Resort	3,670,467	96.20	
<b>Liquidation and bankruptcy</b>				
95	LLC RN-Stroy	192,310	100.00	
<b>Total:</b>		<b>2,336,486,629</b>		

Table 21 Key operations related to the acquisition and disposal of long-term financial investments (kRUB)

List of financial investments	Actual value of a financial investment at the date of acquisition or disposal	Interest, %
<b>Created (formed) financial investments</b>	<b>61,500</b>	
LLC RN-Vedomstvennaya Okhrana	60,000	100.00
LLC RN-Resource	1,500	99.99
<b>Financial investments disposed of due to sale or repayment</b>	<b>312,420</b>	
LLC Okhabank	23,489	33.40
LLC Polyarnoye Siyanie Company	288,931	50.00
<b>Financial investments disposed of due to their write-off</b>	<b>40</b>	
LLC Komsomolskneftezavodremstroj	30	100.00
CJSC Sakhalinmorneftegaz-AMK	10	100.00

In 2015, changes mainly occurred in the following interests and investments:

- LLC RN-Razvedka i dobycha - increase in actual investments by RUB 109,524 million, increase in ownership interest from 99.9999248117% to 99.9999248123%
- LLC RN-Burenie - increase in actual investments by RUB 20,541 million, the interest remained unchanged at 100%
- LLC RN-Aktiv - increase in actual investments by RUB 11,728 million, the interest remained unchanged at 99.9996%
- LLC RN-Foreign Projects - increase in actual investments by RUB 10,010 million, the interest remained unchanged at 100%
- LLC NPC - increase in actual investments by RUB 936 million, the interest remained unchanged at 60%
- LLC RN-Gaz - increase in actual investments by RUB 539 million due to increase in the share capital and increase in interest to 99.9934% resulted from acquisition of 14.1219% interest
- JSC Rosnefteflot - as a result of acquisition of 49 shares, actual investments increased by RUB 346.4 million and direct ownership interest of Rosneft Oil Company increased from 51% to 100%
- LLC RN-Novosibirsknefteprodukt - increase in actual investments by RUB 0.01 million due to reorganization of LLC RN-Kemerovonefteprodukt through merger with LLC RN-Novosibirsknefteprodukt, the interest remained unchanged at 100%
- etc.

Table 22. Information on long-term and short-term loans issued (kRUB)

Loans issued	Balance at 31 December 2014	Loans issued	Loans collected	Reclassified due to changes in the maturity period	Balance at 31 December 2015
Total, including	1,313,415,989	752,834,742	179,200,918	-	1,887,049,813
Long-term loans issued	1,248,105,908	699,959,861	131,914,405	[631,872,352]	1,184,279,012
Short-term loans issued	65,310,081	52,874,881	47,286,513	631,872,352	702,770,801

## 12. DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Derivatives are financial instruments that simultaneously meet the following criteria:

- The value of a financial instrument is changed in line with the changes in the applied interest rate, security rate, price of goods, foreign currency exchange rate, price or interest rate index, credit rating or credit index or other «basic» variables
- The acquisition of a financial instrument does not require any investments or requires initial net investments but in amounts lower than for other instruments, the price of which has a similar response to market factor changes; and other types of contracts that are expected to have a similar response to market factor changes
- Financial instrument calculations are performed subsequently

In managing foreign currency and interest rate risks, the Company entered into cross currency and interest rate swaps and forward exchange transactions to sell US dollars that help match the currency of revenue and the currency of liabilities, and reduce absolute interest rates for the debt financing raised.

Derivative financial instruments are measured at fair value.

The method for determining the fair value of transactions is based on the assessment of the present discounted value of future cash flows using the consensus projections of foreign exchange rates. The consensus projections comprise forecasts of key international banks and agencies. The Bloomberg system is the key source of information for making projections.

Profit or losses arising during the period as adjustments upon change in the fair value are recognized in the income statement.

The change in the fair value of the derivative financial instrument means the difference between the fair value at the beginning of the reporting period (or at the date of acquisitions, whichever is more recent) and at the end of the reporting period.

Derivative financial instruments at fair value through profit or loss are recorded as assets (liabilities) in the balance sheet in similar lines depending on their maturity.

As at the reporting date, short-term liabilities on derivative financial instruments include liabilities related to cross currency and interest rate swaps.

The deals with derivative financial instruments are presented below:

	Issued, year	Repaid, year	Nominal amount at 31 December 2015		Interest rate type	Fair value of a liability at 31 December (kRUB)	
			USD, million	RUB, million*		2015	2014
Swaps	2012	2015	-	-	Fixed	-	53,710,289
Swaps	2012	2017	641	46,739	Floating	21,109,026	9,267,057
Swaps	2013	2018	2,138	155,789	Floating	59,346,442	14,072,579
Swaps	2014	2015	-	-	Fixed	-	28,861,462
Swaps	2014	2019	1,010	73,576	Floating	23,626,205	6,253,949
Forwards	2012	2015	-	-	-	-	24,786,865
<b>Total</b>			<b>3,789</b>	<b>276,104</b>		<b>104,081,673</b>	<b>136,952,201</b>

\* equivalent of the nominal amount at the CBR official exchange rate as of 31 December 2015.

In 2015, the Company completed transactions with derivative financial instruments entered into in 2012-2014 in the nominal amount of USD 4,494 million (RUB 327,493 million at the CBR official exchange rate as of 31 December 2015).

## 13. INFORMATION ON HEDGING TRANSACTIONS

### Cash flow hedging of the Company's future exports

Hedging transactions are operations (set of operations) with term transaction financial instruments (including those of different types), performed to minimize (compensate) adverse effects, fully or partially, caused by the loss incurred, income deficiency, decrease in revenue, decrease in market value of the property, including property rights (rights of claim), increase in the Company's liabilities due to change in price, interest rate, currency exchange rate, including the rate of the foreign currency to the rate of the currency of the Russian Federation, or another indicator (set of indicators) of a hedged item (items).

In the reporting year, the Company performed transactions to hedge the cash flows of the Company's future exports due to foreign currency risks attributed to 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 October 1, 2014, the Company designated certain U. S. dollar nominated borrowings as a hedge of the expected highly probable U. S. dollar nominated export revenue stream. A portion of the future monthly export revenue expected to be received in US dollars over the period from January 2015 through December 2019 was designated as hedged item. The nominal amounts of the hedged item and the hedging instrument were deemed 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 transactions are recognized.

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. As of 31 December 2015, the nominal amount totaled USD 3,918 million (RUB 285 billion at the CBR exchange rate as of 31 December 2015).

The amounts recognized in Other funds and reserves on hedging transactions are presented below: (kRUB)

Indicator	2015	2014	2013
Recognized in Other funds and reserves at the beginning of the year	(398,110,282)	-	-
Foreign exchange effects recognized during the year before tax	(215,285,868)	(497,637,852)	-
Foreign exchange effects reclassified to profit or loss	123,063,653	-	-
Other tax effect*	18,444,443	99,527,570	-
<b>Total recognized in Other funds and reserves as of the end of the year</b>	<b>(471,888,054)</b>	<b>(398,110,282)</b>	<b>-</b>

\* 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 schedule of the expected reclassification of the accumulated foreign exchange loss from other comprehensive income to profit or loss, as of December 31, 2015, is presented below: (RUB, million)

Year	2016	2017	2018	2019	Total
Reclassifications	(147,465)	(147,465)	(147,465)	(147,465)	(589,860)
Income tax	29,493	29,493	29,493	29,493	117,972
<b>Total net of income tax</b>	<b>(117,972)</b>	<b>(117,972)</b>	<b>(117,972)</b>	<b>(117,972)</b>	<b>(471,888)</b>

The expected reclassification is calculated using the Central Bank of Russia («CBR») exchange rate as of December 31, 2015 and may be different using actual exchange rates in the future.

## 14. CASH

Cash includes the Company's amounts with banks and credit institutions, in operational and other cash offices, as well as deposits 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 23. Information on the Company's cash flows (kRUB)

Cash	At 31 December 2015	At 31 December 2014	At 31 December 2013
Cash	331,889,690	127,975,011	169,904,499
including restricted cash	-	-	-
Deposits with the maturity period not exceeding 91 days	70,500,000	-	30,000,000

# 15. 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 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 24. Information on accounts receivable (kRUB)

Accounts receivable by type	At 31 December 2015	At 31 December 2014	At 31 December 2013
Accounts receivable - total	2,025,601,916	1,847,735,638	848,191,801
Long-term accounts receivable	1,134,438,474	989,058,688	92,970,701
Advances paid	347,614	411,972	2,312,165
Other debtors, including	1,134,090,860	988,646,716	90,658,536
Loans issued to the companies within Rosneft Oil Company Group	1,030,781,711	849,508,635	57,319,554
Interest on long-term loans, promissory notes	85,938,787	127,565,240	26,090,172
Short-term accounts receivable	891,163,442	858,676,950	755,221,100
Including:			
Suppliers and contractors	201,528,043	257,556,527	294,634,809
Advances paid	41,263,661	60,548,729	29,317,555
Other debtors, including	648,371,738	540,571,694	431,268,736
Due from the budget and state non-budgetary funds	59,835,376	96,626,391	41,977,131
Loans and promissory notes issued to the companies within Rosneft Oil Company Group	117,536,411	30,973,719	7,937,676
Interest (discount) on deposits, loans, promissory notes	140,571,358	23,471,675	76,029,444
Settlements under commission agreements, other accounts receivable	88,272,216	208,894,597	76,024,037

As of 31 December 2014, the Company's accounts receivable amounted to RUB 1,847,736 million, including the provision for doubtful debts in the amount of RUB 15,568 million. In 2015, accounts receivable increased by RUB 177,866 million and amounted to RUB 2,025,602 million as of 31 December 2015, including the provision for doubtful debts in the amount of RUB 13,210 million. The accounts receivable increased primarily due to the increase in loans issued to the companies within Rosneft Oil Company Group and interest (discount) accrued on loans, promissory notes and deposits.

Table 25 Information on accounts payable (kRUB)

Accounts payable by type	At 31 December 2015	At 31 December 2014	At 31 December 2013
Accounts payable	1,416,028,642	1,197,024,178	671,333,226
Suppliers and contractors	719,514,866	613,735,328	487,901,829
Payables to the Company's employees	5,631	46,597	32,421
Payables to the budget and non-budgetary funds	34,931,985	63,957,612	39,881,520
Advances received	217,812,613	147,035,386	53,736,812
Settlements under commission agreements, other accounts payable	443,763,547	372,249,255	89,780,644

As of 31 December 2014, the Company's accounts payable amounted to RUB 1,197,024 million. In 2015, accounts payable increased by RUB 219,005 million and amounted to RUB 1,416,029 million as of 31 December 2015. The increase in accounts payable was primarily attributable to settlements with the companies within Rosneft Oil Company Group under commission and agency agreements, as well as payments for purchased products and operator services relating to production and processing.

# 16. LONG-TERM AND SHORT-TERM LOANS AND BORROWINGS, OTHER LIABILITIES AND COLLATERAL PLEDGED

Loans and borrowings payable are accounted for and recorded in financial statements in accordance with the respective existing agreements.

The Company reclassifies short-term payables into long-term payables if the repayment period under the existing agreement is revised and increased to exceed 365 days. The Company reclassifies long-term payables into short-term payables where the outstanding repayment period becomes 365 days or less.

The interest amounts payable under loans and borrowings received are accrued on a straight-line basis regardless of the conditions of loans (borrowings). Additional expenses for loans (borrowings), other than commissions on loans (borrowings) raised, such as bank commissions for using loan funds, originating a loan, obtaining and maintaining a line of credit, and other bank commissions (fees) related to raising loans (borrowings) are recorded as a lump sum in other expenses.

Where commissions on loans (borrowings) are material, they are included in other expenses on a straight-line basis over the loan (borrowing) maturity period.

The commissions on loans (borrowings) that are not written off as of the reporting date are shown on the balance sheet as other non-current assets or other current assets depending on their remaining period of recognition as expenses [more than 12 months or less than 12 months, respectively].

For the purposes of capitalizing interest on loans and borrowings into the cost of acquired assets, such investment assets shall comprise those assets that necessarily take a substantial period of time (over 12 months) to get ready for their intended use through acquisition, construction or production.

Investment assets consist of 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 2015, the Company raised short-term loans with a floating rate in the total amount of RUB 100 billion from a Russian bank.

In February 2015, the Company repaid, early and in full, a long-term unsecured loan raised from foreign banks for the purchase of TNK-BP in the total amount of USD 7.2 billion (RUB 473 billion at the CBR exchange rate as of the date of payment).

Funds raised in 2015 were allocated to financing of the Company's operating activities.

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 5,564 million.

Total interest of RUB 68,917 million was accrued on the Company's loans for the reporting period. Interest payable increased by RUB 9,816 million year on year.

Interest capitalized in the cost of investment assets created (acquired) was RUB 14,542 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 14,223 million.

Table 26 Information on long-term and short-term loans and borrowings (kRUB)

Loans and borrowings, by type	Balance at 31 December 2014	Received (accrued)	Repaid (paid)	Reclassified	Balance at 31 December 2015
Long-term loans and borrowings	3,230,812,633	2,454,111,153	1,490,837,479	(112,559,359)	4,081,526,948
including					
• Long-term loans	1,333,575,940	445,135,206	328,932,646	(107,427,902)	1,342,350,598
• Long-term borrowings	1,072,746,234	1,548,146,996	1,155,697,842	(5,023,928)	1,460,171,460
• Long-term interest accrued under loan and borrowing agreements	26,794,879	60,392,188	2,745,375	(107,529)	84,334,163
• Long-term promissory notes issued	6,311,245	-	2,744,019	-	3,567,226
• Long-term interest accrued on promissory notes	1,384,335	436,763	717,597	-	1,103,501
Bonds issued	790,000,000	400,000,000	-	-	1,190,000,000
Short-term loans and borrowings	864,389,446	590,734,812	1,073,345,656	112,559,359	494,337,961
• including					
• Short-term loans	51,964,129	304,233,176	256,197,305	-	100,000,000
• Short-term borrowings	28,767,391	21,008	29,135,750	5,023,928	4,676,577
• Current portion of long-term loans and borrowings	762,674,709	65,495,628	566,505,504	107,427,902	369,092,735
• Current portion of long-term interest accrued under loan and borrowing agreements	1,749,831	55,131,852	55,440,535	-	1,441,148
• Short-term interest accrued under loan and borrowing agreements	12,519,561	23,203,875	32,757,962	107,529	3,073,003
• Interest accrued on bonds issued (coupon income)	6,713,825	142,649,273	133,308,600	-	16,054,498

In January 2015, the Company issued exchange-traded documentary interest-bearing non-convertible bonds with a total nominal value of RUB 400,000 million maturing in six years. Information on RUB-denominated interest-bearing non-convertible bearer bonds issued as of 31 December is provided below: (RUB, million)

Type of bonds	Series number	Issue date	Total nominal value RUB, million	Coupon rate	At 31 December	
					2015	2014
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	BO-05, BO-06	December 2013	40,000	7.95%	40,000	40,000
Exchange-traded bonds	BO-01, BO-07	February 2014	35,000	8.90%	35,000	35,000
Exchange-traded bonds	BO-02, BO-03, BO-04, BO-08, BO-09, BO-10, BO-11, BO-12, BO-13, BO-14	December 2014	225,000	11.90%*	225,000	225,000
Exchange-traded bonds	BO-15, BO-16, BO-17, BO-24	December 2014	400,000	13.40%*	400,000	400,000
Exchange-traded bonds	BO-18, BO-19, BO-20, BO-21, BO-22, BO-23, BO-25, BO-26	January 2015	400,000	11.90%*	400,000	-
Total long-term RUB-denominated bonds					1,190,000	790,000

\* For the coupon period valid as of 31 December 2015

All these bond series have maturity of six or ten years; coupon payments are made every six months for bonds maturing in ten years and every three months for bonds maturing in six years. The bonds 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 2015 is as follows: (RUB, million)

2016	-
2017	-
2018	-
2019	549
2020 and after	3,018
Total long-term amount payable:	3,567

The repayment schedule of long-term loans and borrowings, and bonds issued as of 31 December 2015 is as follows: (RUB, million)

2016	369,093
2017	388,061
2018	386,142
2019	315,826
2020 and after	2,902,493
<b>Total long-term amount payable:</b>	<b>4,361,615</b>

Loans are partially secured by crude oil export contracts.

As of 31 December 2015, guarantees and sureties issued by the Company totaled RUB 69,074 million and included collateral provided in foreign currency in the amount of USD 1,165 million and EUR 86 million at the CBR exchange rate ruling at the transaction date. Items pledged as collateral were as follows:

Items pledged as collateral	Share in the total collateral amount, %
Revenue from sales of oil and oil products	23.38
Sureties	76.62

In 2013, Rosneft Oil Company's 2012 agreements with Eni S. p. A, Statoil ASA and the ExxonMobil Oil Corporation took effect, which are part of the Company's cooperation in the development of the Russian continental shelf. These agreements stipulate that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite, and that the partners shall pay commercial discovery bonuses to Rosneft Oil Company.

In the second quarter of 2013, Rosneft Oil Company provided an unconditional, unlimited and indefinite guarantee (surety) to the government of Norway and Norwegian government authorities which fully covers the contingent obligations of RN Nordic Oil AS that this company may incur as a result of its operations on the Norwegian continental shelf. Provision by the parent company of a guarantee to cover RN Nordic Oil's obligations arising from environmental risks is an imperative requirement of Norwegian legislation and is a prerequisite for RN Nordic Oil AS to be granted a license for operating on the Norwegian continental shelf jointly with Statoil.

In the second quarter of 2014, Rosneft Oil Company's 2013 agreements with the ExxonMobil Oil Corporation took effect as part of cooperation in the implementation of seven new projects on the Russian continental shelf. These agreements also stipulate that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite, and that the partner shall pay a commercial discovery bonus to Rosneft Oil Company.

The cooperation between Rosneft Oil Company and the ExxonMobil Oil Corporation to develop tight oil and gas reserves in Western Siberia is governed by an agreement stipulating that the parties shall provide mutual guarantees that are unlimited, unconditional and indefinite and the partner shall pay to Rosneft Oil Company a bonus for each barrel of oil extracted after the start of commercial production.

In the fourth quarter of 2015, the Agreement of parent guarantees between Rosneft Oil Company and Statoil ASA entered into force in order to ensure execution of liabilities by its associates within the guarantees provided by each of the project partners to its counterparty under the project contractual documentation.

Table 27 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:	886,778,534	1,026,902,043	128,750,895	1,784,929,682
Long-term prepayment under crude oil and oil product supply contracts	886,778,534	1,026,902,043	128,750,895	1,784,929,682

In 2013 and 2014, the Company signed a number of long-term oil supply contracts that provide for receipt of a prepayment. The total minimum amount of future supplies under these contracts is around 400 million tons.

The contracts include the following main terms:

- Prepayment shall not exceed 30% of the cost of the total contracted amount of crude oil
- The oil price shall be based on current market quotes
- Prepayment is settled through physical deliveries of crude oil

From 1 January 2015, scheduled oil supplies started under the long-term contracts that provide for prepayments. In 2015, offset of prepayments under these contracts amounted to RUB 89 billion (USD 2.86 billion at the rate as of the date of prepayments).

## 17. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCY

Changes in foreign exchange rates, particularly in US dollar rates, have a significant effect on the Company's financial and business performance.

Table 28 Information on changes in RUB/USD exchange rates

As of 31 December	Exchange rate
2015	72.88
2014	56.26
2013	32.73
2012	30.37

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 38,487 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 15.7 million and foreign exchange losses of RUB 32.5 million.

Foreign exchange differences arising in the reporting period from operations involving assets and liabilities denominated in foreign currency, and from translation of such assets and liabilities as of the reporting date, were taken to the other income and expense account, except for liabilities designated as hedging instruments (refer to Note 13).

Currency conversion transactions are recorded in the income statement in other income and other expenses on a net basis; only foreign exchange gains or losses are recognized as income (expense).

Table 29 Income and expenses from dealing in foreign currency (kRUB)

Income and expenses	For the 2015 reporting year	For the 2014 reporting year
Income	19,762,892	17,695,842
Expenses	(150,138,051)	(20,933,253)
Total income and expense balance recorded in the income statement as other income/expense	(130,375,159)	(3,237,411)

## 18. TAX PAYABLES

The Company's tax liabilities are recorded in accounting using the periodicity convention.



The rates of the main taxes in 2015 were as follows:

- Income tax – 20%
- Value added tax – 18%

In 2015, the number of participants in the consolidated taxpayer group with Rosneft Oil Company as the responsible participant, which was established for the purposes of income tax calculation and payment, decreased year on year from 58 to 51 entities.

The mineral extraction tax to be included in the cost of products, goods, work and services sold amounted to RUB 450,435 million in 2015; RUB 423,746 million in 2014.

In 2015, the accrued export duty amounted to RUB 660,077 million; in 2014: RUB 1,321,783 million.

Settlements with the budget and non-budgetary funds are presented in the table below:

Table 30 Settlements with the budget and state non-budgetary funds (kRUB)

	At 31 December 2015	At 31 December 2014	At 31 December 2013
<b>Receivables from the budget and state non-budgetary funds – total</b>	<b>59,835,376</b>	<b>96,626,391</b>	<b>41,977,131</b>
Value added tax (VAT)	45,647,489	54,462,735	33,120,119
Income tax	13,307,620	42,033,002	8,727,381
Other taxes and levies receivable	839,002	112,449	42,979
Receivables from state non-budgetary funds	41,265	18,205	86,652
<b>Payables to the budget and state non-budgetary funds – total</b>	<b>34,931,985</b>	<b>63,957,612</b>	<b>39,881,520</b>
Mineral extraction tax	25,947,941	29,100,332	35,993,842
Income tax	-	31,896,657	1,586,914
Excise tax	6,233,998	-	-
Property tax	2,552,887	2,166,381	2,021,339
Other taxes and levies payable	195,645	792,963	278,354
Payables to state non-budgetary funds	1,514	1,279	1,071

Current taxes and levies receivable decreased by RUB 36,791 million from 31 December 2014 year on year mainly due to refunding from the budget of VAT overpayments on the consolidated group of taxpayers made in 2014, and due to decrease in the amount of VAT recoverable from the budget as of the end of the fourth quarter of 2015.

Taxes and levies payable decreased by RUB 29,026 million from 31 December 2014 primarily due to payment in 2015 of income tax accrued in December 2014 on dividends received from a foreign entity.

As of 31 December 2015, 2014 and 2013, the Company did not have overdue tax and levy liabilities.

According to provisions of Chapter 14, Tax Control, of the Russian Tax Code, desk-top and field audits of tax and levy payers and tax agents may cover three calendar years preceding the year in which a decision to hold the tax audit is taken. The Company's management believes that the results of tax audits will not have a material impact on the Company's financial position because tax liabilities are estimated in accordance with requirements of the tax legislation.

## 19. EQUITY

### Share capital

As of 31 December 2015, 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 2015, the Company's additional capital amounts to RUB 113,245 million (as of 31 December 2014, additional capital amounted to RUB 113,261 million).

### Treasury shares

In 2015, the Company did not repurchase its shares.

### Net assets

As of 31 December 2015, the Company's net assets amount to RUB 1,434,431 million. The net assets increased by RUB 78,616 million or 6% as compared to the prior balance sheet date (RUB 1,355,815 million). As of 31 December 2015, the Company's net assets exceed its share capital by RUB 1,434,325 million.

## 20. INCOME AND EXPENSES, RETAINED EARNINGS

Revenue from sales of goods, work and services is recognized as and when the goods are shipped, work is performed and services are rendered, and settlement documents are presented to customers (clients).

To ensure timely provision of primary documents to the accounting department, if necessary, the Company uses the accrual methodology in accordance with Accounting Statement 9/99, Revenues of an Organization, provided that the criteria for revenue recognition are met. In this case, revenue is recognized based on updates provided by Company's business units.

The Company applies a method that involves calculating the 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 2015, retained earnings of prior years amount to RUB 1,553,550 million. As of 31 December 2014, this amount was RUB 1,640,545 million. Changes in the profit of prior years resulted mainly from accrued dividends in the amount of RUB 87,011 million.

The following income and expenses affected the retained earnings for the reporting year:

Table 31 Company's income and expenses (kRUB)

Indicator	For the 2015 reporting year	For the 2014 reporting year
<b>Revenue (net) from the sale of goods, work, services (net of value-added tax)</b>	<b>3,831,094,945</b>	<b>4,299,680,200</b>
Including: Sales of principal goods/products	3,185,557,660	3,441,078,265
Trading and procurement	639,508,667	852,186,984
Intermediation	6,028,618	6,414,951
<b>Cost of the goods, products, work and services sold</b>	<b>(2,612,932,721)</b>	<b>(2,451,243,380)</b>
Including: Principal activities	(2,166,834,263)	(1,947,017,090)
Trading and procurement	(446,098,458)	(504,226,290)
<b>Oil and gas reserves exploration and estimation expenses</b>	<b>(17,007,609)</b>	<b>(15,103,523)</b>

Indicator	For the 2015 reporting year	For the 2014 reporting year
Revenue (net) from the sale of goods, work, services (net of value-added tax)	3,831,094,945	4,299,680,200
Gross income	1,201,154,615	1,833,333,297
Selling expenses	(1,018,103,482)	(1,610,827,753)
General and administrative expenses	(66,251,075)	(66,620,484)
Profit (loss) from the sale of goods, work, and services	116,800,058	155,885,060
Profit (loss) from other income and expenses	56,484,728	350,488,131
Including:	140,152,094	64,866,869
Interest receivable		
Interest payable	(327,398,599)	(129,651,537)
Including:	(3,409,695)	(2,838,142)
Expenses on unwinding of the ARO asset discount		
Income from interests in other entities*	440,667,780	507,777,727
Gains from changes in the fair value of derivative financial instruments	111,422,887	1,727
Losses from changes in the fair value of derivative financial instruments	(74,488,087)	(127,866,895)
Gains from the sale and other disposal of other property	21,434,684	56,551,513
Including:	13,868,107	56,063,110
Gains from the sale of short-term securities		
Losses from the sale and other disposal of other property	(19,686,069)	(60,442,852)
Including:	(13,931,424)	(55,386,838)
Cost of disposed short-term securities		
Other income	122,004,880	106,137,210
Including:	38,487,421	32,919,984
Translation differences		
Return of excise tax	7,312,732	41,386,079
Other expenses	(357,624,842)	(66,885,631)
Including:	(123,063,653)	-
Recognition of the deferred effect of hedging as other expenses		

\* Dividends received from a non-resident of the Russian Federation are recognized in the line Income from interests in other entities in the 2014 income statement on a net basis net of the relevant income tax payable to the budget of the Russian Federation. The income tax amounted to RUB 32,185,566.

Table 32 Allocation of the Company's expenses recognized in the income statement by type (kRUB)

Indicator	For the 2015 reporting year	For the 2014 reporting year
Material costs	3,048,645,113	3,520,824,697
Payroll	15,666,233	15,113,857
Social charges *	3,190,032	3,503,771
Depreciation and amortization	114,883,206	100,025,990
Oil and gas reserves exploration and estimation expenses	17,007,609	15,103,523
Other expenses**, including: MET	514,902,694	489,223,302
<b>Total by type of expenses</b>	<b>3,714,294,887</b>	<b>4,143,795,140</b>
Balances of work in progress, finished goods, etc.	83,147,591	92,850,069
<b>Total expenses related to ordinary activities ***</b>	<b>3,714,294,887</b>	<b>4,143,795,140</b>

\* Insurance contributions to state non-budgetary funds are recorded in the statement of cash flows in Cash flows from operating activities as other payments

\*\* translation of effect from revision of accounting estimates on the ARO assets is included in other costs

\*\*\* including general, administrative and selling expenses

## 21. DEFERRED TAX ASSETS AND LIABILITIES, PERMANENT TAX ASSETS AND LIABILITIES

Permanent and temporary differences between the accounting profit and the taxable profit for the reporting period are recognized in the accounting records. Temporary and permanent differences, which are calculated by comparing financial and tax accounting data on income and expenses, result in permanent tax liabilities and assets and deferred tax liabilities and assets.

Current income tax is determined in the accounting record through recognizing the following indicators:

- Contingent income (expense)
- Permanent tax asset
- Permanent tax liability
- Deferred tax asset
- Deferred tax liability

The Company prepares indicators representing the accounting for income tax settlements on a monthly basis.

The Company recognizes deferred income tax assets and deferred income tax liabilities on a gross basis as non-current assets and non-current liabilities, respectively.

Provision for doubtful debt recognized in the accounting records is a source of temporary difference.

The net amount of permanent tax assets (liabilities) is provided in the income statement for reference only.

A 20% income tax rate is used to calculate deferred and permanent tax assets and liabilities.

Table 33 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	73,523,479	126,922,184	80,230,954	120,214,709
Deferred tax liability	58,997,819	15,983,619	5,288,038	69,693,400
Permanent tax asset	x	171,812,044	x	x
Permanent tax liability	x	52,277,838	x	x

In 2015, contingent income tax expense amounted to RUB 34,657 million, and in 2014 - to RUB 101,275 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 losses of the consolidated group of taxpayers, which are not used to reduce income tax in the reporting (tax) period but which will be recognized for taxation purposes in subsequent reporting (tax) periods. All deferred tax assets are expected to be utilized within 10 years from the date of origination.

In 2014, a number of amendments were made to the taxation of the income of controlled foreign companies and the income of foreign organizations, which became effective starting 1 January 2015. In accordance with the above amendments, the retained earnings of foreign subsidiaries recognized as controlled foreign companies, may form an additional tax base for Rosneft Oil Company (and certain Russian subsidiaries through which it participates in foreign companies). Therefore, in 2015, the retained earnings (subject to the applicable exceptions) of the controlled foreign companies, recognized as such as of 31 December 2016, shall be included in certain tax base of the Russian controlling entities for 2016. Potential future tax costs with regard to the profits of the controlled foreign companies are considered in determining deferred tax liabilities.

The permanent and temporary differences that led to the adjustment of the contingent income tax expense are presented in the table below.

Table 34 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	367,617,395	634,610,920	401,154,770	601,073,545
Taxable temporary differences	294,989,095	79,918,095	26,440,190	348,467,000
Positive permanent differences	x	859,060,220	x	x
Negative permanent differences	x	261,389,190	x	x

## 22. DIVIDENDS

### Number of shares and their par value

According to constitutional documents, share capital represents the Company's capital. The holders of ordinary shares are entitled to one vote per share at shareholders' meetings. The Company placed 10,598,177,817 ordinary shares with a par value of RUB 0.01 each for the total amount of RUB 105,981,778.17.

### Amount of dividends

**In 2015, the Company's net income amounted to RUB 239,413 million, and net earnings per share amounted to RUB 22.59.**

In the first half of 2016, the Board of Directors will provide recommendations on the amount of dividends on the Company's shares for 2015.

Based on the Company's result for 2014, the annual shareholders' meeting that took place on 17 June 2015 (meeting minutes w/o number of 22 June 2015) decided that dividends should be paid on Rosneft Oil Company's ordinary shares in the amount of RUB 87,011 million or RUB 8.21 per share. As of 31 December 2015, the Company paid dividends in the amount of RUB 86,931 million. Dividends were paid to all of Rosneft Oil Company's registered shareholders except for (1) shareholders who did not promptly notify the issuer's registrar of changes in relevant data, and (2) returns to the Company from nominal holders made in accordance with Article 42 of the Federal Law, On Joint-Stock Companies.

## 23. CONTINGENCIES. PROVISIONS

### Contingent assets and contingent liabilities

- In 2006, Yukos Capital S. a. r. l. (hereinafter, «Yukos Capital») initiated proceedings in international arbitration courts against OJSC Yuganskneftegaz, OJSC Samaraneftegaz and OJSC Tomskneft VNK justifying its claims regarding non-fulfilled obligations under several RUB-denominated loans with the principal of RUB 11.2 billion (OJSC Yuganskneftegaz), RUB 4.34 billion (OJSC Tomskneft VNK), RUB 2.4 billion (OJSC Samaraneftegaz) and interest at the rate of 9% p. a. for each loan. In 2006-2007, the international arbitration courts made decisions in favor of Yukos Capital. Thereafter, Yukos Capital filed several claims with different Russian and foreign courts in order to recognize and implement these international arbitration awards. In 2007-2013, different Russian arbitration courts declared the above mentioned loan agreements void. Besides, the arbitration awards against OJSC Yuganskneftegaz were reversed by the competent court of the Russian Federation, and claims on recognition and enforcement of the arbitration awards in Russia made against OJSC Tomskneft VNK and OJSC Samaraneftegaz were dismissed. The awards with regard to OJSC Yuganskneftegaz were enforced in the Netherlands (the court of first instance declined the enforcement) regardless of the fact that they were set aside by a competent court. Although Rosneft Oil Company does not agree with the decisions of the aforementioned courts of the Netherlands, on 11 August 2010 it complied with those decisions and arranged for the relevant payments to be made with respect to the claim against the Company. The consideration of these disputes continued in foreign jurisdictions as follows: Interest under the arbitration award against Rosneft Oil Company were challenged in England, enforcement of the international arbitration awards against OJSC Samaraneftegaz was challenged in the USA, and against OJSC Tomskneft VNK - in France, Ireland and Singapore. Besides, Yukos International (UK) B. V. has initiated proceedings in the Netherlands against Rosneft Oil Company and other co-defendants unrelated to Rosneft Oil Company, claiming losses of up to USD 333 million (RUB 24 billion at the CBR exchange rate as of 30 November 2015), plus statutory interest from 7 February 2011 and costs. Under these proceedings, Yukos International (UK) B. V. claimed losses that were said to be incurred as a result of the 2008 order of the Amsterdam court to freeze its bank account. On 11 February 2015, the Amsterdam District Court stated that the order to freeze the bank account of Yukos International (UK) B. V. had not been properly issued, however, it dismissed the procedure for losses calculation used by the plaintiff and stated that these losses should be considered under separate proceedings, including the issue whether Yukos International (UK) B. V. was liable for the losses that were said to be incurred. In March 2015, Rosneft Oil Company and a number of its subsidiaries, including OJSC Samaraneftegaz, OJSC Tomskneft VNK and OJSC ANKhK entered into Agreement on disputes settlement with Yukos Finance B. V., Yukos Capital, Stichting Administratiekantoor Yukos International, Stichting Administratiekantoor Financial Performance Holdings, Consolidated Nile, LP, General Nile, LLC, Yukos International (UK) B. V., Luxtona Limited, Financial Performance Holdings B. V., Yukos Hydrocarbons Investments Limited, CN & GN (PTC) Ltd. and individuals which control these companies. In accordance with the Agreement, the parties rejected all their claims to each other and closed all existing proceedings and other disputes, including the abovementioned disputes, and obliged not to pursue claims against each other in future in view of bankruptcy and liquidation of Yukos Oil Company. The Agreement does not provide for any cash or other payments on behalf of Rosneft Oil Company or its subsidiaries. On 31 March 2015, the parties finalized the transaction and signed all required documents to withdraw all current proceedings in the Netherlands, England, Russia, USA and other jurisdictions.
- In October-November 2014, former shareholders of OJSC RN Holding filed claims against 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, the claims were dismissed. The plaintiffs filed an appeal against the court's decision.
- According to Order No. 694/14 dated 5 November 2014, the Federal Anti-Monopoly Service in Russia commenced proceedings against Rosneft Oil Company, OJSC Bashneft, and OJSC 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.
- Customs duties, which are recognized in selling expenses, are calculated in the course of preparing the financial statements based on the volume of goods sold, customs duty rate and USD exchange rate as of the date the final customs declaration is drafted. A portion of selling expenses is recognized based on temporary customs declarations. The deviation in customs duties on the goods sold in the reporting year and accrued on temporary customs declarations from the customs duties accrued on the final customs declaration, if the latter is issued after the reporting date, is recognized in other income and expenses of the year following the reporting year. Thus, in 2015, adjustment of the customs duties related to export in 2014 in the amount of RUB 30 billion was recorded as other expenses.
- Effective 1 January 2012, the market price defining rules for tax control purposes were changed, and the lists of entities that could be recognized as interdependent entities and lists of controlled transactions were expanded. Due to the absence of law enforcement precedents based on the new rules, as well as the existence of contradictions in certain provisions of the new law, these rules cannot be considered clear and precise. To minimize the significant impact of risks related to transactions between interdependent entities on the Company's financial statements, the Company developed pricing methods for all types of key controlled transactions between interdependent entities. Also, databases are analyzed annually to determine the arm's length nature of prices (profit) in the controlled transactions.

Since the Company provided sufficient comments on the transactions performed in 2012-2013 between interdependent entities to the Federal Tax Service of the Russian Federation and territorial tax agencies, the Federal Tax Service of the Russian Federation did not exercise its right to check the accuracy of tax calculations and payments for transactions between the interdependent entities in 2012-2013, and the period allotted expired on 30 June 2014 and 31 December 2015, respectively. The Company believes that the risks relating to pricing under intragroup transactions in 2012-2013 will have no significant impact on its financial position and performance.

### 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 when 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 35 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:		2015	22,299,088	15,328,317	12,619,680	374,819	[356,770]	24,276,136
		2014	18,043,203	16,698,136	10,079,168	274	[2,362,809]	22,299,088
Provision for annual year-end bonuses	Planned amount of annual year-end bonuses to employees, with insurance contributions at the effective interest rate	2015	12,990,646	10,290,915	10,056,590	-	-	13,224,971
		2014	9,038,246	11,617,589	7,665,189	-	-	12,990,646
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	2015	1,696,655	2,596,954	2,060,501	-	-	2,233,108
		2014	1,208,250	2,306,964	1,818,559	-	-	1,696,655
Environmental provisions	Formed on all environmental obligations. The estimation is made by place of occurrence. Recognized at present value	2015	7,578,588	1,402,346	478,040	-	[356,770]	8,146,124
		2014	7,796,707	2,739,640	594,950	-	[2,362,809]	7,578,588
Provisions for legal claims	Provisions are recognized separately for each legal claim	2015	33,199	1,038,102	24,549	374,819	-	671,933
		2014	-	33,943	470	274	-	33,199
PROVISIONS FORMED FROM THE INCREASED COST OF ASSETS:								
Total:		2015	34,619,058	4,740,182	1,695,254	-	972,576	38,636,562
		2014	35,019,538	2,654,103	2,271,534	-	[783,049]	34,619,058
Provision for fixed asset liquidation	Formed on all immovable oil and gas assets. The estimation is made by field. Recognized at present value.	2015	32,338,573	3,798,263	1,016,633	-	1,185,059	36,305,262
		2014	34,822,844	1,337,929	615,653	-	[3,206,547]	32,338,573
Environmental provisions	Obligations to be included in the value of assets [08*]	2015	2,280,485	941,919	678,621	-	[212,483]	2,331,300
		2014	196,694	1,316,174	1,655,881	-	2,423,498	2,280,485

The provision for fixed asset liquidation presented in the column *Arisen (accrued) for the reporting period* in Table 35 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 35.

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 35 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, Rosneft Oil Company enters into transactions with entities which are related parties in accordance with Russian law.

The list of related parties was developed based on the relationships between the entities, taking into account substance over form.

Rosneft Oil Company's related parties also include entities that are not affiliates according to Russian law, but meet the definition of an affiliate in accordance with IFRS 24, *Related Parties Disclosures*.

The total amounts of transactions and balances with related parties are disclosed separately for the following groups of related parties that have different relationships with Rosneft Oil Company:

- Subsidiaries (entities consolidated by Rosneft Oil Company as subsidiaries)
- Associates (legal entities consolidated by Rosneft Oil Company using the equity method and proportionate consolidation method)
- Main owners (shareholders holding more than 20% 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 15% of any item of the cash flow statement).

### Subsidiaries

This section discloses information concerning transactions with those subsidiaries in which Rosneft Oil Company holds, directly or through other entities, more than 50% of the ordinary voting shares, or which are controlled by other means.

Table 36. Transactions with subsidiaries (kRUB)

Transactions	For the 2015 reporting year	For the 2014 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Oil and gas sales	200,882,324	209,771,255
Petroleum products and petrochemicals sales	635,888,602	657,683,133
Income from leasing out property	126,476,780	110,638,224
Other income	17,818,958	56,747,609
	<b>981,066,664</b>	<b>1,034,840,221</b>
<b>COSTS AND EXPENSES</b>		
Oil and gas purchases	1,021,590,647	1,079,308,033
Petroleum products and petrochemicals purchases	10,384,984	17,287,869
Logistics and transportation	158,912,627	147,463,906
Oil and gas production services	272,020,808	245,746,598
Cost of processing	190,969,372	179,315,321
Leases of assets	604,690	526,189
Insurance expenses	354	-
Other expenses	50,282,101	57,088,244
	<b>1,704,765,583</b>	<b>1,726,736,160</b>
<b>OTHER TRANSACTIONS</b>		
Purchase of fixed assets	185,161	82,489
Loans and borrowings issued	1,380,687,997	1,314,361,820
Repayment of loans and borrowings issued	838,285,229	45,317,776
Proceeds from short-term loans and borrowings	131,418	136,096
Repayment of short-term loans and borrowings	29,266,653	35,430,238
Proceeds from long-term loans and borrowings	1,261,006,008	877,334,836
Repayment of long-term loans and borrowings	1,147,848,680	276,347,700
Deposits placed	3,252,595,000	99,000,000
Deposits repaid	3,252,595,000	99,000,000
Interest receivable	99,235,065	34,756,678
Interest payable	55,928,850	26,080,894
Dividends received	438,578,900	506,838,686
<b>CASH FLOWS</b>		
<b>Cash flows from operating activities</b>		
Proceeds from		
Sale of products, goods, work and services	864,291,002	885,382,293
Lease payments, license payments, royalties, commissions and other similar payments	124,643,577	112,475,024
Other proceeds	205,255,587	362,636,233
Payments to/for		
Suppliers (contractors) for feedstock, materials, work and services	(1,664,008,063)	(1,643,801,110)
Exploration costs	(5,171,003)	(8,537,014)
<b>Cash flows from investing activities</b>		
Proceeds from		
Sale of non-current assets (other than financial investments)	389,084	6,416
Repayment of loans, receivables from other parties, etc.	838,637,313	45,445,580
Dividends, interest on debt financial instruments and similar proceeds from equity participation in other entities	378,187,919	491,073,062
Payments		
For the purchase, creation, upgrading, reconstruction and preparation for use of non-current assets	(105,637,560)	(163,075,688)
For the purchase of shares (interests) in other entities	(160,342,748)	(29,178,991)
Provision of loans to other parties	(1,380,687,997)	(1,314,361,820)
Exploration assets	(3,854,893)	(6,678,790)
Other payments	-	(40,243,108)
<b>Cash flows from financing activities</b>		
Proceeds from		
Loans and borrowings received	1,261,137,426	877,470,932
Payments		
For the repayment of loans and borrowings, repayment (redemption) of promissory notes, etc.	(1,179,859,353)	(311,879,301)

Table 37 Assets and liabilities under transactions with subsidiaries (kRUB)

Assets and liabilities	Balance at 31 December 2015	Balance at 31 December 2014
<b>ASSETS</b>		
Cash and cash equivalents	21,641,373	79,298,306



Assets and liabilities	Balance at 31 December 2015	Balance at 31 December 2014
<b>ASSETS</b>		
Accounts receivable, including	1,681,332,549	1,370,897,950
• Long-term accounts receivable	1,103,249,438	971,004,107
• Advances issued for capital construction and equipment for installation	35,581,819	49,612,690
• Short-term advances paid	5,400,948	4,889,421
• Provision for doubtful debts as of the end of the reporting period	5,142,692	12,231,758
Short-term and long-term financial investments,	4,013,713,480	3,366,290,550
Including long-term	3,315,521,926	3,302,281,730
	<b>5,716,687,402</b>	<b>4,816,486,806</b>
<b>LIABILITIES</b>		
Short-term accounts payable	1,137,037,561	910,301,800
Short-term and long-term loans and borrowings (including interest),	1,185,747,407	877,490,778
Including long-term	1,180,913,186	842,704,178
	<b>2,322,784,968</b>	<b>1,787,792,578</b>

#### Associates

This section discloses information concerning transactions with those associates in which Rosneft Oil Company holds, directly or through other entities, more than 20% but less than 50% of the ordinary voting shares (or no control is provided for other reasons), and which Rosneft Oil Company holds significant influence over.

Table 38 Transactions with associates (kRUB)

Transactions	For the 2015 reporting year	For the 2014 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Oil and gas sales	2,487,005	3,117,967
Petroleum products and petrochemicals sales	7,876,580	8,665,037
Income from leasing out property	26,550	83,625
Other income	358,627	3,700,836
	<b>10,748,762</b>	<b>15,567,465</b>
<b>COSTS AND EXPENSES</b>		
Oil and gas purchases	202,254,505	83,405,119
Logistics and transportation	18,603,100	9,583,886
Leases of assets	214,095	208,926
Cost of processing	13,135,606	11,929,979
Other expenses	404,213	96,082
	<b>234,611,519</b>	<b>105,223,992</b>
<b>OTHER TRANSACTIONS</b>		
Purchase of fixed assets	-	5,355
Loans and borrowings issued	3,414,432	167,771,170
Repayment of loans and borrowings issued	7,219	33,000
Proceeds from short-term loans and borrowings	-	1,050
Repayment of short-term loans and borrowings	-	970
Proceeds from long-term loans and borrowings	23,263,732	32,141,934
Repayment of long-term loans and borrowings	7,033,640	139,942
Interest receivable	13,039,916	3,574,793
Interest payable	4,404,392	1,503,097
Dividends received	292,029	937,758
<b>CASH FLOWS</b>		
<b>Cash flows from operating activities</b>		
Payments		
Exploration costs	(3,892,204)	-
<b>Cash flows from investing activities</b>		
Payments		
Exploration assets	(15,926,188)	-

Table 39 Assets and liabilities under transactions with associates (kRUB)

Assets and liabilities	Balance at 31 December 2015	Balance at 31 December 2014
<b>ASSETS</b>		
Accounts receivable, including	20,158,824	16,590,722
• Long-term accounts receivable	12,979,917	5,858,067
• Advances paid for capital construction and equipment for installation	-	4,954
• Short-term advances paid	1,524,593	915,954
• Provision for doubtful debts as of the end of the reporting period	774,368	774,368

Assets and liabilities	Balance at 31 December 2015	Balance at 31 December 2014
<b>ASSETS</b>		
Short-term and long-term financial investments,	351,981,945	280,656,489
Including long-term	350,737,262	279,267,446
	<b>372,140,769</b>	<b>297,247,211</b>
<b>LIABILITIES</b>		
Short-term accounts payable	26,248,307	27,015,754
Short-term and long-term loans and borrowings (including interest),	112,818,022	71,650,159
Including long-term	112,818,022	71,650,159
	<b>139,066,329</b>	<b>98,665,913</b>

#### Information on compensation paid to key management personnel

For the purpose of these consolidated financial statements key management personnel include members of the Management Board of Rosneft Oil Company OJSC 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 2,779 million in 2015 and 2014, respectively (social security fund contributions, which are not Management Board members' income, totaled RUB 376 million and RUB 260 million, respectively, with the increase due to a change in the social security contributions calculation rules). Short-term benefits do not include a onetime bonus paid in 2015 for the achievements in implementing major projects in 2014 (the discovery of Kara oil and gas province, the commencement of commercial production at Berkut, the world's largest drilling platform, in the Sea of Okhotsk, the development of major projects in the Asia-Pacific region), following state awards by the President of the Russian Federation, and a part of 2014 compensation paid in 2015. Short-term gross benefits for 2015 were previously disclosed in accordance with the Russian securities law on information disclosure. There were no post-employment, severance or share-based benefits paid, There was no wages indexation in 2015.

#### Principal owners and state-controlled entities

This section discloses the information about transactions with legal entities that hold more than 10% of the total number of votes, which relate to voting shares, and state-controlled entities.

Table 40 Information on transactions with state-controlled entities (kRUB)

Transactions	For the 2015 reporting year	For the 2014 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Oil and gas sales	144,151,555	111,755,883
Oil products and petrochemicals sales	89,766,571	48,837,520
Gains on transactions involving term transaction financial instruments	7,761,178	6,207,945
Other income	11,644,937	5,201,592
	<b>253,324,241</b>	<b>172,002,940</b>
<b>COSTS AND EXPENSES</b>		
Oil and gas purchases	21,555,093	9,466,228
Oil products purchases	2,681,139	1,411,912
Logistics and transportation	284,810,749	253,039,234
Customs duties	685,624,590	1,323,957,248
Leases of assets	796,523	665,593
Losses from transactions involving term transaction financial instruments	4,029,740	2,310,998
Electricity costs	27,626	27,250
Other expenses	12,926,570	2,133,140
	<b>1,012,452,030</b>	<b>1,593,011,603</b>
<b>OTHER TRANSACTIONS</b>		
Loans and borrowings issued	6,710,000	-
Proceeds from short-term loans and borrowings	291,904,714	181,674,136
Repayment of short-term loans and borrowings	286,305,373	207,288,024
Proceeds from long-term loans and borrowings	24,957,640	12,500,000
Repayment of long-term loans and borrowings	29,824,680	-
Deposits placed	4,343,852,418	2,136,219,495
Deposits repaid	4,174,771,948	2,030,863,474
Interest payable	15,223,365	8,275,307
Interest receivable	6,344,055	2,206,789
Dividends received	967	-
<b>CASH FLOWS</b>		
<b>Cash flows from operating activities</b>		
Payments to		
Suppliers (contractors) for feedstock, materials, work and services	(1,222,422,419)	(2,047,852,503)
<b>Cash flows from investing activities</b>		
Proceeds		
from sale of debt securities (receivables from other parties)	338,198,380	97,356,994
Other proceeds	7,761,178	6,207,945
Payments		
Purchase of debt securities (receivables from other parties), provision of loans to other parties	(437,282,600)	(213,314,170)
<b>Cash flows from financing activities</b>		
Proceeds from		
loans and borrowings received	316,862,354	194,174,136

Transactions	For the 2015 reporting year	For the 2014 reporting year
Payments related to		
dividends and other distributions of income among shareholders (participants)	(60,473,353)	(94,650,741)
Repayment of loans and borrowings	(316,130,053)	(207,288,024)

Table 41 Assets and liabilities under transactions with principal owners and state-controlled entities (kRUB)

Assets and liabilities	Balance at 31 December 2015	Balance at 31 December 2014
<b>ASSETS</b>		
Cash and cash equivalents	315,700,322	23,728,826
Accounts receivable, including	51,596,175	57,383,943
• Long-term accounts receivable	89,680	-
• Advances issued for capital construction and equipment for installation	1,847,659	96,048
• Short-term advances issued	23,879,051	41,207,680
• Provision for doubtful debts as of the end of the reporting period	305,504	305,994
Short-term and long-term financial investments,	470,531,170	281,920,215
Including long-term	88,831,130	628,215
	<b>837,827,667</b>	<b>363,032,984</b>
<b>LIABILITIES</b>		
Short-term accounts payable	10,682,917	4,821,622
Short-term and long-term loans and borrowings (including interest)	112,725,000	112,633,767
Including long-term	12,500,000	12,500,000
	<b>123,407,917</b>	<b>117,455,389</b>

#### Joint venture participants

There are no transactions with companies involved in joint activities with Rosneft Oil Company for the period of 2014-2015.

#### Other related parties

Other related parties include a non-state pension fund operating in the interests of the Company's employees.

Table 42 Information on transactions with other related parties (kRUB)

Transactions	For the 2015 reporting year	For the 2014 reporting year
<b>SALES REVENUE AND OTHER INCOME</b>		
Other income	324	324
	<b>324</b>	<b>324</b>
<b>COSTS AND EXPENSES</b>		
Expenses under non-state pension agreements	364,905	363,146
	<b>364,905</b>	<b>363,146</b>

Table 43 Assets and liabilities under transactions with other related parties (kRUB)

Assets and liabilities	Balance at 31 December 2015	Balance at 31 December 2014
<b>LIABILITIES</b>		
Short-term accounts payable	-	9,615
	<b>-</b>	<b>9,615</b>

In the reporting period, 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 42 Information on sales revenue by segment (kRUB)

Name of the segment	Net revenue for the reporting year		
	Total	External market	Domestic market
Oil	1,640,982,382	1,397,898,253	243,084,129
Gas	125,057,877	-	125,057,877
Oil products and petrochemicals	1,930,207,084	1,109,885,022	820,322,062
Other sales	134,847,602	-	134,847,602
<b>Total:</b>	<b>3,831,094,945</b>	<b>2,507,783,275</b>	<b>1,323,311,670</b>

Other sales include the sales of materials, fixed assets, proceeds from the 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 2015 is given below<sup>1</sup>.

Table 45 Information on resources used (kRUB)

No.	Energy resource	Amount
1	Electric energy	28,182
2	Heat energy	3,726

### Operating environment in the Russian Federation

In 2015, 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.

<sup>1</sup> 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

**2D seismic** – a seismic survey which produces a two-dimensional image of the subsurface.

**3D seismic** – a seismic survey which produces a three-dimensional image of the subsurface.

**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 oil field purposes
- b) petrochemistry – refined to produce dry gas (supplied to main pipeline), natural gasoline, natural gas liquids and liquefied gas for domestic consumption.

**bbl** – barrel (1 bbl = 0.135 metric tons)

**boe** – barrels of oil equivalent. Boe is a measurement of gas by its thermal equivalent in barrels of crude oil.

**Condensate** – light hydrocarbons produced with natural gas. Condensate condenses into a liquid at normal temperatures and pressures.

**EBITDA** – earnings before interest, taxes, depreciation and amortization.

**ESP** – electric submersible pump.

**Inhibition** – the action of treating pipelines with chemicals (inhibitors) to slow down metal corrosion.

**Net debt** – long-term and short-term debt less cash and cash equivalents.

**Organic capital expenditure** – capital expenditure excluding acquisitions.

**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 proven 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 proven or probable.

**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.

**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.

**PRMS** – Petroleum Resources Management System, formerly Society of Petroleum Engineers (SPE); a methodology that 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 production.

**Remediation** – the action of removing pollution or contaminants from soil, groundwater, sediment or surface water to protect public health and the environment or from a brownfield site intended for redevelopment.

**Reserve replacement ratio** – ratio of total proven reserves added in a given year to that year's 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.

**SEC** – the U.S. Securities and Exchange Commission. The standard for proven reserves requires that continuity of production be demonstrated.

## ABBREVIATIONS

**2P (reserves)** – proved and probable (reserves)

**3P (reserves)** – proved, probable and possible (reserves)

**APG** – associated petroleum gas

**HSE** – health, safety and environment

**LOF** – life of field

**OGP** – The International Association of Oil and Gas Producers

**PRMS** – Petroleum Resources Management System

**SEC** – US Securities and Exchange Commission

## UNITS

**bbl** – barrel (1 bbl = 0.134 metric tons)

**bcm** – billion cubic meters

**bcma** – billion cubic meters per annum

**b/d** – barrels per day

**bln** – billion

**boe** – barrel of oil equivalent

**cub. m** – cubic meters

**ft.** – feet

**ha** – hectare

**km** – kilometer

**kt** – thousand tones

**mb/d** – thousand barrels per day

**mboe/d** – thousand barrels of oil equivalent per day

**mln** – million

**mmbbl** – million barrels

**mmb/d** – mln barrels per day

**mmboe** – million barrels of oil equivalent

**mmboe/d** – mln barrels of oil equivalent per day

**mmcm** – million cubic meters

**mmt** – million tones

**RUB** – rouble

**sq. km** – square kilometer

**th.** – thousand

**tons/d** – tons per day

**USD** – US dollar

# 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 INFORMATION

**Full Name:**

Open Joint-Stock Company Rosneft Oil Company

**Abbreviated Name:**

OJSC Rosneft Oil Company

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