“Rosneft” and the “Company” mean Rosneft Oil Company PJSC either separately or together with its subsidiaries and affiliates, as the context may require. This report contains forward-looking statements that are subject to risks and uncertainties. The actual Rosneft results may differ materially from the information contained in the forward-looking statements due to a number of factors. To convert tonnes to barrels, a factor of 7.404 is used. To convert 1,000 cubic metres of gas to barrels of oil equivalent, an average factor of 6.09 is used. To convert Rospan’s gas condensate to barrels of oil equivalent, a factor of 8.3 is used.

ANNUAL REPORT CONTAINING INTEGRATED REPORTING ELEMENTS

Rosneft’s Annual Report for 2018 contains elements of integrated reporting as defined in the International Integrated Reporting Standard published by the International Integrated Reporting Council (IIRC).

It aims to present the Company’s financial and non-financial results and achievements in sustainable development, highlighting the existing links between the competitive environment, the Company’s Strategy, business model, risk management, and a clearly defined corporate governance structure.

Since 2017, Rosneft has been participating in the work of The IIRC Business Network, the goal of which is to develop the integrated reporting practice basics and to undertake other activities aimed at the effective implementation and development of the International Integrated Reporting System.
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Dear shareholders and investors,

Every year, we see businesses pay increasing attention to environmental, social and governance factors, which have also become a key focus area for the investment community. I can say with certainty that 2019 was a breakthrough year for Rosneft when it comes to sustainable development. As the Chairman of the Board of Directors, I am convinced that it is extremely important for the Company to take consistent steps unlocking its potential, placing a special emphasis on innovations and environmental protection.

Gerhard Schroeder
Chairman of the Board of Directors

Rosneft has joined the UN Global Compact, an initiative that encourages businesses to become more socially responsible. Moreover, we annually release a public statement regarding the Company’s contribution towards achieving the 17 UN Sustainable Development Goals.

In line with our development strategy, we aim to become one of the greenest companies by 2022 and rank in the first quartile among global peers in terms of unit GHG emissions. We have already delivered some tangible results. In 2019, we cut fugitive methane emissions by more than 70%. Importantly, this is not a one-off reduction, but a sustainable trend. We have been keeping up the momentum for the last five years, which makes us one of the industry’s leaders in minimizing the GHG footprint.

Another milestone for both the industry and the global community was our signing of the guidelines for reducing methane emissions across the natural gas supply chain in June 2019. Together with other industry majors supporting this initiative, we will be able to cut these emissions generated by production assets.

Our green investments totalled RUB 35 bln in 2019 and approximately RUB 240 bln over the past five years, with another RUB 200 bln slated to be spent in the coming years as part of our ongoing efforts in this area.

We are encouraged to see our achievements in sustainable development recognised by the public as well as by rating agencies. In 2019, we joined the ranks of industry leaders in the major international sustainability ratings. Rosneft was included in the FTSE4Good Index and became the best Russian oil and gas company in the global CDP Climate and Water ratings, while also winning praise from Bloomberg and Refinitiv for the transparency of its disclosures.

Another driver of Rosneft’s investment appeal is its dividend policy, which provides for at least 50% of its net income to be distributed twice a year as dividends. In 2019, the Company paid record high interim dividends of RUB 162.5 bln. Today, we offer our shareholders one of the best returns in the Russian oil and gas industry. Our excellent performance in 2019 will enable us to further increase the size of final dividends.

We are successfully growing our international business, too. The reporting year saw us start direct sales of petroleum products in Germany, which marks an important stage in our history. At present, we make shipments from refineries where the Company is a shareholder to more than 500 customers in Germany, Poland, Czech Republic, Switzerland, Austria and France. But our ambitions go beyond that. Going forward, we plan to expand our sales geography, including by benefiting from a deal to increase our stake in Bayernoil Raffineriegesellschaft to 28.57%. Rosneft remains the third largest oil refining company in Germany, with the total crude oil processing volumes amounting to 12.8 mtpa.

The development of Zohr, a natural gas field in the Mediterranean Sea offshore Egypt where Rosneft holds a 30% stake, is advancing ahead of schedule. Put on stream as early as in 2017, the field produced 23.4 bcm of gas in 2019. Our participation in this unique project run jointly with global majors strengthens our position as a cutting-edge high-tech company, while also enabling us to build up our offshore development competencies.

That said, we are not going to stay put and will continue moving forward. Therefore, I am confident that in 2020 all our business lines will continue growing fast.
Message from Rosneft’s Chief Executive Officer, Chairman of the Management Board

"2019 has been a successful year for the Company. We kept working consistently towards our 2022 strategic goals approved by the Board of Directors.

Igor Sechin
Chairman of the Management Board and Chief Executive Officer"

Dear shareholders and investors,

2019 has been a successful year for the Company. We kept working consistently to implement the Rosneft-2022 Strategy approved by the Board of Directors and delivered strong results across a variety of business lines, which helped us cement our leadership in the energy market.

Notwithstanding the existing OPEC+ arrangement and limitations on oil intake by Transneft trunk pipelines, we managed to maintain hydrocarbon production at a record high of 285.3 mmbtce, with the average daily output standing at 5.8 mmbtce. These strong results were due to the launch of greenfield projects, sustained production at brownfields and the use of cutting-edge technologies. At Bashneft’s Ilheusky field, we piloted Digital Field, the industry’s unique information system covering all key oil production and logistics processes. This project is expected to have an annual economic impact of some RUB 1 bln on Bashneft alone, and will be further rolled out to other assets.

In the reporting year, we also carried on with the cluster development of our fields. In June, we put on stream the Zapadno-Erginskoye field (Erginsky cluster) and started infrastructure development and preparations for commercial production at the Severo-Danilovskoye oil and gas condensate field, the first of four fields in the Danilovsky cluster.

Another important milestone was the start of developing a new oil and gas province on the Tamyr Peninsula in Northern Russia, as part of the Vostok-Oil project. Its reserve base amounts to nearly 5 bt of crude oil. The key advantage of this project, which we plan to develop together with partners, is its close proximity to the unique Northern Sea Route. This will enable us to supply crude oil to both Europe and Asia, while also increasing cargo flow along the Northern Sea Route in line with the instructions of the Russian President. Going forward, we plan to create a new world-class cluster unmatched anywhere else.

In 2019, oil refining volumes amounted to 110 mmt, with more than 10 mmt attributable to the Company’s foreign refineries. These volumes were sufficient to meet the domestic demand and honour our commitments with respect to stable and secure supply of petroleum products. Wholesale shipments of motor fuels grew almost 4% year-on-year, coming close to 30 mmt. On the exchange, we sold 2.3 times more motor gasoline and twice as much diesel fuel as required by the Government. Domestic retail sales of motor fuels went up 6% compared to 2018.

On a separate note, we started producing the first hydrotreating catalysts capable of fully replacing similar foreign products to reduce the dependence of the Russian refining industry on imported technologies. Industrial tests on the first batch of these catalysts proved to be a success.

Our Rosneft-2022 Strategy efforts have already yielded tangible results, which is best illustrated by stronger financials, in particular net income and dividends. In 2019, our net income attributable to shareholders increased by 29% to RUB 708 bln. Our revenue went up by 5.3% to a record high of RUB 8.7 trln, while operating profit before depreciation and amortisation grew by 1.2% to RUB 2.1 trln. In 2019, our free cash flow amounted to RUB 884 bln, remaining in the positive territory for nearly eight years running.

These achievements gave a boost to our market capitalisation, which increased by 17% in 2019 and by over 44% since the launch of the Strategy. This proves that we are on the right path.

We confirmed our role as Russia’s largest exporter and a systematically important company, with contributions to the national budget coming close to RUB 3.6 trln over the year.

Maximising shareholder returns is a key priority for the Company’s management. For the full year, our dividends reached an all-time high of roughly RUB 283 bln (up 25% year-on-year), with nearly RUB 141 bln attributable to the Russian Government.

We are successfully developing our trading business. In 2019, we opened an office in Singapore to trade in oil and petroleum products. The new division has already delivered impressive results, with feedstock supplies to Asian countries in 2019 reaching 79.7 mmt. We are strengthening our efforts in the traditional sales markets, too. In 2019, we signed contracts to supply up to 1.2 mmt and 15.1 mmt of oil to Poland and the Czech Republic, respectively.

In the past 20 years Rosneft became one of the global energy leaders and the largest publicly-traded company in the world by production and reserves volumes. Our employees received awards from the Government for their outstanding achievements and contribution to the national economy. I am confident that this high-level recognition will help us strengthen our position both in the Russian and international markets.
Assets and Regions of Operation

23 countries of operation
78 regions of operation in Russia
6% share in global oil production
13 refineries in Russia

Average hydrocarbon production growth in 2009–2019, %
Hydrocarbon production in 2019, mmbd per day
Hydrocarbon production costs in 2019, USD per boe
AB1C+2C2 hydrocarbon reserves, bboe as at 1 January 2020

Sources: company reports, Wood Mackenzie (Gazprom).
Source: company reports for 2019.
Source: company reports for 2019.
Data on Rosneft is provided according to the Russian resource classification system (AB1C+2C2) as at 1 January 2020; data on other companies is based on Wood Mackenzie’s appraisal and includes commercial and sub-commercial reserves.
Mission and values

Our mission is to unlock energy potential through the development of projects in Russia and abroad, ensure energy security, and promote the sustainable use of natural resources.

Business principles

**SUSTAINABLE DEVELOPMENT**
- Commitment to 17 UN Sustainable Development Goals, with a focus on five priority ones
- Becoming a global leader that ensures accident-free operations, protects health and safety of its employees and local communities in the regions of operation, and minimises its environmental footprint
- Preserving the environment for future generations

**FINANCE AND INVESTMENTS**
- Enhancing project management
- Maintaining operational leadership
- Ensuring high shareholder returns

**CORPORATE GOVERNANCE**
- Developing organisational capabilities and human resources
- Commitment to strong business ethics

**ADVANCING TECHNOLOGY**
- Digitalising the entire business
- Creating a sustainable technological advantage
- Technology partnerships
- Fostering in-house research and development
- Localising manufacturing
World-class resource base and efficient production assets

Modern refineries

PETROLEUM PRODUCTS

SALES

Revenue

PETROLEUM PRODUCTS SALES

REVENUE

RUB 8,676 bln

PETROLEUM PRODUCTS SALES

SALES

RUB 3,897 bln

OIL SALES

SALES

RUB 4,234 bln

OIL SALES

In Russia: 42 mmt

Abroad: 70 mmt

116 mmt petroleum products and petrochemicals

3 mmt petrochemicals

9 mmt petroleum products purchase

Crude oil

282 mmt of crude oil

230 mmt PRODUCTION

Modern refineries

OIL REFINING

PRODUCTION

In Russia: 100 mmt

Abroad: 10 mmt

52 mmt petroleum products

9 mmt petroleum products purchase

Extensive logistics and distribution network

in Russia: 67 bcm

Abroad: 5 bcm

67 bcm PRODUCTION

7 bcm purchase

74 bcm of gas

INTERNATIONAL CONSUMPTION, ETC.

other 186 mmt

12 bcm

RUB 259 mln

GAS SALES

SALES

RUB 259 mln

In Russia: 57 bcm

Abroad: 5 bcm

621 kt of CO

eq. reduction of GHG emissions

> 90 %

share of water recycled and reused

> 12 filling stations retail sales of compressed natural gas

> 700 patients issued

> RUB 11 bln innovations impact

> 88 %

high success rate of onshore exploration drilling in Russia

> RUB 9 bln allocated for social projects

> 621 km production of Euro 6 gasoline with enhanced environmental properties

1.7 mmt of CO

eq. reduction of GHG emissions

> RUB 0.9 trln investments

> USD 25 bln of foreign investments since 2014

Capital (resources)

Financial

RUB 2.105 bln EBITDA

24 % EBITDA margin

RUB 283 bln dividends

Social and reputational

RUB 3.5 trln allocated for social projects

Human

1.9 x salary vs. the country’s average

#1 employer in Russia’s oil industry

Intellectual

> 700 R&D and design institutes

Natural

23 countries of operation

In Russia: 6 refineries

Abroad: 13 refineries

#1 public company worldwide by production volume

#1 largest integrated oilfield services

Earnings

RUB 708 bln net income

ROSNEFT ANNUAL REPORT 2019
Company Structure

Exploration and Production

**Exploration**
- **Russia**
  - LLC RN-Exploration
  - LLC RN-Shelf Arktika
  - JSC Elbury Neftegaz
  - LLC Yermak Neftegaz
- **Brazil**
  - Rosneft BRASIL E&P LTDA
- **Norway**
  - RN Nordic Oil AS
- **Iraq**
  - Bashneft International B.V.
  - RN BVK
- **Kurdistan**
  - RN-Qanor Pte. Ltd.

**Services**
- **Russia**
  - LLC RN-Service
  - LLC RN-Burenye
  - LLC RN-GRP
  - LLC Intellectualy Sistemy
  - LLC Bashneft-Petrotest
  - LLC RN-Transport

**Production**
- **Timan-Pechora**
  - LLC RN-Severnye Neft
  - LLC Bashneft-Polyus
- **Far East**
  - Sakhalin-1
  - JSC Sakhalin-Shelf Far East
  - LLC Sakhalinmorneftegaz
- **Western Siberia**
  - LLC RN-Yuganskneftegaz
  - LLC RN-Purneftegaz
  - JSC Tomskneft VN
  - LLC RN-Uvatneftegaz
  - JSC Samotlorneftegaz
  - JSC RN-Nygasneftegaz
  - JSC Nizhnevartovsk Oil and Gas Producing Company
  - JSC Sibneftegaz
  - LLC Kynsko-Chuseliskoe Neftegaz
  - JSC Tyumenneftegaz
  - JSC Messyaykhaneftegaz
  - PJSC Varyaganeftegaz
- **Southern Russia**
  - PJSC NGO Slavneft
  - LLC Sorodovneft
  - JSC Yugraneftegaz Corporation
  - LLC Severo-Yaroganskoye
  - JSC Kondaneft
  - LLC Kharampurneftegaz
  - LLC Siv-KomNeftegaz
  - LLC SKN
- **Eastern Siberia**
  - JSC Verkhnechonskneftegaz
  - JSC Vankorsneft
  - JSC Vostosneftegaz
  - LLC RN-Vankior
  - LLC Taish-Yuriahl
  - Neftegazodobytya
  - JSC Suzei
  - LLC Tagulskske
  - JSC Bratskneftegaz
- **Central Russia**
  - JSC Samaraneftegaz
  - OJSC Udmurtneftegaz
  - JSC Orenburgneft
  - LLC Bashneft-Dobycha

**Refining and Sales**

**Refining**
- **Russia**
  - JSC Angarsk Petrochemical Company
  - JSC Achinsk Refinery VNK
  - LLC RN-Komsomolsk Refinery
  - JSC Novosibirskneftegaz Refinery
  - JSC Kobyshnev Refinery
  - JSC Syzran Refinery
  - LLC RN-Tuapse Refinery
  - PJSC Sanazov Refinery
  - JSC Ryazan Oil Refining Company
  - LLC Nizhnevartovsk Oil Refining Association
  - PJSC Slavneft-YANOS Integrated Ufa Refinery
  - (Bashneft-Ufaneftekhkim, Bashneft-Kuyolov and Bashneft-Unipetz)
  - LLC Krasnoyelensky Refinery
  - LLC Purneftepererabotka

**Sales**
- **Russia**
  - LLC Novosibirskneftegaz Oils and Additives Plant
  - PJSC Rosneft – MP Nefteprodukt
- **Petrochemicals and catalysts**
  - JSC Angarsk-Polymer Plant
  - JSC Angarsk Plant of Catalyts and Organic Synthesis
  - JSC Novosibirskneftegaz Petrochemical Company
  - LLC Novosibirskneftegaz Catalyst Plant
  - PJSC Ufaorgsintez
  - LLC RN-Kat.
- **Gas processing**
  - JSC Dzhardinsky Gas Processing Plant
- **Oil plants**
  - LLC Novosibirskneftegaz Oils and Additives Plant
  - PJSC Rosneft – MP Nefteprodukt
- **Technology**
  - JSC Kerelaneftefertoprodukt
  - PJSC Saratovnefteprodukt
  - LLC RN-Yaroslavl
  - LLC RN-Chernozemye
  - JSC Uralnefteorgsintez
  - LLC PTK
- **Belarus**
  - LLC RN-Trans
  - LLC RN-Minsk
- **Mongolia**
  - LLC RN-Mongolia
  - LLC Mongavain
- **Krygyzstan**
  - PJSC RN-Kyrgyznefteprodukt
  - JSC Ujunovnefteprodukt
  - JSC Saryansnefteprodukt
  - JSC Buryatnefteprodukt
  - JSC Tambovnefteprodukt
  - JSC Khabarovnefteprodukt VN
  - JSC RN-Tver
  - PJSC Rosneft-Karachayev-
  - Cherkessnefteprodukt
  - LLC RN-Ingushnefteprodukt
  - PJSC Rosneft-
  - Yamalnefteprodukt
  - LLC RN-Severno-Zapad
  - JSC Belgorodnefteprodukt
  - JSC Kustanaynefteprodukt
  - JSC Orenbnefteprodukt
  - LLC RN-Zapad
  - LLC RN-Aero
  - PJSC Tulaneftnefteprodukt VN
  - LLC RN-Volgograd
  - LLC RN-Aero
  - LLC RN-Rostovnefteprodukt
  - LLC RN-Burun
  - LLC RN-Kuzbass
  - LLC RN-Lipetsknefteprodukt
  - JSC Krasnoyelensky Refinery
Strategy of the Company
Our Rosneft–2022 Strategy efforts are linked to the priorities of Russia’s development and aligned with the UN Sustainable Development Goals. In 2019, the Company made progress against all the core strategic priorities – increasing profitability, completing key projects, and transforming the culture and technological capability. We are also working on various projects designed for employee development, contributing to social welfare of regional communities and minimising our environmental footprint.
SUSTAINABLE DEVELOPMENT

Ensuring global leadership in accident-free operations, safe workplace conditions, protecting health of local residents in the regions where the Company operates, and minimising environmental footprint.

An integrated approach to sustainable development

Advanced technology powering sustainability initiatives

- developing an integrated technology for the treatment of oil sludge containing natural-occurring radionuclides
- developing a comprehensive, scalable technology for the prolonged action disposal of drilling waste
- developing chemical methods of oil spill response with a focus on dispersants for offshore areas
- creating a microbial agent for eliminating hydrocarbon pollution in the Arctic seas
- testing a telemonitoring solution to detect gas leaks using laser gas sensors
- testing an APG desulphurisation plant using a microporous membrane technology

>3.1 mmt CO₂-eq. greenhouse gas emissions avoided since the strategy launch

RUB 55 bln contribution to occupational health and safety

1 mln trees planted in 2019 as part of forest conservation initiatives

STRAATEGIC OBJECTIVE

Ensuring global leadership in accident-free operations, safe workplace conditions, protecting health of local residents in the regions where the Company operates, and minimising environmental footprint.

The Company’s achievements are confirmed by international ratings

- CDP ratings in Climate and Water categories
- ESG score from Refinitiv Rosneft among Top 5 in the industry
- An industry leader according to Bloomberg

STRENGTHENING ENVIRONMENTAL AND SOCIAL RESPONSIBILITY POSITIONS

- Rosneft has joined the Guiding Principles on Reducing Methane Emissions Across the Natural Gas Value Chain – an initiative of leading international oil and gas companies
- Rosneft regularly updates its public statement on the Company’s contribution towards achieving the 17 UN Sustainable Development Goals (the document can be found on the Company’s website)

GAS INVESTMENT PROGRAMME

23 APG utilisation facilities built in 2019

ENVIRONMENTAL EFFICIENCY IMPROVEMENT PROGRAMME

73 % reduction of fugitive methane emissions in Exploration and Production operations

ENERGY SAVING PROGRAMME

0.9 mmtoe energy savings within the programme

MARINE BIODIVERSITY CONSERVATION PROGRAMME

> RUB 100 mln. total investments within the programme in 2019
DIGITAL TRANSFORMATION AND TECHNOLOGY

**EXPLORATION AND PRODUCTION**

- Digital Field, remote drilling and production control centres, IoT, Big Data
- Industry’s first Digital Field covering all major oil production and logistics processes
- Automated data collection systems
  - 99% of drilling rigs
  - 89% of wells
  - 86% of production

- A pilot computer vision project to detect personnel in hazardous areas, monitor use of personal protective equipment and transmit emergency alerts
- Six detailed 3D models of production assets have been created for the common oilfield monitoring environment
- A machine learning technology successfully deployed to predict pump failures in production

- Enhance in-house technology capabilities, cable-free seismic systems, advanced MSHF techniques with numerous stages; establish a tech park to test technologies

**Unique solutions**

| 600 t per day | an initial flow rate of the multilateral two-string horizontal fishbone well, first of its kind in Yuganskneftegaz |
| 7.4 days | a new industry record for the fastest two-string horizontal well construction |
| 10 thousand hydraulic fracturing operations | carried out using the RN-GRID simulator |
| 200 licences | for the RN-GRID hydraulic fracture simulator sold to service and petroleum companies |
| 15 downhole splitters | built in a single multilateral well with the biggest metreage drilled inside a pay zone in Russia (over 10,3 thousand metres); the wells complex fishbone design provides an initial flow rate of over 400 t per day |
| An innovative seismic acquisition system developed in cooperation with BP helps to operate in hard-to-reach areas and delivers geological data of high informative value |
| 4 new software modules | - an integrity monitoring system for oilfield pipelines (RN-SMT) |
| | - a hydrodynamic simulation unit (RN-KIM) |
| | - a geological simulation unit (RN-Geosim) |
| | - an oil and gas production process simulation unit (RN-Sintep) |

**OIL REFINING AND PETROCHEMICALS**

- Digital Plant
  - 12 units at refineries advanced process control systems implemented
  - 3 refineries automated stock-taking systems

- Automation and robotisation
  - Digital twins of production process engineering models are being introduced
  - Digital solutions for comprehensive personnel monitoring and application of computer vision are being developed

- A pilot project to introduce a system for optimised blending of petroleum products implemented
- Work on the introduction of a RN-Predix-based cloud system for data collection, storage and processing in progress

- Global asset performance management system to extend functional operation times between repairs
- Meridium-based predictive analysis systems for comprehensive monitoring of critical equipment being implemented

**COMMERCE, LOGISTICS AND RETAIL**

- Digital Filling Station and Digital Supply Chain programmes
  - A Digital Core for Commerce and Logistics developed
  - A Digital Fleet prototype developed on the basis of the Failure Detection in Vessel Operations and Smart Monitoring of Cargo Operations digital scenarios
  - 100% of BP filling stations allow payment from inside the car
  - Rosneft’s retail chain was first in Russia to launch a fuel payment service via a mobile app for corporate customers

- Automation and robotisation
  - Improve accounting systems to reduce losses
  - A pilot automated information system for oil depot facilities implemented

- 100% of gas tanker trucks equipped with fuel level sensors connected to the in-vehicle monitoring system

**>RUB 36 bln**

Impact of innovative solutions introduced over the last three years

- 152 technologies tested in 2019
- 116 technologies implemented and rolled out in 2019

- Russia’s first-ever additive package for all-season hydraulic oils patented
- Tests completed for streamlining dispersant and depressor additives for diesel fuels with a view to creating in-house production
- Tests on a pilot batch of hydrotreating catalysts for diesel mixtures conducted
- A hydrogenation technology for converting acetone into isopropanol tested at a pilot facility
- A technology to produce isopropyl-tertiary butyl alcohol using heterogeneous catalysts developed
- A line of guard catalysts and materials for catalytic reactors developed

**At year-end 2019**

- 2019 results
Progress against strategic objectives and priorities

EXPLORATION AND PRODUCTION

100% LIQUID HYDROCARBONS RESERVE REPLACEMENT RATIO AND ORGANIC GROWTH

- Increase the success rate of onshore exploration drilling in Russia
  - 88% record-high success rate of onshore exploration drilling in Russia
- Optimise Russian onshore field development (increase the share of new horizontal wells)
  - 19.6 mmt production increase due to new well start-ups
- Reduce declines in basic production
  - 5 X slowdown of the Samotlor production decline rate
- Commission large-scale projects on time and on budget
  - 1 field started commercial operation
  - Preparation for launching large projects in Western and Eastern Siberia is in progress

MORE EFFICIENT SERVICE

- Decrease non-productive time to 5%
  - <5% maintaining a low proportion of the non-productive time
- Increase technical availability and speed up fleet upgrade
  - 5 new hi-tech hydraulic fracturing fleets since the strategy launch
- Ensure a high share of in-house drilling services used by the Company
  - 56% share of in-house services in the Company’s total drilling metrage

IMPROVED PERFORMANCE

- Engage in partnerships for capital intensive and high risk projects
- Equinor:
  - decision to start the first stage of the Severo-Komsomolskoye full-scale development approved
  - siliceous-carbonate reservoirs in Domanic deposits tested
- BP:
  - continuation of the Yermak Neftegaz project
  - intensified production at the Samotlor field
- Optimise capex (by 10% for similar well design, by 10% for linear objects)
  - Optimise opex (by 2–3% per year on a comparable basis)
- Reduce opex (by 2–3% per year on a comparable basis)
  - 2.2% reduction of opex on a comparable basis

INCREASING TECHNOLOGICAL EDGE

- Develop Turonian deposits
  - 15 bcm per year production potential of the Kharampurskoye field’s Turonian deposit, pilot operation started
- Increase APG utilisation, e.g. through the development of captive power generation and petrochemicals
  - 23 new APG utilisation facilities. The APG utilisation rate reached 89.3%
- Develop liquid petroleum gas (LPG) and natural gas liquids (NGL) production

GAS

COMMISSIONING PROJECTS ON TIME AND ON BUDGET

- Produce over 100 bcm
  - 76 mmcm per day the strategic Zohr field offshore Egypt reached the planned daily production rate ahead of schedule
- Implement major gas production projects, including Rospan and Kharampur
  - Rospan: construction of key facilities in the final phase
  - Kharampur: construction and installation of major production facilities in progress

IN THE FUTURE

- Monetise gas reserves of Eastern Siberia and the Far East, including through petrochemicals development
- Rosneft and Beijing Enterprises Group are jointly exploring the Verkhnechonskoye oil and gas condensate field in the Irkutsk Region and studying the opportunities for gas monetisation

Not including fields in early development stages
Long-Term Development Programme and Progress Report

Originally developed in 2014, the Long-Term Development Programme (the Programme) is subject to annual update.2

In 2019, we revised the Programme, taking into account the Company’s performance results, granular action plans to achieve certain long-term goals and updated initiatives drafted pursuant to the Russian Government directives2. The updated Programme was approved by the Company’s Board of Directors (Minutes No. 11 dated 25 December 2019).

The Programme details the Company’s strategic focus areas, targets and goals for all business areas and corporate functions. It also includes a list of key initiatives to implement the strategy in the medium term.

The main priorities, key performance indicators (KPIs) and actions plans under the current Innovation Development Programme (Research, Design, and Innovations section), the Import Substitution and Equipment Localisation Programme (Localisation and Development of Industrial Clusters section), the Energy Saving Programme (Energy Efficiency and Energy Saving section) take into account the Programme provisions and are integrated into the current version of the document.

Performance indicators include an integrated KPI for innovations. Rosneft’s Investment Programme aims to help the Company achieve its strategic objectives in key business areas stipulated in the Strategy and the Programme (Investment Programme in 2019 section).

We completed the Programme’s key initiatives planned for core businesses and functional units for 2019. For the Programme outcomes in 2019, see the Performance Results section.

Ernst & Young, an independent auditor, reviewed the Programme results. Based on the review, the independent auditor issued an opinion on whether the Progress Report fairly presents the past year’s performance under the Programme, and whether the reasons given therein to substantiate deviations of actual results from the 2019 targets are fair. The opinion was received on 21 April 2020.

The Programme envisages a reserve replacement ratio of at least 100%, efficient brownfield operation and production ramp-up driven by new projects in Eastern Russia, development of hard-to-recover reserves, cost-effective offshore development, gas output growth secured by a long-term high-performing sales portfolio, and stronger margins across the entire value chain.

In implementing the Programme, we focus on cost effectiveness and KPI targets for all key initiatives.

1 In accordance with Instruction of the President of the Russian Federation Vladimir Putin No. 3306 dated 27 December 2013, approved by Rosneft’s Board of Directors on 9 December 2014 (Minutes No. 12).

2 In accordance with the Russian Government Directive No. 4955-P13 dated 17 July 2014 and the Long-Term Development Programme.

As per the new GOST 33133-201 standard.

As per the new GOST 33133-201 standard.
KPI Structure

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

KPI Progress

To calculate annual bonuses for managers and employees, the Company analyses progress against KPIs following the review of the annual performance based on the management accounts and audited public financial statements. The Company’s Internal Audit Service annually assesses the performance against corporate and individual KPI set for the reporting period to calculate annual bonuses for the management of the Company and Group Subsidiaries. The audit results for top managers are subject to review by the HR and Remuneration Committee of the Board of Directors. The Board of Directors makes resolutions regarding annual bonus payments and their size depending on the management’s progress against their KPIs.

Actual KPI progress

<table>
<thead>
<tr>
<th>KPI</th>
<th>2019 (actual)</th>
<th>Progress in 2019</th>
<th>Progress in 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on average capital employed (ROACE)</td>
<td>15.7</td>
<td>Above target</td>
<td>Above target</td>
</tr>
<tr>
<td>Financial leverage (net debt / EBITDA)</td>
<td>1.4</td>
<td>Above target</td>
<td>Above target</td>
</tr>
<tr>
<td>Injury rate, %</td>
<td>98.8</td>
<td>Above target</td>
<td>Above target</td>
</tr>
<tr>
<td>Integrated KPI for innovations</td>
<td>100</td>
<td>On target</td>
<td>On target</td>
</tr>
</tbody>
</table>

1 Approved by the Board of Directors (Minutes No. 27 dated 6 April 2019).
2 Approved by Order No. 730 dated 12 December 2019.
3 In RUB.
4 Based on the management accounts.
Investment Programme in 2019

Rosneft’s 2019+ investment programme was approved as part of the 2019-2020 Business Plan at the Board of Directors meeting held on 20 December 2018 (Minutes No. 12 dated 20 December 2018).

The investment programme comprises high-quality projects across all business segments. These projects seek to help the Company deliver on its strategic goals, including an increase in profitability, hydrocarbon production growth, reserves addition, launching projects on time and on budget, enhancing operational and investment efficiency, and minimising the environmental footprint.

We rank, optimise and balance our portfolio against the criteria established for all business lines to incorporate high-potential cost-effective projects with minimum risk exposure.

USD 6.1 per boe Exploration and Production unit capex

Despite our extensive investment programme, we retain leadership in terms of exploration and production unit capex, which amounted to USD 6.1 per boe in 2019. At the same time, we deliver on our targets of hydrocarbon production growth and continue to optimise our investment portfolio.

In 2019, Exploration and Production accounted for ca. 91% of our investments, including 6% going to gas projects, and 8% to Refining, Commerce and Logistics.

Exploration and Production

In 2019, Exploration and Production capex totalled RUB 775 bln. These investments are aimed at maintaining and developing mature and new oil and gas assets to meet the strategic goals of ramping up production to 250 mmt of liquid hydrocarbons and over 100 bcm of gas by 2022 and achieving a reserve replacement ratio of at least 100%.

In 2019, capital investments in mature onshore and offshore fields generating a stable positive cash flow amounted to ca. RUB 440 bln, or over 50% of the Company’s capex.

Thanks to the commissioning and full-scale development of major and new offshore and onshore projects, we are well-positioned to increase and replace oil production at mature fields with high-value added competitive barrels. We use the industry’s best management practices to implement our projects.

In 2019, our capex on major and new onshore and offshore projects amounted to ca. RUB 270 bln, or around 32% of total investments.

In the reporting year, the share of international projects in our total hydrocarbon output approached 14%, with further growth possible depending on exploration results.

International projects, especially those on priority markets, account for about 7% of all our investments. They primarily focus on establishing partnerships to share risks, co-finance expenditures and maximise the efficiency through technology exchange.

In 2019, Exploration and Production capex included: 91% of investments in Upstream projects; 8% in Downstream; and 2% in Other.

Strategy of the Company

Operating Results

Market Overview

Sustainable Development

Corporate Governance

Information for Shareholders and Investors

Unit CAPEX, USD/boe

Compared to oil majors listed on Western stock exchanges.

Investment Programme in 2019

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Unit CAPEX, USD/boe

Compared to oil majors listed on Western stock exchanges.
Refining, Commerce and Logistics

In 2019, Refining, Commerce and Logistics capex totalled RUB 67 bn.

Investments in Refining, Commerce and Logistics focus on highly cost-efficient projects to construct and upgrade process units and facilities at refineries, expansion of oil depots, marine terminals and aircraft refuelling facilities (used by the civil aviation and the Ministry of Defence), continued efforts in import substitution of catalysts and additives, and the programme to maintain existing capacities. Current priority areas are the construction of hydrocracking and cat cracking facilities along with efficiency improvements. We expect these projects to give a boost to our refining margins, light product yields and the output of high-quality petroleum products.

Investment Process

Our investment process hinges on the following key principles and objectives:

- focus on the UN Sustainable Development Goals (SDGs) in line with our strategy to help achieve meaningful progress in addressing global economic, social and environmental challenges;
- honouring the Company’s strong social responsibility commitments as regards health, safety and environment, quality of life for employees and their families, support of education, and contribution to the social and economic development of local communities;
- consistent improvement of Rosneft’s performance across all business lines through an in-depth analysis of investment needs, bolstering the knowledge and expertise of investment managers, and business project monitoring;
- robust business growth by investing in competitive and high-value-added projects, increasing investment returns, consistently optimising the project portfolio, and mitigating investment risks;
- strengthening investment discipline through comprehensive project screening and improving relevant identification and classification processes.

Rosneft’s investment management process is integrated with all related processes, including strategic and business planning, budgeting, reporting and financial control, project management and corporate governance. It covers the following areas:

- discipline and responsibility: business projects are approved through decision-making delegation within the permitted limits as per the investment mandate following a regulated comprehensive due diligence;
- investment decision-making: sound investment decisions, shorter periods of approval and review of investment memoranda, responsibility of investment project owners and supervisors for compliance with timelines, budget, efficiency and performance criteria;
- monitoring and control: regular and robust project monitoring at all levels, change management process; automated control of investment decision availability when assuming financial obligations (the two-key principle) at all stages of project planning and implementation;
- portfolio analysis: building a balanced portfolio of projects and flexible management; comprehensive project ranking and optimisation based on established criteria; the strategy and current priorities; use of scenario analysis tools;
- IT development and automation: automating the investment project management and processes to keep track of target, actual and projected metrics by project.

Key Principles of Investment Management

1. Availability of all required investment decisions
2. Performance above the minimum threshold for each project
3. Two-key principle
4. Standardisation
5. Authority delegation
6. Comprehensive due diligence
7. Project responsibility
8. Monitoring
9. Compatibility with project stages
10. Alignment with related processes

DELEGATING: INVESTMENT BODIES AND LIMITS OF AUTHORITY

<table>
<thead>
<tr>
<th>Limits of authority</th>
<th>Investment Bodies</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;USD 1,500 mn</td>
<td>Board of Directors</td>
</tr>
<tr>
<td>USD 500–1,500 mn</td>
<td>Management Board</td>
</tr>
<tr>
<td>USD 200–500 mn</td>
<td>Investment Committee</td>
</tr>
<tr>
<td>USD 0–200 mn</td>
<td></td>
</tr>
</tbody>
</table>

Portfolio Management

- Strategic objectives and priorities
- Ongoing projects
- Investment initiatives
- Individual project results
- Overall portfolio results
- Improvement recommendations
- Market Overview and Competitive Environment
- Resource and financing constraints
- Threshold cost efficiency and profitability
- Investment distribution
- Project approval, cancellation, completion
- Value creation (NPV)
02

Operating Results
### Key Operating and Financial Results

#### Key Operating Results

<table>
<thead>
<tr>
<th>Metric</th>
<th>2019</th>
<th>2018</th>
<th>Δ</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proved SEC reserves of liquid hydrocarbons, mmt</td>
<td>3,935</td>
<td>3,899</td>
<td>1%</td>
<td>3,792</td>
</tr>
<tr>
<td>Proved PRMS reserves of liquid hydrocarbons, mmt</td>
<td>4,383</td>
<td>4,377</td>
<td>0%</td>
<td>4,404</td>
</tr>
<tr>
<td>Proved SEC reserves of Marketable gas, bcm</td>
<td>2,119</td>
<td>2,085</td>
<td>3%</td>
<td>1,949</td>
</tr>
<tr>
<td>Proved PRMS reserves of Marketable gas, bcm</td>
<td>2,452</td>
<td>2,420</td>
<td>1%</td>
<td>2,309</td>
</tr>
<tr>
<td>PRMS hydrocarbon reserves-to-production ratio, years</td>
<td>23</td>
<td>23</td>
<td>0%</td>
<td>23</td>
</tr>
<tr>
<td>Production of liquid hydrocarbons, mmt</td>
<td>230.2</td>
<td>230.2</td>
<td>0%</td>
<td>225.5</td>
</tr>
<tr>
<td>Natural gas production, bcm</td>
<td>67.0</td>
<td>67.3</td>
<td>0%</td>
<td>68.4</td>
</tr>
<tr>
<td>Oil exports, mmt</td>
<td>149.4</td>
<td>123.7</td>
<td>21%</td>
<td>121.8</td>
</tr>
<tr>
<td>Oil refining, mmt</td>
<td>110.2</td>
<td>115.0</td>
<td>-4%</td>
<td>112.8</td>
</tr>
<tr>
<td>Petroleum product and petrochemicals output, mmt</td>
<td>107.5</td>
<td>111.7</td>
<td>-4%</td>
<td>109.1</td>
</tr>
<tr>
<td>Petroleum product and petrochemicals export, mmt</td>
<td>71.1</td>
<td>73.7</td>
<td>-5%</td>
<td>71.9</td>
</tr>
<tr>
<td>Domestic sales of petroleum products, mmt</td>
<td>14.5</td>
<td>13.7</td>
<td>6%</td>
<td>11.5</td>
</tr>
</tbody>
</table>

#### Key Financial Results

<table>
<thead>
<tr>
<th>Metric</th>
<th>2019</th>
<th>2018</th>
<th>Δ</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues and equity share in profits of associates and joint ventures, RUB bln</td>
<td>8,676</td>
<td>8,238</td>
<td>5%</td>
<td>6,011</td>
</tr>
<tr>
<td>EBITDA, RUB bln</td>
<td>2,105</td>
<td>2,081</td>
<td>1%</td>
<td>1,400</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>24.0%</td>
<td>24.8%</td>
<td>-0.8 p.p.</td>
<td>22.6%</td>
</tr>
<tr>
<td>Taxes and customs duties, RUB trln</td>
<td>3.7</td>
<td>4.0</td>
<td>-8%</td>
<td>2.6</td>
</tr>
<tr>
<td>Net income, RUB bln</td>
<td>805</td>
<td>649</td>
<td>24%</td>
<td>297</td>
</tr>
<tr>
<td>Net income margin</td>
<td>9.3%</td>
<td>7.9%</td>
<td>1.4 p.p.</td>
<td>4.9%</td>
</tr>
<tr>
<td>ROACE</td>
<td>15.7%</td>
<td>17.4%</td>
<td>-1.7 p.p.</td>
<td>11.5%</td>
</tr>
<tr>
<td>ROAE</td>
<td>14.3%</td>
<td>12.3%</td>
<td>2 p.p.</td>
<td>5.6%</td>
</tr>
<tr>
<td>Capex, RUB bln</td>
<td>854</td>
<td>936</td>
<td>-9%</td>
<td>922</td>
</tr>
<tr>
<td>Capex in exploration and production, USD/boe</td>
<td>6.1</td>
<td>6.8</td>
<td>-10%</td>
<td>7.1</td>
</tr>
<tr>
<td>Unit opex in production, USD/boe</td>
<td>3.1</td>
<td>3.1</td>
<td>0%</td>
<td>3.2</td>
</tr>
<tr>
<td>Free cash flow, RUB bln</td>
<td>884</td>
<td>1,133</td>
<td>-22%</td>
<td>245</td>
</tr>
<tr>
<td>Dividend per share, RUB</td>
<td>33.41</td>
<td>25.91</td>
<td>29%</td>
<td>10.48</td>
</tr>
<tr>
<td>Total accrued dividends, RUB bln</td>
<td>354.1</td>
<td>274.6</td>
<td>29%</td>
<td>111.1</td>
</tr>
</tbody>
</table>

---

1 Including dividends for the first six months of 2019 and dividends recommended by the Board of Directors to be approved at the General Shareholders Meeting in May 2020.

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### Company Results

**Proved Reserves of Liquid hydrocarbons, mmb**

**Proved Reserves of Natural Gas, bcm**

**Hydrocarbon Reserve Replacement Ratio, SEC, %**

**Production of Liquid hydrocarbons, mmt**

**Natural gas production, bcm**

**Unit OPEX in hydrocarbon production, RUB/boe**

- In 2019, the company produced 4.67 mmb per day (238.2 mmt per year) of liquid hydrocarbons, flat year-on-year. This was achieved despite external restrictions such as compliance with the extended OPEC+ agreement along with the temporarily limited oil acceptance by Transneft’s trunk pipelines.
- In 2019, gas production amounted to 67.0 bcm, unchanged year-on-year (with minor deviations).
- Unit production volumes for 12M 2019 was RUB 199 per boe (USD 3.1 per boe), up 2.6% year-on-year and below the producer price inflation rate of 2.9%. The increase is mainly due to higher costs of electricity, related transportation costs and payroll.

---

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

**EBITDA and Net Profit, RUB bln**

**Revenue, RUB bln**

- OPEX at our Russian refineries and opex per tonne of refined oil for 12M 2019 increased by 6.3% (unit opex up 9.5%) year-on-year due to the growing tariffs of natural monopolies and salary indexation.
- EBITDA for 12M 2019 grew by 1.2% year-on-year due to an increase in oil sales, mostly in eastern direction (+34.6%), and effective cost control.
- A 24.9% year-on-year rise in net income in rouble terms was driven by positive changes in operating profit and a decrease in financial and other expenses.

- A 5.3% revenue increase in 12M 2019 was mainly caused by expanding oil sales (+20.1%) against the backdrop of lower oil prices globally (-6.2%).

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**Proved Reserves of Liquid hydrocarbons, mmb**

**Proved Reserves of Natural Gas, bcm**

**Hydrocarbon Reserve Replacement Ratio, SEC, %**

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

**EBITDA and Net Profit, RUB bln**

**Revenue, RUB bln**

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1 Including dividends for the first six months of 2019 and dividends recommended by the Board of Directors to be approved at the General Shareholders Meeting in May 2020.
Rosneft’s Exploration and Reserve Replacement

In 2019, Rosneft confirmed its leading positions in resource base and exploration efficiency. The Company continued to increase hydrocarbon production, while also ensuring full replacement of reserves.

- **13.1 bln tonnes** total oil and gas condensate reserves in Russia
- **21.0 tcm** total gas reserves in Russia
- **24.2 bln tonnes** offshore oil and gas condensate resources
- **7.7 tcm** offshore gas resources
- **1.2 tcm** onshore gas resources
- **1.2 bln tonnes** onshore oil and gas condensate resources
- **3.4 bln tonnes** onshore oil and gas condensate resources

**Western Siberia**

- **8.1 bln tonnes** total oil and gas condensate reserves
- **4.6 tcm** total gas reserves

- **144 bboe** (19.5 btoe) AB1C1+B2C2 hydrocarbon reserves in 2019
- **531 mmtoe** replacement of AB1C1 hydrocarbon reserves, including acquisitions
- **185%** hydrocarbon reserve replacement ratio according to the Russian resource classification system

**Russia**

- **23 fields and 258 new deposits** with total reserves of 352 mmtoe discovered through successful exploration activities

- **1,126 licences** in Russia (including 55 offshore licences)

**Rosneft’s Exploration and Reserve Replacement**
Onshore exploration in Russia

Key activities and achievements

Exploration took place across all of Russia’s subsoil use regions, including the Far East, Eastern and Western Siberia, Central Russia, Timan-Pechora, and Southern Russia.

Key onshore achievements in Russia:

- **653** mmtoe increase in ABIC1 reserves through exploration
- **143** exploration wells completed and tested
- **2257** oil and gas condensate reserve replacement ratio through exploration
- **2268** new fields and new deposits discovered with a total of 346 mmtoe of ABIC1+82C2 reserves
- **88%** record high success rate of exploration drilling

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

The Rosneft -2022 Strategy, approved by the Company’s Board of Directors, sets out the key exploration targets: to unlock the resource potential and sustainable use of mineral resources, exercising strict compliance with environmental safety standards, and an extensive application of advanced technologies. The Company continued its phased deployment of advanced seismic data processing and interpretation technologies, detailed velocity-depth modelling, and integration of seismic and non-seismic methods to improve the exploration drilling success rate. In an effort to minimise errors during structural modelling, Rosneft deployed advanced near-surface anomaly detection practices.

**Unique Wireless Seismic Technology**

Rosneft and BP completed the development of an innovative seismic acquisition system, unrivalled in the world. The system was piloted during seismic surveys in Russia and large-scale tests in the UAE. The tests confirmed that the system ensures high level of geologic accuracy and productivity, and are capable of working in hard-to-reach areas.

In 2019, 143 exploration wells were completed and tested with a success rate of 88%, a record high over the past years. 2D seismic surveys of 2.6 thousand linear km and 3D seismic surveys of 9 thousand sq km were completed. The discovery of 22 fields and 257 new deposits with a total of 346 mmtoe in reserves.

**Independent International Audit of Reserves**

Under the SEC (U.S. Securities and Exchange Commission) classification, Rosneft’s proved hydrocarbon reserves totalled 42.018 mmboe (56.678 mmtoe) as at 31 December 2019. Hydrocarbon reserves grew by 587 mmboe (81 mmtoe), or 1%, year-on-year. The audit to assess life-of-field reserves was performed by Deloitte & MacNaughton.

In 2019, Rosneft’s SEC-proved reserve life amounted to more than 20 years. The SEC-proved reserve replacement ratio stood at 129%.

As at 31 December 2019, the Company’s reserves under the PRMS (Petroleum Resources Management System) standards, according to Deloitte & MacNaughton, totalled 47.289 mmboe (6.400 mmtoe) of 1P reserves, 84.026 mmboe (11.504 mmtoe) of 2P reserves, and 125.296 mmboe (16.976 mmtoe) of 3P reserves. In 2019, total 3P reserves grew by more than 4 bboe (550 mmtoe).
Reserve Replacement by Region

Western Siberia

Rosneft’s reserve increases in Western Siberia amounted to 243.9 mmrt of oil and gas condensate and 86.9 bcm of gas. 58 exploration wells were completed and tested with a success rate of 92%. 3D seismic surveys totalled over 4.2 thousand sq km. Four fields and 73 new deposits were discovered with a total of 54 mmrt in ABIC1+B2C2 reserves.

RN-Uvatneftegaz is consistently implementing the strategy to develop the Uvat project, including by ensuring the annual growth rate target for recoverable reserves. In the reporting period, significantly more oil reserves were discovered than extracted. In 2019, the increase in RN-Uvatneftegaz’s ABIC1 reserves (24.7 mmrt) exceeded production (10.3 mmrt) by 240%.

In 2019, two new fields were booked in the Russian State Register of Mineral Reserves: Sosnovo (Yugansky 12 licence area) and Matusevich (Yugansky 11 licence area) with a total of 6.9 mmrt in recoverable ABIC1+B2C2 reserves.

Drilling of an exploration well at the Kinkinsky field (Tamarinskoye- Severo-Boloty licence area) confirmed the prospects of a new oil and gas play in the pre-Jurassic deposits of the Uvat project.

In 2019, RN-Nyaganneftegaz recorded reserve replacement of 194% in the licence areas of the Krasnoyarsk regional Code of Fields.

In actively developing its gas business, Rosneft carried out 3D seismic surveys of 729 sq km at its Western Siberian gas assets in 2019, as well as completed and tested three wells. In 2019, Rosneft’s gas reserves in Western Siberia grew by 86.9 bcm.

The Company continued study of the unconventional gas-saturated reservoir of the Bereznovskaya suite in Western Siberia. In 2019, Rosneft developed a unique technology to tap into hard-to-recover dry gas reservoirs in the low-permeability poaka-like siliceous reservoirs of the Bereznovskaya suite. Rosneft initiated the creation of a working group under the auspices of the State Commission for Mineral Reserves (GOK) of the Federal Subsoil Resources Management Agency (Rosnefta) and in partnership with major Russian companies to prepare a Single Interim Methodology for assessing the volumetric estimations and gas recovery rate for the deposits of the Bereznovskaya suite. Following well testing in the Bereznovskaya suite interval in 2019, the increase in recoverable B1C1+B2C2 gas reserves amounted to 30.5 bcm.

As part of the Gydan Peninsula study in 2019, the interpretation of 3D seismic surveys of the Minkovskoye licence area confirmed the field potential and verified the location of prospecting and exploration wells. Drilling preparations are currently underway. A new gas cluster will be created based on the Minkovskoye field.

Increase in reserves + 243.9 mmrt of oil and gas condensate and 86.9 bcm of gas
38 exploration wells with a 92% success rate
A new field and 73 new deposits with a total of 54 mmrt in ABIC1+B2C2 reserves
4.2 thousand sq km of 3D seismic completed

Eastern Siberia and Far East

In 2019, total reserves growth in Eastern Siberia and the Far East was 101.2 mmrt of oil and gas condensate and 185.4 bcm of gas.

18 exploration wells were completed and tested with a success rate of 94%. 2D seismic surveys of 1.8 thousand linear km and 3D seismic surveys of 1.2 thousand sq km were completed. One new field and seven new deposits were discovered with a total of 9 mmrt in ABIC1+B2C2 reserves.

At Verkhnechonskneftegaz, testing of eight exploration wells in licence areas in the Katagalsky district of the Irkutsk Region confirmed the industrial oil and gas bearing potential with an exploration drilling success rate of 100%.

A well in the Preobrazhensky licence area, drilled near the Severo-Danilovskoye and Lisovsky fields, demonstrated a record flow rate of 582 cpm in one day of waterless oil. The location of exploration wells was selected based on advanced technologies to process 2D and 3D seismic data. All wells were drilled using a fundamentally new geological approach. Based on the testing results of exploration wells, the Company will soon submit a report to the State Commission for Mineral Reserves to record the new field reserves in the State Register of Mineral Reserves.

Rosneft expanded the ABIC1 reserves of the Verkhnechonskoye oil and gas condensate field (within the Verkhnechonsky licence area) by a total of 51.8 mmrt of oil and gas condensate and 66.4 bcm of gas. This was possible due to effective exploration, advanced data processing system, and application of innovative technologies.

In 2019, we determined the location of the first exploration wells in the Khatangra cluster on the Taimyr Peninsula based on the results of large-scale seismic surveys conducted in 2018.

In the reporting year, the Company obtained a licence for the Zapadnokhrabroiski licence area, along with the major fields of the Vankor cluster.

In 2019, Rosneft continued drilling multilateral exploration wells in the Krasnoyarsk Territory to confirm productivity of structurally complicated carbonate and fissured reservoirs and increase the deposit area. Using more sophisticated wells in complex geological conditions made it possible to achieve the target reserves growth, update the geological model, and eliminate geological risks for production drilling. The Company decided to roll out the technology for structurally complicated carbonate reservoirs in Eastern Siberia.

In the Tersko-Kamovskoye licence area (northeastern section), the vertical shaft of the appraisal well was drilled, completed and tested in 2019. Testing in the Riphean dolomite stratum resulted in the oil rim discovery of the Madrinskaya deposit, Block 1. The obtained flow helps estimate the oil bearing capacity of the Madrinskaya block 1 as a whole, which potentially allows the Company to register 39.7 mmrt of oil in the B1C1+B2C2 reserves in the State Register of Mineral Reserves. The drilling results will increase the resource base of Slavneft-Krasnoyarskneftegaz and Vostochnoye.

Currently, the well is being sidetracked subhorizontally to obtain more accurate information on the extraction potential of the area for subsequent drilling through a grid of horizontal production wells.

Central Russia, Timan-Pechora, and Southern Russia

In 2019, reserves in the Volga-Ural Region, Timan-Pechora, and Southern Russia increased by a total of 77.9 mmrt of oil and gas condensate and 7.8 bcm of gas. 67 wells were completed and tested, with a success rate of 84%. 3D seismic surveys totalled 3.6 thousand sq km, while 2D seismic surveys totalled 0.8 thousand linear km. 17 fields and 177 new deposits were discovered with a total of 282 mmrt in ABIC1+B2C2 reserves.

In the Samara Region, the Company continued exploration of Domankoi deposits for silicous limestones at the Ledchenskoye and Neprikolinsky licence areas, three pilot wells were drilled and completed, with one of them completed and tested. The Company plans to drill additional wells to prepare a conclusion on the commercial potential of these deposits in the licence areas in the Samara Region.

The new field discoveries were made possible by the successful implementation of the exploration programme by Orenburgneftegaz and URA-Agrochita. The Company discovered 15 fields and 123 new deposits. An important discovery by Orenburgneftegaz was the Zapadno-Dogdovskoye field within the Buluzul subsoil area. Based on the drilling results of appraisal well No. 444, the recoverable B1C1+B2C2 reserves in the field are estimated at 7.6 mmrt.
Production of Liquid Hydrocarbons

The Company produced 4.67 mbbls per day (230.2 mtpa, 81% of total hydrocarbon production), flat year-on-year. This was achieved despite external restrictions as compliance with the OPEC+ agreement along with acceptable acceptance by Transneft’s trunk pipelines. As the Company achieved the planned production in 2019, it greatly contributed to Russia’s new post-Soviet oil production record (563.3 mbbls).

24 December 2019 was marked by a new milestone in Rosneft’s history, as the Company produced its 2.5 billionth tonne of liquid hydrocarbons.

The production drilling totalled 15.0 mbbls, with over 2.9 thousand wells commissioned. The number of horizontal wells was up 1% year-on-year, with a 9% p.p. increase to 57% of all new wells in commercial operation. The production per horizontal well was some 9 kt, up 11% year-on-year or 2.4 times higher than per directional well.

Rosneft is Russia’s leading petroleum company in terms of launching new high-margin projects. In 2019, the Company’s share in the total production of liquid hydrocarbons as part of major projects launched since 2016 totalled 18.9 mbbls (384kbd), up 27% year-on-year. At the same time, their share in the total production of liquid hydrocarbons increased by 8%.

Rosneft also gives high priority to brownfield development: 2019 saw RN-Yuganskneftegaz’s largest asset hit an all-time high in terms of daily production with more than 198 kt per day. Investment incentives helped the Samotlor field to overcome the trend of decline in production, which previously demonstrated an average annual decrease of 5%. In 2018-2019, the Company reduced the production decline to some 1%, reaching 18.4 mmt at the year end. The production trend charged greatly in RN-Yuganskneftegaz with a production increase by 17%, reaching around 7 mmt.

Innovative technologies for stable production

Commissioning of new wells

The Company’s key driver for maintaining stable levels of production is the production drilling, which is responsible for more than 8% of the Company’s crude oil and gas condensate output.

Rosneft is focused on high-tech wells: 57% of the 2.9 thousand wells commissioned in 2019 were horizontal vs 48% in 2018. 98% new horizontal wells drilled using multi-stage hydraulic fracturing techniques were commissioned, with their share reaching 34%. During the first year of operation, the production per horizontal well was some 9 kt, 11% year-on-year or 2.4 times higher than per directional well.

Advanced planning, drilling, and development technologies facilitated new wells’ average annual flow rate of 44.8 t per day, up 18.6% year-on-year, and 19.6 mmt of incremental production.

In 2019, RN-Yuganskneftegaz commissioned more than 1 thousand new wells producing over 6.5 mmt and reached the five-years maximum average annual flow rate of new wells (39 t per day). These results were attributable to innovative technologies and streamlined development systems. For example, the percentage of horizontal wells in production drilling increased by ca 50% (from 26% in 2018 to 39% in 2019). In 2019, the Group Subsidiary continued to pilot horizontal drilling and completion technologies, commissioned 35 wells with multi-stage hydraulic fracturing and horizontal sections of 1.3-1.6 km, and successfully expanded the use of multilateral wells.

In 2019, Samotlorneftegaz commissioned 383 new wells, which resulted in 1.2 mmt of incremental oil production. The Group Subsidiary makes constant efforts to pinpoint hidden deposits at the Samotlor field, including through the implementation of its appraisal sidetracking and well deepening programme. Due to these efforts, 14 horizontal wells were commissioned in Jurassic deposits (Yukun formation) with an average initial oil flow rate of 84 t per day, which is two times higher than the average of the field’s new wells for the period.

Verkhnechonskneftegaz also succeeds in implementing horizontal and multilateral drilling. In 2019, the Group Subsidiary commissioned 46 high-tech wells with an average annual oil reserve increase of 80 t per day (up 17% year-on-year). The unique expertise gained when developing complex collectors of the Verkhnechonskiy field will be further applied to drilling and developing new licence areas in Eastern Siberia.

In 2019, RN-Uvatneftegaz continued extensive drilling across the Uvat Group of fields. For optimising the development of hard-to-recover reserves, the subsidiary supports a consistent transition to horizontal drilling with multi-stage hydraulic fracturing of the share of horizontal wells reached 71% in 2019 with the average flow rate of new wells up year-on-year, totalling 82 t per day.

Varyagannenftegaz improved the horizontal well design by raising the number of multi-stage hydraulic fracturing stages per well from five to seven and optimised drilling locations, reaching a five-years maximum annual average flow rate of 40.9 t per day, up 21% year-on-year.

In 2019, Orenburgneftegaz expanded its horizontal drilling programme and commissioned eleven horizontal wells, including five with multi-stage acid fracturing and two with multi-stage propaff fracturing. These technologies make such wells highly productive, with horizontal wells having an initial flow rate of 63.3 t per day, which is almost 1.5 times higher than the average for production wells drilled in 2019 (48.71 t per day).

Vostoinenftegaz commissioned 39 horizontal wells vs 21 wells in 2018. Due to the optimised strategy of horizontal well placing and updated geological structure concept of the Ruphean formation in the Yurubchenskiy deposit, new wells produced the field’s all-time highest average oil flow rate of 186 t per day, up 21% year-on-year.

Multilateral wells

Multilateral wells are applied to improve the recovery and reservoir penetration quality for projects with high geological complexity. This method of pay zone penetration was successfully piloted and implemented at the Company’s fields with 1.35 multilateral wells commissioned in 2019, up 84% year-on-year.

To increase well productivity and scope of reserves under development, RN-Yuganskneftegaz introduced multihole wells at the Moskovskoe and Sorodnye fields. The Group Subsidiary commissioned seven wells with three and four sidetracks. The average increase in the initial flow rate was +159% compared to horizontal wells drilled in similar conditions.

In 2019, RN-Vankor commissioned 54 multilateral wells, a record number for the Vankor cluster since the beginning of its development, up 38% year-on-year.

At the Srednebubusenskiy field, Taas-Yuryakh Neftegazobodhya drilled the longest multilateral well having 15 horizontal sidetracks with a total drilling length exceeding 10 km across a pay zone. The subsidiary successfully replicates this technology with 27 multilateral wells drilled at the field in the reporting year.
Infill drilling

Along with drilling in new areas, the Company conducts infill drilling to augment production by transforming and expanding the development system.

In 2019, RN-Yuganskneftegaz continued its infill drilling programme at the Priobskoye and Prirazlomnoye fields and drilled 77 wells with an average initial flow rate of 82.6 t per day, including 42 horizontal wells drilled using multi-stage hydraulic fracturing techniques (five ports per well on average). The Group Subsidiary has plans to expand the programme at the Priobskoye and Prirazlomnoye fields, as well as implement similar programmes at its other fields (Malobasykskoye, Ombinskoye, and Vostochno-Surgutskoye fields).

To maintain production and improve the quality of reserves recovery at the Samotlor field, Samotlorneftegaz continues its infill drilling programme. 235 infill wells were commissioned in 2019 (69% of all wells commissioned at the field). In addition, horizontal wells with multi-stage hydraulic fracturing are constructed.

The Vankor field has been successfully implementing its infill drilling programme. As at the end of 2019, the incremental production attributable to the commissioning of 41 new infill wells totalled 919 kt. In harsh geological conditions, advanced drilling and horizontal well completion technologies ensured an average flow rate of 136 t per day, which is three times higher than the average well flow rate across the Company.

Tomskneft VNK pilots the transformation of a Jurassic deposit development system (YuV formation) at the Krapivinskoye field. To enhance oil recovery, infill horizontal wells are drilled at the field, using multi-stage hydraulic fracturing. In 2019, 18 wells of the kind with an average flow rate of 28 t per day were commissioned with new wells to follow in future.

Use of inflow control device in wells

To minimise the risks of early gas blowout from the gas cap or underlying water, the Company uses inflow control devices to restrict fluid inflow to certain horizontal well sections. In 2019, Taas-Yuryakh Neftegazodobycha successfully piloted inflow control devices in horizontal and multilateral wells at the Srednebogunskoye field.

In 2019, the Group Subsidiary continued to use autonomous inflow control devices and completion systems with shiftable sleeves in horizontal wells of SevKomNeftegaz (joint project with Norways Equinor) as part of pilot development of PK1 formation at the Severo-Komsomolskoye field. The pilot development also involved the commissioning of 28 wells, including 25 with inflow control devices.

Sidetracking

For increasing production and achieving target oil recovery factor, the Company carries out sidetracking operations in existing wells. In 2019, such operations covered 1.3 thousand wells, up 3.5% year-on-year, resulting in an incremental production of 3.3 mmt of crude oil. Improving the design of sidetracks due to increasing the share of horizontal drilling to 71% vs 68% in 2018 helped to maintain the average well flow rate after well workover by sidetracking at the level of 2018.

Innovative approaches make sidetracking effective for brownfields. Horizontal sidetracks enable extraction from formation intervals that have not been reached by previously drilled directional wells.

At RN-Yuganskneftegaz’s fields 39 sidetrack operations were carried out in 2019, including 298 sidetracks with horizontal completion. The active application of horizontal sidetracks at mature fields, for example in Cretaceous formations of the Mamontovskoye and Ust-Babyskoye fields, results in high initial oil flow rates of up to 380 t per day, though these fields have a more than fifty-year history of development. Due to the use of advanced technologies, the average annual well flow rate totally 22.9 t per day, up 8% year-on-year.

In 2019, Samotlorneftegaz commissioned 424 wells following a workover by sidetracking, a record number for the whole Company. It is also a five-year high for the subsidiary, up 14% year-on-year. These measures resulted in an additional crude oil production of 0.8 mmt, up 30% year-on-year.

RN-Nyaganneftegaz continues to pilot and implement the technology of horizontal sidetracking with MSHF and liner packer systems. Following the programme roll-out in the Talinsk licence area (YuV-19), 14 wells were commissioned with an average initial flow rate of 27.9 t. In 2020–2024, the subsidiary plans to use similar technique for drilling 100 wells that are expected to produce 1.8 mmt. Horizontal drilling also has a noticeable effect from well workover in one of Russia’s oldest oil-producing regions, the Island of Sakhalin. Following the drilling of horizontal sidetracks to increase well productivity, RN-Sakhalinmorneftegaz’s doubled its incremental production resulting from these operations as compared to 2018. In the next five years, the subsidiary intends to replicate this approach across its assets. For eleven fields, it will be the first well workover with sidetracking.

Drilling geological support centre

In 2019, Rosneft’s drilling geological support centre, the first in the Russian oil and gas industry, celebrated its 10th anniversary. Under its supervision the Company drilled over 11 thousand horizontal wells and horizontal sidetracks. To improve employees’ professional skills, Rosneft held its first geosteering championship (championship in geological support of high-tech horizontal drilling). 20 subsidiaries of the Company joined the event to compete in the virtual “drilling” of three horizontal wells with different difficulty levels and penetrate an oil reservoir as far as possible. All the participants did their best to cope with the task and gain unique experience in supporting horizontal drilling in different real geological environments across the Company’s footprint.
Overview of Production in Regions of Operation

Western Siberia

Western Siberia is Rosneft’s key oil-producing region. In 2019, Western Siberian assets increased oil and gas condensate production by 1.8% year-on-year, accounting for 60% of the Company’s output. The Company’s key producing assets in Western Siberia include RN-Yuganskneftegaz (30% of Rosneft’s total oil and gas condensate production), Samotlorneftegaz (30% of total), and RN-Aureneftegaz (5% of total).

To enhance oil recovery at its fields in Western Siberia, the Company has been monitoring and streamlining its existing development systems by switching from conventional directional wells to horizontal wells drilled using multi-stage hydraulic fracturing techniques. This technology significantly increases the well productivity rate and the scope of reserves under development, while also reducing the well stock and enhancing the project economics. The Company massively leverages MSHF MPAs at its mature assets in Western Siberia.

New projects are also underway, with the Russkoye field and the Erginsky cluster standing out as the largest plays. Western Siberia is also a major gas-producing region, with natural gas production reaching 47 bcm in 2019.

RN-Yuganskneftegaz

RN-Yuganskneftegaz is the Company’s largest asset operating 37 licence areas with Rosneft as the subsoil user. The bulk of proved reserves (80%) are concentrated in the Priobskoye, Prirazlomnoye, Mamontovskoye and Malobalykskoye fields.

Despite the temporary limitations on oil intake by Transneft’s trunk pipelines, RN-Yuganskneftegaz produced 69.5 mmt in 2019, virtually flat year-on-year. July 2019 saw oil production of 198 kt per day, an all-time high since 1964. This was partly due to the 1.5x increase in the share of horizontal wells (38% of all new wells in 2019).

RN-Yuganskneftegaz ensures stable production both by drilling new wells and performing well interventions for incremental oil production and by maintaining and enhancing its basic production.

The drilling efforts resulted in a number of industry records, including the first ever two-string horizontal multilateral well with ten branches built using the Pikbones stimulation technology. The total length of the well is 5,234 m, with the horizontal wellbore at 2,161 m. The initial oil flow rate exceeded 600 bpd, which is several times higher compared to the neighbouring standard horizontal wells. On top of that, RN-Yuganskneftegaz set another industry record for the fastest two-string horizontal well construction. It took merely 744 days to drill such a well at the Salymskoye field, a

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translated into 5.7 mmt of incremental oil and gas condensate production (up 3.8% year-on-year).

The growth of well interventions in 2019 was mainly attributable to an increase in the number of hydraulic fracturing jobs to 2,657, up 20.6% year-on-year. In 2019, the incremental production due to hydraulic fracturing was 3.4 mmt, up 17.5% year-on-year.

RN-Yuganskneftegaz, Bashneft-Dobycha, and Samotlorneftegaz are the Group Subsidiaries with the most noticeable hydraulic fracturing growth in 2019. In 2019, RN-Yuganskneftegaz carried out 907 hydraulic fracturing jobs, up 31.8% year-on-year, with an incremental production of 1,465 kt, up 27.9% year-on-year, hitting a seven-year high. For the first time over the last four years, Bashneft-Dobycha carried out 640 hydraulic fracturing jobs, up 23.4% year-on-year, with an incremental production of 570 kt, up 37.4% year-on-year. Udmarntneft, Samarannneftegaz, and RN-Severnaya Neft, among others, actively deploy acid and proppant fracturing techniques in carbonate formations of their fields.

Over 10 thousand well interventions were performed in 2019, resulting in a recovered production of 12.2 mmt. The production per well attributable to basic production recovery was up 9.8% year-on-year, from 1,055 to 1,158 t per well.

The key production recovery efforts include bottom-hole zone treatment and well optimisation.

In 2019, the number of bottom-hole zone treatment and well optimisation operations hit a seven-year high. More specifically, the Company performed 4,168 bottom-hole zone treatment operations (up 13.3% year-on-year) with a total production recovery of 3,233 kt (up 25.3% year-on-year) and 4,042 well optimisation operations (up 12.4% year-on-year) with a total production recovery of 6,405 kt (up 20.7% year-on-year).

The Company enhanced the use of physical and chemical methods of enhanced oil recovery by a half compared to 2018. This included five pilot projects involving the technology. Samotlorneftegaz piloted sediment generating agents and gellants, which had previously proved to be efficient, in its three new projects. The injection of cross-linked polymer composition was successfully piloted at the Suzunkiye field. Samarannneftegaz used a Russian-made innovative polymer composition, which resulted in a quadrupled increase in technological performance compared to compositions used previously.

For the first time in Russia, Group Subsidiaries operating in the Volga-Urals Region deployed the proppant hydraulic fracturing technology using acid gel to deliver the acid to a significant distance from the borehole for creating a set of fractures and filling them with proppant in a carbonate formation. Following successful piloting of the technology in directional wells, Orenburgneft effectively drilled carbonate Devonian deposits (initial flow rates exceeded 100 bpd per day). After testing the technology, Udmarntneft prepared areas for horizontal drilling with multi-stage acid and proppant hydraulic fracturing. Bashneft-Dobycha started to apply acid gel hydraulic fracturing at Bashneft-Dobycha’s fields.

In 2019, the Company continued its multi-stage hydraulic fracturing operations in previously drilled horizontal wells to increase the performance of low-permeability structurally-complicated pay zones. For example, RN-Yuganskneftegaz carried out 23 jobs of the kind with an average initial incremental oil rate of 25 t per day, 33% higher than the incremental rate in directional wells.

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Samotlorneftegaz

Samotlorneftegaz operates nine licence areas (including eight licence areas as the subsoil user). Over 98% of Samotlorneftegaz’s proved reserves are concentrated within the Samotlor field, one of the largest in the world. Commercial production at the Samotlor field began in 1969 and peaked at over 150 mmta in the 1980s.

In 2019, it produced 24.5 mmtoe of hydrocarbons, with the output of liquid hydrocarbons standing at 19.5 mmt (including the Lodochnoye field). The Samotlor field relies on government support to continue drilling new wells and performing well interventions. The incentives put in place in 2018-2019 helped overcome the decline in production, which had demonstrated an average annual decrease of 5% up to 2018. In 2018-2019, the company brought down the annual rate of production decline to ca. 1%.

The well interventions at Samotlorneftegaz translocated into 2.5 mmt of incremental production (up 5.6% year-on-year).

9 licence areas

>98% of proved reserves concentrated within the Samotlor field

24.5 mmtoe of hydrocarbons produced in 2019, including 19.5 mmt of liquid hydrocarbons

Varyeganneftegaz

Varyeganneftegaz operates 18 licence areas (including five licence areas as the subsoil user) in the Khanty-Mansi Autonomous Area – Yugra. The bulk of proved reserves (over 80%) are concentrated in the Verkhnekolik-Eganskoye, Severo-Khokhrakovsky, Van-Eganskoye, Khokhrakovsky, Orekhovo-Ermakovskoye and Severo-Varyeganskoye fields.

In 2019, Varyeganneftegaz produced 9.7 mmtoe of hydrocarbons, including 6.3 mmt of liquid hydrocarbons (up 5.8% year-on-year).

Varyeganneftegaz successfully completed pilot tests on horizontal wells using a combination string drilling technology. This innovative approach facilitates well construction by eliminating a number of extra operations to accelerate the drilling rate and enhance the project economics. The tests resulted in a nearly twofold increase in the drilling rate. It took 12.7 days to drill three combination string horizontal wells vs the average of 22 days required to drill similar wells using the conventional process.

Varyeganneftegaz increased well interventions for incremental oil production (excluding production drilling and sidetracking) by 19% to 1.18 and enhanced incremental production by 38% from 899 to over 1 ktp per well.

18 licence areas

>80% of proved reserves concentrated in the Verkhnekolik-Eganskoye, Severo-Khokhrakovsky, Van-Eganskoye, Khokhrakovsky, Orekhovo-Ermakovskoye and Severo-Varyeganskoye fields

9.7 mmtoe of hydrocarbons produced in 2019, including 6.3 mmt of liquid hydrocarbons

RN-Uvatneftegaz

RN-Uvatneftegaz operates 20 licence areas (including 19 licence areas as the subsoil user) in the Tyumen Region, Omsk Region, and the Khanty-Mansi Autonomous Area – Yugra. The bulk of proved reserves (ca. 70%) are currently concentrated in the Ust-Tegusskoye, Zapadno-Epskoye, Urinskoye, Severo-Tyamkinskoye, Severo-Tamarginskoye and Protozavodovskoye fields.

In 2019, RN-Uvatneftegaz also marked a new milestone with 100 mmt of oil produced since the commencement of the Uvat project.

In 2019, RN-Uvatneftegaz produced 10.6 mmtoe of hydrocarbons, including 10.3 mmt of liquid hydrocarbons. It has been maintaining a plateau of ca.10 mmta liquid hydrocarbons for six years already.

20 licence areas in the Tyumen Region, Omsk Region, and the Khanty-Mansi Autonomous Area – Yugra

70% of proved reserves concentrated in the Ust-Tegusskoye, Zapadno-Epskoye, Urinskoye, Severo-Tyamkinskoye, Severo-Tamarginskoye and Protozavodovskoye fields

10.6 mmtoe of hydrocarbons produced in 2019, including 10.3 mmt of liquid hydrocarbons

RN-Nyaganneftegaz

RN-Nyaganneftegaz operates four licence areas (including three licence areas as the subsoil user) in the Khanty-Mansi Autonomous Area – Yugra. The bulk of proved reserves (over 99%) are concentrated in the Krasnoleninskoye field, including the Kameny (western part), Em-Ilygovskoye + Palyanovsky and Talinskoye areas.

In 2019, RN-Nyaganneftegaz produced 8.7 mmtoe of hydrocarbons, including 6.9 mmt of liquid hydrocarbons (up 17.6% year-on-year). The growth was driven by a range of initiatives, in particular, intensified development of hard-to-recover reserves at the Krasnoleninskoye field, with the production volumes for this type of reserves increasing by 21% year-on-year.

In 2019, RN-Nyaganneftegaz commissioned 197 new wells (up 4.8% year-on-year). RN-Nyaganneftegaz increased well interventions for incremental oil production, including drilling new wells and sidetracking, by 10% year-on-year, which resulted in 1 mmt of incremental production.

4 licence areas

80% of proved reserves concentrated in the Krasnoleninskoye field

8.7 mmtoe of hydrocarbons produced in 2019, including 6.9 mmt of liquid hydrocarbons
Eastern Siberia and the Far East (Onshore)

The Company continues to expand its operations in Eastern Siberia and the Far East. In 2019, these regions produced 41.5 mmt of hydrocarbons, including 35.1 mmt of liquid hydrocarbons. The bulk of production comes from the Vankor cluster fields (52% of total production in these regions) and Verkhnechonskneftegaz (22% of total). In 2019, new projects developed by Vostisbneftegaz and Taas-Yuryakh Neftegazodobytsya helped increase production by more than 1.5 times year-on-year.

Vankor Cluster
RN-Vankor operates the development project for the Vankor cluster fields, including the Vankor (the largest discovery in the last 20 years), Suzusimskoye, Tagulsimskoye and Lodoshnoye fields located in the Turukhansky and Tajmyrsky municipal districts in the Krasnoyarsk Territory’s north.

In 2019, the Vankor cluster produced 23.2 mmt of hydrocarbons, including 18.2 mmt of liquid hydrocarbons.

Since the commencement of commercial production at the Vankor field in August 2009, cumulative oil and gas condensate production has exceeded 183 mmt on the back of a well intervention programme covering the existing wells and the commitment to drill new wells.

RN-Vankor leverages horizontal wells to develop the Vankor field. In 2019, it commissioned 41 new wells (up 7.9% year-on-year) which produced 0.9 mmt of oil and gas condensate. RN-Vankor increasingly relies on sidetracking, having drilled a total of 41 sidetracks in 2019, which resulted in 204 kt of incremental oil and gas condensate production.

RN-Vankor continues to drill production wells and build top-priority facilities and infrastructure at new fields of the Vankor cluster.

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

In 2019, it produced 8.8 mmt of hydrocarbons, including 7.8 mmt of liquid hydrocarbons. The Verkhnechonskneftegaz field is being developed using advanced technologies. There are also ongoing initiatives to streamline well construction and completion practices, monitor pay zone performance, and optimise operation of infrastructure facilities. The average annual flow rate across new wells reached 80 t per day, up 17% year-on-year.

In May 2019, Verkhnechonskneftegaz started injecting gas into the Preobrazhensky horizon as part of its efforts to select an agent for reservoir pressure maintenance. It continues with well testing to monitor formation pressure dynamics at adjacent observation wells in order to assess post-injection effects. The test results will be produced as early as in 2020.

East Siberian Oil and Gas Company (Vostisbneftegaz)
East Siberian Oil and Gas Company operates five licence areas (including two licence areas as the subsoil user) in the Krasnoyarsk Territory. The company is currently running a project to develop an expanded high-pressure area of the Yurubcheno-Tohkomskoye field, located in the Evenki District of the Krasnoyarsk Territory.

In 2019, East Siberian Oil and Gas Company increased its oil production by 183 mmt of cumulative production since 2009

23 mmt of hydrocarbons produced in 2019, including 18.2 mmt of liquid hydrocarbons

1.8 times year-on-year to over 4.1 mmt. Since the start of development at the Yurubcheno-Tohkomskoye field, one of the largest in the Krasnoyarsk Territory, its cumulative production has exceeded 8 mmt.

Vostisbneftegaz uses innovations to increase exposure to deposits within the pay zone and enhance the oil recovery rate. Rosneft views the techniques and approaches it tried and tested at the Yurubcheno-Tohkomskoye field as its core solutions, planning to roll them out to other projects.

Taas-Yuryakh Neftegazodobytsya
Taas-Yuryakh Neftegazodobytsya operates 10 licence areas (including two licence areas as the subsoil user) in the Republic of Sakha (Yakutia).

Taas-Yuryakh Neftegazodobytsya is currently developing the Central Block and the Kurungsky licence area of the Srednebostinskiy oil and gas condensate field, which is one of Rosneft’s top-3 assets in the Eastern Siberian oil cluster.

In 2019, Taas-Yuryakh Neftegazodobytsya increased its production of liquid hydrocarbons by 1.4 times to 4 mmt. The growth was driven by expansion of the company’s production capacity under Phase 2 development programme and commissioning of a high-pressure pipeline to transport crude oil from the Srednebostinskiy field.

Taas-Yuryakh Neftegazodobytsya continues to build infrastructure and on-site facilities and to drill horizontal and multilateral wells, including using Fishbones stimulation technology. In December 2019, Taas-Yuryakh Neftegazodobytsya drilled a 12,792 m long multilateral well with a record 10,310 m long section in the pay zone.
Bashneft-Dobycha operates 261 licence areas (with Bashneft as the subsoil user) located in the Republics of Bashkortostan and Tatarstan, the Orenburg Region, and the Khanty-Mansi Autonomous Area – Yugra. More than 50% of its proved reserves are concentrated in six major fields, including the Arlanskoye, Yugomashevskoye and Tuimazinskoye fields.

In 2019, Bashneft-Dobycha produced 16.7 mmt of hydrocarbons, including 16.3 mmt of liquid hydrocarbons.

Bashneft-Dobycha performs high-impact well interventions and drills new wells to maintain robust oil production at its mature fields. In 2019, Bashneft-Dobycha completed 1,272 well interventions (up 5.6% year-on-year), including drilling new wells and sidetracking, with incremental production increasing by 41 t per well.

Bashneft-Dobycha is stepping up production drilling. In 2019, it commissioned 114 new wells (vs 106 wells in 2018) with plans underway to increase the annual commissioning rate going forward. Bashneft-Dobycha implemented a multi-stage hydraulic fracturing technology for horizontal drilling, including acid and proppant fracturing techniques using polymer-free fluids, to get the most out of new wells and sidetracks. The company also seeks to achieve a higher quality and shorten the time of well construction by implementing advanced logging technologies in the drilling process and equipping well liners with burst port systems (BPS).

In 2019, Bashneft-Dobycha produced 261 licence areas (up 5.6% year-on-year), including drilling new wells and sidetracking, with incremental production increasing by 41 t per well. Bashneft-Dobycha is stepping up production drilling. In 2019, it commissioned 114 new wells (vs 106 wells in 2018) with plans underway to increase the annual commissioning rate going forward. Bashneft-Dobycha implemented a multi-stage hydraulic fracturing technology for horizontal drilling, including acid and proppant fracturing techniques using polymer-free fluids, to get the most out of new wells and sidetracks. The company also seeks to achieve a higher quality and shorten the time of well construction by implementing advanced logging technologies in the drilling process and equipping well liners with burst port systems (BPS).

Orenburgneft operates 133 licence areas (including 131 licence areas as the subsoil user) in the Orenburg, Saratov and Samara Regions. More than 50% of its proved reserves are concentrated in 10 major fields, including the Rostashinskoye, Sorochinskno-Nikolskoye, Garshinskoye and Pokrovskoye fields.

In 2019, Orenburgneft produced 15.5 mmt of hydrocarbons, including 14.5 mmt of liquid hydrocarbons. To maintain production, the company focuses on advanced well intervention techniques and improvements in well operations and reservoir pressure maintenance.

Samaraneftegaz runs 169 licence areas (including one licence area as the operator) located in the Samara Region. More than 50% of its proved reserves are concentrated in 12 major fields, including the Barinovsko-Lebazyanskoye, Kuleshovskoye, Mikhailovskoye-Kokhanskoye and Borovskyoye fields.

In 2019, Samaraneftegaz increased its production of hydrocarbons by 3.8% year-on-year to 13.0 mmt, including 12.6 mmt of liquid hydrocarbons. The growth was mainly driven by higher basic production (up 4.5% year-on-year) with an average oil flow rate reaching 9.3 t per day. On 8 March 2019, the company’s production reached 34.6 t per day, an all-time high over the past 15 years.
Southern Russia

Rosneft’s assets in the Southern Federal District of Russia include RN-Krasnodarneftegaz, RN-Stavropolneftegaz, Dagneftegaz, Rosneft-Dagneft, RN-Ingushneft and several others.

RN-Krasnodarneftegaz

RN-Krasnodarneftegaz operates 30 licence areas (with Rosneft as the subsoil user) in the Krasnodar Territory, the oldest oil producing region in European Russia. The bulk of proved reserves are concentrated in the Anastasiyevskoye-Trottskoye and Mehetsko-Chernoyerkinskoye fields.

In 2019, RN-Krasnodarneftegaz produced 2.1 mmtoe of hydrocarbons, including 0.7 mmtoe of liquid hydrocarbons. To maintain production, the company develops weakly drained reserves by drilling new wells and sidetracks.

RN-Stavropolneftegaz

RN-Stavropolneftegaz operates 36 licence areas (with Rosneft as the subsoil user) in the Stavropol Territory. The bulk of proved reserves (70%) are concentrated in the Velchevsko-Kolesnichnaya, Zmee-Stakinskaya, Pravoberezhnaya, Achikulakskoye and Urozhanenskoye fields.

In 2019, RN-Stavropolneftegaz produced 0.8 mmtoe of hydrocarbons, including 0.7 mmtoe of liquid hydrocarbons. The company focused on improved well management and production recovery initiatives, bringing down the rate of basic production decline by 0.9% year-on-year. Since 2012, RN-Stavropolneftegaz has been developing weakly drained reserves in the Jurassic formations by drilling new wells while also proceeding with its prospecting and appraisal efforts.

2.1 mmtoe of hydrocarbons produced in 2019, including 0.7 mmtoe of liquid hydrocarbons.

Timan-Pechora Province

RN-Severnaya Neft

RN-Severnaya Neft, Rosneft’s key producing asset in the Timan-Pechora Province, operates 20 licence areas (with Rosneft and RN-Nyaganneftegaz as the subsoil users) in the Republic of Komi and the Nenets Autonomous Area. The bulk of proved reserves (70%) are concentrated in five fields, including the Labaganskoye, Naulskoye, Khaspyreyskoye, Sredneamakhirskoye and Cherpanyuskoye fields.

In 2019, RN-Severnaya Neft produced 2.8 mmtoe of hydrocarbons, including 2.7 mmtoe of liquid hydrocarbons.

In 2019, RN-Severnaya Neft drilled and commissioned 19 multilateral wells with an average initial flow rate of 55 t per day, which is two times higher than that of similar horizontal wells. The share of multilateral wells amounted to 20% of all new wells in 2019 (vs 8% in 2018). RN-Severnaya Neft continues hydraulic fracturing operations on previously drilled wells (12 operations in 2019 vs 2 in 2018). The average initial flow rate amounted to 18.3 t per day, which resulted in 29.8 kt of incremental production.

RN-Severnaya Neft was ramping up its squeeze cementing efforts with 17 operations to inject visco-elastic mud into production wells (vs 2 in 2018), which translated into 20 kt of recovered production.

In March 2019, the Labaganskoye field commissioned a modular cluster pumping station as the final step towards completion of the reservoir pressure maintenance system. In 2019, voidage replacement amounted to 115%.

In 2019, it produced 1.2 mmtoe of hydrocarbons (up 2.2% year-on-year). Bashneft-Polyus commissioned 23 new wells (2.3x increase year-on-year) with the average initial flow rate rising by 27% to 195 t per day. In 2019, it also started production drilling at the Otsedinskaya area of the Trebits field.

Bashneft-Polyus

Bashneft-Polyus operates a development project covering the Trebits and Titov fields located in the Nenets Autonomous Area.

In 2019, Bashneft-Polyus successfully ran pilot tests, including three drilling operations using a 323.9 mm wide casing string in the 45-517 m interval and two controlled pressure drilling operations.
Development of Hard-to-Recover Reserves

The Company’s portfolio of assets with hard-to-recover reserves currently consists of more than 140 fields with 2.9 bt of oil in recoverable reserves. RN-Yuganskneftegaz is Rosneft’s key asset of this type boasting over 1 bt of hard-to-recover reserves. It is followed by such major players as RN-Nyaganneftegaz, Verkhrnevsksneftegaz, RN-Uvatneftegaz and Kondanef, which together with RN-Yuganskneftegaz account for over 80% of the Company’s resource base.

In 2019, the Company added over 260 mmt to its hard-to-recover reserves, a more than sixfold increase year-on-year. The growth was driven by an extensive exploration programme which helped obtain detailed information about formations with low-permeability reservoirs. Successful completion of exploration and pilot development programmes at Rosneft’s licence areas in the Samara Region was among the key contributors to the increase.

The Company consistently develops its hard-to-recover oil reserves. Oil production from deposits classified as hard-to-recover reserves under the applicable laws rose by 1.2% year-on-year to 20.9 mmt, more than a threefold increase vs 2014. The share of hard-to-recover reserves rose from 8.4% of the Company’s output in 2014 to 9.2% in 2019. In 2019, Rosneft increased the number of production wells at fields with hard-to-recover reserves by 20% year-on-year to four thousand wells.

The Company’s recoverable reserves of high-viscosity oil in Russia exceed 0.6 bt, including more than 0.4 bt concentrated within the Russkoye field, a unique asset in terms of its resource base size. Compared to 2018, Rosneft doubled its production of high-viscosity oil reaching 1 mmt in 2019. Put on stream in the fourth quarter 2019, the Russkoye field became the key growth driver.

With a view to doubling production from hard-to-recover reserves in 2017-2022, the Company continued to improve its development technologies, focusing on well stimulation at low-permeability formations, in particular using more sophisticated and longer horizontal wells with a higher number of hydraulic fracturing stages. In 2019, Rosneft drilled over 110 wells at fields with hard-to-recover reserves using multi-stage hydraulic fracturing techniques, with horizontal sections exceeding 1 km (up 10% year-on-year). The use of longer horizontal wells with a higher number of hydraulic fracturing stages enables the Company to effectively develop previously unprofitable deposits.

Based on the current forecast, the bulk of subsidised production from hard-to-recover reserves will be concentrated in the Western Siberian fields with low-permeability formations of the Tyumen suite and the Achimov deposits. Beyond 2022, though, oil production from hard-to-recover reserves will largely depend on elimination of geological and engineering uncertainties related to appraisal and the choice of best development solutions. To this end, the Company implements an exploration programme coupled with pilot projects aiming to develop low-permeability formations, the Bazhenov suite and high-viscosity oil deposits as part of the Target Innovative Projects, which will help develop an additional 1.6 bt of recoverable reserves. Target Innovative Projects seek to develop technologies to tackle silty sand deposits (structurally complicated undersaturated ultralow-permeability reservoirs), to bring Bazhenov and Domanic shale pay into production, to introduce thermal recovery methods fit for ultra-high-viscosity oil fields in the Samara Region, and to develop high-viscosity oil reserves of the Pukhunskaya suite formations in Western Siberia.

In 2019, the Company drilled six horizontal wells along with 11 directional wells and sidetracks as part of the Bashen pilot development programme. RN-Yuganskneftegaz performed a nine-stage hydraulic fracturing operation on the Salymskoye field’s well 921-g with a 950 m long horizontal wellbore. The initial flow rate amounted to ca. 60 t per day, on par with international best practices for similar formations. The Company intends to continue exploration and multi-stage hydraulic fracturing operations at the Bazhenov suite in 2020.

Progress on the Programme to Increase APG Utilisation Rates

In 2019, the APG utilisation rate for mature assets, excluding greenfield projects and fields under development where gas infrastructure is yet to be erected, reached 93.8%, up 1.0% year-on-year. If greenfield projects at early stages of development are excluded, the APG utilisation rate stands at 89.3%. If fields under development and greenfield projects at early stages of development are included, the APG utilisation rate amounts to 77.8%. 23 APG utilisation facilities were completed in 2019, including:
- 18 MW gas turbine power plant commissioned at Kondanef’s Zapadno-Egipskoye field.
- A compressor station at the oil treatment unit and vacuum compressor station at the preliminary water discharge facility of the Divnerechenskoye field operated by Tomskneft VNA;
- A compressor station at the Pravdinskoye field, low-stage compressor station at the preliminary water discharge facility of booster pump station No. 4 of the Malovelskoye field, and low-stage compressor station at the booster pump station with a preliminary water discharge facility at well pad 354 operated by RN-Yuganskneftegaz.

Other facilities provide for APG gathering, treatment and transportation. In 2019, APG utilisation improvement projects at Bashneft-Dobycha helped achieve a 95% utilisation rate.
Greenfields Development

We keep actively developing our key projects, including the Tagulsksoye, Russksoye, Kuyumbinskoye, Srednebotuobinskoye, Suzunskoye, Lodochnoye, Vostochno-Messoyakhskoye, Chaprovskoye, Kondinsksye, Yurubcheno-Tokhomsksye, Severo-Komsomolskoye and Severo-Danilovskoye fields.

Erginsky Cluster

The Company continues making progress on its strategic project in the Khanty-Mansi Autonomous Area – Yugra in a bid to develop the Erginsky cluster which consists of five licence areas (Kondinsky, Zapadno-Erginsky, Erginsky, Chaprovsky and Novoyendyrsk).

- In 2019, the Company continued exploration and well tests at the Erginsky cluster. Development activities are ongoing at the Erginsky licence area and the Chaprovskoye field. As part of its efforts to develop the cluster, Rosneft brought on stream the Kondinsky and Zapadno-Erginsky fields.
- Since the start of the project, the Kondinsky field (the core asset of Kondinskoye) has seen 4.6 mmt of oil produced, 438 wells from across 23 well pads commissioned, and key infrastructure facilities launched. Additional expansion of the Malokondinskaya deposit area was confirmed, which will help bring new well pads into development. Moreover, the annual capacity of the central gathering facility was ramped up to 2.8 mmt of crude oil and over 260 mmcm of natural gas, with marketable oil transported to trunk pipelines via a 68 km long feeder pipeline.

- The Erginsky licence area saw completion of the first-phase 3D seismic field work covering 932 sq km. The Company is now processing the field data while also gathering and interpreting geological and geophysical data. Core sampling was conducted at five production wells. The Company restated wells using hydraulic fracturing techniques to confirm formation productivity.
- Production drilling started at the Erginsky licence area, with 40 production wells drilled, including 25 horizontal wells. The Company continues to construct well pads and oil and gas shipment pipelines, to fill feeder roads, and to erect engineering facilities.
- In 2019, Rosneft commissioned 195 new wells across the cluster, the Kondinskoye field saw the annual capacity of its central gathering facility ramped up to 2.8 mmt of oil and over 260 mmcm of gas.

Production of liquid hydrocarbons and gas condensate at greenfields in 2019

- 2.8 mmt
- +74%

In 2019, the Company commissioned 195 new wells across the cluster.

Vankor cluster

The Company continues to build up its Vankor cluster leveraging the Vankor field, with the Suzunskoye and Tagulsksoye fields up and running. Rosneft is also getting ready to launch the Lodochnoye field, thus completing the cluster integration.

- In 2019, Rosneft commissioned the Suzunskoye field producing 2.8 mmt of liquid hydrocarbons.
- Phase 2 of the Suzunskoye field development is underway envisaging the construction of gas facilities (gas treatment unit with a compressor station, the Suzun-Vankor interfield gas pipeline, gas well pads).
- The Company commenced construction of the Suzun-Vankor interfield gas pipeline.
- Follow-up exploration is ongoing on a new prospective target (Nih-3 formation).

Suzunskoye Field Development

- In 2019, the Company started developing reserves of the field’s northern part, with new wells boasting an average flow rate of >400 t per day.
- 25 wells drilled in 2019, including 11 multilateral wells.
- Liquid hydrocarbons produced in 2019: 18.8 mmt (including the Lodochnoye field).
Tagulskoye Field Development

- In 2019, the Tagulskoye field produced 1.3 mmt of liquid hydrocarbons.
- The Company launched a pipeline connecting the fields oil treatment unit to the Vankor–Purpe trunk pipeline.
- Rosneft continues to build field facilities, well pads, etc. The reservoir pressure maintenance system is up and running.
- The approved asset development strategy provides for an exploration programme aiming to bring additional reserves into production, including those of the Dolgan suite.

1.3 mmt
of liquid hydrocarbons produced in 2019

63 wells
drilled in 2019, including 30 multilateral wells

14 wells
drilled in 2019, including 5 multilateral wells

Lodochnoye Field Development

In 2019, Rosneft drilled and completed 14 wells at the Lodochnoye field, including five multilateral wells. In 2019, it produced 0.64 mmt of liquid hydrocarbons. Drilling operations started to develop the largest plays (reserves of the Yakovlev suite). The Company continues production drilling and infrastructure construction to start up key field facilities.

The use of multilateral wells at the Vankor cluster fields enhances the drilling efficiency and boosts the initial flow rate by 40–50%.

Lodochnoye Field Development

- In 2019, Rosneft drilled and completed 14 wells at the Lodochnoye field, including five multilateral wells. In 2019, it produced 0.64 mmt of liquid hydrocarbons. Drilling operations started to develop the largest plays (reserves of the Yakovlev suite). The Company continues production drilling and infrastructure construction to start up key field facilities.
- The use of multilateral wells at the Vankor cluster fields enhances the drilling efficiency and boosts the initial flow rate by 40–50%.

Russkoye Field Development

The Company continues to develop the Russkoye field. In 2019, it drilled and completed 81 horizontal wells, including 23 multilateral and multihole wells. A total of 279 wells have been drilled here, including 49 multilateral wells. As part of pilot tests on multilateral wells, Rosneft conducted geological zoning to rank complex wells to maximise the sweep efficiency at laminated heterogeneous formations. Having launched the Zapolyarnoye metering station, the Company started delivering crude oil from the Russkoye field to Transneft’s trunk pipelines. It also commissioned an APC-fired power plant. Compared to 2018, Rosneft nearly tripled its production of liquid hydrocarbons to 0.8 mmt in 2019. The Company continues production drilling, getting ready to launch the second phase of the Zapolyarnoye metering station, the oil pipeline connecting the central gathering facility and the Zapolyarnoye metering station, as well as an innovative project for self-sufficient preliminary water discharge unit.

95 wells on 10 well pads, a reservoir pressure maintenance system, and other top-priority infrastructure facilities. The Company commenced construction of a 93 km long oil pipeline which is set to connect the Severo-Danilovskoye field and the Verkhnechonskoye field to transport crude oil to oil treatment units and subsequently to trunk pipelines.

New Cluster Based on the Severo-Danilovskoye Field

The Company is working on its project to develop the Danilovsky oil and gas production cluster which consists of four fields (Severo-Danilovskoye, Yuzhno-Danilovskoye, Verkhnechonskoye and Lisovsky). The dense arrangement of the license areas and the proximity of the Verkhnechonskoye field will bring meaningful synergies from shared use of the ground infrastructure.

As part of its pre-launch efforts on the Severo-Danilovskoye field, the Company is actively building well pads, infield roads, and engineering facilities. The field construction includes drilling 95 wells on 10 well pads, a reservoir pressure maintenance system, and other top-priority infrastructure facilities. The Company commenced construction of a 93 km long oil pipeline which is set to connect the Severo-Danilovskoye field and the Verkhnechonskoye field to transport crude oil to oil treatment units and subsequently to trunk pipelines.

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Tagulskoye Field Development

- In 2019, the Tagulskoye field produced 1.3 mmt of liquid hydrocarbons.
- The Company launched a pipeline connecting the fields oil treatment unit to the Vankor–Purpe trunk pipeline.
- Rosneft continues to build field facilities, well pads, etc. The reservoir pressure maintenance system is up and running.
- The approved asset development strategy provides for an exploration programme aiming to bring additional reserves into production, including those of the Dolgan suite.

1.3 mmt
of liquid hydrocarbons produced using mobile oil treatment units at the Tagulskoye field in 2019

63 wells
drilled in 2019, including 30 multilateral wells

14 wells
drilled in 2019, including 5 multilateral wells

Liquid hydrocarbons produced in 2019

0.64 mmt

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Liquid hydrocarbons produced in 2019

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Development of an Expanded High-Priority Area at the Yurubcheno-Tokhomskoye Field

Vostsibneftegaz is running a project to develop an expanded high-priority area at the Yurubcheno-Tokhomskoye field, located in the Evenkiy District of the Krasnoyarsky Territory.

The choice of best development solutions coupled with quick construction of production facilities and advanced drilling technologies helped Vostsibneftegaz increase its production of liquid hydrocarbons by 76% year-on-year to 4.1 mmt in 2019.

Vostsibneftegaz uses innovations to increase exposure to deposits within the pay zone and enhance the oil recovery rate. Rosneft views the techniques and approaches it tried and tested at the Yurubcheno-Tokhomskoye field as its core solutions, planning to roll them out to other projects.

In 2019, it drilled 39 new wells, up 26% year-on-year. The Company relies on horizontal drilling to effectively developuggy fractured reservoir rocks with highly heterogeneous porosity and permeability both along the vertical axis and across the floor area. Some wells demonstrated record-high flow rates in excess of 500 bbl per day. The Company decided to expand this high-priority area with a view to bringing additional reserves into production.

Vostsibneftegaz continues well testing and logging, keeps streamlining well operations, installing telemetry systems and switching to artificial lift wells with a view to optimising the field development and gathering additional information on wells and deposits.

Srednebotuobinskoye Field Development

Taas-Yuryakh Neftegazobobyba is developing the Central Block and the Kurungskiy licence area of the Srednebotuobinskoye oil and gas condensate field, which is one of Rosneft’s top-3 assets in Eastern Siberia.

In 2019, production of liquid hydrocarbons at the Srednebotuobinskoye field increased by 1.4 times year-on-year to 4 mmt. The growth was driven by the extensive use of horizontal and multilateral wells, including those leveraging the Fishbones stimulation technology. Multilateral wells proved to be successful in 2019 and the Company decided to roll them out with a view to developing under-gas-cap zones.

In 2019, the operator ramped up water injection volumes for reservoir pressure maintenance from 3.7 to 5.6 mmsc, a 51% increase year-on-year.

On 15 September 2019, the Company marked a new milestone with 100 mmt of oil produced since the commencement of commercial production.

Rosneft continues to construct a high-pressure gas compressor for reservoir pressure maintenance and better APG utilisation while also building a gas turbine power plant for internal needs and preparing well pads for drilling.

Vostochno-Messoyakhskoye Field Development

In 2019, the Vostochno-Messoyakhskoye field, a joint project of Rosneft and Gazprom Neft, increased its production of crude oil by 22% year-on-year to 2.7 mmt (attributable to the Company’s share). The growth was driven by active drilling operations, new wells going on stream, well interventions on existing wells, and the reservoir pressure maintenance system being deployed. In 2019, 112 new wells were commissioned with an average initial flow rate of 100 bbl per day. In order to boost the well productivity rate and the scope of reserves under development, the Company massively leverages multilateral wells, including using the Fishbones stimulation technology, with 42 multilateral wells commissioned in 2019.

In April 2019, Slavneft-Krasnoyarskneftegaz commissioned the central gathering facility with an annual capacity of 1.6 mmt and the oil and gas collecting pipeline connecting the right bank of the Podkamennaya Tunguska River and the central gathering facility. In December 2019, the central gathering facility saw its capacity expanded to 2.9 mmpa. Rosneft continues to build field facilities and supporting infrastructure.

Severo-Komsomolskoye Field Development

The Severo-Komsomolskoye field proceeded with the pilot development programme for the PK1 formation. 20 new horizontal wells were commissioned with horizontal sections of 1.5–2 km and an average initial flow rate of 137 bbl per day. In 2019, the asset produced 0.4 mmt of liquid hydrocarbons, up 83% year-on-year. Following the analysis of its pilot activities in 2018–2019 and amendments to its geological hydrodynamic model, the Company updated its full-scale development strategy and targets for the PK1 formation, streamlined well completion practices (with all wells to be equipped with inflow control devices), adjusted project implementation phases with a view to bringing the most proven reserves of the western and eastern areas into production, and developed an exploration and appraisal programme.

The Company and its partner, Equinor ASA, decided to launch Phase 1 of the full-scale Severo-Komsomolskoye field development.
In-house Service

The Company continues its drive for expansion and improvement of its in-house services to deliver high quality of services and gain a competitive edge.

Drilling

In 2019, the Company’s drilling service completed 5,753 thousand m of drilling on-site (1,628 wells, including 27 exploration wells). The share of horizontal drilling reached 62% (up 14% from 2018).

The operating fleet of the Company’s drilling service in 2019 stood at 267 drilling rigs with an average age of 11 years. The Company has 237 drilling crews.

KEY ACHIEVEMENTS

- Rosneft successfully progressed with its programme to scale up the technology for drilling two-string horizontal wells with oil-based mud.
- A drilling crew of the Khanty-Mansi branch of RN-Bureniye set a record when drilling horizontal well No. 2406 from well pad No. 24 at the Kondorskoye field. The well was drilled in 17.5 days at a commercial drilling speed of 6,893 m per rig per month.
- A drilling crew of the Nefteyugansk branch of RN-Bureniye broke the industry record for the fastest construction of a two-string horizontal well. The drilling at the Salymskoye field took as little as 7.4 days, 20% faster than ever before. The commercial drilling speed exceeded 14 thousand m per rig per month.

Well Workover and Servicing

Today, RN-Service is the largest company for well workover and servicing, with branches in 13 Russian regions. In 2019, it provided well servicing to 21 Rosneft’s upstream companies, covering 63% of Rosneft’s needs for well workover and servicing.

Well workover and servicing works performed by RN-Service in 2019 totalled 38,130, exceeding the business plan target by 1,191 (103%). Actual orders processed per workover and servicing crew amounted to 57.4 per year (106.5% against the business plan target). Average service time reduced by 7.8% against the target.

Hydraulic Fracturing

In 2019, the Company received and put into operation four new hydraulic fracturing fleets.

RN-GRP completed 4,915 hydraulic fracturing operations at Rosneft’s fields, exceeding the business plan target by 312 operations (107%).

704 crews for well workover and servicing

20 fleets of RN-GRP are used in Group Subsidiaries’ operations.
Transportation Services

RN Service transferred 610 vehicles to RN-Transport as part of the establishment of a service holding company based on RN-Transport that will provide transportation services to Rosneft’s companies.

579 inefficient or unused machines were withdrawn from operation.

**KEY ACHIEVEMENTS IN 2019**

- **7,626.6 vehicles** is the average machine count
- **21,563 thousand machine hours** were spent to provide services
- **198 vehicles** for general and specialised use were supplied
- **90%** of the rolling stock is technically ready for operation
- **2.4%** of the operating fleet was upgraded
- **70%** is the fleet utilisation indicator

In January 2019, we launched an in-house well logging service at Bashneft-Dobrysh fields. This project will help boost the efficiency of the Company’s exploration and development activities, reduce the cost of well logging, optimise the amount of log data, and enable import substitution in this area.

In 2019, as part of the Rosneft-–Rosatom R&D cooperation, SMS-172-88 multi-parameter logging while drilling tool was tested on five wells of the Severo-Khokhlyakovskoye field (Varzeganskoye). The system is based on a technology-intensive and environment-friendly induced gamma-ray spectroscopy module, first of its kind ever manufactured in Russia. The tests produced important data based on which the system will be finalised for future commercialisation.

In-house well logging service at Bashneft-Petrofh and started well logging and blasting and perforating operations at Bashneft-Dobrysh fields. This project will help boost the efficiency of the Company’s exploration and development activities, reduce the cost of well logging, optimise the amount of log data, and enable import substitution in this area.

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Corporate Software Development

To improve the production planning accuracy and select the most appropriate hydrocarbon extraction technologies, Rosneft makes extensive use of field models created by its proprietary RN-KIM hydrodynamic simulator. This advanced software has been widely exploited by the Company for over three years and is adapted to the geological and operating conditions of the fields the Company is developing.

In 2019, as part of the efforts to expand its capabilities in solving the most pressing operational issues related to log interpretation, the Company created a development concept and a prototype for RN-PetroLog, proprietary petrophysical modelling software that supports integration with corporate databases, multi-well data processing, and computerised data interpretation.

In 2019, the use of RN-KIM increased to 77%. We released a new version that allows us to quickly (using graphics processing units or computer clusters) perform modelling calculations for oil and gas condensate fields that require computation-intensive analysis.

In 2019, the use of RN-KIM increased to 77%.
Offshore Projects
Rosneft sees hydrocarbon resource development on the continental shelf as a key strategic direction for its growth.

The Russian shelf has the largest area in the world – over 6 million sq km. Rosneft holds the biggest pool of licences on the continental shelf and carries out a full range of exploration operations in the seas of the Russian Arctic, Russian Far East, and the south Russia. The Company’s offshore projects lay the groundwork for the future of the modern Russia, spurring sustainable socio-economic development, propelling industry modernisation, fostering high-tech innovation and robotisation, facilitating the upgrade of coastal and transport infrastructure, and unlocking new talent.

Rosneft owns 55 licence areas on the Russian continental shelf, with an aggregate resource potential of 41.14 billion tonnes as at 31 December 2019. 19 of these licence areas are located in the waters of the Western Arctic (the Pechora, Barents and Kara seas), nine licence areas in the Eastern Arctic (the Laptev, Chukchi and East Siberian seas), 20 offshore areas in the Russian Far East (the seas of Okhotsk and Japan), and seven licence areas in the seas of the south Russia (the Black, Caspian and Azov seas) (see Figure 1).

Offshore Exploration in Russia
In 2019, in line with its licence commitments, Rosneft continued exploration and prospecting for oil and gas in offshore areas in the Russian Arctic, Far East, and in the seas of the south Russia.

2D/3D SEISMIC SURVEYS
In the 2019 field season, Rosneft completed 2D seismic surveys of 250 linear km in the transition zone of the Tsentrino-Tatarsky licence area off Sakhalin Island. The works were carried out ahead of the schedule stipulated by the licence.

3D seismic surveys of 865 sq km were conducted for the Sakhalin-1 Project. 2D seismic surveys of 310 linear km were completed on the Severo-Kazakhskaya licence area. The seismic findings will provide the basis for informed decisions on further exploration of the licence areas.

Field geology expeditions
The Company continues to develop and update the regional models of Russian and foreign offshore fields located in the areas of its presence and interest (Russia’s Arctic, Far Eastern and Southern seas, as well as foreign waters). Three onshore field geology expeditions were organised to mitigate the sub-surface risk related to certain elements of petroleum systems (source rocks for oil and gas, reservoir rocks, and cap rocks) within the Company’s offshore licence areas in the Far East and the Arctic, including Sakhalin, the Severnaya Zemlya Archipelago, and the New Siberian Islands. Representative rock samples were collected for laboratory analyses, whose results are used to update the geological model of the region and the survey areas.

9 Rosneft’s licence areas are located in the Eastern Arctic shelf seas
20 Rosneft’s licence areas are located of the Russian Far East coast
19 licence areas are located in the Western Arctic shelf seas
55 licence areas are located on the Russian shelf
41 licence areas are located in the seas of the south Russia
6 million sq km
The Russian shelf has the largest area in the world
Soil surveys
Soil surveys were performed on the site selected for drilling of an exploration well at the offshore Kaigan-Koysky-Banskoye Sea field near Sakhalin.

The results of comprehensive marine surveys provided full sets of data for well design and construction in the licence areas, including for engineering and environmental protection. Detailed data on soil composition in the area will allow experts to predict geological and geological engineering processes and address risks that might arise during the drilling phase.

Environmental monitoring
The following environmental protection activities were carried out under licence obligations.

The mouths of previously drilled wells were inspected in the Kara Sea, the Sea of Okhotsk, and the Black Sea. All work was carried out in line with the requirements of the Russian HSE laws. The technical condition of the inspected wellheads was satisfactory, with no hydrocarbon leakages detected.

Artificial reproduction of aquatic biological resources was conducted to compensate for any potential damage to water life and its habitats. While implementing the biodiversity preservation programme for the Company’s licence areas, we prepared a reasonable list of indicator species to assess the sustainability of Arctic ecosystems and analysed the occurrence rates for various species existing in these areas.
Rosneft is a member of the project within the consortium that includes ExxonMobil (United States), SODECO (Japan), and ONGC Vedanta Ltd (India). The Company’s share is 20%, and the project operator is Exxon Neftegas Limited.

The Sakhalin-1 project involves the development of four offshore fields: Chaivo, Odoptu-Sea, Lebedinskoye (within the Odoptu license), and Arikutun-Dagi, located in the Sea of Okhotsk on Sakhalin Island’s northeastern continental shelf.

State-of-the-art technologies and project management methods are used to develop the Chaivo, Odoptu-Sea, Lebedinskoye, and Arikutun-Dagi fields. At the Odoptu-Sea field, oil is produced from an onshore site using super extended reach horizontal wells; at the Chaivo field, oil is extracted from an onshore site and the Orlan platform using wells with record-length boreholes, while Arikutun-Dagi is developed using Berkat, a fixed offshore platform that features Russia’s heaviest upper structure.

Record high output was achieved in 2019, when the Sakhalin-1 project produced a total of over 13.0 million metric tons of oil and gas condensate (Rosneft’s share was 2.6 million metric tons). Nearly 2.4 billion cubic meters of gas (with Rosneft’s share of 0.5 billion cubic meters) were supplied to consumers.

Oil production at the northern tip of the Chaivo field involves five wells that have a unique, complex design and extended horizontal displacement. The wells are equipped with smart completion systems with flow control devices to limit gas breakthroughs and maximize production.

In November 2019, Rosneft achieved a milestone of 7 million metric tons of crude oil pumped out from the Chaivo field’s northern tip since the start of the project.

| Offshore Oil and Gas Production in Russia | 13.0 mmt Oil and Gas Condensate Production (with Rosneft’s share of 2.6 mmt).
| ~2.4 bcm (with Rosneft’s share of 0.5 bcm) were supplied to consumers. | 0.5 mmt oil and condensate output in 2019
| 0.07 bcm the total amount of gas supplied to consumers | 0.3 mmt of crude oil produced in 2019
| 0.12 bcm of APG produced in 2019 | 0.4 mmt of crude oil produced in 2019
| 0.14 bcm of APG produced in 2019

The Odoptu-Sea field (the Northern Dome) is Russia’s first offshore field brought on stream, flowing oil since 1998. The operator of the oil and gas field is RN-Sakhalinmorneftegaz. The field’s infrastructure comprises oil and gas gathering and treatment facilities, a reservoir pressure maintenance system, outbound pipelines to transport oil, gas and water, and power generation facilities.

We continued to drill new production wells in 2019 in order to maintain the field’s recovery rates. Three production wells were drilled and put into operation. One of them is the longest horizontal well in this field. With a huge horizontal displacement, it is 8,699 meters deep. The previous record for well length at this field was set in 2011 at 8,119 meters.

Pilot operation of the offshore Lebedinskoye field in the Sea of Okhotsk began in 2015. It is operated by the Company’s subsidiary RN-Sakhalinmorneftegaz. Four production wells are used. Crude oil extracted from the Lebedinskoye field has a quality grade similar to Sokol crude.

Rosneft started production testing of its Novoye deposit in the Azov Sea in 2016. The field operator for both oil and gas production is Prazovnft, in which Rosneft holds 51%, while Lukoil owns a 49% stake. Field appraisal is underway alongside production. The drilling of Novaya-2 exploration well started in October 2019.
Gas Business

Rosneft and Kharampur are major gas projects viewed as the top contributors to the Company’s near-term hydrocarbon production growth.

The Company is developing vast gas reserves in Western and Eastern Siberia and holds a unique licence portfolio for hydrocarbon development on the Russian continental shelf. As at 1 January 2020, 18C1+B2C2 recoverable gas reserves were estimated at 7.7 bcm.

Rosneft produces gas through more than 35 subsidiaries and joint ventures in Western and Eastern Siberia, Central Russia, the south of European Russia, the Russian Far East, as well as in Egypt, Vietnam, and Canada.

19% share of gas in the Company’s total hydrocarbon production in 2019

Rosneft’s strategic goal for gas business development is to consistently grow its shareholder value through increased gas output supported by a high-performance long-term sales portfolio.

Strategic Objectives of the Gas Business

THE FOLLOWING OBJECTIVES HAVE BEEN SET IN THE ROSNEFT-2022 STRATEGY FOR THE GAS BUSINESS:

- Deliver the key gas production projects, including Rospan and Kharampur, on schedule and within budget, thereby raising annual output to more than 100 bcm.
- Improve the gas sales economics in Russia through such measures as promoting a favourable regulatory environment, including equal access to infrastructure and customers.
- Improve the Company’s technological base for production and expand its technological competence to support: the development of the Tyunen deposit; the production of liquid petroleum gas (LPG) and natural gas liquids (NGL); increased APG utilisation, including through the development of captive power generation and petrochemicals; in the longer term, gas reserve monetisation in Eastern Siberia and the Russian Far East, including through petrochemicals development; LNG production and exports.

In December 2019, the Company’s Board of Directors reviewed the progress against the Rosneft-2022 Strategy in 2019 and confirmed the previously approved strategic objectives and targets for the gas business.

Meeting the strategic gas business objectives will increase Rosneft’s free cash flow in 2020–2022 and the Company’s long-term shareholder value while also securing a 2% share in the Russian gas market.

67.0 total gas production in 2019

 Recovered gas volume excluding flared gas and gas used in liquid hydrocarbons production.
ACHIEVEMENTS IN GAS BUSINESS DEVELOPMENT

- Construction of key facilities at Rospan and its in its final phase: core process equipment for the CGTU in the Vostochno-Urengovsky licence area,
- major construction and installation operations completed to prepare the oil treatment unit for launch;
- six out of seven gas turbine units launched to cover the electricity demand of all first-stage facilities;
- the Krototschevo railway terminal almost completed.

- Construction of key facilities at Kharlampurneftegaz’s in the active phase:
  - construction and installation continues at the gas treatment unit, gas shipment pipeline, power facilities, and other infrastructure;
  - 57 out of 81 project wells drilled;
  - geological data research and collection continues for the first well put into pilot operation at the Turonian deposit.

- The Zohr joint offshore development project in Egypt reached its full design capacity of 76 mmcm per day ahead of schedule. Since the project was launched in December 2017, 13 production wells, eight gas treatment trains, four subsea pipelines, and an offshore management platform had been commissioned.

- A unique process was developed to produce gas from the low-permeability reservoirs of the Berezovskaya suite. The distinctive feature of the technology is that it allows fissure logging while drilling. The logging results can be used to identify the optimal layout of hydraulic fracturing ports, contributing to more effective development of such fields. A patent application has been filed.

- For the first time in Russia, a reserve estimation at Kharlampur resulted in the Berezovskaya suite reserves being successfully proved to the State Commission for Mineral Reserves (GOK) and approved by the Federal Subsoil Resources Management Agency (Rosnedra).

- Under the Far Eastern LNG project, the Sakhalin-1 consortium decided to proceed to the stage of front-end engineering design (FEED) and initiate competitive contractor selection.

- In August, Rosneft signed cooperation agreements with Mozambique’s National Petroleum Institute (INP) and state oil and gas company ENH. Under these agreements, Rosneft will have the right to study the available geological information to assess the potential of onshore and offshore blocks in Mozambique.

- At the St. Petersburg International Economic Forum, Rosneft and Rostec signed an agreement to support the gas motor fuel market.

- The parties agreed to upgrade Rosneft’s filling stations with liquefied natural gas (LNG) and compressed natural gas (CNG) equipment.

- Rosneft’s largest gas-producing region is Western Siberia, which contributed 47.01 bcm, or 79%, of the total gas output in 2019, including 24.27 bcm of natural gas produced mainly by Siburneftegaz, Rospan International, Purgaz and RN-Purneftegaz and 22.74 bcm of associated petroleum gas produced mainly by Samotlorneftegaz, RN-Yuganskneftegaz, Varyagneftegaz and RN-Purneftegaz.

- In Eastern Siberia, gas was produced at the Vanier group of fields, the region’s largest. Output there amounted to 5.94 bcm of associated petroleum gas and 1.57 bcm of natural gas.

- In the Russian Far East, Rosneft mainly produced associated petroleum and natural gas from onshore fields and on the shelf off Sakhalin, with RN-Shelf-Far East accounting for the bulk of the 2.95 bcm gas production in 2019.

- In the Volga-Uralis Region, gas was primarily produced from the fields operated by Orenburgneft, Samaraneftegaz and Bashneft-Dobycha. Output there amounted to 2.2 bcm.

- In Southern Russia, the company’s key gas asset is RN-Krasnodarneftegaz, which produces both natural and associated petroleum gas. The region brought in 2.07 bcm in 2019.

- International projects: mainly the Zohr offshore field in Egypt, produced 4.97 bcm. Our operations in Vietnam and Canada also contributed.
Key Assets and Promising Projects of the Company's Gas Business

In line with its approved strategy, the Company focuses on high-ROI projects. Our key priority is to launch such projects within budget and on schedule, so that we can produce more than 100 bcm of gas annually by 2022 and increase the share of gas in total hydrocarbon production.

At the end of 2019, construction of key facilities was in its final phase:
- core process equipment installed as part of the CGTU’s first start-up complex in the Vostochno-Urengoygaz license area, key installation and testing tasks completed on the process pipelines;
- major construction and installation operations completed on the oil treatment unit, core process equipment being prepared for hot commissioning;
- six out of seven gas turbine units launched at the Vostochno-Urengoygaz license block’s gas turbine power plant;
- at the Krotchinaev railway terminal, most of the installation completed on the process pipelines and shut-off and control valves.

Russian and foreign cutting-edge technologies ensure more efficient production at Rospan. For the first time in the Company’s history, two horizontal wells were drilled in 2019 using multi-stage hydraulic fracturing and the HINAP technique to enable production from reservoir edges and speed up the overall development, effectively boosting technical gas recovery by 2.1%.

**Plans**
- Completion and launch in 2020.

Rospan
The launch of Rospan, the largest gas project in the Company’s portfolio, is key to achieving the mentioned objectives. The full-scale development of Rospan International’s fields will be the primary source of near-term growth for both gas and other hydrocarbon production.

- Total recoverable reserves (ABT1C+2BC2) as at 1 January 2020:
  - 912 bcm of gas
  - 169 mmt of gas condensate and crude oil

- Mid-term annual production outlook:
  - over 21 bcm of gas
  - over 5 mmt of gas condensate and crude oil
  - up to 1.3 mmt of industrial propane/butane mixture

**Plans**
- Construction of key facilities remained in the active phase:
  - construction and installation at the gas treatment unit involved placing foundation piles, pouring concrete, and assembling steelwork;
  - construction and installation progressed at the gas shipment pipeline, with drilling started for the second Vasyaykha River crossing;
  - 57 out of 61 project wells were drilled;
  - geological data research and collection continued for a well put into pilot operation at the Turonian deposit;
  - gas well cluster engineering facilities and feeder roads were used to complete construction of gas gathering networks and fit-up of well pads and power facilities continued.

Kharampurn
Also vital to Rosneft’s gas business is the project it runs together with BP at the Kharampurskie license area. Its objectives include conventional gas production from the Cenomanian deposit and the pilot and then full-scale development of the Turonian deposit. The Company has the expertise and experience to deliver such complex projects efficiently.

As at 1 January 2020, the fields’ ABT1C+2BC2 recoverable natural gas reserves, including the Turonian deposit, were close to 1 bcm.

Once it reaches the design capacity, annual gas production is expected to be around 11 bcm, with a potential to expand to 25 bcm later.

**Plans**
- The near-term plans include:
  - completion of gas production infrastructure for the Cenomanian deposit;
  - completion of key facilities (the gas treatment unit, gas shipment pipeline, facilities, etc.);
  - completion of the feasibility study for the full-scale development of the Turonian deposit and proceeding to the FEED stage.

The project launch is scheduled for 2021.

Research was also in progress at the Kharampurskie license area to study the geological structure and production potential of the Beregovoye suite’s low-permeability gas reservoirs. The Company has developed methodologies and techniques to explore the suite’s reserves and estimate its resource potential. In 2019, a comprehensive estimation at Kharampurn resulted in its Beregovoye suite’s reserves being, for the first time in Russia, approved by the State Commission for Mineral Reserves (GOK) and protected by Rosnedra.

In 2019, we also finalised our unique method of gas production from the Beregovoye suite. The distinctive feature of this technology is that it allows fissure logging while drilling. The logging results can be used to identify the optimal layout of hydraulic fracturing ports, contributing to more effective development of the Kharampurn fields. A patent application has been filed.

Sibneftegaz
This is our biggest gas-producing asset for the moment.

- produced 11.4 bcm of natural gas in 2019, with the cumulative gas output reaching 125 bcm by the year end.

- essential production facilities under construction included:
  - a gas and condensate treatment unit and related infrastructure for the development of the Beregovoye field’s lower horizons;
  - a booster compressor station at the Beregovoye field.

**Plans**
- Facilities are to be launched in 2020.

Thanks to production maintenance projects at the existing fields and the non-capital-intensive development of the Beregovoye field’s lower horizons, annual gas output in the period until 2023 is expected to exceed 1.5 bcm.
Gas Processing and Better APG Utilisation

In 2019, Rosneft continued to develop prospective gas production centres at its existing fields in Eastern Siberia and the Republic of Sakha (Yakutia).

**Verkhnechonskneftegaz**

Rosneft and Beijing Enterprises Group Company Limited were jointly exploring the Verkhnechonsky oil and gas condensate field in the Irkutsk Region. The project will involve establishing a new gas production centre and building transport infrastructure. Our strategic partnership with Beijing Enterprises Group Company Limited is expected to open up new opportunities for monetising gas reserves in Eastern Russia.

**Taa-Yuryakh**

In the Republic of Sakha, Rosneft, BP and an Indian consortium consisting of Oil India Limited, Indian Oil Corporation Limited and Bharat Petroleum Resources Limited continued to develop the Srednebotuobinskoye oil and gas condensate field, which in a long term is set to become a basis for a major gas production project.

**Kynsko-Chaselsky licence area**

In the long term, we plan to use the infrastructure of the Kynsko-Chaselsky licence area to create a new gas production centre in the south-east of the Yamal-Nenets Autonomous Area. This will include the development of seven previously acquired licence areas and, in the longer run, the adjacent areas in the eastern part of what is open acreage today.

The projects expected annual output is 15.7 bcm, with a potential to grow to 19 bcm later. In 2019, the key design solutions were fully developed for its first stage, which targets an annual output of up to 8.7 bcm. Engineering surveys and the work on design documentation are to start in 2020.

LNG Projects

The Company is involved in the Far Eastern LNG project as a member of the Sakhalin-1 consortium to monetise the natural gas reserves of the Russian Far East. In 2019, the project’s shareholders defined the marketing strategy and decided to proceed to the FEED stage. Competitive contractor selection process was initiated, with designing and planning done for the early preparations to commence on the LNG plant site in 2020.

International Gas Business Development

Expanding into gas markets abroad and becoming a global player in the world’s LNG market are among Rosneft’s priorities. The Company’s involvement in international gas projects will ensure a significant and cost-effective increase in natural gas reserves and a balanced risk profile of its asset portfolio.

**INTERNATIONAL GAS ASSETS**

- **Egypt**: a 30% stake in the unique project to develop the Zohr field, together with Eni, BP, Mubadala, and Egypt’s state oil and gas company EGAS.
- **Vietnam**: a 25% stake in Block 06.1, as the operator (current stage: natural gas and gas condensate production); a 100% stake in Block 05.3/11 (current stage: exploration); and a 32.67% stake in the Nam Con Son gas pipeline.
- **Brazil**: a 100% stake in Solimões Basin blocks as the operator (current stage: exploration).
- **Mozambique**: a 29% stake in three offshore blocks (A5-B, C2-C and Z-2 D) with a potential for large gas discoveries (current stage: exploration).
- **Latvia**: a 10% stake in AS Latvian Gaze, a major natural gas supplier in the Baltic markets.

In 2019, the Company’s APG utilisation rate¹ stood at 89.3%.

¹ Beijing Enterprises Group Company Limited holds a 20% stake in Verkhnechonskneftegaz.
² Excluding fields at early stages of development.
Development of International Projects in Promising Oil and Gas Regions

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

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

The Zohr Project in Egypt

In October 2017, Rosneft signed on as a full partner with a 30% stake in the project.

The Zohr field was discovered by Eni in 2015. It covers an area of 231 sq km, with sea depths ranging from 1.2 to 1.7 km and a gas deposit located at a depth of 3.4 to 4 km. Zohr is one of the biggest offshore fields in the Mediterranean Sea. Gas production at the field started in December 2017.

In 2019, Zohr commissioned four new production wells, three gas treatment unit trains and the third pipeline for gas transportation from the field to the gas treatment facilities, enabling it to reach its production target of 76 mmcm per day in August 2019, five months ahead of the Development Plan.

Actual production in 2019 (100% of the project) totalled

| 23.4 bcm of gas |
| 0.2 mmt of gas condensate |

In December 2019, the partners deemed practicable to carry out exploration on the Sherouk Block in 2020–2021 by drilling an exploration well with a view to enhancing the project’s resource potential.

Brazil

Through its subsidiary, Rosneft Brasil E&P Ltda, Rosneft engages in a prospecting and exploration project on licence areas in the Solimões River Basin (State of Amazonas), holding a 100% stake and operatorship in these licences. Its efforts resulted in a number of gas discoveries. In 2019, the Company drilled the fourth prospecting well which helped detail the geological structure and the oil and gas bearing potential of the basin. Rosneft is currently considering monetisation options for the newly discovered gas reserves.

Iraq

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

In December 2019, the second exploration well, Salman-2, was completed and tested by the Company at Block 12 in Iraq’s south, which confirmed the initial estimate of oil reserves at the Salman field. In late 2019, the Company submitted to the Iraqi side an application for potential commercial discovery and a further exploration programme for the next two years.

Iraq (Kurdistan)

Since 2017, Rosneft has been running a hydrocarbon exploration and production project in Iraq Kurdistan. The Company is the project operator, holding an 80% stake in five production sharing agreements (PSA).

In February 2019, oil production was piloted at the Beji field.

In 2019, the Company started 3D seismic surveys, getting ready for exploration drilling.
Rosneft participates in the consortium for exploration of three offshore blocks (A5-4, A5-C, Z-5b) in Mozambique, which were obtained following the fifth licensing round. The consortium includes Rosneft - 20%, ExxonMobil (operator) - 40%, Mozambique’s state-owned ENH - 20%, Qatar Petroleum - 10%, and ENI - 10%.

In 2019, the consortium continued to process and interpret seismic data, getting ready to drill prospecting wells.

Rosneft also participates in the offshore Nam Con Son pipeline project (Rosneft Vietnam Pipelines B.V. – 32.67%, Perenco – 16.33%, PVN – 5%), which involves the transportation of gas and gas condensate produced at offshore blocks in the Nam Con Son Basin to the onshore processing facility and then to gas turbine power plants for electricity generation.

The pipeline has a capacity of 7.7 bcm per year, carrying ca. 7 bcm of gas in 2019, including the gas produced from Block 06.1 and other operators in the Nam Con Son Basin. Its operational efficiency is 100%.

On 22 June 2019, Rosneft Vietnam B.V., one of the Group Subsidiaries operating in Vietnam, marked 17 years of safe offshore operations with no lost-time injuries, an important milestone in its activity.

Rosneft participates in exploration projects and a joint gas and condensate production project at Block 06.1 in the Socialist Republic of Vietnam (Rosneft Vietnam B.V. as the project operator holds 35%, DONG – 45%, PVN – 20%). The project is implemented in line with the PSA. Block 06.1 contains three gas condensate fields, specifically Lan Tai, Lan Do, and PLD (Wild Orchid). The fields are located 370 km offshore in the Nam Con Son Basin.

Actual production in 2019 (100% of the project) totalled 4.16 bcm of gas and 0.04 mmt of gas condensate (Rosneft’s share: 0.78 bcm of gas and 0.01 mmt of gas condensate).

In 2013, the Company signed a PSA for the development of Block 05.3/11. The project is currently at the exploration stage. The licence area is located in the region with confirmed and gas bearing potential and extensive infrastructure, and borders on the currently developed fields of Block 06.1.

Myanmar

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

Its efforts helped identify a number of targets for prospecting drilling. The first well is scheduled for 2020.

1 Actual production in 2019 (100% of the project) totalled 23.4 bcm of gas and 0.2 mmt of gas condensate (Rosneft’s share: 4.1 bcm of gas and 0.04 mmt of gas condensate).
Downstream (Refining and Commerce)

The Company ranks No. 1 in Russia in terms of refining capacity and throughput. It operates 13 large refineries, which processed over 100 mmt of oil in 2019.

74.4%
refining depth in 2019

57.6%
light product yield

Key Results of 2019
(Oil Refining)

In 2019, the Company’s oil refining activities were aimed at satisfying the demand for quality petroleum products.

In the reporting year, Rosneft’s Russian refineries processed 100.1 mmt of oil. The total oil refinery throughput (including foreign assets) stood at 110.2 mmt. In the fourth quarter, Russian refineries’ throughput amounted to 25.5 mmt, with the year-on-year change attributable to the repair cycle.

The refining depth and light product yield in 2019 was 74.4% and 57.6%, respectively.

The Company continued to expand its range of environmentally-friendly fuels. In May 2019, the Ryazan Refinery launched the production of Al-95-95S Euro-6 gasoline to supply the Moscow Region with greener fuel. The Komsomolsk and Ufa refineries started producing VMU-5, a low-sulphur marine fuel compliant with the IMO standards that went into effect in early 2020. The fuel contributes to minimising the bunker’s environmental footprint. The Ufa Refinery also began the industrial production of AI-100 high octane gasoline using a proprietary technology.

The first batch of hydrotreating catalysts suitable for Euro-5 compliant diesel fuel underwent industrial tests at Rosneft’s Ufa group of refineries. This is the first-ever hydrotreating agent capable of fully replacing its foreign analogues for the Russian refining industry. The tests proved that Rosneft’s proprietary catalyst was fit for the production of diesel fuel compliant with all the latest technical requirements. The catalyst is on par with the best foreign peers and even superior to them in some aspects.

Rosneft continues to implement the existing facility maintenance initiatives and refinery upgrade programmes. The total spending on Oil Refining maintenance and upgrade projects under IFRS in the reporting year amounted to RUB 43.8 bn. The Company remains focused on highly efficient projects to deboiltenoel the refinery configuration by overcoming production and technical constraints, and developing bitumen production, as well as increasing operational efficiency and reducing operating costs.

100.1 mmt
oil processed by Rosneft’s Russian refineries in 2019

Marketable Product Mix (Russian Refineries), mmt

<table>
<thead>
<tr>
<th>Product</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diesel Fuel</td>
<td>34.07</td>
<td>32.63</td>
</tr>
<tr>
<td>Motor gasoline</td>
<td>15.08</td>
<td>15.53</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>23.99</td>
<td>23.96</td>
</tr>
<tr>
<td>Naphtha</td>
<td>6.40</td>
<td>5.82</td>
</tr>
<tr>
<td>Kerosene</td>
<td>3.56</td>
<td>3.35</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>1.07</td>
<td>1.04</td>
</tr>
<tr>
<td>Other</td>
<td>18.06</td>
<td>18.55</td>
</tr>
</tbody>
</table>

1 Including marine fuel.
Oil Refining

Russia

Rosneft operates the largest oil refining capacities in Russia and controls refineries in the key regions of the country. In 2019, the Company’s domestic refineries processed 100.1 mmt of oil, while their average Nelson Index stood at ca. 8.0.

8.0 Average Nelson Index of Rosneft’s Russian refineries

Foreign Assets

In Germany, the Company’s subsidiary Rosneft Deutschland GmbH holds interest (24% to 54%) in three refineries, controls more than 12% of the country’s oil refining capacities, and ranks third, processing up to 12.8 mmt and having the average Nelson Index of 9.0.

In Belarus, Rosneft indirectly holds a 21% stake in the Moty Refinery. The Company also holds a 49% stake in India’s second-largest high-tech refinery in Vadinar with a total processing capacity of 28 mmt and the Nelson Index of 11.8.

Rosneft joined effort with its partners in the Asia-Pacific to design a refinery with a petrochemical complex in Indonesia and finalise a refinery project in China.

Key Focus Areas in 2019

Refinery Upgrade Programme in Russia

The Company continued to implement the refinery upgrade programme in the Russian Federation, which involves the construction and renovation of refining units and facilities in order to increase the depth of processing, light product yield, and the output of high-quality motor fuels and provide the Company’s sales channels with petroleum products that meet the requirements of the Technical Regulations of the Customs Union.

When completed, the programme will improve the product portfolio and boost the competitiveness and profitability of the Russian refineries.

Achievements in 2019

- The Novosibirsk Refinery piloted a kerosene preparation unit as part of the off-site facilities for the hydrocracking plant.
- The Tuapse Refinery completed the construction of water disposal (treatment) facilities and a jet fuel filtration unit as part of its diesel pool project.
- The Syzran Refinery commissioned a central distribution substation as part of the off-site facilities for the catalytic cracking complex.
- The Yaroslavl Refinery developed a basic project for its DCU process and selected a designer for the basic project for diesel fuel hydrodesulphurisation process as part of the construction of a deep conversion unit.

Refinery Maintenance Programme in Russia

Rosneft continued to pursue projects on ensuring compliance with instructions issued by the regulatory authorities, minimising environmental risks, aligning rules and regulations with the relevant requirements, replacing worn-out equipment, and implementing target programmes at the Company’s refineries in Russia.

In 2019, Rosneft continued to implement:

- large-scale programme to comply with instructions issued by the Federal Service for Environmental, Technological and Nuclear Oversight (RosTekhnolog) following the inspections of production facilities;
- programme for measuring plant internal material flows;
- projects for emergency recovery of gas fractionation section of Achinsk Refinery’s UK-6 unit and hydrocracking unit of Bashneft-Ufaneftekhim;
- measures aimed at reducing unscheduled production stoppages: replacement of worn-out equipment, implementation of industrial and fire safety projects, as well as targeted pipeline replacement and reliability improvement programmes.
New Products

In 2019, the product range of Russian refineries was expanded to meet market demand:
- In May 2019, the Ryazan Refinery launched the production of AI-95-K5 Euro-6 gasoline to supply the Moscow Region with greener fuel. The gasoline will help minimise the footprint of road transport and improve the environment, which is especially relevant for large cities;
- the Komsomolsk and Ufa refineries started producing RMK-1, a low-sulphur marine fuel compliant with the IMO standards that went into effect in early 2020. The fuel contributes to minimising the bunker’s environmental footprint.
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Environment

In 2019, the Company continued to implement a number of large-scale projects to minimise the environmental impact of Rosneft’s operations, including:
- the renovation and upgrade of wastewater treatment facilities of the Ryazan, Kubyshev and Novokubyshev refineries, and oil sludge disposal unit of Bashneft-Ufanietskii branch of Bashneft;
- the construction of a new two-unit desulphurisation system and an elementary sulphur complex at the Ryazan Refinery, and two additional elemental sulphur production lines at Bashneft-UNPZ.

Import Substitution, Development and Launch of New Products, and Product Approval Processes

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Comprehensive Accelerated Digital Transformation Plan

In 2019, initiatives under the comprehensive accelerated digital transformation plan in Oil Refining included:
- concept study of seven new digital transformation initiatives in five Group Subsidiaries;
- ten technological prototypes / test runs in four Group Subsidiaries and the Head Office of the Oil Refining segment;
- System for Optimised Mixing of Heavy Petroleum Products piloted at the Syzran Refinery.
- tender procedures to select a vendor for the implementation of optimised process control systems at 49 units of Ryazan and Saratov refineries, and Bashneft.
Refining Capacities in Russia

In 2019, the planned and additional measures of the operational efficiency improvement programme delivered the economic effect of RUB 17.6 bn.

In 2019, the Oil Refining segment saved 567.7 ktoe, overachieving its energy saving target of 510.0 ktoe.

Main Areas of Operational Efficiency Improvement Programme

<table>
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In 2019, the planned and additional measures of the operational efficiency improvement programme delivered the economic effect of RUB 17.6 bn.

The energy saving initiatives contributed to:
- Economic effect of over RUB 1.5 bn;
- 1.8 point improvement in Solomon Energy Intensity Index in 2019.

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In 2019, the refinery commissioned its kerosene preparation unit.
In the reporting year, investments were focused on the comprehensive upgrade programme, including the construction of a hydrocracking complex ZLWKR\VLWHIDFLOLWLHVDQGDSHWUROHXP coke production unit, as well as on the maintenance of the existing facilities, including the restoration of a gas IUDFWLRQDWLRQVHFWLRQRI/.8VXQLWΔQbLQYHVWPHQWVZHUHIRFXVHG on the comprehensive upgrade programme, including the construction of sulphuric acid alkylation units and the maintenance of the existing facilities.

Refinery throughput

- **Ryazan Refinery**: 15.207 mmt
- **Saratov Refinery**: 5.428 mmt
- **Tuapse Refinery**: 8.928 mmt
- **Achinsk Refinery**: 6.083 mmt
- **Angarsk Petrochemical Company**: 7.985 mmt
- **Komsomol’sk Refinery**: 7.088 mmt

Refining depth

- **Ryazan Refinery**: 72.4%
- **Saratov Refinery**: 81.8%
- **Tuapse Refinery**: 66.1%
- **Achinsk Refinery**: 68.7%
- **Angarsk Petrochemical Company**: 80.5%
- **Komsomol’sk Refinery**: 75.9%


Investments over the year were aimed at maintaining the existing facilities, implementing operational efficiency projects, and designing investment projects for the facility upgrade.

The construction of a single laboratory building was completed, followed by the commissioning of a new high-tech laboratory, and 19/5, GPU, L-15/V-300, L-35/5-300, L-24/6 process units were transitioned to cutting-edge microprocessor-based distributed control systems (DCS).

In 2019, the refinery focused on the maintenance of existing facilities, operational efficiency improvements, highly efficient debottlenecking projects related to facility configuration, as well as projects to hone the refinery’s long-term competitive edge.

In 2019, investments were focused on the large-scale renovation projects, including the construction of a hydrocracking and hydrotreating complex with off-site facilities. Other implemented projects included the maintenance of the existing facilities and operational efficiency improvement.

The Tuapse Refinery completed the construction of water disposal (treatment) facilities and a jet fuel filtration unit as part of its diesel pool project.

In the reporting year, investments were focused on the comprehensive upgrade programme, including the construction of sulphuric acid alkylation units and diesel fuel hydrodewaxer with off-site facilities, as well as on operational efficiency improvement and the maintenance of the existing facilities, including the restoration of a gas fractionation section of LK-6U unit.

In 2019, investments were focused on the comprehensive upgrade programme, including the construction of a hydrocracking and hydrotreating complex with off-site facilities, as well as on operational efficiency improvement and the maintenance of the existing facilities.

The Komsomol’sk Refinery was connected to the ESPO pipeline.
In 2019, investments were largely focused on maintenance of existing capacities, aligning rules and regulations with the relevant requirements, and implementation of the comprehensive upgrade programme.

In 2019, these facilities processed a total of 18.7 mmt.

**Small refining facilities**

**In 2019, the throughput amounted to 1.9 mmt**

<table>
<thead>
<tr>
<th>Product</th>
<th>Refining output (kt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor gasoline</td>
<td>3,639</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>7,152</td>
</tr>
<tr>
<td>Kerosene</td>
<td>202</td>
</tr>
<tr>
<td>Napthha</td>
<td>551</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>3,250</td>
</tr>
<tr>
<td>Other</td>
<td>1,767</td>
</tr>
</tbody>
</table>

Including marine fuel.

In 2019, the throughput stood at 18.7 mmt.

**Refining depth 81.0%**

In 2019, investments were largely focused on maintenance of existing capacities, aligning rules and regulations with the relevant requirements, and implementation of the comprehensive upgrade programme.

**In 2019, the facility continued to implement the programme on high-quality oil production for the hydrogenation complex under construction (Phase 1 and 2), as well as proceeded with its environmental, infrastructure and maintenance initiatives.**

The company holds interests in several small refining facilities in Russia (Nizhnevartovsk Refinery, Krasnoyarsk Refinery, Purneftepererabotka and Strzhenskoye Refinery, 50%). In 2019, these facilities processed a total of 1.9 mmt of oil, 1.5 mmt of which was processed at the Nizhnevartovsk Oil Refining Association.

**In 2019, the facility continued to implement the programme on high-quality oil production for the hydrogenation complex under construction (Phase 1 and 2), as well as proceeded with its environmental, infrastructure and maintenance initiatives.**

**Bashneft refining complex: Bashneft-Novoil, Bashneft-Ufaneftekhim, and Bashneft-UNPZ**

**Novokuibyshevsk Oils and Additives Plant**

**In 2019, the throughput amounted to 1.2 mmt**

**Marketable product output 0.5 mmt**

<table>
<thead>
<tr>
<th>Product</th>
<th>Refining output (kt)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor gasoline</td>
<td>49</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>654</td>
</tr>
<tr>
<td>Kerosene</td>
<td>134</td>
</tr>
<tr>
<td>Napthha</td>
<td>926</td>
</tr>
<tr>
<td>Fuel oil</td>
<td>29</td>
</tr>
<tr>
<td>Other</td>
<td>95</td>
</tr>
</tbody>
</table>

**In 2019, the Company introduced an enhanced quality monitoring of oil delivered for refining.**

**Petroleum Product Quality Control**

The motor fuels produced by Rosneft's refineries have high performance and environmental characteristics and meet the K5 fuel class requirements outlined in the Technical Regulations of the Customs Union GTR 01 32011 02 Requirements for Motor and Aviation Gasoline, Diesel and Marine Fuels, Fuels for Jet Engines, and Fuel Oil. The quality of Rosneft's motor fuels has been confirmed by qualification and bench tests run by specialised R&D centres, and various awards and accolades.

Quality management systems at the Company's refineries comply with the ISO 9001 international standards and ensure high-quality production and a minimum number of customer claims.

The Company's refineries have a multi-stage Quality Control system for feedstock and marketable products, including incoming control of feedstock, chemicals, and additives supplied to the plants, as well as multi-stage monitoring and quality control of components and marketable products throughout the entire production cycle, i.e. from feedstock delivery to a facility to product sales.

In 2019, the Company introduced an enhanced quality monitoring of oil delivered for refining.

The testing laboratories at the refineries are equipped with state-of-the-art equipment and analytical instruments to ensure highly accurate and reliable test results.

Product compliance is confirmed through certification performed with the assistance of accredited testing laboratories and leading research institutes.

The Company's refineries regularly hold Quality Days attended by the employees of relevant units to study the best practices for improving production efficiency and quality control, and share experience in ensuring quality and safety of petroleum products.

In 2019, the Company continued expanding the range of additives that improve performance characteristics of motor fuel. Tests performed on the additives helped reduce purchase costs by increasing the number of available alternatives.

As part of the import substitution programme, the Company's refineries use anti-wear additives produced by the Group Subsidiaries in Russia.

Consistent measures to improve and control the quality of petroleum products resulted in more stringent requirements for AI-95-K5 Euro-6 motor gasoline with improved environmental and performance properties, which contains less sulphur, benzene, aromatic and olefinic hydrocarbons and resins, and has a longer shelf life.

In addition to the launch of AI-95-K5 Euro-6 production at Bashneft, Bashneft Novoil (to be sold in the Republic of Bashkortostan) and at the Saratov Refinery (for sales across the Krasnoyarsk Territory), in 2018, the Ryazan and Syrany refineries have also put this motor gasoline into production. The Ryazan Refinery has been supplying Euro-6 to the Ryazan, Kaluga and Tula regions since May 2019, and to Moscow and the Moscow Region since December 2019.
Overview of International Oil Refining Projects

Mozyr Refinery
The Company indirectly holds a 21% interest in Mozyr Refinery, Belarus, through Slavneft. Rosneft’s share in the throughput of the Mozyr Refinery amounted to 2.1 mmt in 2019. In 2019, the Company supplied a total of 5 mmt of oil to the refinery, while completing its investment project for the construction of a heavy residue hydrocracking unit.

Promising Foreign Projects
In order to expand its presence in the growing high-margin markets, Rosneft is carrying out a number of promising oil refining and petrochemical projects in Indonesia and China.

Refinery and Petrochemical Complex Construction in Tuban
The project is implemented in cooperation with Pertamina, Indonesian oil and gas company, through the establishment of a joint venture named PT Pertamina Rosneft Pengolahan dan Petrokimia (Rosneft holds 49%, Pertamina - 55%) on 28 November 2017. PT Pertamina Rosneft Pengolahan dan Petrokimia, a joint venture by Rosneft and Pertamina, Indonesian state oil and gas company, signed a contract with Spanish Tecnicas Reunidas SA on the basis of (BED) and front-end engineering design (FEED) for an oil refining and petrochemical complex in Tuban, Java, Indonesia. The final investment decision (FID) on the project will probably be made after the completion of BED and FEED and will be based on the results of fundraising. The plant is expected to become one of the most hi-tech facilities globally (with a Nelson Index of 13.1). Its design capacity will be up to 15 mmta for primary oil refining, over 1 mmta for ethylene production and 1.3 mmta for aromatic hydrocarbons production.

Nayara Energy Limited
In August 2017, Rosneft closed the deal to acquire 49.1% of shares in Essar Oil Limited (renamed as Nayara Energy Limited in May 2018), an Indian company that owns the country’s largest refinery situated in Vadinar and a retail network of filling stations across India. The Vadinar refinery has a capacity of 20 mmta and ranks second in the Indian market by throughput. It is among the world’s top ten most complex refineries, with a Nelson Index of 11.8. It is highly flexible as it can process heavy and extra-heavy crudes, which account for over 90% of its annual throughput.

The Vadinar refinery has achieved high operational efficiency for its assets as 17 of its 28 Solomon benchmarks are in the top 1st quartile. The refinery owns a deep water port that can accommodate VLCC supertankers, while its power stations independently provide ample power supply. Nayara Energy Limited runs a large network of filling stations under the Essar brand in India, which included 5,628 operating stations as at the end of December 2019. The number of filling stations more than doubled over the period of four years. The company has three own oil depots and 13 under rent.

Kurdistan Pipeline Company Pte. Ltd.
In January 2019, a concession agreement on the operation of crude oil export pipeline in Iraq Kurdistan came into effect. The pipeline’s design capacity will be nearly 950 kbd. The concession term is 20 years with a 5-year extension option. The Company’s share in the project is 60%.

Overview of International Oil Refining Projects

Promising Foreign Projects

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The project is implemented in cooperation with Pertamina, Indonesian oil and gas company, through the establishment of a joint venture named PT Pertamina Rosneft Pengolahan dan Petrokimia (Rosneft holds 49%, Pertamina - 55%) on 28 November 2017. PT Pertamina Rosneft Pengolahan dan Petrokimia, a joint venture by Rosneft and Pertamina, Indonesian state oil and gas company, signed a contract with Spanish Tecnicas Reunidas SA on the basis of (BED) and front-end engineering design (FEED) for an oil refining and petrochemical complex in Tuban, Java, Indonesia. The final investment decision (FID) on the project will probably be made after the completion of BED and FEED and will be based on the results of fundraising. The plant is expected to become one of the most hi-tech facilities globally (with a Nelson Index of 13.1). Its design capacity will be up to 15 mmta for primary oil refining, over 1 mmta for ethylene production and 1.3 mmta for aromatic hydrocarbons production.

Nayara Energy Limited
In August 2017, Rosneft closed the deal to acquire 49.1% of shares in Essar Oil Limited (renamed as Nayara Energy Limited in May 2018), an Indian company that owns the country’s largest refinery situated in Vadinar and a retail network of filling stations across India. The Vadinar refinery has a capacity of 20 mmta and ranks second in the Indian market by throughput. It is among the world’s top ten most complex refineries, with a Nelson Index of 11.8. It is highly flexible as it can process heavy and extra-heavy crudes, which account for over 90% of its annual throughput.

The Vadinar refinery has achieved high operational efficiency for its assets as 17 of its 28 Solomon benchmarks are in the top 1st quartile. The refinery owns a deep water port that can accommodate VLCC supertankers, while its power stations independently provide ample power supply. Nayara Energy Limited runs a large network of filling stations under the Essar brand in India, which included 5,628 operating stations as at the end of December 2019. The number of filling stations more than doubled over the period of four years. The company has three own oil depots and 13 under rent.

Kurdistan Pipeline Company Pte. Ltd.
In January 2019, a concession agreement on the operation of crude oil export pipeline in Iraq Kurdistan came into effect. The pipeline’s design capacity will be nearly 950 kbd. The concession term is 20 years with a 5-year extension option. The Company’s share in the project is 60%.
Oil Refining Assets in Germany

Rosneft Deutschland GmbH (RDG)

The Company entered the German petroleum product market in 2011 when it acquired a 50% stake in Ruhr Oil GmbH (ROG) joint venture. Following ROG reorganisation in 2016, Rosneft gained direct control over more than 12% of Germany’s oil refining facilities with a total throughput of about 12.8 mmtpa. The Company became a shareholder in three major refineries: Bayernoil (72.5%), Miro and PCK Schwedt (35.42%). It then doubled its shares in the refineries equity to 25%, 24% and 54.17%, respectively. At the same time, BP accumulated 10% shares of the Gelsenkirchen refinery.

In December 2019, Rosneft Deutschland closed the deal to acquire 3.57% of shares in Bayernoil Raffineriegeseellschaft mbH refinery from BP Europe SE, increasing its stake to 28.57%. As a result, the Company saw its share in the refining capacities of the Bayernoil Refineries grow to almost 3 mmtpa. Its total throughput in Germany now reaching 12.8 mmtpa, which strengthened its positions both in Bavaria, one of the largest industrial regions of Germany, and Austria.

Rosneft is the third largest player in the German oil refining market. Operating activities are carried out by its subsidiary, Rosneft Deutschland GmbH, which was established in 2017. Rosneft supplies almost a quarter of crude oil imports to Germany – ca. 23 mmtpa.

On 1 January 2019 Rosneft Deutschland GmbH initiated the direct sales of petroleum products manufactured at the three German refineries partially owned by Rosneft. The product mix includes motor gasoline, diesel fuel, light heating oil, jet fuel, LPG, bitumen, heavy marine fuel and petrochemical products. The Company is a leader in the German petroleum wholesale market.

Apart from direct supplies from its refineries, the Company uses over 30 export terminals to deliver petroleum products by road, rail, and river. The Company’s customer base includes more than 500 enterprises in Germany, Poland, the Czech Republic, Switzerland, Austria, and France.

In 2019, Rosneft Deutschland increased sales of polymer-modified bitumen (PMB)Atlanta by 37.9% year-on-year. Atlanta is a high-tech material featuring high elasticity and wear resistance. Rosneft Deutschland began supplying Atlanta to German consumers in 2018, shortly after the start of sales and marketing of bitumen in the country.

The Company also established a supply chain for PMB in Germany using feedstock from the PCK, Bayernoil, and Miro refineries.

In 2019, Rosneft Deutschland supplied Atlanta PMB and other bitumen products to KUTTHER GmbH & Co. KG for the construction of an extended runway at the Memmingen (Alptrau) Airport in Bavaria. The products were used to lay about 57.4 km of asphalt on 165 thousand sq m of airport land. Thanks to its strategically located shipping terminals and the flexibility of the logistics system, Rosneft Deutschland was able to supply bitumen within a very short time.

Over the past year, the company’s customer base has grown by 30%, with bitumen products delivered to Poland, Austria, the Czech Republic, Switzerland, France and other countries.

Apart from that, Rosneft Deutschland signed contracts on in-plant fuelling with airports in Munich and Berlin (Tegel and Schönefeld) as part of its jet fuel market share expansion in Germany. Rosneft Deutschland owns a share in the PCK Refinery in Brandenburg which produces 300 ktpa of jet fuel, accounting to almost a half of the total kerosene consumed at Berlin airports.

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Petrochemicals

Petrochemicals form a crucial part of Rosneft’s production complex. High product quality and continuous improvement of production processes provide the Company with a competitive edge over other Russian and foreign players in the domestic market.

Rosneft’s petrochemical complex comprises:
- Angarsk Polymer Plant;
- Novokuibyshevsk Petrochemical Company;
- Ufaorgsintez.

Rosneft also has petrochemical production lines at Blashneft-Ufaneftekhim (an aromatic hydrocarbon production complex) and the Angarsk Refinery (methanol, butyl alcohol, and amine production units).

Angarsk Polymer Plant

The plant’s main products include ethylene, high-density polyethylene, propylene, benzene, butylene-diene-mono fraction, ethylbenzene, styrene, polystyrene, etc.

As of now, the Angarsk Polymer Plant is the only polystyrene and high-density polyethylene manufacturer in Eastern Siberia. The plant’s annual output includes over 200 ktpa of ethylene, over 100 ktpa of propylene, and 60 ktpa of benzene. Ethylene is partially supplied to Sayanskikhimplast as feedstock, while the remainder is used to produce high-density polyethylene and other petrochemicals. The plant uses straight-run gasoil and hydrogen gases mainly produced by the Angarsk Refinery as feedstock.

In 2019, the Angarsk Polymer Plant processed 719.3 ktpa of hydrogen gasoil, while its output of high-value-added marketable products amounted to 550.4 ktpa.

Novokuibyshevsk Petrochemical Company

Novokuibyshevsk Petrochemical Company is one of the largest gas processing, petrochemical, and organic synthesis companies in Russia and Eastern Europe.

Its product mix comprises over 30 items, including tert-amyl methyl ether (TAME), synthetic phenol, synthetic ethanol, and acetone for industrial application, LPG, and para-tertiary butylphenol (PTBP).

The company produces 300 ktpa of high-solute additives for TAME motor fuels and has its PTBP production facilities univailed in Russia and the CIS. It is also the only synthetic ethanol manufacturer in the country.

In 2019, the company processed 1,013.3 ktpa of feedstock, while its output amounted to 969.1 ktpa of marketable products.

The company is carrying out a project to build a pilot plant for the production of synthetic polyalcohol base oils (PAO) characterised by high viscosity and low freezing point, the first of its kind in Russia.

Ufaorgsintez

Ufaorgsintez is one of the largest petrochemical enterprises in Russia focusing on the production of phenol, acetone, high-density polyethylene, polypropylene and its copolymers, synthetic rubber, and other organic synthesis products. The plant produces over 30% of Russia’s total phenol output and is a leading producer of acetone.

Ufaorgsintez has a capacity of more than 850 ktpa.

The company’s products are widely used to manufacture plexiglass, phenol formaldehyde resins, alkylphenols, plastic films, and other products for industrial and agricultural application, and industrial rubber. Ufaorgsintez’s products are of high demand in mechanical engineering, consumer goods, healthcare, electronics, and electrical engineering sectors.

Some of its organic synthesis products are univailed in Russia. The company’s ethylene propylene diene monomer rubber (EPDM) is a component of various industrial rubber products, including those used in the defence industry, and wire and cable insulation in electrical appliances.

In 2019, the company processed 685.3 ktpa of feedstock, its output being 617.3 ktpa of marketable products.

Results

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Operating Results

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Sustainable Development

Corporate Governance

Information for Shareholders and Investors
Gas processing

The Company’s gas processing assets process the associated petroleum gas from Rosneft’s oil and gas production facilities, and their output is mainly utilised as feedstock for Rosneft’s petrochemical subsidiaries.

Rosneft’s gas processing assets include:
- Otradnensky Gas Processing Plant (OGPP)
- Neftegorsky Gas Processing Plant (NGPP)
- Tyumenskoye Gas Processing Plant (TGPP)
- Shkapovskoye Gas Processing Plant (SGPP)
- RN-Buzulukskoye Gas Processing Plant (BGGP)

Otradnensky Gas Processing Plant
In 2019, the OGPP processed 255.5 mcm of associated petroleum gas derived from the oil and gas fields of Samaraneftegaz and Orenburgneft.

Its main products are dry stripped gas, natural gas liquids (NGLs), ethane fraction, and industrial sulphur.

The plant continues a comprehensive programme involving the upgrade and replacement of worn-out and obsolete equipment with advanced modular units, which will improve operational efficiency and increase automation.

Neftegorsky Gas Processing Plant
In 2019, the NGPP processed 456.1 mcm of associated petroleum gas derived from the oil and gas fields of Samaraneftegaz and Orenburgneft.

Its main products are dry stripped gas, NGLs, ethane fraction, and industrial sulphur.

The plant continues a comprehensive programme involving the upgrade and replacement of worn-out and obsolete equipment with advanced modular units, which will improve operational efficiency and increase automation.

Tyumenskoye Gas Processing Plant
In 2019, the TGPP, part of Bashneft, processed 26.5 mcm of associated petroleum gas derived from the oil and gas fields of Bashneft-Dobycha (OIl and Gas Production Board (OGPB) Tyumazener), and 92.5 kt of NGLs using its own or third-party products.

Its main products are liquefied gases such as industrial propane/butane mixture, isobutane fraction, and normal butane fraction, as well as stable natural gasoline and industrial sulphur.

The plant is now engaged in a programme to replace its hydrodesulphurisation unit with an advanced modular unit, which will improve operational efficiency and increase automation.

Shkapovskoye Gas Processing Plant
In 2019, the SGPP, part of Bashneft, processed 46.2 mcm of associated petroleum gas derived from the oil and gas fields of Bashneft-Dobycha (OIl and Gas Production Board (OGPB) Ishimbayener and OGPB Ufener), and 72 kt of NGLs using its own or third-party products. Its main products are liquefied gases such as industrial propane/butane mixture, motor propane, isobutane fraction, and normal butane fraction, as well as stable natural gasoline.

The plant is making progress on a programme to replace its hydrodesulphurisation unit with an advanced modular unit, which will improve operational efficiency and increase automation.

Buzulukskoye Gas Processing Plant
In 2019, the BGGP, which includes two standalone production facilities, the Poiskovskoye Gas Treatment Unit and the Zaykinskoye GPP, processed 1,054.8 mcm of associated petroleum gas and unstable gas condensate derived from the oil and gas fields of Orenburgneft. Its main products are a combustible natural dry stripped gas, liquefied gases such as industrial propane/butane mixture, motor propane/butane, industrial propane, and industrial butane, as well as stable natural gasoline and industrial sulphur.

Currently, an investment project is under way to build a 1.2 mcm gas desulphurisation unit at the Zaykinskoye GPP, which will enable the BGGP to process additional volumes of sulphur associated petroleum gas from the prospective licence areas of Orenburgneft.

Production of Catalysts

Novokuibyshevsk Catalysers Plant
In 2019, the Novokuibyshevsk Catalysers Plant launched Russia’s first-ever advanced pilot testing facility for hydrocracking catalysts. The new facility is aimed at testing technologies to manufacture new catalysts designed by Rosneft’s and Russian R&D providers with a view to ramping up large-scale production. Using the pilot facility’s equipment, the plant can test both specific production stages and the complete production cycle of aluminabased catalysts.

At present, there are eight pilot batches of various types of new catalysts (catalysts for diesel fuel hydrotreatment, deep hydrosulphurisation of vacuum gasoil, isodewaxing, hydrofinishing of diesel fractions, dioxidif hydrogenation, hydrodemetallisation, and silicon traps) developed by corporate R&D units (RN-TsR and VNI NIP) for the use in various oil refining processes.

Angarsk Plant of Catalysts and Organic Synthesis
Work is under way at the Angarsk Plant of Catalysts and Organic Synthesis to build a production unit for platinum-containing reforming catalysts and gasoline isomerisation catalysts. Scheduled for commissioning in the first quarter of 2021, the unit with a capacity of 600 tonnes per year is designed to improve the quality of reforming and gasoline isomerisation catalysts. It also intends to reduce platinum losses, increase production reliability and safety, and ultimately meet the need of all Russian refineries for such catalysts.
Oil sales

Rosneft pursues a policy aimed at ensuring a balanced mix of oil monetisation channels, including refining at its own facilities in Russia and Germany, export sales under long-term contracts, tender-based spot transactions and domestic sales.

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

In the reporting year, the Company supplied about 100.1 mmt of oil to Russian refineries. In addition to shipments to its refineries in Russia during 2019, the Company supplied 2.8 mmt of own oil to German refineries where it holds a stake.

The total sales to third parties in 2019 amounted to 155.0 mmt, including 5.6 mmt of oil sold domestically.

Oil Exports to FSU and Non-FSU Countries

In the reporting year, Rosneft’s FSU and non-FSU oil exports totalled 149.4 mmt.

Eastbound exports, in particular pipeline supplies to China and sales via the Kazmin and De-Kasri ports, are the most profitable for the Company. In 2019, supplies in eastward direction, including international trading, reached 79.7 mmt, up 35% year-on-year. Oil produced in Russia accounted for 53.9 mmt of these supplies (up 7% year-on-year), with another 25.8 mmt sold through international trading units, which represents an almost threefold increase year on year. In addition, the Company exported 61.0 mmt of oil to Northwestern, Central, and Eastern Europe, the Mediterranean and other non-CIS countries, while also shipping 8.7 mmt to the CIS.

The bulk of crude oil is exported via the Transneft system, including the trunk pipeline network and ports. In the reporting year, we primarily exported crude oil via the following channels:

- Pipeline: approximately 114.4 mmt (76.6% of total FSU and non-FSU exports), with 49.5 mmt of this volume shipped via ports, and around 64.9 mmt through pipelines to China, Belarus, and Central and Eastern Europe;
- Rail and mixed transport: 2.2 mmt, accounting for 1.5% of total exports, excluding the effect of asset acquisition. These were mainly supplies via the Caspian Pipeline Consortium (CPC) running from the Tengi field in Western Kazakhstan to the port of Novorossiysk;
- Other, including shipments through the De-Kasri export terminal: 4.0 mmt.

Rosneft joined the CPC in 1996. It holds a 7.5% stake in the project via Rosneft Shell Caspian Ventures Ltd., a joint venture between the Company (51%) and Shell (49%).

Oil Supplies under Long-Term Contracts

In 2019, the Company continued supplying oil to China National Petroleum Corporation (CNPC) under the China-Russia government agreement. The supplies, which total 40.0 mmtpa, including 10.0 mmt transported through Kazakhstan, enable Rosneft to retain its presence in this strategic export market.

Breakdown of Exports, %

- China (pipeline) 27%
- International trading 19%
- Primorsk (sea) 13%
- Central and Eastern Europe (pipeline) 11%
- Kazmin (sea) 8%
- Ust-Luga (sea) 7%
- Belarus (pipeline) 6%
- Novorossiysk (sea) 6%
- De-Kasri (sea) 2%
- Rail 1%
- Varandey (sea) 1%

Expanding Cooperation with Oil and Petroleum Product Consumers

In 2019, the Company continued to focus on end-consumers, with exports exceeding 72 mmt.

In an effort to maintain and strengthen cooperation, we signed a two-year contract with PKV Grup S. A. to supply oil to Poland via the Druzhba pipeline. We also obtained a three-year extension for the existing contract with this company to ship oil to refineries in the Czech Republic. Furthermore, Rosneft made an agreement with JXTG Nippon to supply ESPO and Sokol crude in 2020.

We continue to foster collaboration with end-consumers of petroleum products.

In 2019, we shipped 0.7 mmt of stable natural gasoline to JXTG Nippon.

The Company stops up domestic sales of vacuum gasoil processed at TANECO and Ordnefteorgsinmex refineries. Over the year, we supplied 27.4 kt of this product.
Export Sales of Petroleum Products

In 2019, export sales of petroleum products totalled 70.1 mm t. Rosneft makes regular wholesale shipments of light and dark oil products to Mongolia. In 2019, we supplied 1.3 mm t of light petroleum products, up 0.2 mm t from the previous year.

The Company continues to focus on expanding its international footprint and diversifying its sales routes. During the summer shipping season in 2019, we used our fleet to export diesel fuel directly from the Syzran and Saratov refineries to a foreign port on CFR terms. This arrangement helped us maximise the use of our own tanker fleet and avoid the cost of additional transshipment at sea ports.

Domestic Sales of Petroleum Products

In 2019, domestic sales of petroleum products totalled 42 mm t, up 2.2% year-on-year. Rosneft is Russia’s largest motor fuel exchange trader. In 2019, we traded extensively in petroleum products. The share of Rosneft (including the UrO group of refineries) in total sales during the main session stood at:

- 47.7% for motor gasoline;
- 36.4% for diesel fuel;
- 51.9% for fuel oil.

The Company exceeded on-exchange sales targets set by a joint order of the Russian Federal Antimonopoly Service and the Russian Ministry of Energy dated 12 January 2015. The reporting year saw 24.8% of total motor gasoline, 9.8% of diesel fuel, 14.7% of kerosene, and 3.4% of fuel oil from Rosneft refineries (including the UrO group) sold on the exchange vs. the required 10%, 5%, 10%, and 2%, respectively.

As requested by our counterparties, we supplied motor fuel in full and on time under the Northern Supply Haul programme.

Sales of Petroleum Products to FSU Countries

In 2019, Rosneft maintained stable and uninterrupted tanker supplies of petroleum products to Armenia, shipping 234.7 k t of high-quality gasoline and diesel fuel to the country from its Russian refineries (up 34% year-on-year). We also supply gasoline and diesel fuel to RN-Kyrgyzneftprod, our sales subsidiary in the Kyrgyz Republic, for resale via its own retail network and wholesale channels. In 2019, petroleum product shipments totalled 100.9 k t. We continued to supply petroleum products to the retail network in Georgia, with volumes reaching 180.5 k t, up 37 t from the previous year.

Meeting federal customers’ demand

Meeting federal customers’ demand for petroleum products is our key priority under the corporate policy. In 2019, Rosneft and its subsidiaries fully delivered on their obligations to supply petroleum products to federal customers. Next year, we will continue working in this area.

1 Including export bunkering services
2 Including domestic bunkering services
Retail Sales

As at the year-end, Rosneft’s retail sales covered 66 Russian regions. We operate the largest and most geographically diverse retail chain in Russia, holding a leading position in most regions. We also have retail chains in Abkhazia, Belarus, and Kyrgyzstan. Rosneft is a leading Russian fuel brand in terms of recognition and quality perception.

As at 31 December 2019, the Company’s retail chain comprised 3,069 filling stations, including 63 in Belarus, Abkhazia, and Kyrgyzstan. Our own and leased filling stations operated 2,079 shops. Over the same period, the Company had 132 oil depots with a combined capacity of 2.2 mmtn and approximately a thousand gasoline tanker trucks in operation.

In 2019, Rosneft closed a deal to acquire a 100% equity stake in Petersburg Fuel Company. As a result, Rosneft established itself as a leader in one of its key regions, while also expanding its retail chain to 3,069 filling stations as at the year-end.

Petroleum product retail sales increased by 6% year-on-year to 14.5 mmtn, mostly driven by the use of fuel cards (+16%), and average sales per filling station came in at 13.1 t per day.

In accordance with its retail business strategy, the Company took the following steps:

- expanded the Family Team and BP Club loyalty programmes to cover 13.6 million people in 64 regions as at 31 December 2019;
- launched virtual BP Club and Family Team cards issued via a mobile app to eliminate the need for a plastic card;
- kicked off a service for exchanging bonus points or miles between the BP Club and Family Team programmes and the Aeroflot Bonus programme;
- held a survey of Family Team and BP Club members, which resulted in a satisfaction level of 98-99%;
- piloted fuel payments via Moscow Credit Bank’s World of Privileges mobile app. The service enables BP customers in Moscow, the Moscow Region, St Petersburg and Tver to pay for fuel without leaving the car;
- launched a virtual B2B fuel card across our entire retail chain;
- expanded sales geography for the better performing eco-friendly Euro-6 motor gasoline, a Top 100 product in Russia, to cover nine regions where our retail networks operate;
- closed a deal to acquire a 100% equity stake in Petersburg Fuel Company, the largest independent motor fuel operator in St Petersburg;
- refurbished 102 filling stations in the Rostov, Kursk and Belgorod regions as part of the TNK-to-Rosneft rebranding project;
- increased the number of CNG stations at the existing filling stations to a total of 12. These modules service 2.5 thousand vehicles daily, with monthly sales standing at 1.7–2 mmcm;
- continued to expand the food offering in cafes at filling stations by creating self-service areas and installing hot dog rollers. As at 31 December 2019, we served coffee at 2,530 outlets and hot dogs at 1,450 outlets, with self-service areas and coffee corners available at 780 outlets. Our retail stations saw hot drink revenue and non-fuel revenue for the year increase by 6% and 2% year-on-year, respectively;
- carried on with the Active Sales programme, with sales targets set for key product categories at each filing station;
- staged over 100 nationwide promos of various types at Rosneft, BP and Bashneft filling stations to boost non-fuel sales;
- completed a project to overhaul 14 existing BP filling stations with a focus on the café offering, opened five additional small-size filling stations in the Moscow Region and Tver. The refurbished filling stations feature a single customer service area which accommodates a Wild Bean Café and a fuel section;
- arranged for private label products (water, chocolate bars, wipes, and screen wash) to be sold at 35 subsidiaries;
- performed over 6,000 checks at the filling stations in 47 Russian regions as part of the ongoing fuel quality assessment using mobile laboratories;
- In 2019, the Federal Agency for Technical Regulation and Metrology (Rosstandart) conducted 32 independent inspections across Russia, which covered 4 oil depots and 94 retail stations. The inspections confirmed the high quality of our motor fuel.

Improvements in Retail Business Efficiency

In 2019, the Company continued with phased automation of all material flow measurements and introduction of a monitoring system keeping track of inventories at subsidiaries. As at 31 December 2019, we automated measurements at 81 oil depots and more than 2,900 filling stations and

provided measuring instruments for 99% of material flows at filling stations and 79% at oil depots.

To ensure sustainable demand and maximise retail and wholesale customer loyalty, we will focus on:

- developing a risk-based fuel quality management system across the supply chain, from refinery to consumer;
- implementing an electronic system to guarantee the quality and quantity of petroleum products delivered in gasoline tanker trucks;
- expanding the fuel offering in regions where Rosneft operates its retail chain;
- expanding the non-fuel offering, including private label products and merchandise from other FMCG players;
- developing digital communication channels at filling stations to acquire new customers and enhance customer experience.

In 2019, the Company continued to improve the efficiency of its retail business by optimising administrative costs and operating costs at filling stations and oil depots. Despite an increase in variable storage and transportation costs driven by a 9% rise in retail sales, we managed to reduce unit operating costs by 3% year-on-year.

As part of our efforts to improve the efficiency of oil depot facilities, we shut down seven underperforming depots that did not meet its technical requirements. We also cut transportation costs by optimising the logistics of direct petroleum product supplies from refineries using tanker trucks. In 2019, we increased direct supply volumes by 4% year-on-year.
Airlines, and Lufthansa Group. Pegas Group, Volga-Dnepr Group, also sells jet fuel at seven airports in Germany, Georgia and Mongolia.

In Russia, jet fuel is sold through a chain of Rosneft’s refuelling facilities at sea ports in the Russian Far East.

The domestic market accounted for 98% of total bitumen sales in the reporting period.

Rosneft continues expanding production of bitumen for road surfacing. In 2019, sales of bitumen materials reached 2.6 mmt. Sales of road bitumen are in line with the new GOST 33133-2014 standard amounting to 1 mmt, a sizeable increase from the 0.6 mmt in 2018.

In 2019, sales of lubricants to end consumers under direct contracts accounted for 9% of total lubricants sales.

Sales of Bitumen Products
Sales of bitumen materials in 2019 reached 2.6 mmt. Sales of road bitumen comply with the new GOST 33133-2014 standard amounting to 1 mmt, a sizeable increase from 0.6 mmt in 2018.

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Marine terminals owned by the Company

RN-Morskoi Terminal Tuapse petroleum transshipment terminal
The terminal transships mostly export petroleum products from the Komsumolsk Refinery, Angarsk Petrochemical Company, and Achinsk Refinery. It is also used to ship petroleum products to the domestic market (Magadan, Chukotka, Kamchatka and Sakhalin regions).

2019 Performance Highlights
- In 2019, the terminal commissioned an additional fire-fighting system for tank farms No. 2 and No. 4 and a terminal-wide automatic measurement, stocking and balancing system.
- The terminal is upgrading its production assets to make them compliant with the latest industrial, environmental and fire safety requirements and carrying out a production expansion programme to increase freight turnover at the Tuapse Refinery.
- The work is underway to introduce a monitoring system for material flows in tanks and pipelines and install stationary protective equipment to prevent falls from loading/unloading racks and lighting tower ladders.

In 2019, the total transshipment volume (including bunkering) at the terminal in Tuapse amounted to 15.2 mmt, including 0.22 mmt of third-party products.

In 2019, the terminal was upgraded to receive petroleum products from sea-going ships, with a capacity of 0.95 mmt of crude oil for the Tuapse Refinery.

RN-Arkhangelsknefteprodukt petroleum transshipment terminal
The terminal transships mostly export petroleum products from the Samara group of refineries and Angarsk Petrochemical Company and third-party products, as well as provides bunker fuel transshipment services. It is also used to deliver fuel to the Far North and supply wholesale buyers in the Arkhangelsk Region.

2019 Performance Highlights
- The following systems were installed and commissioned at the terminal: APCS, control cables replaced in the TRL/2 system of the tank farm; level gauges replaced in the petroleum product measuring (weighing) channels of vertical steel tanks; Process Pipelines: four mass flow meters installed in the bunkering system at piers, commissioned and integrated into the online accounting information system; Video Surveillance System: a tank car video recording system, including IR images, installed and commissioned. The unloading rack underwent repairs to increase its bunker fuel unloading capacity.
- A moored-pumping station was put back into operation at an increased unloading capacity; the volume of bunker fuel stored at a time was increased: 10 th, 1 th, and 3 m tank No. 30 and 1 th, cub m tank No. 28 underwent capital repairs.

In 2019, the total transshipment volume (including export and domestic bunkering services) at the terminal amounted to 1.2 mmt, including 0.46 mmt of third-party products.

In 2019, the terminal transshipped an additional 0.95 mmt of petroleum products from sea-going ships, with a capacity of >90 kt of petroleum products additionally delivered by the Company’s tankers (Rosnefteflot).
Market Overview and Competitive Environment
Macroeconomic Environment in 2019

GDP

According to January 2020 estimates from the International Monetary Fund (IMF), global economic growth in 2019 (PPP GDP in constant 2011 prices) slowed down to 2.9% year-on-year (3.6% year-on-year in 2018). GDP growth rates in developed economies dropped from 2.2% year-on-year in 2018 to 1.7% year-on-year in 2019 while slipping in emerging markets from 4.5% year-on-year to 3.7% year-on-year.

The global GDP growth was largely halted by a cyclical economic slowdown in developed economies (above all in the USA and the European Union) and escalation of trade conflicts.

According to OECD data, GDP growth in the USA slowed down to 2.3% year-on-year in 2019 on the back of lower investment activity. As the economy was slowing down, the U.S. Federal Reserve started loosening its monetary policy by cutting its key interest rate by 25 bps three times in 2019 to 1.5–1.75% p.a. as at the end of December 2019.

According to an initial assessment from OECD as at the end of January 2020, GDP growth rate in the Eurozone went down from 1.9% year-on-year in 2018 to 1.2% year-on-year in 2019, driven by weaker consumer spending and external demand for European goods amid rising protectionism in global trade.

As a result of slower economic growth and inflation dropping from 1.8% to 1.2%, the European Central Bank (ECB) lowered its deposit rate in September 2019 by 10 bps to -0.5% p.a., announced that it would resume purchasing assets for EUR 20 bln per month starting from November and extended the maturity of targeted longer-term refinancing operations (TLTRO) from two to three years.

Export-oriented economies were adversely affected by changes in trade agreements and the newly imposed trade restrictions. In particular, GDP growth in Germany slowed down from 1.5% in 2018 to 0.6% in 2019.

According to OECD data, GDP growth in the UK slightly accelerated to 1.4% (vs. 1.3% in 2018). The growth was mainly driven by consumer spending and government consumption. The effect of capital investments remained very marginal.

GDP growth rate in Japan rose from 0.3% in 2018 to 0.7% in 2019 on the back of higher consumer spending and government expenditures as well as private investment in housing construction.

Global Trade

According to IMF estimates, global trade saw a major slowdown from 3.7% year-on-year in 2018 to 1.0% year-on-year in 2019, which was caused by heightening political and commercial contradictions between the USA and China.

The growth rates of trade in goods and services in developed economies dropped from 3.2% year-on-year in 2018 to 1.3% year-on-year in 2019 while sinking in emerging markets from 4.6% year-on-year to 0.4% year-on-year. As projected by the IMF, global trade will accelerate to 2.9% year-on-year in 2020 and 3.7% year-on-year in 2021.

The growth will be mainly driven by a further rise in domestic demand, with capital investments prompting investment imports.

GDP Growth Rates in Emerging Markets, % year-on-year

In 2019, emerging markets demonstrated the lowest GDP growth rates since the global meltdown in 2008–2009. Some of the emerging economies suffered from a slump in commodity prices and geopolitical tensions all over the world.

The Chinese economy continued to slow down as its growth rate dropped to 6.1% year-on-year in 2019 (the lowest value in the last 28 years), which was driven by shrinking net exports of goods and services amid the unfolding trade conflict with the USA and halted domestic demand as a result of tougher financial sector regulations.

GDP growth rate in India decelerated from 6.8% in 2018 to 4.8% in 2019. The sluggish economic growth was due to reduced investment activity.

GDP growth in Brazil slowed down from 1.3% in 2018 to 1.1% in 2019. Mexico was facing stagnation with a zero GDP growth (2.1% year-on-year in 2018). Overall, GDP growth rates in Latin America and the Caribbean fell from 1.1% year-on-year in 2018 to 0.1% in 2019, mainly due to downturns caused by lingering structural challenges in some countries.

The Middle East and Central Asia suffered a major setback (with GDP growth rates going down from 1.9% in 2018 to 0.8% in 2019, including Saudi Arabia descending from 2.4% to 0.2%). So did the European emerging markets (climbing down from 3.1% in 2018 to 1.8% in 2019).

In January 2020, the IMF cut its global growth outlook for 2020 from 3.3% (vs. 3.4% projected in October 2019). The coronavirus pandemic caused the OECD to review its global GDP growth forecast for 2020 to 2.4% in the base-case scenario. In 2021, GDP growth is expected to recover to 3.3%.

 Sources: IMF, OECD, Federal State Statistics Service (Rosstat)

1 Purchasing power parity.
2 The data provided hereafter is based on forecast figures for 2020 and 2021.

![GDP Growth Rates in Developed Economies](chart1)

![GDP Growth Rates in Emerging Markets](chart2)
Russian Economy

In 2019, the Russian economy slowed down. According to an initial assessment from the Federal State Statistics Service (Rosstat), the Russian GDP rose by 1.3% year-on-year in 2019 (vs 2.5% year-on-year in 2018).

The slowdown was solely attributable to shrinking exports, with the entire GDP growth in 2019 driven by a 2.6% increase in domestic demand for Russian-made goods for both consumer and investment purposes.

In addition, gross capital accumulation, including both fixed and working capital, was growing marginally and still struggling to reach its pre-crisis state, also resulting in a weaker economic growth.

Amid a stronger rouble and expanding domestic demand, investment demand was sluggish, which resulted in a lower gross value added mainly driven by private domestic demand, which translated into more jobs and higher real wages. Large-scale government expenditures were key to maintaining macroeconomic stability.

According to the Federal Customs Service of Russia, exports of Russian goods1 in value terms in 2019 amounted to USD 422.8 bln. As compared to 2018, exports of goods declined by USD 26.8 bln, or 6.0% year-on-year.

The Russian exports contracted in 2019 mainly due to exports of fuel and energy resources dropping by USD 24.5 bln amid decreasing prices for crude oil and natural gas.

Exports of goods were also negatively affected by metals and metalware (down by USD 6.1 bln), lumber and pulp and paper (down by USD 1.1 bln), machines, equipment and vehicles (down by USD 0.7 bln), food and soft commodities (down by USD 0.2 bln).

2019 saw a steep increase in exports of gems and jewellery (up by USD 5.1 bln). Exports of crude oil in value terms in 2019 shrunk by 6.0% to USD 121.4 bln, exports of petroleum products dropped by 14.5% to USD 66.9 bln, exports of natural gas, including liquefied natural gas (LNG), slipped by 9.0% to USD 49.6 bln. In 2019, crude oil and petroleum products accounted for 56.3% of total exports, down 2.0 p.p. year-on-year.

As at 1 January 2020, Russia’s international reserves rose by USD 85.9 bln mainly through FX purchases in the domestic market under the fiscal rule.

In 2019, the unemployment rate and the number of those employed both continued on a descending trajectory. In December 2019, employment amounted to 72.4 mln people, down 0.2 mln year-on-year. In the medium term, shrinking manpower is likely to hinder the country’s economic growth.

In December 2019, the unemployment rate dropped to 3.5 mln people, down 0.2 mln year-on-year.

As a result, the unemployment rate was 4.6% of economically active population, down 0.2 p.p. year-on-year. Russia enjoys the lowest unemployment rate in its modern history.

In 2019, real household income grew 1.5% year-on-year (vs 1.1% year-on-year in 2018) while real disposable income added 0.8% year-on-year (vs 0.1% year-on-year in 2018). According to Rosstat, income growth continues to lag behind real wages, which rose by 2.9% year-on-year in 2019.

According to the Bank of Russia’s base-case scenario as at February 2020, Russia’s GDP will grow by 1.5–2.0% in 2020. The growth will be mainly driven by higher government investment spending as national projects are gaining traction.

The Russian economy is projected to accelerate up to 1.5–2.5% in 2021 and 2.0–3.0% in 2022 on the back of gradually accruing positive effects from planned budget initiatives and national projects, if successful. However, the growth in 2021–2022 will be halted by a potentially weaker external demand with Russian exports struggling to increase by 2.0–2.5% in 2021 and 2.5–3.0% in 2022.

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1. According to the customs statistics.
**Energy Prices, Foreign Exchange Rates and Inflation in Russia**

In 2019, the average annual Brent price was USD 64.3 per barrel, down 9.5% year-on-year.1

Throughout 2018, global oil prices were driven by mixed trends. In January through April 2019, oil prices were rising (with the monthly average Brent price increasing from USD 59.5 per barrel in January to USD 71.3 per barrel in April) on the back of production cuts by both OPEC countries under the OPEC+ agreement and, in May through August, oil prices were declining (with the monthly average Brent price slipping from USD 71.1 per barrel in May to USD 59.0 per barrel in August) as risks were rising for global demand amid the escalating trade conflict between the USA and China. In September, oil prices saw a spike (with the monthly average Brent price reaching USD 62.8 per barrel) as a result of production cuts by Saudi Arabia following a drone attack. However, Saudi Arabia quickly restored oil production and the Brent price dropped to USD 59.7 per barrel in October against the backdrop of concerns about a global economic slowdown.

In November, the monthly average Brent price bounced back to USD 63.0 per barrel as the trade row between the USA and China eased up. In December, prices rose to USD 67.0 per barrel following the OPEC+ agreement on further production cuts starting January 2020. Amid continued geopolitical tensions and new sanctions against Russia, the Russian national currency was weakening in 2019. According to the Bank for International Settlements, the annual average nominal USD/RUB exchange rate declined by 3.0% to RUB 64.73 per USD in 2019.

As at the end of December 2019, the nominal USD/RUB exchange rate appreciated by 11.8% year-on-year to RUB 62.27 per USD as at December 2019, driven by higher oil prices, the Fed cutting its interest rate, and buoyant demand for Russian financial assets (with the share of non-residents in the federal loan bonds market rising by 7.8 p.p. to 32.2% as at 1 January 2020, according to the Bank of Russia).

As at the end of December 2019, inflation stood at 3.0% year-on-year (vs. 4.3% in 2018), which is below the 2019 target of 5.0-5.5% set in the Monetary Policy Guidelines for 2019–2021 published by the Bank of Russia. The main driver behind the declining inflation in 2019 was the nominal rouble appreciation, given a significant share of imported goods in household consumption (ca. 36%). 2019 saw a certain slowdown in private consumption, which was also driving down inflation in Russia.

By contrast, the annual average consumer price index rose to 4.5% year-on-year in 2019 (vs 2.9% year-on-year in 2018). According to the Bank of Russia’s projections as at February 2020, inflation will stand at 3.5–4.0% in 2020 and remain at ca. 4% in 2021–2022 in line with the Bank of Russia’s monetary policy.
In 2019, the global market had an oversupply of 0.5 mmb per day, according to the International Energy Agency (IEA). Amid strong growth in crude oil production in the USA (driven mostly by shale production) and sluggish growth in global demand in the first and second quarters of 2019, the global market had 0.9 mmb per day of excess supply. In the third and fourth quarters of 2019, a slowdown in US production and rise in consumption of liquid hydrocarbons caused the global oversupply to go down to 0.1 mmb per day.

Global demand for liquid hydrocarbons slowed down in 2019 alongside an increase in global GDP and reached 8.8% according to the IEA (1.1% in 2018). Global demand for liquid hydrocarbons came in at 100.0 mmb per day. The growth in 2019 was driven by Asia (85% of the increase) and FSU countries (13%). These two regions accounted for 36% and 5% of global demand for liquid hydrocarbons respectively.

According to the IEA, global production of liquid hydrocarbons increased by 0.2% year-on-year to 100.5 mmb per day in 2019.

In the USA, production of liquid hydrocarbons continued its strong momentum (10.8% growth year-on-year) and reached 17.2 mmb per day, with production of crude oil and gas condensate adding 11.3% year-on-year and hitting 12.2 mmb per day.

A considerable rise in production of liquid hydrocarbons in 2019 was also seen in Brazil (up by 6.8% year-on-year to 2.9 mmb per day) as a result of continued development of subsalt offshore fields. In Canada, the momentum of liquid hydrocarbons production decelerated to 2.6% year-on-year (compared to more than 8% year-on-year in 2018), with output totaling 5.5 mmb per day.

In China, 2019 production climbed 1.9% year-on-year to 3.9 mmb per day.

Improved crude oil production in the USA and other countries was mostly offset by lower output of liquid hydrocarbons in the OPEC countries (both part of the OPEC+ agreement and as a result of the sanctions). Total production of liquid hydrocarbons in the OPEC countries in 2019 went down by 5.0% year-on-year to 16.5 mmb per day, with crude oil production dropping by 5.8% year-on-year to 30.0 mmb per day.

1 Demand for liquid hydrocarbons hereafter refers to consumption of petroleum products (oil and gas condensate, consumption of oil as fuel), and consumption of hydrocarbon components from unconventional sources (biokerosene, GTL, CTL, etc.).
2 Excluding Estonia, Latvia and Lithuania.
3 14 member countries as at 31 December 2019.
4 Including production in other countries, global biokerosene output, and volume growth during refining.
5 December 2018 vs December 2017.
6 Output of liquid hydrocarbons hereafter refers to production of crude oil, gas condensate, gas condensate liquids, and production of hydrocarbon components from unconventional sources (biokerosene, GTL, CTL, etc.). Global production of liquid hydrocarbons includes volume growth during refining.
7 14 member countries as at 31 December 2019.

In 2019, the annual average industrial producer price index in Russia was 102.9% (vs 111.9% in 2018). As at December 2019, producer prices went down by 4.8% year-on-year (up 11.7% year-on-year in 2018), mainly driven by lower prices in the extractive industry, which dropped by 9.2% year-on-year (up 20.7% year-on-year in 2018).

The freight rate index was 1.5% year-on-year as at December 2019 while the annual average index stood at 2.8%.

The Russian oil companies’ operating costs are very sensitive to changes in natural monopolies’ transportation tariffs.

Inflation in Russia, % year-on-year as at December

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<th>Year</th>
<th>2015</th>
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<th>2017</th>
<th>2018</th>
<th>2019</th>
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<td>Rate</td>
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<td>3.7%</td>
<td>3.2%</td>
<td>2.2%</td>
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</table>

Source: Bank of Russia, Bank for International Settlements

Annual Average Nominal USD/RUB

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<td>58.4</td>
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<td>64.72</td>
<td>64.30</td>
</tr>
</tbody>
</table>

Global Oil Market

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As part of the OPEC+ agreement to cut production, Saudi Arabia reduced its supply of liquid hydrocarbons by 4.2% year-on-year to 11.8 mmb per day, with crude oil production shrinking by 5.1% year-on-year to 9.8 mmb per day. Lower annual average output in Saudi Arabia was also due to an attack of drones and missiles on the country’s oil infrastructure, causing a temporary suspension of 5.7 mmb per day of production. Across the region, as IEA, Saudi Arabia’s production of liquid hydrocarbons dropped by 8.2% month-on-month in September 2019 to 10.9 mmb per day, with crude oil production declining by 7.9% month-on-month to 9.0 mmb per day.

The UAE also delivered a considerable growth in production of liquid hydrocarbons among the OPEC countries: the increase totaled 5.5% year-on-year, to 4.0 mmb per day, with crude oil production improving by 6.0% year-on-year to 3.2 mmb per day.

Mexico, which is also a party to the OPEC+ agreement on production cuts, saw its 2019 output of liquid hydrocarbons go down by 7.9% year-on-year to 1.9 mmb per day.

Global Gas Market

In 2019, global demand for gas went up by 2.4% year-on-year to 3.93 tcf.¹ Stronger gas consumption worldwide is supported by strengthened environmental policies adopted by many countries, including as a way to curb CO2 emissions, along with the development of gas infrastructure and transportation solutions, also as liquefied natural gas (LNG). Lower prices in regional gas markets contributed a lot to the gas consumption growth across the globe.

The strongest rise in demand for gas in 2019 was seen in the Asia-Pacific region and Europe. The Asia-Pacific region posted an increase in gas consumption by 5.0% year-on-year in 2019 (an increase of 41.0 bcm) to 866.0 bcm (22.1% of global gas consumption), mainly driven by China, Indonesia, and Australia. In Europe, consumption improved by 4.2% year-on-year (up by 21.8 bcm) to 535.6 bcm (13.6% of global gas consumption), which is attributable to weaker gas prices in the region as a result of oversupply of both LNG and pipeline gas. Demand for gas in North America, which is the largest gas consumer in the world, went up by 2.3% year-on-year in 2019 and reached 1.05 tcf (26.8% of global gas consumption).

In Latin America, 2019 gas consumption grew by 0.5% year-on-year to 179.9 bcm (4.6% of global gas consumption), while Africa saw a reduction of 0.5% year-on-year to 150.9 bcm (3.8% of global gas consumption).

Improved gas demand came on the back of global natural gas production¹ going up to 3.95 tcf. More than 27% of global output was attributable to North America, which delivered a 7.0% increase year-on-year, taking 2019 gas production to 1.13 tcf (as a result of a record high gas output level in the USA).

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Commercial Crude Inventories in OECD Countries, bbl barrels

In December 2019, commercial crude inventories in OECD countries totaled around 1.1 bn barrels, which is a 0.3% increase vs December 2018.

In its March report, the IEA expects global demand for liquid hydrocarbons to go down by 0.1% year-on-year in 2020 to 99.9 mmb per day as a result of the coronavirus pandemic.

The US Energy Information Administration (EIA) forecasts a 1.0 mmb per day oversupply of liquid hydrocarbons in 2020 with global production in 2020 growing by 0.4% year-on-year to 101.1 mmb per day, with global output of liquid hydrocarbons improving by 1.5% year-on-year to 102.1 mmb per day.

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1 Official national estimates of crude inventories. IEA data. The discrepancies in crude stock estimates for 2010–2018 as compared to the previous annual report of the Company are due to the IEA’s updates and revisions made during the year.

2 Rosneft’s estimates based on data by HS, Market, IEA and BP.

3 Excluding Estonia, Latvia and Lithuania.

4 HS Market estimates.

5 HS Market preliminary estimates.

6 Estimate, based on HS Market data.

7 Data of Russian and European (international) statistics on gas include discrepancies because of the differences in the measurement standards.

8 European cubic m of gas = 1.074 Russian cubic m of gas.
In 2019, global LNG exports increased by 12.7% year-on-year and reached 358.5 mmt (or 494.4 bcm). LNG accounted for 12.5% of global gas consumption in 2019 (vs 11.2% in 2018).

Stronger demand for LNG in 2019 was mostly driven by Europe, where LNG exports went up by 75.3% year-on-year to 87.4 mmt, with the UK posting a growth of 2.7 times year-on-year to 13.3 mmt and France of 92.9% year-on-year to 16.3 mmt. In the Asia-Pacific Region, LNG imports expanded by 2.9% year-on-year to 247.8 mmt, including a 13.9% year-on-year growth in China (to 62.5 mmt). Japan, the world’s largest importer of LNG, reduced its purchases by 6.8% year-on-year to 77.3 mmt.

The Middle East and North Africa saw a notable reduction in its demand for LNG, which was down by 27.5% year-on-year to 7.0 mmt as a result of gas fields developed in Egypt and also higher imports of pipeline gas to Jordan from Egypt and Israel. Following the commissioning of the Zohr field, Egypt became fully self-sufficient in gas and ceased LNG imports in October 2018. The field is being developed by an international consortium, where Rosneft has a share of 30%.

A major component of the export growth in 2019 were new LNG trains coming on stream:
- First and second trains of the Corpus Christi LNG plant with a capacity of 4.5 mtpa, first train of the Freeport LNG facility with a capacity of 5.1 mtpa, fifth train of the Sabine Pass LNG plant with a capacity of 4.5 mtpa, and first train of the Cameron LNG project with a capacity of 4.0 mtpa in the USA. As a result, the USA became the leader by absolute growth in LNG exports in 2019 (an increase of 13.8 mmt to 34.8 mmt, or 65.4%; 9.7% of global LNG exports);
- Commissioning of the second train of Ichthys LNG with a capacity of 4.45 mtpa, and the Prelude floating liquefied natural gas (FLNG) facility with a capacity of 3.6 mtpa.

In 2019, Australia considerably increased its output (by 11.4% year-on-year to 76.5 mmt, 21.3% of global LNG exports), coming close to Qatar, the market’s long-standing leader;
- Ramp-up to full capacity of the third train of the Yamal LNG plant with a total capacity of 5.3 mtpa in Russia (in 2019, LNG production in Russia grew by 54.7% year-on-year to 29.3 mmt; 8.2% of global LNG exports).

Qatar’s export volumes recovered by 1.4% year-on-year to 78.3 mmt (to the 2016 level), making up 21.8% of global LNG exports.

2019 saw a record-breaking number of final investment decisions on LNG plant projects: FIDs were approved for total capacities of 70.4 mtpa, including Golden Pass LNG in the USA (15.6 mtpa), Arctic LNG 2 in Russia (19.8 mtpa) and Mozambique LNG in Mozambique (12.9 mtpa).

Long-Term Forecast for Hydrocarbon Demand

Technological progress has been opening up new opportunities for the energy sector and energy needs of humankind at large. Energy transition and climate change are reshaping the way we think about the global energy sector going forward. All sources of energy, including renewable energy, have inherent limitations. The potential to replace fossil fuels with renewable energy sources is limited by considerable technological weaknesses of the latter, i.e. low energy flux density and intermittency. According to global energy agencies, oil and gas producers, consulting companies, and forecasts by Rosneft, until 2040, hydrocarbons will remain the pillar of the global energy industry, with their share in the world’s energy mix staying largely unchanged. While oil will continue dominating other resources in the energy mix worldwide, its share, along with that of coal, will be declining in favour of natural gas, nuclear energy, and renewable energy sources.

By 2040, global demand for oil will grow by more than 700 mmt vs 2018, exceeding 5.2 bt. Key growth drivers will be countries of the Asia-Pacific Region, which in 2040 are expected to account for some 37% of the world’s demand for oil, or over 1.9 bt.

Source: IHS

1. Egypt, Israel, Jordan, Kuwait, and UAE.
2. The first train of the Yamal LNG plant with a capacity of 5.5 mtpa was put into operation in December 2017.
3. Final investment decision (FID) is the decision to proceed with a project. As a rule, FID is taken after the design stage is completed, necessary permits obtained, an EPC (Engineering, Procurement, and Construction) contract signed, and financing sources and target markets for the project products identified.

1. This section contains forecasts based on data by the IEA, OPEC, U.S. Department of Energy, IHS Markit, BP, ExxonMobil and Rosneft.
2. Oil demand indicates the consumption of petroleum products from oil and gas condensate and consumption of oil as fuel.
Oil demand will go down in North America (to 896 mmt in 2040) and Europe (to 527 mmt in 2040), with these two regions making up approximately 17% and 10% of global demand for oil respectively.

Until 2030, natural gas will be outperforming all other energy sources in terms of increase in global demand in absolute terms.

Global demand for gas will be adding an average of 1.5% a year, reaching almost 5.3 tcm by 2040 and accounting for more than a quarter of the global energy mix. Strong growth in demand for gas will be supported by its superior environmental performance as compared to other fossil fuels.

Gas consumption is expected to increase in all regions except Europe. In the forecast period, the Asia-Pacific Region will be the largest region by oil consumption, with its demand going up by 756 mmt vs 2018 to almost 1.6 tcm, exceeding the level of consumption in North America (1.3 tcm in 2040, an increase of 198 mmt against 2018). North America will remain the leader in natural gas production (1.6 tcm of gas in 2050, 30% of global production). The most considerable rise in gas output (around 25% of the global increase) in the forecast period will be seen in the Middle East (over 930 bcm in 2040).

### Russian Oil Industry

Russia is a top three oil producer globally (alongside the USA and Saudi Arabia). In 2019, oil and gas condensate production in Russia stood at 560.3 mmt, up by 0.8% year-on-year. The growth was due to the December 2018 decision of the OPEC+ agreement to increase oil output target. For Russia, the production target was raised from 10.96 mmt per day to 11.22 mmt per day.

The main contributors to the production growth were the Ural Federal District (up by 1.0% year-on-year to 310.1 mmt; 53.3% of Russia’s total production), and Volga Federal District (up by 1.4% year-on-year to 118.9 mmt; 21.2% of Russia’s total production). In the Ural Federal District, crude oil production increased in the Yamal-Nenets Autonomous Area (up by 6.1% year-on-year to 61.5 mmt; 11.0% of Russia’s total production) and declined in the Khanty-Mansi Autonomous Area (down by 0.2% year-on-year to 236.0 mmt; 42.1% of Russia’s total production) and the Tyumen Region (down by 0.2% year-on-year to 125.1 mmt; 22.5% of Russia’s total production). In the Far Eastern Federal District, oil and gas condensate production went up in the Republic of Sakha (up by 10.7% year-on-year to 13.5 mmt; 2.4% of Russia’s total production) and the Sakhalin Region (including offshore production, up by 2.6% year-on-year to 19.8 mmt; 3.5% of Russia’s total production). In the Volga Federal District, oil and gas condensate production increased in the Orenburg Region (up by 3.9% year-on-year to 21.7 mmt; 3.9% of Russia’s total production), Saratov Region (up by 2.6% year-on-year to 16.1 mmt; 2.9% of Russia’s total production), Republic of Tatarstan (up by 0.8% year-on-year to 36.7 mmt; 6.5% of Russia’s total production), and the Perm Territory (up by 1.8% year-on-year to 16.0 mmt; 2.9% of Russia’s total production). In the Southern Federal District, oil and gas condensate production saw an increase of 1.9% year-on-year to 14.6 mmt (2.6% of Russia’s total production) due to improved output in the Astrakhan Region (including offshore production, up by 5.3% year-on-year to 11.3 mmt; 2.0% of Russia’s total production).

In 2019, production in the Northwestern Federal District continued to decline (down by 1.3% year-on-year to 31.2 mmt; 5.6% of Russia’s total production), mostly as a result of declining output in the Nenets Autonomous Area (down by 3.2% year-on-year to 16.0 mmt; 2.9% of Russia’s total production) and the North Caucasian Federal District (down by 6.2% year-on-year to 1.0 mmt; 0.2% of Russia’s total production) predominantly as a result of lower output in the Stavropol Territory (down by 8.1% year-on-year to 0.7 mmt; 0.1% of Russia’s total production). Production also went down in the Siberian Federal District (down by 3.5% year-on-year to 51.3 mmt; 0.9% of Russia’s total production), mostly due to lower output in the Krasnoyarsk Territory (down by 2.8% year-on-year to 23.9 mmt; 4.9% of Russia’s total production), Irkutsk Region (down by 3.1% year-on-year to 17.9 mmt; 3.2% of Russia’s total production), and Tomsk Region (down by 5.6% year-on-year to 9.1 mmt; 1.6% of Russia’s total production).

In 2019, Russian oil and gas condensate refining volumes decreased by 0.6% year-on-year to 285.1 mmt, while oil exports increased by 3.3% year-on-year to 266.2 mmt. The export share in total oil and gas condensate production totalled 47.5% in 2019 (up by 1 p. year-on-year).

### Evolution of Oil and Gas Condensate Production by Federal District, mmt

Russia and oil and gas condensate exports to countries outside the CIS slowly growing by 3.7% year-on-year to 248.6 mmt. Almost 64% of export volumes to countries outside the CIS were transported by sea (around 158.9 mmt), including 19.1% via Primorsk and 13.3% via the Komsomol port. Oil and gas condensate exports to CIS countries declined by 2.4% year-on-year to 17.6 mmt in 2019 as a result of reduced supplies to Belarus (down by 2.2% year-on-year to 17.6 mmt) and discontinuation of shipments to Uzbekistan (vs 36 kt in 2018).

Source: CDU TEK
Russian Gas Industry

Russia is the world’s No. 2 gas producer (surpassed only by the USA) and the world’s largest gas exporter.

In 2019, natural and associated gas production in Russia increased by 1.7% year-on-year and reached 737.7 bcm; Rosneft accounted for around 8.5% of the nation’s total production, or 62.36 bcm.

Gas produced in Russia is sold domestically and exported.

According to the Federal Customs Service of Russia and CDU TEK, Russia’s natural gas exports totalled 260.4 bcm in 2019, going up by 5.2% year-on-year, or 12.9 bcm. Export volumes via Gazprom’s pipelines stood at 219.9 bcm, including 181.8 bcm exported to countries outside the CIS (down by 1.2% year-on-year, or 2.3 bcm), while supplies to CIS countries totalled 38.2 bcm (up by 4.4% year-on-year, or 1.6 bcm).

Exports of LNG grew by 13.6 bcm in 2019 (by 50.3% year-on-year) and reached 40.5 bcm. Major gas consumers in Russia include power generation companies, households, utilities, and companies in the oil, metals, and agrochemical industries, which taken together account for around 80% of Russia’s total gas consumption.

### Natural and Associated Gas Production in Russia, bcm

<table>
<thead>
<tr>
<th>Metric, bcm</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas production</td>
<td>635.5</td>
<td>640.2</td>
<td>691.1</td>
<td>725.4</td>
<td>737.7</td>
</tr>
<tr>
<td>Natural gas exports</td>
<td>200.4</td>
<td>213.5</td>
<td>228.7</td>
<td>247.5</td>
<td>260.4</td>
</tr>
<tr>
<td>including to countries outside the CIS</td>
<td>184.7</td>
<td>203.5</td>
<td>223.7</td>
<td>247.5</td>
<td>260.4</td>
</tr>
<tr>
<td>LPG</td>
<td>14.9</td>
<td>14.7</td>
<td>15.7</td>
<td>26.9</td>
<td>40.5</td>
</tr>
</tbody>
</table>

### Natural Gas Exports from Russia, bcm

<table>
<thead>
<tr>
<th>Metric, bcm</th>
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<td>26.9</td>
<td>40.5</td>
</tr>
</tbody>
</table>

Sources: Federal Customs Service of Russia, CDU TEK

2. Including gas used in liquid hydrocarbons production.
3. Pursuant to Federal Law of the Russian Federation No. 117-FZ on Gas Export dated 18 July 2006, the exclusive right to gas export shall be granted to the owner of the Unified Gas Supply System or its wholly-owned subsidiary.
4. Large-scale production of LNG in Russia is based at the Sakhalin-based LNG plant built as part of Sakhalin-2, a project operated by Sakhalin Energy, and the Yamal LNG plant (Yamal-Nenets Autonomous Area) controlled by Novatek.
5. The Federal Tariff Service was abolished by Presidential Executive Order No. 375 dated 21 July 2015, and was succeeded by the Federal Antimonopoly Service (FAS).

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

Rosneft’s selling prices for end consumers are not regulated by the Government and are based on agreements with customers. Wholesale prices of gas produced by Gazprom and its affiliates and sold to domestic consumers are used as a benchmark. The prices are determined by orders of the Federal Antimonopoly Service of the Russian Federation (regulated gas price).

As the owner of the Unified Gas Supply System, Gazprom provides independent companies with services of gas transportation via trunk gas pipelines. The transportation charges are set by the FAS (previously by the FTSO). Gas transportation service prices are based on a tariff consisting of two fees, one for the use of gas pipelines and the other for gas pumping. The pipeline usage fee is set for the distance between the pipe inlet and outlet points, while the pumping fee depends on Gazprom’s handling and transportation costs. Current tariffs were approved by Order of the FTS No. 21661 dated 8 June 2015 and were not indexed in 2016–2019.

Gazprom also provides independent gas producers with underground gas storage services. The main gas consumption regions currently have 25 underground gas storage facilities. Their usage fees are non-regulated and are set by Gazprom on a case-by-case basis for each facility for the duration of the storage season (from 1 April to 31 March of the next year). Rosneft relies on underground gas storage facilities to offset fluctuations in gas consumption by end consumers.

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

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

### Indexation of Regulated Prices (Tariffs) for Infrastructure Sector Products (Services) for 2020–2021, %

<table>
<thead>
<tr>
<th>Metric</th>
<th>2020</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale price indexation for all categories of consumers other than households</td>
<td>July 0.3%</td>
<td>July 0.3%</td>
</tr>
<tr>
<td>Wholesale price indexation for households</td>
<td>July 0.3%</td>
<td>July 0.3%</td>
</tr>
</tbody>
</table>

Source: Forecast of Social and Economic Development of the Russian Federation for the Period Until 2024
Competitive analysis

Hydrocarbon Exploration and Production

Rosneft is the largest oil and gas company in Russia and a leader in terms of reserves and hydrocarbon liquid production among global peers whose shares or depositary receipts trade on international stock exchanges. Resource sustainability, including the size of reserves, reserves-to-production ratio and efficient reserves management, is one of the key investment highlights of an oil and gas company.

For many years, we have been steadily building up our reserves of commercially recoverable hydrocarbons. This was possible thanks to our consistent efforts to increase production from brownfields and launch new fields and prospects, as well as to our successful exploration operations. We pay special attention to exploration and sustainable reserves growth at the existing licence areas, with resource base integration and expansion being key focus areas at our new assets.

Under the SEC (U.S. Securities and Exchange Commission) classification, Rosneft’s proved hydrocarbon reserves totalled 42,018 mbboe (5,678 mtboe) as at 31 December 2019. Compared to the end of 2018, our hydrocarbon reserves grew by 587 mbboe (81 mtboe), or 1%. We engaged DeGolyer & MacNaughton to conduct a life-of-field audit of the reserves.

As at the year-end, Rosneft’s SEC proved reserve life exceeded 20 years, and the SEC-proved organic reserve replacement ratio stood at 129% in 2019 and 163% in 2017–2019.

For several years now, Rosneft has surpassed the world’s public oil and gas majors in terms of SEC-proved reserve replacement ratio. At the same time, we boast high exploration and production efficiency and maintain traditionally low finding and development costs.

Reserves-to-production ratio (SEC) in 2019, years

An upward revision of reserves estimates and the full replacement of hydrocarbon production in 2019 were due to successful exploration and production drilling and the use of advanced recovery enhancement techniques to extract hard-to-recover reserves, among others. The key contributors to the reserves base were the fields of RKh-1, Ryazan, Ryazan, and Varyegansk and along with assets in Eastern Siberia.

For years, Rosneft has invariably maintained a high reserve replacement ratio (reserve replacement cost in 2017–2019 was USD 0.3 per boe). In 2020–2022, we intend to replace no less than 100% of our hydrocarbon production. The Company also plans to fast-track the development of new reserves by reducing

Source: company reports.

Strategy of the Company
Operating Results
Market Overview and Competitive Environment
Sustainable Development
Corporate Governance
Information for Shareholders and Investors

Reserves-to-production ratio (SEC) in 2019, years

Source: company reports.

Organic reserves growth (SEC), mbboe

Source: company reports.

Reserve Replacement and F&D Costs

Global oil production


Proved hydrocarbon reserves (SEC)

Source: company reports.

* Including affiliates. PetroChina data for 2016–2018 does not include affiliates.

1 Including affiliates. PetroChina data for 2018 does not include affiliates.

2 Including affiliates. PetroChina data for 2016–2018 does not include affiliates.

42,018
mbboe

42,018
mmboe

132
133
preparation timelines, accelerate viabil-
ity-based resources to reserves conver-
sion, and make exploration drilling in
Russia more successful.

The Company accounts for 41% of the
total oil production of Russia and for ap-
proximately 6% of the global oil output.
On top of that, we boast the highest 10-
year average production growth among
peers.

Rosneft is Russia’s leading petroleum
company in terms of launching new
projects. In 2016, we put on stream
a number of large fields, including
Suzunskoye, Yurubchino-Toledomskoye,
Kondinskoye, Tagulskoye, Rusetskoye,
Snednebubotubinskoye (Phase 2),
Zapadno-Erginskoye, Vostochno-
Messaaykskoye and Kuyumbinskoye.
We also made great progress in de-
veloping RN-Yuganskneftegaz mature
fields, our key asset, and the fields of
Samaraneftegaz, RN-Nyuganneftegaz
and Varyeganneftegaz. At Samotlor,
we optimised production decline
rates. In the medium term, we plan
to enhance production from mature
fields and develop new high-poten-
tial oil and gas projects, including the
Yankir, Erginsky and Darnikovsky clus-
ters, Rososp, Kharpampurskoye and
Severo-Komssomolkskoye fields to in-
crease the output through organic
growth.

In furtherance of the Russian President’s
instruction to increase the cargo flow
along the Northern Sea Route, we are
preparing for a large-scale hydrocarbon
production project, which will set the
stage for a comprehensive development
of the new oil and gas province in the
Krasnoyarsk Territory’s north (Vostok-
Oil project). Together with our partners,
we will build a unique world-class oil
and gas cluster in this location.

To ensure production growth in the long
run, we create an optimal portfolio of
major greenfield projects, while also us-
ing advanced production technologies at
our existing fields. Technology advance
is a key focus area of the Rosneft-2022
Strategy and a powerful driving force be-
hind our competitiveness.

To develop our technological capabil-
ities, we keep rolling out cutting-edge
techniques that help expand the pay
zone coverage, increase flow rates,
and optimise well and infrastructure
construction. As part of our digitalisa-
tion efforts, we launched the Digital
Field information system covering all

<table>
<thead>
<tr>
<th>Hydrocarbon production in 2019, mmbboe per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.8</td>
</tr>
<tr>
<td>Gas</td>
</tr>
</tbody>
</table>

Source: company reports for 2019.

Average production growth for ten years, %

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>BP</td>
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<td>3.0</td>
<td>4.0</td>
<td>3.8</td>
<td>3.7</td>
<td>3.6</td>
<td>3.5</td>
<td>3.4</td>
<td>3.3</td>
<td>3.2</td>
<td>3.1</td>
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<td>Shell</td>
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<td>2.4</td>
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<td>2.7</td>
<td>2.8</td>
<td>2.9</td>
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<td>3.1</td>
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<tr>
<td>Chevron</td>
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<td>1.7</td>
<td>1.8</td>
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<td>1.3</td>
<td>1.4</td>
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<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>LUKOL</td>
<td>0.8</td>
<td>0.9</td>
<td>1.0</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
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<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Gazprom</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.4</td>
<td>1.5</td>
<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
<td>2.1</td>
</tr>
<tr>
<td>ExxonMobil</td>
<td>1.6</td>
<td>1.7</td>
<td>1.8</td>
<td>1.9</td>
<td>2.0</td>
<td>2.1</td>
<td>2.2</td>
<td>2.3</td>
<td>2.4</td>
<td>2.5</td>
<td>2.6</td>
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<tr>
<td>Rosneft</td>
<td>9.1</td>
<td>9.2</td>
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<td>9.4</td>
<td>9.5</td>
<td>9.6</td>
<td>9.7</td>
<td>9.8</td>
<td>9.9</td>
<td>10.0</td>
<td>10.1</td>
</tr>
</tbody>
</table>

Source: company reports; Wood Mackenzie (Gazprom).
Refining and Commerce

and with Soco Trading to supply up to 1 mmt of oil to Soca’s Turkish refinery. The Company maintains its presence in the Republic of Belarus, and in 2019 it signed contracts with Naftan, Belarusian Oil Company and Mazy Oil Refinery to supply them with up to 8.7 mmt of oil. In February 2017, Rosneft also signed a contract with the government of Iraq to develop the oil refining market of Iraq. Rosneft is consistent in its expansion efforts in the European market through the operation of its German refineries. As of 1 January 2017, following the restructuring of the RDG joint venture with BP, Rosneft’s indirect interest in the Bayernoil Refinery increased from 12.5% to 25%, in the MRO Refinery from 12% to 24%, and in the PCK Refinery (Schwechat) from 35.42% to 54.17%. The Gelsenkirchen Refinery is now fully controlled by BP PLC. In December 2019, Rosneft Deutschland closed the deal to acquire 3.57% of shares in Bayernoil Raffineriegellschaft mbH Oil refinery from BP Europe SE, increasing its stake to 28.57%. As a result, the Company saw its share in the refining capacities of Bayernoil Refinery grow to almost 3 mmta, its total throughput in Germany now reaching 12.8 mmta which strengthened its positions both in Bavaria, one of the largest industrial regions of Germany, and in Austria. Rosneft is currently the third largest player in the German refining market. Its capacities provide, on average, oil refining depth of 93% and refinery complexity of 9.1, according to the Nilson index.

The local operator is Rosneft Deutschland GmbH. This subsidiary manages the supply of crude to Rosneft-owned refineries (PCK Raffinerie GmbH, MRO, Bayernoil) and the sales of petroleum products.

Rosneft is consistent in its expansion efforts in the Asia-Pacific Region. Rosneft closed a strategic deal to acquire a 49% stake in Essar Oil Limited in August 2017 (Nayara Energy Limited since June 2018). The acquisition of a stake in the best-in-class asset with a significant upside potential enabled the Company to enter the oil refining market of India, one of the fastest growing emerging markets. The Vadinar Refinery strategy is currently being shaped, with a focus on the setup of petrochemical production and entry to the Indian petrochemical market. In March 2019, Nayara Energy Limited launched its first high-tech railway terminal for fuels and lubricants. Located in Wardha, the state of Maharashtra, it has an area of over 200 thousand sq m and a capacity of about 16 million litres. Petroleum products will be supplied from the Vadinar Refinery, the state of Gujarat. Thanks to the unique location of the railway terminal, Nayara Energy will be able to meet the needs of customers and partners operating in the eastern Vidarbha region of Maharashtra. As an environmentally responsible company, Nayara Energy has launched a 300 kW solar power plant at the terminal. The power plant is designed to generate 450 thousand kWh per year.

Rosneft’s main competitors in Russian oil exports are vertically integrated companies such as Lukoil, Surgutneftegaz, Gazprom Neft, and Tatneft. Meanwhile, all Russian oil producers have their own export schedule for oil transportation outside the Russian customs zone based on equal access to the oil trunk pipeline system and seaport terminals. Key competitors supplying other crude oil grades to export markets are international and national oil companies such as Shell, BP, ExxonMobil, Chevron, Total, Equinor, Saudi Aramco, NOC, etc.

The Company consistently supplies petroleum products to the domestic market in required quantities. Rosneft is a major player in the Russian wholesale motor gasoline and diesel fuel market. The Company expanded its Russian retail chain to 3,006 filling stations at year-end 2019, offering petroleum products in all federal districts. The Company relies on extensive proprietary and third-party infrastructure to market and distribute petroleum products (oil depots, filling stations), which takes into account the capacity of regional markets and consumer demand. The Rosneft trademark is one of the most recognisable for petroleum products across the region where it operates and is associated with quality fuel on sale at filling stations.

In 2019, despite a year-on-year decrease in refining volumes in Russia due to major overhauls at the refineries in Saratov, Syzran, Kuybyshev, Tuapse and Achinsk, Rosneft increased supplies of Euro 5 gasoline to the domestic market against a backdrop of a domestic gaso-line premium. Other Russian oil refining companies mostly cut their volumes of Euro 5 gasoline supply to the domestic market.

The Company exports its petroleum products, just like crude oil, to European, Asia-Pacific, and CIS countries. Its competitive advantage lies in its ability to maintain stable relations with foreign partners, and, specifically, expand and renew petroleum product supply contracts. In partnership with Petrobras Energy JVI, in which Rosneft holds a 49% stake, the Company ships petroleum products to the Mediterranean market, primarily to Turkey and Greece. In the first quarter of 2017, Rosneft and Turkey’s Demiroren Group Companies signed a product supply agreement for 2018–2020. In 2019, the actual supply volume amounted to 0.6 mmt of diesel fuel with ultra low sulphur content of 10 ppm.

As the Company seeks to expand cooperation with end consumers, it signed a contract with Japan’s JPTG Nippon for the supply of over 0.7 mmt of gasoline and gas mixtures in 2019. In the first half of 2018, the Company signed long-term contracts for the supply of gasoline and diesel fuel with Mongolia’s largest importers of petroleum products. The total value of contracts amounts to USD 2.1 billion. For over 10 years on the Mongolian fuel market, Rosneft has boosted its share to 98%.

On 1 January 2019, Rosneft Deutschland GmbH initiated the direct sales of petroleum products manufactured at the three German refineries partially owned by Rosneft. The product mix includes gasoline, diesel, heating oil, jet fuel, LPG, bitumen, fuel oil and petrochemi-cal products. The company is a leader in the German petroleum product wholesale market. The company supplies petroleum products directly from the three German refineries partially owned by Rosneft, as well as from over 30 German terminals by road, rail, and river. The company’s customer base includes more than 500 enterprises in Germany, Poland, the Czech Republic, Switzerland, Austria, and France.

Over the past year, the company’s customer base has grown by 30%, with bulk products delivered to Poland, Austria, the Czech Republic, Switzerland, France and France.

Apart from that, Rosneft Deutschland has signed contracts on imports into airport fuel depots and fueling depots in Munich and Berlin (Tegel and Schönefeld) as part of its jet fuel market share expansion in Germany. Rosneft Deutschland owns a stake in the PCK Refinery in Brandenburg, which produces ca. 300 ktoe of jet fuel, accounting for almost a half of the total kerosene consumed at Berlin airports.

Alongside Rosneft, Russian oil majors Lukoil, Surgutneftegaz, Gazprom Neft, Tatneft and other oil companies offer petroleum products in the domestic market. Key competitors in export markets include transnational oil companies Shell, BP, Total, ExxonMobil, Chevron, etc.

The Company is also developing its gas business, with a focus on production technologies by building a portfolio of long-term supply contracts and participating in LNG production projects as well as in Russia’s gas motor fuel development program, and the work to create equivalent conditions for access to infrastructure facilities and consumers.

Developing an LNG filling station network in Russia is one of Rosneft’s key priorities in the retail business and one of the most important focus areas, since it enables the Company to expand its competitive advantages in the domestic market. In November 2018, Rosneft and Beijing Gas Group Company Limited (Beijing Gas) signed a joint venture agreement for construction and operation of an LNG filling station network in Russia based on Vankorokskoye UFT. Under the terms of this agreement, Beijing Gas will own a 45% stake in the JV. The parties are planning to build about 170 LNG filling stations in Russia. They will also be considering options for using LNG as a motor fuel.

Rosneft is also building up its trading potential and trading competences in the international LNG market.

Russia’s Oil Refining Dynamics, mmt

<table>
<thead>
<tr>
<th>Year</th>
<th>Petroleums</th>
<th>Gasolines</th>
<th>Gasolines</th>
<th>Gasolines</th>
<th>Gasolines</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>103.2</td>
<td>61.0</td>
<td>13.4</td>
<td>21.1</td>
<td>16.7</td>
</tr>
<tr>
<td>2018</td>
<td>100.6</td>
<td>82.1</td>
<td>23.4</td>
<td>24.7</td>
<td>14.1</td>
</tr>
<tr>
<td>2019</td>
<td>101.1</td>
<td>83.3</td>
<td>24.2</td>
<td>25.5</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Source: CDI TEK, Rosneft reports

Table: Russia’s Oil Refining Dynamics, mmt

<table>
<thead>
<tr>
<th>Strategy of the Company</th>
<th>Operating Results</th>
<th>Market Overview and Competitive Environment</th>
<th>Sustainable Development</th>
<th>Corporate Governance</th>
<th>Information for Shareholders and Investors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A Rosneft Annual Report 2019
Russia’s motor fuel production*, mmt

<table>
<thead>
<tr>
<th>Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor gasoline</td>
<td>39.2</td>
<td>39.5</td>
<td>40.2</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>15.3</td>
<td>15.1</td>
<td>15.2</td>
</tr>
</tbody>
</table>

* Reporting data. Rosneft’s diesel fuel volumes do not include marine fuel.

Source: CDU TFK, Rosneft’s reports

Operational and Financial Efficiency

The reporting year was marked by a number of events that had a significant impact on the Company’s production volumes, including the extension of OPEC+ agreement, as well as the incidence with high levels of organic chlorides found in Transneft’s network in April, leading to major failures in trunk-pipeline operation. In spite of that, high efficiency and rational allocation of exploration and production capital in 2019 ensured a balanced output growth through new projects and stimulating production at mature fields.

Rosneft is highly efficient in its exploration and production operations and maintains traditionally low finding and development costs. Rosneft’s average F&D costs over the last five years stood at USD 4.56 per barrel, while the RRR of SECP reserves in 2014–2018 reached 151%.

Low unit production costs is yet another indicator of Rosneft’s operational efficiency. In the reporting period, we maintained undisputed leadership in production costs in Russia through the use of most suitable technologies and stringent cost controls. Rosneft’s current operating costs per barrel are significantly lower than those of international competitors. This gap could be bigger if we factored in temporary decrease or slowdown of growth in the costs of Russian competitors in 2018–2019 due to the shutdown of low-margin wells and limited production at mature fields in Russia, and increased production at greenfields with tax breaks, while the production is limited by OPEC+ decisions.

Over many years, Rosneft has demonstrated a positive free cash flow, which makes us stand among most competent, whose performance tends to be highly volatile and sometimes negative as a result of asset acquisition or at the start of investment projects. In 2018–2019, Rosneft was in the middle of the investment cycle and bore considerable capital expenditures for construction and launch of new projects, and still demonstrated unit free cash flow of USD 6–8 per boe.

Unit capex in exploration and production1, USD/boe

1 Petrobras unit capex in exploration and capex in Brazil
Unit production\(^1\), USD/boe

![Graph showing unit production from 2017 to 2019, with values ranging from 3.2 to 13.4 USD/boe.]

Free cash flow 2017–2019, comparative analysis (majors) in USD/boe

![Graph showing free cash flow from 2017 to 2019, with values ranging from 2.0 to 11.8 USD/boe.]

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**Climate Agenda and Carbon Management**

Before the UN Climate Action Summit that was held during the 74th session of the UN General Assembly in September 2019, Russia’s Prime Minister signed Government Resolution No. 1228 On the Adoption of the Paris Agreement dated 31 September 2019, de facto ratifying it.

Russia’s Intended Nationally-Determined Contribution (INDC) suggests a long-term target of limiting anthropogenic greenhouse gases in the country to 70–75% of the 1990 levels by 2030, subject to the maximum possible account of absorbing capacity of forests.

In December 2019, the Russian Government’s Resolution No. 3183 on introduced a “first-stage” national action plan of adapting to climate change until 2022. The plan states that based on years of observation by the Federal Service for Hydrometeorology and Environmental Monitoring, the average surface air temperature in Russia has been growing 0.47°C every ten years since the mid-1970s, which is 2.5 times higher than the global average of 0.18°C per ten years. A significant part of the Russian territory is subject to (observed and predictable) climate changes. The negative consequences of the expected climate changes in Russia include more frequent, intense and lasting droughts in some regions; extreme precipitation and floods in others; an increased risk of forest fires; melting of permafrost in the northern regions causing damage to buildings and communication lines; disruption of the ecological balance (including some species replacing others); and increased energy consumption for air conditioning in the warm season.

Potential benefits include reduced energy consumption during the heating season; more favourable ice conditions and hence easier Arctic cargo transportation; better access to Russian continental shelf in the Arctic Ocean; and increased productivity of boreal forests.

With climate change climbing higher on the global agenda, environmental, social and governance (ESG) criteria are becoming a key factor in determining a company’s investment appeal. Investors have come to rely on ESG ratings from international agencies when making allocation decisions, and companies’ climate change initiatives are starting to represent a major competitive advantage.

Rosneft fully recognises the importance of the climate agenda and makes sure to assess the systemic, environmental, infrastructural and economic risks associated with climate change. Most human activities involving the burning or oxidation of carbon/hydrocarbon produce greenhouse gas emissions. Reducing GHG emissions and climate change associated with them involves burning less of certain fuels. Over the last decades, Rosneft has been expanding our Gas Investment Programme, which is aimed at increasing the level of APG utilisation. During 2006–2012, Rosneft combined forces with the World Bank and a number of European state funds to carry out three joint implementation projects under the Kyoto Protocol. The projects aimed to reduce APG flaring and resulted in a 2 mmt decrease in annual CO2 emissions. Rosneft’s Energy Efficiency Programme was approved in 2009 and is regularly updated with direct input from the Board of Directors.
Overview of Key Taxation Changes in the Russian Federation with the Largest Impact on the Company’s Financial and Business Operations

Tax policy in the oil industry: tax manoeuvre completion and AIT introduction

Completion of the tax manoeuvre in the oil industry

On 1 January 2019, the Russian Tax Code and Russian Law on the Customs Tariff were amended to effect a phased reduction in export duties on oil, gas condensate and petroleum products until they are reduced to zero in 2024, with an equivalent increase in MET for oil and gas condensate.

Additionally, the tax manoeuvre ended with the adoption of the so-called reverse excise tax on petroleum feedstock, a scheme providing for an excise tax to be levied when crude oil is sent to a refinery with increased deductions received. The right to receive the reverse excise tax and to have relevant amounts reimbursed by the government is granted to the owners of petroleum feedstock sent for refining (including under tolling arrangements) in Russia.

Introduction of reverse excise tax on petroleum feedstock

The excise tax rate per tonne of petroleum feedstock to be refined depends on the actual past-month macroeconomic performance (in roubles and USD exchange rate) and the refinery’s product portfolio. An increased rate applies to refineries located in certain regions. For example, the highest multipliers are used in the excise tax calculation formulas for the Krasnoyarsk Territory (1.1) and Irkutsk Region (1.4).

The reverse excise tax also contains the so-called damping component (damper), which increases (in case of a positive damper) or decreases the final amount of excise tax reimbursed by the government, depending on the volume of motor gasoline and diesel fuel produced and supplied by the taxpayer to the domestic market, as well as the difference between the export alternative and normal domestic prices. Simultaneously, the MET calculation formula for oil was changed to include C_damp, an additional summand increasing the rate in case of a positive damper.

Formula of reverse excise tax on petroleum feedstock

<table>
<thead>
<tr>
<th>Excise tax due</th>
<th>Tax deduction amount</th>
<th>Amount to be reimbursed by the government (reverse excise tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$E_n \times V_n$</td>
<td>$E_n \times V_n + 2 \times C_{\text{damp}}$</td>
<td>$E_n \times V_n + 2 \times C_{\text{damp}}$</td>
</tr>
</tbody>
</table>

$E_n$ is the excise tax rate depending on the actual past-month macroeconomic performance, the portfolio of products made at the refinery and refinery location;

$V_n$ is the volume of petroleum feedstock sent for refining;

$C_{\text{damp}}$ is a damping component determined depending on the volume of motor gasoline and class 5 diesel fuel sold domestically and the difference between the domestic and international prices for these petroleum products (can be either positive or negative). The CDAMP calculation formula effective since 1 January 2019, was adjusted on 1 July 2019.

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1. CDP (Carbon Disclosure Project) is the most reputable non-profit organisation that assesses companies’ environmental, strategic, governance and risk management effort as regards battling climate change. Climate ratings assigned by CDP following the disclosure assessment are published by the leading analytical agencies along with financial data and used by investors to screen investments. CDP works with 525 institutional investors managing USD 96 trillion worth of assets. In 2019, over 8,400 thousand companies, including 62 from Russia, with more than 50% of the global market capitalisation disclosed environmental data through CDP.
A number of laws adopted in 2019 provide for further changes in the oil industry’s fiscal regime. Some of the new tax measures with the greatest impact on the Company include:

- adjustment of MET on oil due to the changing damper mechanism to compensate for additional budget expenses arising out of the changing damper mechanism, which is used as part of the reverse excise tax on petroleum feedstock, introduced for dark marine fuel with an increased tax deduction (with rate 2) allowed when it is used as fuel for marine vessels and installations (structures).

Further changes in tax legislation

1 The rates are determined using the following formulas: $\text{ESRG} = 100 \times 865 \times \text{Cd}$ for straight-run gasoline; $\text{EBPO} = 800 \times 774 \times \text{Cd}$, where Cd = 1.067, for benzene, paraxylene, orthoxylene.

2 For fuel sold by an organisation registered as an entity engaged in petroleum feedstock refining, and produced at the refining facilities located in the Khabarovsk Territory, in other cases of sale (except of dark marine fuel), the excise is equal to zero.

Excise rates for petroleum products in 2018–2019, RUB per tonne

<table>
<thead>
<tr>
<th>Excisable goods</th>
<th>1 January to 31 May 2018</th>
<th>1 June to 31 December 2018</th>
<th>1 January to 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor gasoline</td>
<td>13,100</td>
<td>13,100</td>
<td>13,100</td>
</tr>
<tr>
<td>Non-compliant with EURO-5</td>
<td>11,213</td>
<td>8,213</td>
<td>12,314</td>
</tr>
<tr>
<td>EURO-5 compliant</td>
<td>13,100</td>
<td>13,100</td>
<td>13,102</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>7,665</td>
<td>5,665</td>
<td>8,541</td>
</tr>
<tr>
<td>Jet fuel</td>
<td>2,800</td>
<td>2,800</td>
<td>2,809</td>
</tr>
<tr>
<td>Motor oils</td>
<td>5,400</td>
<td>5,400</td>
<td>5,400</td>
</tr>
<tr>
<td>Benzene, paraxylene, orthoxylene</td>
<td>2,800</td>
<td>2,800</td>
<td>2,929</td>
</tr>
<tr>
<td>Middle distillates</td>
<td>8,662</td>
<td>6,665</td>
<td>9,241</td>
</tr>
<tr>
<td>Dark marine fuel</td>
<td>-</td>
<td>-</td>
<td>2,100</td>
</tr>
</tbody>
</table>

VAT and Corporate Property Tax
On 1 January 2019, the generally applicable VAT rate increased from 18% to 20%, and movable property ceased to be subject to corporate property tax.

Tax on additional income from production of hydrocarbons
With effect from 1 January 2019, a limited number of oil production projects in Russia (see below for applicability criteria) are subject to a tax on additional income from hydrocarbon extraction (AIT).

For the purpose of AIT tax base calculation, the estimated revenue is determined based on the market prices for hydrocarbons, the capital expenditures are recognised when paid, and losses (including historical losses incurred in the development of subsoil areas of groups 1, 2 and 4) are carried forward with an annual indexation of 16.9%.

The AIT rate is 50% of the tax base determined individually for each subsoil area using the following formula:

\[
\text{Tax base} = \frac{\text{Estimated revenue} - \text{Actual expenses} - \text{Estimated export duty} - \text{Estimated transportation expenses} - \text{Historical losses}}{2}
\]

Given the specifics of tax base calculation, AIT is actually paid after the start of commercial production in the subsoil area and reimbursement of losses incurred.

For commercial production in the subsoil area, the initial development stage (seven years from the beginning of commercial production) is determined starting from the moment of the depletion level.

Excise on Petroleum Products
With effect from 1 January 2019, excise duties on petroleum products increased as planned (excise duties grew by 50% for Euro5 motor gasoline and diesel fuel, and by 39% for middle distillates, compared to the rates applied from June 2018) and a reverse excise tax was introduced for dark marine fuel with an increased tax deduction (with rate 2) allowed when it is used as fuel for marine vessels and installations (structures).

Further changes in tax legislation

A number of laws adopted in 2019 provide for further changes in the oil industry’s fiscal regime. Some of the new tax measures with the greatest impact on the Company include:

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Sustainable Development
Health, Safety and Environment

Strategic Intent
Rosneft understands its responsibility for the Health, Safety and well-being of our employees, contractors, communities and stakeholders and the protection of the environment around which the Company operates. This responsibility encompasses the activities conducted by over 300 thousand company employees and about 200 thousand contractor employees.

We assess, prioritize and eliminate HSE risks in our workplace and strive for the highest standards of care for our workforce and contractors while minimizing the environmental footprint from Company operations. We also continue to remediate and eliminate historical environmental impacts in a systematic way.

In the area of carbon management and energy transition, we analyze risks to the company and identify opportunities for our portfolio, including conducting scenario analyses and stress testing to inform further management actions.

Responsible HSE Governance

In December 2018, the Rosneft Board of Directors approved the strategic guidelines for the company linked to implementation of the UN Sustainable Development Goals. The Company's mission, values, objectives, and strategic guidelines are therefore aligned with these 17 United Nations Sustainable Development Goals.

More specifically, the Board identified five SDGs of strategic priority for Rosneft's core businesses, including SDG 3 on Good Health and Well-Being; SDG 7 on Affordable and Clean Energy; SDG 8 on Decent Work and Economic Growth; SDG 13 on Climate Action and SDG 17 on Partnerships for the Goals.

Since the announcement of these commitments, governance has been strengthened across a number of key HSE risk areas through more robust management processes and procedures, increased capability and improved monitoring of HSE performance across the company.

HSE Performance Goals

Rosneft-2022 strategy is aimed at continuous improvement of HSE performance equivalent to top quartile amongst our industry peers, and including targets of a 5% reduction of Greenhouse gas emissions on a per unit basis and 8 million tonnes of avoided CO2 equivalent emissions by 2022.

From Commitment to Action

The Strategic Planning Committee of the Board of Directors reviews HSE performance, updates of the corporate HSE strategy implementation and progress against the Company's strategic goals on a quarterly basis. These goals form part of the performance KPIs of the Executive Team.

The Company's HSE Committee is an advisory body to the CEO and the Management Board and is led by senior Executives and includes senior management representatives from across the company. In 2019, the Committee met six times to review progress on a number of HSE programs including contractor management, aviation safety, integrity management and environmental performance.

In 2019, a Carbon Management Sub-Committee was established and is also led by a Senior Executive to oversee the development of the carbon management agenda, as well as monitor delivery of annual carbon reduction and energy efficiency plans.

STRATEGIC HSE AREAS
- Leadership and Safety Culture
- Competency and Capability Development
- Safety Management System
- Risk and Integrity Management
- Reporting and Performance Analysis
Safety of our people is our top priority

Our highest priority is the safety of our employees, contractors, operations and the communities in which we operate. We focus on creating a culture where employees are strongly encouraged to report any hazards or incidents.

The Company’s Safety Leadership objective is to embed the principles of the revised corporate HSE Policy and HSE Leadership standard launched in 2018. These principles focus on improving direct communication between management and employees to create a safer working environment. In 2019, over 83 thousand employees were trained on the Golden Safety Rules to manage the performance of high-risk activities across the organization.

The Company continues to invest significant resources in the development of its safety management activities, training of its personnel and improvement of operational safety barriers, with about 55 billion rubles spent on these activities in 2019.

Our 2019 survey involving over 3.5 thousand employees showed that our safety culture continues to improve with 94% of respondents understanding the importance of personal responsibility in adhering to the Golden Safety Rules in their jobs.

Operational Risk Assessments

Building on the work done in 2018, and as part of a formal company procedure, a number of systematic improvements in risk management have been implemented to assess and strengthen operational safety barriers. These actions are expected to both contribute to the prevention of potential accidents in key risk areas as well as reduce the severity of their consequences across the Company. In 2019, this process was implemented across 72 Rosneft Group Subsidiaries.

Process Safety and Integrity Management

The implementation of targeted well control management programs has resulted in preventing well blowouts or uncontrolled releases from exploration and development drilling for over two years (11 million meters drilled). There were also no process safety incidents involving over 61,000 high-pressure operating vessels. Rosneft has also introduced a new company procedure on energy isolation for safely conducting repairs or maintaining equipment.

Driving safety and road transport

Due to the scale of Rosneft’s operations, our employees & contractors drive over 2 billion kilometers annually. A Vehicle Safety Management System is in place and sets requirements for both vehicles and drivers to reduce the risks to employees, contractors and third parties. As a result, over 50 thousand drivers were trained in defensive driving, and over 52 thousand vehicles were equipped with in-vehicle monitoring systems. In addition, we work with the regional authorities near to the Company’s operations and the State Road Traffic Safety Inspection Department in Russia to reduce transport accidents in these regions.

Managing the work of our contractors

In 2019, the Company introduced new contractor management requirements to improve conformance with Rosneft’s safe work practices. These requirements included HSE standards and procedures for contractor selection, mandatory risk assessment processes, performance monitoring and contractor personnel capability and training. In 2019, over 10 contractor safety leadership conferences were held across Russia to share best practices, lessons learned and to develop safety leadership competencies.

Improved Incident Investigation System

The Company has initiated a program to improve its incident investigation process and investigation capability to address root causes and sustainable corrective actions. Over 1.1 thousand employees have been trained on these investigative techniques.

The overall LTIF trend shows a decrease in the percentage of severe injuries.
Environmental Responsibility

Green Investment

The Company implements a number of organizational and technical environmental improvement activities, as well as ecological and investment projects to improve environmental performance. The Rosneft-2022 strategy commits to investing RUB 300 bln in these "Green investments" aimed at reducing flaring of associated petroleum gas (APG), improving pipeline integrity, water and waste management and increasing land remediation.

A total of around 80 billion rubles was spent in 2018 and 2019 on these 'Green Investments' projects.

Rosneft has continued to strengthen its carbon-management processes as the Company seeks opportunities to reduce its operational carbon footprint.

Carbon Management –
Managing Climate-related Risks and Opportunities

In 2019 Rosneft reduced known fugitive methane emissions from its upstream operations by 73% (year-on-year).

In the 2020–2022 period, Rosneft’s "Green Investments" will average 7% of the Company’s annual capital expenditure.

In 2019, Rosneft was awarded a B rating by CDP on climate change resilience, the highest among the participating Russian oil and gas companies.

The Company aims at having the lowest possible footprint across its operations and has implemented organizational and technical improvements to drive its environmental agenda.

Water Stewardship

One of Rosneft’s strategic priorities is the sustainable use of water resources involving infrastructure upgrade projects and application of the best available technologies.

In 2019, Rosneft participated in the CDP water rating for the first time and was awarded a B- rating by CDP.

Greenhouse gas emissions avoided in 2018 and 2019 (mln t CO₂ eq.)

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1.4</td>
<td>0.3</td>
</tr>
<tr>
<td>2019</td>
<td>1.7</td>
<td>3.1</td>
</tr>
</tbody>
</table>
Non-GHG Air Emissions
In 2019, the Company recorded a 3% reduction in non-GHG air emissions into the atmosphere.

Increasing the efficiency of oil spill management
The Company’s oil spill response system reduces potential oil spill impacts from incidents once they occur and we work closely with responsible government agencies for transparent reporting and immediate response to incidents.

Rosneft’s in-field pipelines span over 1.20 thousand km and, in 2019, the Company completed implementation of the 2015-2019 Pipeline Reliability Improvement Program to increase pipeline reliability. This program led to a decrease in the pipeline failure rate by 30% compared to 2013 and a further reduction in oil spill volumes from pipeline failures in 2019.

Legacy Contamination and treatment of oil contaminated waste
In 2019, legacy oil-contaminated land was reduced by 16% year-on-year with a 6% improvement in the efficiency of treatment of oil-contaminated waste.

Biodiversity Conservation
The Company has also invested over 870 million rubles over the past five years for conserving biodiversity across Russia. In addition, Rosneft signed an Agreement in 2019 to cooperate with the Russian Ministry of Natural Resources on a national Ecology project. This project focuses on biodiversity conservation, primarily in the Arctic. The planned budget for this work is approximately 250 million rubles.

There is also focus on environmental activities within Rosneft’s international operations, such as Brazil, where waste management practices, water conservation efforts and reforestation activities have all been improved.

~1 million of forest plants set out in 2019 as part of the forest preservation initiatives.

Legacy Contamination and treatment of oil contaminated waste
In 2019, legacy oil-contaminated land was reduced by 16% year-on-year with a 6% improvement in the efficiency of treatment of oil-contaminated waste.

>37 million fish fingerlings of different species were released in support of ecosystems sustainability in 2019.

In 2019, Rosneft and the Russian Arctic National Reserve launched comprehensive restoration of the protected Frantz Josef Land Archipelago, Russia’s northernmost territory, involving the country’s best experts in geology, chemistry, biology and geography.

Personnel and Social Programme
Our core asset is highly qualified personnel motivated to work effectively and achieve the goals. In 2019, the average headcount of Rosneft Group Subsidiaries was 315.4 thousand employees, which is up 7.4 thousand compared to 2018 (308.0 thousand employees).

The increase was primarily due to a higher average headcount in Group Subsidiaries driven by business expansion and the acquisition or inclusion of new assets in the perimeter of the Company’s business plan.

The average employee age remained mostly unchanged at 40.3 years vs. 40.2 years as at the end of 2018. 40.8 thousand employees held managerial positions vs. 38.1 thousand as at the end of 2018. Employees categorised as managers made up 12.2% of the headcount as at 31 December 2019 (vs. 12.4% as at the end of 2018).

Workforce Productivity and Organisational Effectiveness
Improvement of workforce productivity remains a key priority for the Company. As at the end of 2019, the Company achieved its overall productivity target on a comparable basis. We developed a list of relevant improvement initiatives, which we update annually as part of our Long-Term Development Programme. Workforce productivity metrics are used as an individual KPI to assess the performance of some of the Company’s top executives, including the CEO and senior management of the Group Subsidiaries within Rosneft’s major businesses.

In 2019, we designed five standard organisational structures for functional areas and communicated them to the Group Subsidiaries. Their phased implementation is planned until the end of 2022. Also, we had the organisational structure of the Chief Engineer and Prospective Development units at our oil and gas producing assets aligned with the standard.

To capitalise on the automation of methodologically streamlinded HR business processes, we continued

1 Nizhniy Novgorod, Russnesneft, Bashkorgosneft, Krasnoyarskneftegaz, PTK-Terminal, Trans-Time, Sarmanneftegaz, AlanyaölProdükt (ca. 2 thousand employees).
Talent Pool Management

As part of the talent pool management plan for 2019, HR committees across business segments held meetings chaired by the Company's senior managers. Work is ongoing to strengthen the talent pool for target first and second-level management positions in the Company's Head Office and first-level positions in the Group Subsidiaries.

To ensure HR security, we continuously develop our management talent pool, which includes a multi-tier competency assessment to select candidates, identify their priority growth areas and design related individual plans.

We provide the following professional education opportunities:
- training for young engineers from exploration and production facilities in the following jobs: drilling supervisor and engineer, offshore drilling supervisor, offshore drilling specialist, seismic surveyor, petrophysicist and project manager (198 people trained);
- training of shop managers from the exploration and production facilities under the professional retraining programme to improve performance and production methods (90 people trained);
- professional retraining in oil refining and petrochemicals for 23 managers and specialists in Refining, Commerce and Logistics;
- training of specialists involved in coaching line personnel at oil depots and filling stations of R&D and manufacturing facilities (51 in-house coaches);
- in HSE: training in corporate approaches to carbon management for vice presidents and heads of departments; courses in leadership, internal incident investigation, risk assessment and management for heads of the Group Subsidiaries (1,474 people trained).

The reporting year saw us stage for the first time the following corporate events on request from relevant businesses:
- an RN-StrayForum for 232 leaders of capital construction functions;
- a workshop for 119 internal audit heads;
- training of 88 employees of the combined Legal Support and Government Relations unit.

Personnel Training and Development

The corporate training system covers all business areas and staff categories, and serves to provide information on the Government requirements, corporate policies, procedures and best Russian and international practices. Training also helps build the skills needed to perform effectively.

We engage experts from leading educational and consulting companies and universities, both Russian and international, to train our people in line with our business needs.

In 2019, we provided 635.9 thousand man-hours as part of the mandatory vocational and management training, surpassing the 2019 target by 67%.

On top of that, we significantly expanded the range of management courses to include:
- MBA programmes for managers, talent pool and high-potential employees of the Head Office and Group Subsidiaries, with 75 employees enrolled in 2016–2019 completing their training and 98 employees enrolled in 2019–2021 embarking on three corporate programmes;
- a series of Director Club workshops attended by 34 top managers from the Head Office’s structural units;
- The University of CEO and the School of Management attended by 191 CEOs of the Group Subsidiaries and their deputies;
- Leader of the Future (Strategic Level, Operational Level, Young Talents), a programme designed for 91 high-potential employees, including the winners and participants of the Leaders of Russia nationwide competition. The initiative runs as part of talent pool development under the Rosneft-2022 Strategy.
Development of In-House Training

We leverage our in-house training centres, coaches, experts and workplace mentors to provide 63% of training (395.8 thousand man-courses).

All in all, there are 63 training centres operating as part of the Group Subsidiaries or local educational institutions across our footprint. They have testing sites and offer hands-on vocational training, including mandatory courses, to help blue-collar employees and specialists develop professionally.

In 2019, we set up corporate training centres in RU-Tuapse Refinery (Tuapse), RN-Uchit (Samara) and Rosneft-Termneft (Krasnodar).

Additionally, we are working to create the following facilities:

- an electrical engineering and testing site at the Samaraneftegaz training centre;
- a Bashneft corporate training centre at Bashneft PROF;
- a training centre at Zvezda Shipbuilding Complex.

Rosneft has joined Worldskills, a global movement promoting vocational skills. In 2019, we set up corporate training centres, to help blue-collar employees.

We are also developing an internal training system to preserve and transfer knowledge within the Company.

In 2019, the Head Office’s coaches conducted 688 training sessions (15,570 man-courses).

We launched a targeted training programme for in-house coaches made of 15 modules. In 2019, the programme covered 163 groups (2,126 man-courses).

On top of that, over 71 thousand man-courses were available in the distance learning format.

As a result of the corporate mentoring programme, we compiled an integral rating to assess the efficiency of relevant initiatives implemented by the Group Subsidiaries in 2019. The assessment covered 74 Group Subsidiaries in Exploration and Production, Oil Refining, Gas Processing and Petrochemicals, In-House Services, Corporate Services (research and design institutes), with winners named for each businesses.

We also staged the Best Mentor 2019 competition in the Group Subsidiaries (the first round) and across Exploration and Production, Oil Refining, Gas Processing and Petrochemicals, In-House Services, and Corporate Services segments (the second round).

The first round welcomed 5,226 mentors of blue-collar employees and 649 mentors of young specialists from 74 Group Subsidiaries, with 53 and 47 mentors from the above groups as well as 40 HR managers in charge of mentoring making it to the second round.

The third company-wide round to be held in 2020 will see 33 competitors.

Worldskills movement

Rosneft has joined Worldskills, a global movement promoting vocational skills.

During the reporting year, we provided methodological support for the fourth Worldskills corporate championship held in September, at the Novokuibishev Refinery (Laboratory Chemical Analysis and Occupational Safety categories).

The participants were 40 technicians and 44 experts in chemical analysis from 44 Group Subsidiaries, along with 11 specialists and 11 senior experts in occupational safety from 11 Group Subsidiaries.

Rosneft supported the training and participation of its team in the 6th WorldSkills Competition of High-Tech Cross-Industry Blue-Collar Professionals in Yekaterinburg.

The Rosneft team represented by 21 contestants and 17 experts from 16 Group Subsidiaries and the Head Office competed in eight categories and won prizes in six of them.

As a global company, Rosneft is fostering partnerships with foreign oil and gas producers and the world’s best educational institutions to provide comprehensive training to its employees and enable them to perform well in any international project.

In 2019, Rosneft carried on with educational projects run jointly with international educational providers. We also helped our partner universities to arrange for Master’s programmes for 86 professionals from other countries.

Our foreign partners, such as BP, ExxonMobil, Equinor, CNPC Vodesh Ltd., Nayara Energy, China National Petroleum Corporation (CNPC) and Beijing Gas Group Company Limited, took part in the International Day held on 10 April 2019 as part of Rosneft’s HR Conference in Moscow. The event saw the participants share their experience and discuss challenges in the field of personnel management.

Under the educational cooperation agreement between Rosneft and CNPC Vodesh Ltd., employees of the Head Office and Group Subsidiaries received training in India, which covered the following domains:

- Health, Safety and Environment (February-March 2019, Goa, 20 people);
- Offshore Production and Technology Management (November 2019, Mumbai, 21 people).

We also arranged for a number of training sessions in line with the educational and training cooperation agreement between Rosneft and CNPC and in accordance with the 2019 action plan / roadmap issued by the educational working group under the joint Coordination Committee.

- on 21 October – 1 November 2019, 20 CNPC employees participated in an internship course to study practices in development and production management, integrated field management, and oil recovery enhancement technologies at Group Subsidiaries in Samara.
- on 2-4 December 2019, 20 Rosneft employees took internship in China to learn about ways to boost efficiency in energy management.

Under the agreement on the scientific and educational cooperation between Rosneft and the Qatar Foundation, 49 employees of the Company took training on the use, construction, completion, performance monitoring and productivity of horizontal wells in October 2019. The training was given by an expert from the Qatar National Research Fund (part of Qatar Foundation) at Gulfian Russian State University of Oil and Gas.

In 2019, Rosneft and BP took the following steps to strengthen their ties:

- signed an agreement on cooperation in the field of HR management and social responsibility;
- created a joint working group in this area;
- developed and approved a road map of initiatives for 2019-2020.

In December 2019, BP and Rosneft staged events to exchange experience in personnel assessment and HR workforce management.
In 2019, the Company continued to implement professional standards.

In pursuit of the Directive of the Russian Government No. 5179-P dated 14 July 2016, Rosneft’s Board of Directors held two meetings in the reporting year to discuss the roll-out of professional standards across Rosneft and the Group Subsidiaries. According to the latest monitoring, more than a fourth of almost 1,300 approved professional standards can be implemented in the Company, with 54 of them classified as mandatory qualification requirements (depending on the subsidiary’s type of operations). The qualification standards apply to over 44 thousand employees, of whom over 95% have an educational background meeting the requirements.

In 2015, Rosneft and other oil and gas producers joined the National Council for Professional Qualifications in the Oil and Gas Industry. Pursuant to the Council’s action plan, the Neftnyaipig Bank Corporate Institute, Rosneft’s Professional Expertise Centre, drafted four industry standards and submitted them for approval by the Ministry of Labour and Social Protection. In 2019, the Ministry approved three industry standards developed earlier by Rosneft.

Our comprehensive personnel assessment framework establishes uniform knowledge and skill requirements for employees across all business segments, including the Head Office and Group Subsidiaries. We assess employees when planning competency training, creating a talent pool and expert communities, recruiting managers, specialists and blue-collar workers. As part of the initiative, we developed and introduced professional competencies along with employee assessment and development tools in the following areas: offshore projects, oil refining, oil and gas production, marketing and distribution, logistics and transport, capital construction, economics and finance, procurement, energy efficiency, gas, design and survey at research institutes, oil refining, gas processing, petrochemicals and energy at corporate research and design institutes. In 2019, Rosneft started implementing relevant projects across some functions (internal audit, HR management and social programmes) and in the Oil Refining, Gas Processing and Petrochemicals business.

The TIP participants include Gubkin Russian State University of Oil and Gas (oil refining and procurement projects) and Tomsk Polytechnic University (oil and gas production and offshore projects) along with leading Russian and foreign consulting firms.

As part of the initiative, we developed and introduced professional competencies along with employee assessment and development tools in the following areas: offshore projects, oil refining, oil and gas production, marketing and distribution, logistics and transport, capital construction, economics and finance, procurement, energy efficiency, gas, design and survey at research institutes, oil refining, gas processing, petrochemicals and energy at corporate research and design institutes. In 2019, Rosneft started implementing relevant projects across some functions (internal audit, HR management and social programmes) and in the Oil Refining, Gas Processing and Petrochemicals business.

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We organise Rosneft classes at top ranking schools, colleges, and gymnasiums in regions where we operate. The initiative is supported by the Group Subsidiaries that have a strong need for qualified labour to implement contemplated growth plans and capacity ramp-ups.

Rosneft classes offer school students a high-quality secondary education with a strong focus on technology and natural sciences to enable them to continue engineering studies at universities. After graduation, young talents are employed at the Company.

The project has a significant positive impact on the Company’s reputation, promoting the image of Rosneft as a socially responsible partner of the national education system. Rosneft classes help digitalise education at partner schools, upgrade facilities and equipment, boost the efficiency of training and career guidance activities, and enhance qualifications required to teach the core subjects.

In 2019, the Company supported 122 classes in partnership with 64 secondary schools in 57 towns and settlements located in 27 Russian regions. The classes saw some 2,839 attendees.

We keep expanding the project geography and launching new classes each year. In 2019, Rosneft classes opened in Moscow and in Oktjabrsky (Republic of Bashkortostan). The Moscow class aims to supply talent for the projects related to the Arctic and offshore exploration and development, while the one in Oktjabrsky focuses on training personnel for producing facilities in Bashkortostan.

Rosneft’s youth policy aims to ensure a steady influx of young, qualified specialists from among the top graduates of educational institutions, and their fast and effective onboarding at the Company’s facilities. To this end, Rosneft is working hard to build an external talent pool comprised of students of local educational institutions.

In August 2019, Rosneft started its youth training system targeting three groups: attendees of Rosneft engineering classes (grade 10 and 11), students of industry-specific universities, and young Company specialists. In accordance with its Youth Policy, Rosneft consistently implements a school-to-workplace approach to training in all domains.

In 2019, the Policy focused on pre-university training (Rosneft classes) and work with young talents, in line with the Rosneft-2022 Strategy.
First and foremost, the project seeks to identify, support and provide education to the gifted youth. The attendees of Rosneft classes take an active part in various academic contests. In the school year 2018-2019, 939 students became winners and runners-up in a wide range of olympiads, with 480 winning the top awards and other prizes at various stages of the National Olympiad of Schoolchildren.

To reach out to more young talents in the country’s regions, we continued to organise Rosneft classes in cooperation with the Sirius Educational Centre in Sochi. The programme runs under the cooperation agreement between Rosneft and the Talent and Success Educational Foundation. The selection stage and online competition brought together 604 school students, with 108 students of Rosneft classes from 35 Russian towns and settlements taking part in the face-to-face round at the Sirius Educational Centre. The programme aimed to provide career guidance and training as part of projects run jointly by young scientists and engineers from Rosneft’s corporate research and design institutes.

The project leveraged the digital education platform of the University Gymnasium to stage four online development courses for teachers of chemistry, mathematics, physics and the Russian language. All in all, the courses saw 96 participants from 42 schools located in 41 Russian towns (21 regions).

To provide better career guidance to Rosneft-class students, the HR Department’s personnel development function updated and reissued the brochure titled ‘I want to work in the oil industry!’ The document lists the industry’s most valued skills.

The project proved to be a success as evidenced by the number of Rosneft-class graduates who received relevant higher education and signed employment contracts with the Company. In 2019, 107 graduates started work at 32 Group Subsidiaries, with a total of 786 employed in 60 Group Subsidiaries.

Work with Young Talent

In 2019, a total of 4,001 young specialists worked in 105 Group Subsidiaries, with 1,360 of them hired during the year.

The programmes for young specialists are based on the Company’s Regulations on Organising Work with Young Specialists, which covers the following areas:

- onboarding;
- training and development;
- identifying and development of potential leaders;
- progress assessment;
- financial support and social protection of young specialists.

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In the reporting year, we took the following steps to develop the professional, corporate and managerial competencies of young specialists:

- organised 3,964 man-hours of professional and managerial skills development programmes;
- arranged for 2,687 young specialists to take part in regional and cluster R&D conferences. The Inter-Regional Research and Development Conference was attended by 359 young specialists, with 105 of them winning prizes. The conference also saw 102 projects recommended for implementation.

In an effort to build up a strategic talent pool, we staged assessment business games for prospective young leaders in their third year of employment. The games took place from June to September 2019 and brought together 374 employees from 74 Group Subsidiaries. Based on the results, we selected 189 participants from 58 Group Subsidiaries who had demonstrated strong corporate and managerial skills, and recommended including them in the strategic pipeline of young talent.

As game winners, these employees will receive further training under the Three Steps programme. In 2019, we trained 114 young specialists who had topped in the 2018 assessment games.

In December 2019, we held an annual conference for chairs of young professional councils to help boost the efficiency of their work. The event saw some 58 participants.
Cooperation with Universities

In 2019, Rosneft worked together with 61 universities from the majority of regions where it operates (including 57 Russian and four foreign institutions). Of these, 26 universities are partners of Rosneft. Cooperation agreements with higher education institutions allow the Company to actively engage in joint efforts focused on employee training and retraining, and research and innovation, as well as help develop the research and education capabilities of universities so that their graduates are equipped with experience in the oil and gas sector. Cooperation with Rosneft also contributes to it.

- 24 university departments continued to operate and one new specialised department was established, with 74 employees of the Company involved in their activities in 2019;
- work continued on projects aimed at enhancing curriculum via more sophisticated university infrastructure (the Marine Engineering Scientific and Educational Centre at St Petersburg State Marine Technical University; a Rosneft drilling laboratory at Tyumen Industrial University; the Rosneft – Ufa State Oil Technical University research and education centre, etc.);
- more financial support was provided to establish an interdisciplinary and convergent education research cluster under the Russian Academy of Education development programme for 2017–2020;
- Rosneft Days were held to provide career guidance to, and improve the Company’s image among more than 20 thousand students;
- 7,088 students and 47 university academics completed internships at the Company’s assets;
- In 2019, the Head Office arranged a long-term internship for 179 Master’s students of Rosneft’s partner universities.

Support for Educational Institutions

Rosneft and the Group Subsidiaries provide charitable assistance to educational institutions of various levels offering courses relevant to the Company’s needs and taking part in projects and programmes of the corporate School–University–Company framework for continuing education.

Some of this aid is devoted to class programmes supported by Rosneft Group Subsidiaries. The funding targets include:
- additional education in relevant subjects involving lecturers from partner universities;
- class programmes supported by Rosneft Group Subsidiaries, including materials and equipment for dedicated classrooms and distance learning equipment for teachers and schoolchildren;
- training for teachers;
- career guidance and team-building events for schoolchildren.

In 2019, RUB 237.9 mln was given to partner schools.

Vocational and higher education institutions receive financial support for the following:
- improving and developing their hard and soft capabilities;
- to maintain their specialised departments and Master’s courses as required by the Company’s strategic projects;
- to help finance large-scale infrastructure projects;
- to provide corporate scholarships and grants to talented students looking for professional development within the Company’s perimeter, Master’s students doing internships at Rosneft’s Standalone Business Units, as well as promising educators.
- 792 corporate scholarships and 161 corporate grants were provided in 2019.

In 2019, Rosneft issued its first-ever grants for relevant exploratory research by academics at its partner universities. The aid provided to vocational and higher education institutions for the said purposes totalled RUB 1,126.8 mln.

DOUBLE-DEGREE MASTER’S PROGRAMME IN OIL ENGINEERING

In 2019, Rosneft partnered with IP Russia, Kazan (Volga) Federal University and Imperial College London to create a double-degree Master’s programme in Oil Engineering.

The course was targeting graduates of Russian universities and young talent with experience in the oil and gas industry seeking to acquire new knowledge and skills.

The Master’s programme allows enrollees to gain advanced knowledge of oil producers, development system streamlining, and well and field management. The Company’s relevant units contributed to it.

In October 2019, 10 students enrolled on this Master’s programme, having passed a complex selection procedure that included testing and interviewing to assess their professional competencies, and confirmed their English proficiency by submitting an international certificate.

This course was commissioned by eight Group Subsidiaries that will give the students work experience in summer 2020 and hire them upon completing the programme in 2021.
Social Partnership and Social Benefits

Rosneft pays special attention to its social partnership programme with two focus areas:

- Corporate social partnership - strengthening our meaningful cooperation with the International Trade Union Organisation of Rosneft (ITSO Rosneft), which represents most of the trade unions of Group Subsidiaries. In 2019, the Company carried on with its traditional activities in this domain:
  - discussion and decision-making on the improvement of the Standard Collective Agreement of Rosneft Group Subsidiaries. In 2019, more than 30 amendments and additions were made to the Agreement to enhance social security for employees;
  - annual meetings between a wide range of Company managers, its HR and social service representatives, and leaders of trade union organisations affiliated with ITSO Rosneft. A meeting held in Moscow in November 2019 discussed pressing matters that worried people employed by Group Subsidiaries, including those related to key goals and projects along with issues of immediate concern, such as wage indexation and increases, incentive programmes, and workwear availability, as well as specific questions of some trade union leaders requiring the Company’s attention.

- Industrial social partnership - liaising with the Russian Association of Oil and Gas Employers. In 2019, 33 Rosneft Group Subsidiaries joined the Industry Agreement on the Companies of the Oil and Gas Industry and the Construction of the Oil and Gas Industry Facilities, effectively gaining certain advantages in implementing the Russian Labour Code. In the reporting year, the Company’s active involvement resulted in a new industry agreement incorporating most of its suggestions.

Social Programmes

For many years, Rosneft has been one of the most socially responsible employers in Russia. In 2019, the Company continued to implement the Rosneft-2022 Strategy to ensure better motivation and social security for its employees and retirees.

In 2019, the Company allocated RUB 35.4 bln for creating optimal working conditions, promoting healthy lifestyles, and providing healthcare and social guarantees for its employees. Rosneft’s management has always been committed to maintaining high social security standards for our employees.

Key Social Policy Costs in 2019, RUB mln, %

- Optimal workplace conditions and social infrastructure maintenance 30%
- Healthcare, healthy lifestyle promotion, and other social contributions 36%
- Housing 2%
- Private pension schemes 32%

Corporate Pensions and Social Support for Veterans

The corporate pension programme is an integral part of the Company’s HR and social policy, as it is aimed at improving the social protection of retired employees. Pension contributions made by Rosneft and Group Subsidiaries under private pension schemes totalled RUB 11.4 bln in 2019.

The corporate pension programme includes the following elements:

Private Pension Schemes for Employees

The programme covers more than 280 thousand employees of Rosneft and Group Subsidiaries who entered into a pension agreement with Non-State Pension Fund (NPF) Evolution. In 2019, the programme funding amounted to RUB 8.4 bln. Based on the 2019 results, Rosneft approved dedicated spending, while Group Subsidiaries concluded pension agreements with the fund which will remain effective until the end of 2024 and determine mid-term strategies under the programme.

Social Support for Veterans

The Company has been running a veteran support programme for over 15 years. As at the end of 2019, the number of people benefiting from monthly pension payments under the programme totalled 25.3 thousand. In 2019, NPF Evolution received RUB 46.1 mln in funding, which it used to raise pensions by more than 5% as part of annual indexation adjustments.

Active Longevity Programme

- As part of the Rosneft-2022 Strategy, in 2019 we launched the Active Longevity Programme designed to improve the social security of retirees. In 2019, the programme received RUB 2.5 bln in funding, making it possible to:
  - apply one-time indexation to ca. 18 thousand pensions awarded in or before 2010, with the average pension amount increasing by 17.5%;
  - top up personal pension accounts of ca. 41 thousand retirees to ensure annual indexation of pensions financed through the investment income of NPF Evolution starting from 2020.

The above programmes help enhance social security not only for the employees of Rosneft and Group Subsidiaries, but also for pensioners who retired earlier.

1 Formerly known as NPF NETEGARANT.
Corporate Housing Programme

For over 14 years, the Company has been successfully running a comprehensive housing programme, a crucial incentive included in the corporate social policy. The initiative enables the Company to attract and retain highly qualified and ensure long-term engagement of valuable professionals by providing housing through the following arrangements:
- mortgage lending;
- provision of corporate housing.

The living conditions of 1,112 families were improved through mortgages provided by Rosneft in 2019. In addition, relocated professionals are provided with corporate housing, with the total number of apartments available in the Company’s regions of operation exceeding 1.5 thousand.

With its corporate housing programme, Rosneft also contributes to the implementation of the national Housing and Mortgage programmes.

Working Conditions and Recreation

In the reporting year, Rosneft continued implementing an integrated programme to create favourable working conditions for its employees. The programme’s key focus is the development and fit-up of 349 shift camps (including 119 shift and trailer camps, and 230 trailer camps for the drilling crews of RN-Bureniye), which in 2019 accommodated close to 52 thousand employees of the Company and its contractors.

The capital investment in the construction, reconstruction, development and fit-up of shift camps, field support bases, sites and workshops amounted to RUB 8.1 billion in 2019.

The maintenance costs for the social facilities at production sites totalled RUB 8.7 billion in 2019.

As part of the Rosneft-2022 Strategy approved by the Board of Directors, the Company continued to run a number of designated programmes aiming to:
- supply industrial healthcare facilities with modern training equipment for the development of emergency medical care skills;
- establish a corporate telemedicine network that will bring together 96 healthcare facilities from remote production sites of 18 Group Subsidiaries and large regional consultation centres to improve the availability and quality of medical care in the hard-to-reach regions of the Company’s operation;
- perform preventive medical examination of the Company’s employees focusing on early detection of cardiovascular and oncological diseases (in 2019, 31 thousand employees of Rosneft underwent such examination).

Since 2017, the Company has been successfully implementing its corporate programme for the prevention of cardiovascular diseases aimed at boosting professional longevity and reducing the risks of lost-time injuries, permanent disability and early death. In 2019, more than 118 thousand employees from 140 Group Subsidiaries participated in the programme.

The Company keeps running its ‘Live Longer’ programme, which promotes healthy living by offering medical screening to expose disease risk factors, supporting sports initiatives and helping the Company’s employees develop healthy lifestyle habits.

Resort treatment and rehabilitation opportunities aimed at preserving employees’ health, extending their careers and preventing diseases are an integral part of the social security net offered to the Company’s employees, their families and retirees (veterans of labour).

In 2019, Rosneft offered resort treatment services to over 78 thousand employees, members of their families and retirees both in the Company’s own health resorts and wellness centres and third party organisations.

The Company continued to implement a wellness and recreation programme for its employees in the Republic of Cuba. Over the past year, more than 2.5 thousand people underwent medical treatment in Cuba. Since the start of cooperation in December 2013, more than 13 thousand employees and their family members have visited the resorts in Cuba.

In the reporting year, personal insurance programmes (voluntary health and accident insurance) covered more than 330 thousand employees of the Company.

Accessibility of medical assistance for employees at their place of residence or workplace, inclusion of high-tech multidisciplinary clinics into the insurance programmes, and high quality of medical care provided to employees remain the Company’s key priorities in the realm of voluntary health insurance.

Group Subsidiaries continued to execute voluntary insurance agreements which cover employee accidents both during and outside working hours and provide an additional source of support for employees or their families in case of a materialised insured event.

Corporate healthcare and personal insurance programmes help support and build on the Healthcare national project.

Healthcare and Personal Insurance

The healthcare and personal insurance initiatives implemented by the Company help achieve several important goals such as maintaining long-term professional engagement, strengthening health and promoting a healthy lifestyle among employees.

The key initiatives include:
- provision of emergency and routine medical services for employees, including those stationed at remote and hard-to-access production facilities of the Company;
- introduction of a brand new programme for preventive medical examination of employees aimed at early detection of life-threatening conditions.

The Company has adopted uniform standards for on-site medical treatment and emergency aid, while also putting in place uniform guidelines for the evacuation of injured or sick employees from its remote production facilities by medical aircraft.

All of Rosneft’s healthcare facilities are now provided with modern medical equipment, with a special emphasis laid on improving the skills of medical personnel and conducting large-scale medical drills to develop practical skills of tackling healthcare emergencies, including those involving the use of medical aircraft and telemedicine devices.
Social and Economic Development of Regions and Charity in 2019

The Company consistently implements initiatives that contribute to sustainable social and economic development of the regions. In 2019, Rosneft continued to develop a systemic approach to resolving social issues and managing social investments, while contributing to social risk mitigation, ensuring successful long-term relations with our regions of operation and strengthening Rosneft’s reputation as a socially responsible business. While implementing charity and support programmes in the regions of operation, the Company strictly observes the principle of non-involvement in corruption activities.

In accordance with Federal Law No. 135-FZ On Charitable Activity and Charitable Organisations dated 11 August 1995, which governs charity matters, the Company supports diverse projects addressing social issues in the regions of its operation.

At that, when determining recipients and social areas for charitable support, the Company aims at social and infrastructural projects that would have the largest social impact and immediately benefit the community (including the Company employees and their families).

In its charitable activities, the Company prioritises social investments in the regions as per cooperation agreements with regional authorities.

In 2019, the agreements on social and economic cooperation with the regional authorities allocated funds for the development of social services in the Republic of Bashkortostan, Republic of Sakha (Yakutia), Irkutsk, Kostroma, Orenburg, and Tyumen Regions, Khanty-Mansi Autonomous Area – Yugra, and Yamal-Nenets Autonomous Area.

Within the cooperation agreements involving the Company’s financing, the infrastructure of municipal districts and settlements is improved, engineering and transportation system equipment, power and heat supply facilities repaired or replaced, and measures taken to protect the community and territories from emergencies and to ensure fire safety.

A key area of Rosneft’s charity is still the support of physical training and mass sports. Rosneft strives to provide all kinds of opportunities and allocate funds for local residents to engage in sports and physical training and promote a healthy lifestyle among them.

The Company traditionally contributes to the development and promotion of mass and children’s sports, work of sports organisations, construction of sports and fitness facilities, as well as improvement of technical infrastructure and purchase of equipment for sports schools catering for children and young people, and educational institutions.

Yet another focus of Rosneft’s charity is support of indigenous minorities of the North.

In 2019, as part of its charity activities, the Company sponsored the distinctive cultures and traditional industries, and supported improvement of the housing conditions of indigenous minorities in the regions of its operation.

In the areas inhabited by those indigenous minorities, Rosneft supports the improvement of infrastructure, purchase of tools for traditional subsistence activities, purchase of fuel and lubricants, summer resort health treatment programmes, and finances of participation in exhibitions, trade fairs, contests and sporting events, as well as other activities dedicated to the indigenous culture of the North.

Significant support is provided for indigenous children and young people to take part in various educational (including payment of student tuition fees) and health improvement programmes.

In line with its annual charity plans, in 2019 the Company also focused on development of culture, healthcare, education and science, support of preschool and social institutions, public associations uniting disabled people, war and labour veterans (e.g. financial aid), as well as of celebratory events held on the occasion of the Victory in the Great Patriotic War.

<table>
<thead>
<tr>
<th>Allocation of Funds in 2019, %</th>
<th>8,175.8 RUB mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical education and sports, including children’s promotion of healthy lifestyles</td>
<td>42.8%</td>
</tr>
<tr>
<td>Infrastructure development in regions, districts, and municipalities</td>
<td>28.3%</td>
</tr>
<tr>
<td>Education and science</td>
<td>11.0%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>6.0%</td>
</tr>
<tr>
<td>Culture</td>
<td>4.8%</td>
</tr>
<tr>
<td>Support for veterans, the disabled, and people in need</td>
<td>2.4%</td>
</tr>
<tr>
<td>Charitable NGOs</td>
<td>1.6%</td>
</tr>
<tr>
<td>Revival of cultural heritage</td>
<td>0.1%</td>
</tr>
<tr>
<td>Support for indigenous peoples of the North</td>
<td>0.4%</td>
</tr>
<tr>
<td>Orphanages</td>
<td>0.4%</td>
</tr>
<tr>
<td>Kindergartens</td>
<td>1.0%</td>
</tr>
<tr>
<td>Other</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

1 Other (including pensioners, low-income families, youth organisations, municipal events, social and agricultural institutions, environmental projects)
Company Sponsorship Activities

Rosneft traditionally makes a significant contribution to the social and economic development of Russia through its sponsorship activities. As part of these activities, Rosneft is supporting large-scale projects aimed at reviving spiritual and national values, protecting the environment, developing of science, culture, industry, education, and sports.

Sponsorship projects of the Company and Group Subsidiaries confirm Rosneft’s reputation as a socially responsible business.

In 2019, Rosneft financed seven Russian business forums and conferences held in Russia and abroad, including: the St-Petersburg International Economic Forum and the Eastern Economic Forum attended by the President of the Russian Federation, the Russian Energy Week International Forum, the Arctic Territory of Dialogue International Arctic Forums, etc.

Revealing and building up the tradition of partnership between business and culture is an important element of the Company’s operations. In 2019, with the support of Rosneft, the Pushkin State Museum of Fine Arts in Moscow arranged a unique exhibition of the British artist Thomas Gainsborough, while the State Hermitage Museum hosted the permanent historical display Ancient Colonisation of the Northern Black Sea Region, as well as an exhibition of paintings by the Italian artist Piero della Francesca.

Rosneft continues its cooperation with the D. D. Shostakovich St-Petersburg Academic Philharmonia. The Company also supported the Bravo! International Music Award, the White Nights Festival and other cultural events. Rosneft acted as the general sponsor of the final episode of the legendary Umbra animation film (New Year’s edition).

Rosneft takes an active part in the development of international cultural ties. In 2019, as part of the Cross-Year of Russia and Japan, the Company sponsored the Russian Culture Festival. Rosneft supported performances of the St-Petersburg Eifman Ballet, the Chamber Choir of the Moscow Conservatory, the Mariinsky Orchestra conducted by Valery Gergiev, as well as many other shows in cities across Japan.

With the support of Rosneft, the Eifman Ballet also performed Anna Karenina in Doha at the premises of the Qatar Foundation for Education, Science and Community Development.

During the UK-Russia Year of Music, Rosneft and BP sponsored the first concert tour of the unique UK-Russian Britten-Shostakovich Festival Orchestra in Russian and British cities.

HSE is also among the Company’s priorities. Rosneft makes a strong contribution to environmental safety and protection, with a special focus on protecting endangered species and studying marine mammals. In 2019, the Company continued its comprehensive programme to protect polar bears living in Russian zoos, which has been running since 2013.

With the support of Rosneft, the P. P. Shirshov Institute of Oceanology of the Russian Academy of Sciences studies the Black Sea dolphins. The research is the first of its kind since the early 1980s and is essential for acquiring data on the overall state of the Black Sea. In 2019, an aerial survey of the cetaceans was carried out. In addition, the Company supports a number of projects on studying the reindeer, sable, endangered geese, and Atlantic walrus.

The Company is a supporter of professional and amateur sports. It finances the CSKA Moscow Hockey Club and is a sponsor of the Arsenal Tula Football Club. Rosneft supports the domestic automakers and contributes to the development of motor sports in Russia, funding the LADA Sport ROSNEFT racing team. The Company is the general sponsor of the International SAMBO Federation.

In 2019, Rosneft spent RUB 1,842 mln on sponsorship activities.
Energy Efficiency and Energy Saving

Fuel and Energy Consumption

Rosneft is a major fuel and energy consumer in the Russian Federation, accounting for 4.8% of the country's energy mix. In 2019, the Company’s fuel and energy consumption totalled 20 million tonnes of coal equivalent (mtoe), or RUB 236,963 mln.

For energy consumption and costs by business segment in 2019, see the table below.

Information on the most energy-intensive assets operated directly by Rosneft, for 2019.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Fuel and Energy Consumption</th>
<th>In ktce / RUB mln</th>
<th>Share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>electricity, th. kWh / RUB mln</td>
<td>heat, th. Gcal / RUB mln</td>
<td>Fuel, lt / RUB mln</td>
</tr>
<tr>
<td>Oil and gas production</td>
<td>41,053,681 / 160,843</td>
<td>2,759 / 6,878</td>
<td>1,801 / 3,210</td>
</tr>
<tr>
<td>Oil refining</td>
<td>6,161,367 / 19,691</td>
<td>20,405 / 19,957</td>
<td>4,328 / 22,174</td>
</tr>
<tr>
<td>Petrochemicals and gas processing</td>
<td>2,549,237 / 2,198</td>
<td>7,483 / 6,180</td>
<td>427 / 1,122</td>
</tr>
<tr>
<td>Gas production and distribution</td>
<td>59,949 / 334</td>
<td>26 / 54</td>
<td>15 / 25</td>
</tr>
<tr>
<td>Marketing and distribution</td>
<td>376,867 / 1,941</td>
<td>89 / 96</td>
<td>5 / 4</td>
</tr>
<tr>
<td>Services</td>
<td>597,272 / 5,483</td>
<td>329 / 502</td>
<td>33 / 1,605</td>
</tr>
<tr>
<td>Total</td>
<td>50,815,016 / 175,317</td>
<td>31,090 / 33,677</td>
<td>6,606 / 28,170</td>
</tr>
</tbody>
</table>

Energy Saving Programme

In 2019, the Company embarked on its 2019–2023 Energy Saving Programme approved by the Board of Directors in March 2019. The Programme aims at a more efficient use of electricity and heat, as well as boiler and furnace fuel across key business lines. For actual fuel and energy savings in 2019, see the table below.

To update the Programme, Rosneft developed a 2020–2024 Energy Saving Programme expected to deliver 2.6 mtoe, or RUB 38,753 mln in total energy savings over five years.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Savings in 2019</th>
<th>In ktce</th>
<th>Share, %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>electricity, th. kWh</td>
<td>heat, th. Gcal</td>
<td>Fuel, tce</td>
</tr>
<tr>
<td>Oil and gas production</td>
<td>1,826,493</td>
<td>87</td>
<td>8,702</td>
</tr>
<tr>
<td>Oil refining</td>
<td>159,580</td>
<td>1,118</td>
<td>392,515</td>
</tr>
<tr>
<td>Petrochemicals and gas processing</td>
<td>36,281</td>
<td>325</td>
<td>15,246</td>
</tr>
<tr>
<td>Gas production and distribution</td>
<td>575</td>
<td>4</td>
<td>746</td>
</tr>
<tr>
<td>Marketing and distribution</td>
<td>12,092</td>
<td>0</td>
<td>278</td>
</tr>
<tr>
<td>Services</td>
<td>1,428</td>
<td>2</td>
<td>399</td>
</tr>
<tr>
<td>Total</td>
<td>2,036,650</td>
<td>1,536</td>
<td>417,526</td>
</tr>
</tbody>
</table>

Energy Efficiency and Energy Saving Policy

In accordance with its Energy Efficiency and Energy Saving Policy and the Energy Management System Requirements and Use Guidance Standard, the Company took the following steps in 2019:

- amended the list of Group Subsidiaries covered by the 2020–2024 Energy Efficiency Programme, adding the following assets: Kharapumunefegaz, Rosplan International and RN-Ankhangorskneftegaz. Given asset combinations and divestments and with no new energy saving initiatives planned for 2020–2024, two assets were excluded from the Programme;
- updated the standard organisational structure of energy efficiency units in oil and gas production subsidiaries to take into account the need for regular on-site audits in this area;
- arranged for corporate training in energy efficiency. In 2019, 352 employees took training in the dedicated corporate training centre, with another 61 educated by an external provider with an international track record in launching and developing energy management systems at productions sites;
- drafted and put into effect the Regulations on Planning and Measuring the Actual Energy Saving Effect from Energy Saving Programmes at In-House Service and Marketing and Distribution Group Subsidiaries and Marine Terminals;
- performed an internal energy efficiency assessment at 19 oil and gas production and oil refining Group Subsidiaries, with individual roadmaps drafted to address the identified gaps in 2019–2021. Another assessment is scheduled for 2020;
- had Soroksinski, Bashneft Polyus, Ufaorgsintez, and Integrated refinery in Ufa (Ufaneftekhim, Bashneft-Novol, and Bashneft-UNPZ) certified for compliance with ISO 50001 (Energy Management Systems). All in all, 41 Group Subsidiaries accounting for over 95% of the Company’s total energy consumption in 2019 hold ISO 50001 certificates.
Power Generation Development

The reporting year saw the following generating facilities built or commissioned to help meet the projected Group energy needs:

- 18 MW gas turbine power plant commissioned at Kondanets Zapaadro-Orginskoye field;
- main construction and installation operations completed and pre-commissioning started at:
  - a 105 MW gas turbine power plant at the Vostochno Urenogorskoye licence area of Rospan International;
  - a 50 MW gas turbine power plant at the Srndeboburinskoye field of Taas-Yuryakh Neftegazodobycha;
- a 153 MW gas turbine and thermal power plant at the Tuapse Refinery (Phase 2).

220 kV grid facilities:
- three 220 kV substations and a 220 kV power transmission line built and commissioned at RN-Uvatneftegaz:
  - a 320 km 220 kV overhead line;
  - a 228/110/10 kV 2k2E3 MVA Pikitkova substation;
  - a 228/110/10 kV +2k2E3 MVA Ljungstrata substation;
  - a 228/110/10 kV 2k2E3 MVA Protosanovskaya substation.

The project helped eliminate the capacity shortage, reduce energy costs through further use of diesel generators, improve the reliability of energy supply to the existing oil and gas production facilities of RN-Uvatneftegaz and Slavneft-Megionneftegaz, and ensure the required capacity margin to pump on stream new oil and gas fields.

110 kV grid facilities:
- commissioned:
  - a 14 km 110 kV Protosanovskaya – Taifullsaya overhead line at RN-Uватneftegaz;
  - a 60 km 110 kV Donetsk-Svyatovskaya – Rybkinskaya overhead line at Orenburgneft.

In 2019, the Company commissioned 220 kV 502 MVA transformer capacities and a 194 km 228/110 kV overhead line, adding 18 MW of generating capacities.

Rosneft also completed the construction and started pre-commissioning of 10 kV main substations (distribution station No. 55 and central distribution station No. 2) with a design load of 22.6 MW to supply energy to Phase 2 and extended Phase 2 production facilities of the Zvedza Shipyard.

On top of that, the Company reconstructed a 0.8 km CHP – CHNa heat main, a socially important facility for the Sakhalin Region.

Improved Energy Supply Reliability

Every year, the Company takes a number of steps to ensure uninterrupted energy supply of the existing and prospective production assets. In 2019, as part of its efforts to improve the supply efficiency and reliability, the Company conducted eight technical audits to check the quality of power facility management and drafted a remedial action plan to eliminate the gaps. The reporting year saw 908 remedial actions completed, with deadlines for another 916 not yet expired. This helped achieve a 5% year-on-year reduction of oil production shortages caused by power failures in in-house electricity networks.

As part of technical audits, the Company also checks if its sites operate equipment in compliance with health and safety requirements.

Localisation and Development of Industrial Clusters

Import Substitution and Equipment Localisation for Rosneft’s Needs

In 2015, Rosneft launched an Import Substitution and Equipment Localisation Programme (the Programme).

Aligned with strategic goals and objectives set forth in the Rosneft-2022 Strategy and the Company’s Long-Term Development Programme, the programme aims to:

- facilitate the development of Rosneft as a high-tech oil and gas company;
- foster technological leadership in its core competencies, such as oil and gas production, oil refining and gas processing;
- secure the Company’s technologically sustainable position in the hydrocarbons market by increasing the share of Russian-made products and implementing projects to localise the manufacturing of foreign oil and gas equipment in Russia in cooperation with leading global producers;
- facilitate the development of infrastructure supporting exploration and production, refining and logistics projects as part of localisation efforts.

To this end, Rosneft keeps investing in proprietary solutions and products with a view to sustaining its technological self-sufficiency.

Given a bigger share of horizontal wells and rising geological and engineering complexities, there is a growing need for advanced well logging techniques, along with other prospecting, exploration and development technologies of critical importance. Rosneft focuses on developing domestic capabilities in advanced well logging. Currently, the Company partners with Rosatom to develop instruments for measuring mineral composition of formations and logging while drilling horizontal wells. This will help provide for high-quality insights into complex reservoirs and ensure independence from expensive foreign services.

Also, Rosneft and Rostec developed a technology to produce synthetic propellants. The Company’s R&D efforts were successful resulting in batches of these propellants for pilot testing at Rosneft’s oil production sites. The parties are considering mass production of synthetic propellants at Rostec industrial sites.

Russian-made catalysts are key to sustaining the technological self-sufficiency of the Company’s refining segment reducing its reliance on foreign technologies. In 2019, Ros-Kat specialising in catalyst production and the Ufa Refinery conducted industrial tests on the first batch of hydro treating catalysts suitable for Euro5 compliant diesel fuel. This is a unique hydro treating agent capable of fully replacing its foreign peer for the Russian refining industry. The tests proved that Rosneft’s proprietary catalyst was fit for the production of diesel fuel compliant with all the latest technical requirements.

In 2019, the Novokubskhuyz Catalysts Plants launched Russia’s first-ever advanced pilot testing facility for hydro treating catalysts. The new facility will help test technologies to manufacture catalysts for oil refining and petrochemical processes with a view to ramping up large-scale production. Until now, Russia has been lacking such technological capabilities.

The cutting-edge platform will fast-track the implementation and commercialisation of Rosneft’s R&D initiatives focusing on catalysts and catalysts for the said processes.

The development of proprietary research-intensive specialist software is another strategic focus area for the Company. As of now, Rosneft’s production assets operate five software suites which model field geology (RN-Geoim, RN-KIM), simulate hydraulic fracturing operations (RN-GRID), manage field development (RN-KIN) and model drilling operations of any complexity (RN-Sigma).

In 2019, RN-Geoim added software modules to build simple geological models while RN-KIM designed modules for hydrodynamic modelling at large fields.

Over the year, RN-Yuganskneftegaz leveraged RN-GRID models to perform another multi-stage hydraulic fracturing operation on a horizontal well in an ultra-low-permeability reservoir at the Bazhevoye suite. With 610 tonnes of proppant injected, the Company obtained oil flow of ca. 6.5 t per day per stage, which is unprecedented in the Russian oil and gas industry. By now, RN-GRID has designed more than 8 thousand full-scale hydraulic fracturing operations, with R&D efforts ongoing to develop new functionalities in line with the newest challenges.

RN-KIN software suite covers 100% of operational tasks related to field development. The Group Subsidiaries are now testing the industrial version of RN-Sigma suite (geomechanical modelling of borehole stability while drilling). This software enables the Company’s engineers to capitalise on wider applications of geomechanical calculations for borehole stability and reduce risks while drilling directional and horizontal wells.
Fostering the Industrial Cluster

To ensure its technology self-sufficiency and implement localisation projects, Rosneft formed the Industrial Assets group (the Industrial Cluster) having technological and logistics capabilities to manufacture, maintain and repair equipment (including that designated to substitute imports) for the Company’s needs in a timely manner.

In 2020–2025, the Industrial Cluster will be focusing on:

- establishing R&D and manufacturing infrastructure to support re-engineering, innovations, and import substitution;
- running pilot projects and tests in line with the Company’s Target Innovative Projects;
- supplying capacities to support localisation projects in cooperation with foreign technology partners as well as joint ventures with Russian R&D centres and enterprises.

Industrial and Shipbuilding Cluster in the Russian Far East

Upon instruction from the Russian President, Rosneft is ramping up a shipbuilding cluster in the Far East to foster the domestic shipbuilding industry and energise the development of the country’s continental shelf. Zvezda Shipbuilding Complex in Bolshoy Kamen will be the core shipyard and Russia’s first-ever facility for the construction of large-capacity vessels.

Importantly, the shipyard will be manufacturing icebreakers and reinforced ice-class vessels, along with LNG-powered vessels. The shipyard boasts a unique set of competencies unparalleled among both domestic and leading global peers.

To cater to the needs of import substitution and equipment localisation, an industrial cluster for shipboard equipment and components is emerging around the shipbuilding complex.

In 2019, the first and the second phases of the shipyard construction saw a huge volume of works:

- 6.5 mcm dredged to deepen the waterways;
- over 700 th. cub m of soil dumped;
- over 36 th. cub m of concrete poured;
- over 16.5 th. sq m of construction sites developed;
- ca. 12 kt of steelworks assembled;
- 3.2 kt of sheet piles and 7 kt of piles installed.

In June 2019, the second Goliath giant crane with a lifting capacity of 1.2 kt was delivered and assembled at the dry dock, a unique hydraulic structure sized 485 x 114 x 14 m. The giant crane will help build the majority of existing and prospective vessel types with virtually unlimited tonnage and launching weight. With the construction works being ahead of schedule, the dry dock will be commissioned in 2020, three years earlier than planned.

In 2019, Zvezda and Samsung Heavy Industries Co. Ltd. (Republic of Korea) established a joint venture to manage projects for the construction of shuttle tankers with a deadweight from 42 to 120 kt at Zvezda Shipbuilding Complex. The joint venture relies on the agreement on exchanging experience in the design and construction of shuttle tankers signed in 2018. Samsung Heavy Industries will hand over base and detailed design documentation to the Zvezda Shipyard, and give a helping hand in developing working design documentation for shuttle tankers together with Lazurit Central Design Bureau.

In 2019, Zvezda signed contracts for the construction of nine vessels, thus providing for large-capacity vessels to be made in the Primorye Territory.

Sapphire Applied Engineering and Training Centre

Steerable Thrusters

An industrial cluster for shipboard equipment and components is emerging around Zvezda Shipbuilding Complex. The cluster accommodates a workshop to manufacture steerable thrusters for ice-class vessels, including gas carriers.

VRK Sapphire Plant, a joint venture of Rosneft and General Electric, manages the project to develop and localise the production of steerable thrusters, a key component of marine electric propulsion systems.

With the first construction phase completed, VRK Sapphire Plant was approved for commissioning in 2019 and started manufacturing 7.5 MW steerable thrusters for the third and fourth reinforced ice-class support vessels which are being built for the Company at Zvezda Shipbuilding Complex.
Supplier and Contractor Relationships

Rosneft is one of the largest consumers of goods, works and services among Russian private and state-owned companies. The annual spend by the Company (Rosneft and Group Subsidiaries) on externally procured goods, works and services amounted to RUB 2.6 trln.

The Company has persistently high need for goods, works and services, which is a powerful growth driver for the Russian economy.

The Company’s success is therefore largely underpinned by long-term relationships with suppliers and contractors. Long-term contracts provide an important foundation for building long-lasting relationships. In 2019, long-term contracts accounted for over 70% of the Company’s production programme.

Placing long-term orders facilitates stable development of the oil and gas industry, the machine building industry, the maintenance services market, help create jobs in all industries and drive innovation.

The Company keeps implementing the category management in procurement, including by leveraging category procurement strategy as its key enabler.

In 2019, Rosneft developed and adopted 18 category procurement strategies as part of its continued efforts to increase the share of its needs covered by category procurement strategies. The business plan for 2020 provides for 48% of its needs to be covered by existing strategies.

As part of its work to implement the category management in procurement and develop a framework for long-term qualification of reliable counterparts, the Company systematically reviewed all inventories, which helped identify key expensive and critical inventories based on the materiality, importance for business and procurement frequency. Rosneft applied common definitions and approaches to harmonise and organise qualifications and requirements, and introduce basic criteria for all inventories as well as specific criteria and individual requirements for certain product types as the case may be.

To establish long-standing relationships with suppliers, the Company’s internal regulations provide for long-term (up to 18 months) accreditation which helps considerably reduce costs incurred by potential suppliers participating in procurement procedures. Suppliers may obtain accreditation both prior to and in the course of procurement procedures.

As a vertically integrated holding company, Rosneft relies on the consolidated procurement of goods, works and services for the Group Subsidiaries with a view to enhancing its procurement efficiency, all in line with recommendations of the federal executive bodies. Rosneft’s procurement is centralised at 59.4%, (including 49.3% handled by the Head Office and 10.1% sourced regionally. When choosing suppliers and contractors, the Company adheres to the principles of openness, competitiveness, reasonableness, effectiveness, and non-discrimination. These principles are set forth in the applicable Russian laws (specifically Federal Law No. 223-FZ on Procurement of Goods, Works and Services by Certain Types of Legal Entities dated 18 July 2011) and laid down in the Regulations on Procurement of Goods, Works and Services binding on both the Company and the Group Subsidiaries.

To ensure procurement transparency, increased competition and equal access for market participants, the Company manages its procurement procedures electronically via TEK-Torg’s electronic trading platform. The Company conducts virtually all competitive procurement procedures electronically.

Rosneft achieves maximum transparency by publishing its procurement plans, information on procurement procedures and their outcomes, as well as on contracts awarded and performed (information on over 99% of the Company’s procurement procedures is made publicly available on the Internet).

To increase procurement transparency via TEK-Torg’s electronic trading platform (Rosneft’s section), in 2019 the Company and the Group Subsidiaries initiated more than 102 thousand procurement procedures with a total initial (maximum) value of RUB 2.1 trln and over 203 thousand suppliers registered (cumulatively since the platform’s inception).

To enhance transparency and efficiency of minor procurement (worth below RUB 500 thousand), TEK-Torg’s electronic trading platform launched Corporate Internet Shop. It helps boost control and streamline the Company’s internal business processes as well as those of the Group Subsidiaries leading to shorter times, lower operating costs and lower procurement prices due to a better competitive environment.

As a result, the Company managed to attract new counterparties (mostly small and medium-sized enterprises (SMES)). The Corporate Internet Shop has more than 14 thousand suppliers registered, including over 10 thousand SMES. In 2019, the Company published more than 29 thousand procurement procedures with completed procurement worth over RUB 2 bln.

The Company is committed to promoting cooperation with SMES. Rosneft consistently implements initiatives prescribed by the Russian Government to provide SMES with a wider access to its procurement procedures. The Company met the target for the share of procurement from SMES as stipulated by Resolution of the RF Government No. 1352 dated 11 December 2014. In 2019, the total value of contracts made between Rosneft and SMES (including those made by the Group Subsidiaries on behalf of Rosneft), including payments due in 2019, amounted to RUB 16.3 bln, with RUB 4.1 bln worth of contracts awarded as a result of direct procurement from SMES.

It is worth noting that SMES account for over 70% of potential suppliers accredited with Rosneft.

The Company continues with the Import Substitution and Equipment Localisation Programme for Rosneft’s Needs for 2019-2021 with an outlook for 2028. The Regulations on Procurement of Goods, Works and Services provide for the Company’s right to prioritise Russian-made goods, works and services where and as required by the applicable laws.

The Company is setting up a Shared Service Centre with a view to centralising and pipelining routine procurement operations and category management functions. Starting from 2019, regional inventory management and quality control functions have been transferred to the Shared Service Centre in line with the approved approach.

The Company engaged both experienced experts and young specialists to form a talent pool for the Company. The Company partnered with the Samara State Technical University, Samara’s flagship in higher education, to develop a training course in Procurement Chain Management for the Oil and Gas Industry seeking to attract and teach young professionals.

As part of the Rosneft-2022 Strategy, the Company is establishing a blockchain-based framework for engagement with its suppliers. During the first half of 2019, Rosneft developed and approved target business processes, a roadmap for the implementation of a supplier engagement framework, a project schedule and an IT prototype.

The Company successfully robustified its accounting and inventory management processes. Rosneft relies on automation tools to unlock resources previously engaged in routine and algorithm-driven operations so as to:

– refocus its employees on more sophisticated tasks
– mitigate risks of errors (human factor) while managing big data
– exponentially accelerate routine operations supporting a 24/7 continuous workflow.

The Company seeks to further develop robotic technologies.
Research, Design and Innovations

Research and Innovations

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

The Programme aims to achieve the Company’s strategic goals drawing on its strategic priorities, such as efficiency, sustainable growth, transparency, social responsibility, and innovations.

The Programme provides for a range of activities with a focus on:

- development and deployment of new technologies;
- development, production, and launch of new world-class innovative products and services;
- support of the Company’s modernisation and technological advancement through high-impact improvements in key performance indicators for business processes;
- enhancement of the Company’s shareholder value and competitive edge in the global market.

Total R&D costs in 2019 amounted to RUB 30 bln

Target Innovative Projects

In the reporting year, Rosneft continued with the implementation of R&D results and the protection of intellectual property rights. The R&D efforts in 2019 resulted in 61 intellectual property applications submitted by the Company.

Key Achievements in 2019

Exploration and Production

- The Company successfully tested the technology for using horizontal production and injection wells with multi-stage hydraulic fracturing to develop low-permeability reservoirs at a pilot area of the Priafrotmoe field. The use of horizontal wells as injection ones (for reservoir pressure maintenance) proved to be effective:
  - the injectivity index of horizontal wells was, on average, three times higher than that of vertical wells;
  - the fluid flow rate in the horizontal wells (for reservoir pressure maintenance) in the pilot area decreased at a slower pace as compared with the standard development technology.

Unlike the standard development scheme (one horizontal production well and two directional injection wells), the new scheme is based on one horizontal injection well instead of two directional injection wells. This results in both cost savings and higher oil production. RN-Yuganskneftegaz continued to deploy this technology at the Protobskoye field, with over 80 wells drilled in total.

- RN-Yuganskneftegaz continued to deploy the newly developed multi-stage hydraulic fracturing technology at the Salymskoye field, having performed a nine-stage hydraulic fracturing operation on a horizontal well in an ultralow-permeability reservoir at the Bazhenvo suite (U65O formation). With 610 tonnes of proppant injected, the oil flow was recorded at 6.1 t per day per stage, which is a significant result for the Bazhenvo suite. In 2019, RN-Yuganskneftegaz also updated the map of development potential categories for the Bazhenvo suite based on which it plans to drill over 30 horizontal wells with multi-stage hydraulic fracturing in 2020–2022.

- In 2019, we finalised our unique technology for gas production from the Bereozovskaya suite. The distinctive feature of the technology is that it allows fissure logging while drilling. The logging outcomes can be used to identify the optimal layout of hydraulic fracturing ports, contributing to more effective development of the Kharkarlykoye field. A patent application has been filed.

- Rosneft partnered with the National Intellectual Development Foundation to test the integration technology for multi-scale studies of the Jurassic high-carbon formation which helped discover a new gas deposit at the Vostochno-Unorskoye licence area and estimate movable oil resources of the Severo-Demiyanskoye area amounting to over 100 mmt.

- The Company developed technologies for core analysis on hard-to-recover reserves which help determine relative permeabilities and displacement efficiencies in low-permeability reservoirs, relative permeabilities in poorly consolidated core samples, and residual oil saturation in gas zones (oil rings). Once implemented, the economic effect is expected to exceed RUB 10 bln for gas and gas condensate deposits in the Yamalo-Nenets Autonomous Area and the Khanty-Mansi Autonomous Area – Yugra.

Research-intensive Technology Software

- New software modules were added to RN-SMT, an integrity monitoring system for offshore pipelines. The system aims to fully digitalise all processes related to pipeline operations, reduce operating risks and inform management action. Going forward, RN-SMT will make into a single corporate software suite capable of fully supporting pipeline operations.

- To improve the field design accuracy and select the most appropriate hydrocarbon extraction technologies, Rosneft makes extensive use of field models created by its proprietary RN-KIM hydrodynamic simulator. This advanced software has been widely exploited by the Company for over five years and is adapted to the geological and operating conditions of the fields. The Company is developing. In 2019, we released a new version that allows us to quickly (using graphics processing units or computer clusters) create models for oil and gas condensate fields that require computation-intensive analysis. As a result, about 85% of digital field modelling works were performed using RN-KIM. Going forward, the proprietary simulator will not only cover 90–95% of the Company’s needs for hydrodynamic modelling, it will also provide for artificial intelligence applications in field development planning.

- RN-KIM hydrodynamic simulator added software modules for multicomponent filtration, optimisation algorithms for autoadaptive hydrodynamic modeling, and support for graphics processing units (GPUs). In 2019, over 70% of hydrodynamic models in the Company were created with RN-KIM. Moreover, the system was provided to the relevant departments of the leading universities which offer training to Rosneft’s employees. The proprietary simulator is expected not only to cover 90–95% of the Company’s needs for hydrodynamic modelling, but also to provide for artificial intelligence applications in field development planning.

- RN-Geosim added software modules for building vertical and tilted faults for structural surfaces, visualising seismic cubes, multipoint statistics, basic reports on geological models, and parallel computations. RN-Geosim is anticipated to cover up to 80% of the Company’s needs for geological modelling.

- RN-Simtep added software modules for modelling oil and gas production processes. Going forward, RN-Simtep will cover up to 80% of the Company’s needs for production process modelling and eventually tap into oil refining and petrochemicals processes.
The Company developed a concept for IN-PetroLog, corporate software suite for interpretation of core samples and well log data, together with a IN-PetroLog prototype. The Company intends to drastically reduce its dependence on foreign vendors by developing proprietary petrophysical software and integrating it into its digital space.

Another important highlight was Rosneft Seismic Challenge, an open championship in seismic data analysis based on machine learning. The event attracted about 500 teams from nine countries. The task was to offer an automatic method for correlating reflecting horizons throughout the seismic cube based on image segmentation. The solutions developed by the participants will help automate manual processes in seismic exploration. The best algorithms and concepts will be prepared for pilot testing as a seismic module of the corporate software.

**Arctic Shelf**

The Kara Summer 2019 research expedition covered the Barents, Kara, Laptev and Chukchi seas providing for the maintenance of measuring infrastructure deployed by the Company in the Arctic, and hydrometeorological observations. The Company will rely on its results to design facilities and perform operations across its license areas on the Arctic shelf.

Meteorological surveys were conducted in the area of the Khanty temporary field base (the Khanty Bay, the Laptev Sea). The data collected in the course of meteorological and astronomic observations will be used to develop provisional operating conditions for the Khanty Bay licence area.

The Company developed a concept for a dome-type special-purpose facility to contain and clean up emergency oil spills on the shelf, including in deep-sea areas and in the Arctic. It is intended to gather oil leaking from damaged equipment and to pump it to surface. It excels in containing subsea oil spills virtually anywhere, within a wide range of depths and ice conditions. The project won an award from the International Contest for R&D and Innovations for the Development of the Arctic and the Continental Shelf.

The Company developed surface-active agents, unprecedented in Russia, which can be used to clean up emergency oil spills at sea due to their oil dispersing capacity. These consist of low-toxic components made in Russia.

**Associated Petroleum Gas Monetisation**

Rosneft developed a laboratory-level GTL technology which allowed for mixing synthetic and mineral oil to produce commercial petroleum products compliant with the existing quality standards. The Company engaged international expertise to attest the GTL feasibility and produce recommendations for its pilot testing.

Rosneft partnered with the National Intellectual Development Foundation to design, manufacture and deliver a pilot APG desulphurisation unit based on microporous membranes for the Garshinskaya preliminary water discharge facility at Orenburgneft, with pilot testing commenced and continuing into 2020.

**Oil Refining and Petrochemicals**

Rosneft developed a laboratory-level technology to regenerate xylenol and butylated fire-resistant oil wastes intended for high-powered turbines, including at nuclear power plants. Following regeneration, fire-resistant oil can be used to wash lubrication systems of both new and repaired turbines.

The Company successfully tried the hydrogenation technology for converting acetone into isopropanol at its pilot testing facility and ran endurance tests on a catalyst batch used in the process.

Rosneft developed a laboratory-level suspension technology to produce EPDM rubbers, including the composition and specifications of a catalyst used in the process. Once implemented, the project will help optimise the existing EPDM production in terms of operating costs and product quality.

The Company arranged for independent tests at its refineries with a view to streamlining dispersant and depressor additives for diesel fuels. It also developed the composition thereof and a process to produce the same.

Rosneft developed a laboratory-level technology to produce isopropylnitrile using heterogeneous catalysts. It also developed the composition and a process to produce heterogeneous catalysts for benzene alkylation with propylene and transalkylation. The Company intends to revamp its existing isopropylnitrile facilities to reduce production costs and increase margins.

Rosneft ran endurance tests on a pilot batch of hydrotreating catalysts for diesel mixtures which proved it comparable to 120RN catalyst’s high capacity while converting diesel mixtures with a sulphur content of 1.4% into diesel fuel containing less than 1 ppm of residual sulphur.

The Company developed and patented Russia’s first-ever additive package for all-season hydraulic oils. The heavy-loaded pumping tests proved that Rosneft Gidroitec HVLP 46 hydraulic oil with this additive package was on par with foreign peers in terms of quality. Rosneft Gidroitec HVLP 46 with a domestic additive package became Russia’s first hydraulic oil certified by a foreign equipment manufacturer, Bosch Rexroth. The additive package is set to substitute for imports currently used by the Company and give it a competitive edge as a producer of energy-efficient HVLP hydraulic oils for industrial and mobile machinery.

**Polymeric Materials for Oil Production**

The Company continued to test its newly developed proppant made of polymeric materials, with four full-scale (equal in volumes to the use of conventional ceramic proppant at adjacent wells) hydraulic fracturing operations performed at the Samotlor field. These tests affirmed the high performance of ultra-lightweight polymeric proppant based on polydicyclopentadiene (PDCPD) without causing fractures to move upward (without breaking thin barriers between water-saturated formations and the target formation), also proving that the PDCPD-based proppant could be injected with low-viscosity fluids (linear gel, salting liquid) to the formations at the Samotlor field. The Company will rely on this proppant to effectively develop previously unprofitable and thus undeveloped hydrocarbon deposits.
Adaptation and Adoption of Advanced Technologies

As part of its efforts to adopt promising efficient technologies developed by Russian and foreign companies, the Company arranged for testing, adaptation, and adoption of innovations while running pilot projects in 2019. These tests helped evaluate their key features and conduct feasibility studies as to their fitness for the geological and operating environment of the Company’s exploration and production subsidiaries.

In 2019, 152 technologies were put on test by 22 Group Subsidiaries. A total of 511 tests were conducted as part of pilot projects, resulting in 299 kt of incremental oil production. The Company and its relevant business units review the results, assess the economic viability of implementing proposed solutions, and prepare plans for their roll-out and implementation.

As part of the implementation programme, the Company implemented and rolled out 116 new technologies which proved their viability following prior tests. Rosneft spent RUB 3.2 bn to deploy and roll out 6.7 thousand solutions.

Pilot projects

<table>
<thead>
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<th>Quantity</th>
<th>Total incremental oil production, kt</th>
<th>Total economic effect, RUB mln</th>
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<tbody>
<tr>
<td>Technology testing</td>
<td>297</td>
<td>150</td>
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<tr>
<td>Technology deployment</td>
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As part of its efforts to implement the Target Innovative Projects, the Company signed over 50 licence and sublicence agreements for the transfer of its software and solutions (RN-KIN, RN-GRID) and the manufacturing process for produced water treatment units worth over RUB 90 mln, including to provide training to students at the industry-related departments of the leading Russian universities.

In 2019, the combined proven economic effect from the Target Innovative Projects implemented over the last three years exceeded RUB 36 bn.

Corporate Research and Design Complex

Rosneft includes 29 corporate research and design institutes with over 16 thousand highly qualified professionals, of which 5% hold Ph.D. and research degrees. The institutes opened 43 specialised establishments that act as centres of competence for specific and complex operations.

The amount of work performed by these institutes more than doubled, driven by the growing need of the Company’s businesses and services. The number of designs and estimates provided for the Company’s capital construction projects increased significantly, the number of innovation patents rose by 30% while the quality of services improved considerably (by 5% annually).

To ensure technological security, systematic import substitution and cost reduction, the corporate institutes develop a full range of proprietary research software solutions in geology and exploration (RN-KIN, RN-KIN, RN-GRID, RN-Sigma and more) that are now used both within and beyond the Company. The share of the Company’s projects that rely on its proprietary software has doubled to 50% compared to 25% in 2016.

The development and roll-out of a standard design system enabled the Company to provide standard design solutions to 83% of its facilities (35% in 2016). As a result, the Company expects to save over RUB 31 bn in capital expenditure in 2018-22.

Thanks to the in-house service that was built from scratch using the resources of the corporate institutes, Rosneft has become the largest Russian company providing geological support for drilling operations both by the number of wells supported annually and by the quality of geosteering service (including for multilateral complex wells). As a result, the Company moved away from using third-party services and saved more than RUB 12 bn.

Digital Transformation

Focus on Digital Transformation and Technology

Achievements in 2019

2019 saw a total of 24 concepts and 18 prototypes developed and 28 digital solutions tested by the Company’s businesses and functions, specifically Exploration and Production, Oil Refining, Commerce and Logistics, Regional Sales, Gas Business, Petrochemicals, HR Management, and Capital Construction. Some of these solutions are now up and running.

Exploration and Production

- The Company launched the Digital Field project at Bashneft’s Ishbekvoye field, the industry’s first solution covering all core processes from oil production to logistics. The newest digital technologies will make a real difference at the Ishbekvoye field in terms of production and economic gains. The project will help increase the number of remotely controlled facilities by nearly 60% and energy efficiency by 5% and reduce logistics costs by 5%.
- Vazyaginneftegaz successfully deployed a computer vision technology based on artificial intelligence algorithms which automatically scans hazardous areas in real time to identify whether people are present there and whether they use protective equipment, and immediately notifies of emergencies. If any, Rosneft arranged for its live demonstration at the 5th Exploration and Production Technologies Conference.
- Rosneft created detailed 3D models for six production assets (RN-Uvatneftegaz, Slavneft-Krasnoyarskneftegaz, RN-Vankor, Kondaneft, Verkhnekholmskneftegaz, and Vostokneftegaz). The models will help create a common offshore monitoring environment using advanced visualisation and digital 3D twins of physical assets. Its prototype was also presented at the 5th Exploration and Production Technologies Conference.
- The newly developed drone monitoring system successfully passed flight tests, including in adverse climatic conditions. It consists of a proprietary unmanned aerial vehicle which can be equipped with a video camera, IR imager or gas sensor, as well as a charging and heating station and flight management software. The system helps inspect infrastructure facilities and pipelines in a safer and easier way. It relies on a computer vision technology to automatically scan protected areas to identify whether people or machinery are present there, and notify of oil spills, if any.
- Samotlorneftegaz successfully deployed a machine learning technology to predict electrically-driven centrifugal pump failures so as to better manage supply chain and optimise inventory. The solution based on artificial intelligence and neural networks will contribute to much more accurate prediction of equipment failures so as to better plan procurements.
- New promising technologies were also identified and tested, including a prototype to manage repair teams which was titled the Digital Well Servicing and Workover Teams. The Company ran preliminary tests on a telemonitoring solution to detect gas leaks using cutting-edge laser gas sensors.
Gas Business

- The Gas Business Digital Transformation Programme includes 17 initiatives and consists of two parts: 12 gas-specific initiatives and five Exploration and Production initiatives to be adapted for its needs. Sibneftegaz and Rospan International were assigned to test new technologies. The Company's first digital gas field concept was developed and approved in 2019.
- Sibneftegaz successfully tried an integrated solution to optimise gas production at the Pyreynoye gas condensate deposit using machine learning techniques. It also developed a prototype of an integrated field model (ODI), getting ready for pilot testing.
- Sibneftegaz successfully tried an IT platform supporting a digital twin for the Pyreynoye field. It also developed a prototype allowing for 3D visualisation (Mitra), getting ready for pilot testing.
- Sibneftegaz approved the concepts and started testing initiatives focused on real-time control over wells and infrastructure facilities, with an IR imager installed at a gas well pad to detect gas leaks (Atlas), online control over well-operations and real-time processing of gas well surveys, using machine learning techniques (Boreas), maintenance based on predictive analytics for gas gathering and pre-transport treatment equipment (Thor), a smart analysis prototype for gas assets (Amur), which provide for the management’s access to up-to-date production information and advanced and predictive analytics tools via mobile devices.
- Rospan International started testing unmanned aerial vehicles to monitor equipment health, detect failures, unmanned aerial vehicles to monitor abandoned and suspended wells (Hermes).

Oil Refining

- Saratov Refinery implemented prototypes of a multi-faceted energy efficiency monitoring and control system and a solution computing energy mix for better energy consumption. To enhance health and safety, it also prototyped personnel monitoring technologies to detect and control personnel whereabouts within the refinery in real-time.
- Bashneft-Ufannefteykim created a prototype of a business process monitoring and analytics system to facilitate prompt and informed management decisions.
- Syzran Refinery successfully put into operation a system for optimised mixing of heavy petroleum products. It also prototyped personnel monitoring technologies to detect and control personnel whereabouts within the refinery in real-time.
- Ryazan Refinery tested explosion-proof mobile devices to control equipment health, detect failures and monitor inspection routes. It also prototyped 3D scanning technologies for maintenance and repair visualisation. As part of its pilot project to implement GE Smart Signal, Fleet Management and GE Meridian, Ryazan Refinery completed design and development, getting ready for pilot testing.
- Rosneft developed digital solution concepts for predictive monitoring and computation of corrosion rates, smart leak control, on-site wireless data transfer solution template, virtual boardrooms, centralised monitoring and optimisation of alarm systems, industrial 3D printing, video surveillance of facilities and pipelines using IR images to control operating environment and failures.

Regional Sales

- As part of its Retail Mobility Development of New Retail Technologies project, Rosneft launched a service of fuel payments via a mobile app at more than 120 of its BP-branded oil depots. To enhance its retail services, the Company partnered with banks to introduce mobile app allowing customers to pay for fuel without leaving their car.
- YN-Moscow launched a dedicated self-service terminal to improve customer experience; save their time while paying for fuel and increase the efficiency of its automatic filling stations, which was part of the project titled the Automatic Filling Station: Development of a Solution to Upgrade Low-Efficiency Filling Stations to be Transformed into Automatic Filling Stations.
- RN Card introduced a virtual fuel card for all B2B customers to offload its offices and optimise its costs. This solution allows customers to issue a virtual fuel card via their personal account was deployed by more than 40 marketing and distribution companies.
- Rosneft developed a prototype of a dedicated self-service terminal issuing fuel cards which performs customer identification and keeps track of issued fuel cards. The Company developed a prototype of an automated monitoring system keeping track of fuel suppliers’ inventories on top-end digital platforms to ensure end-to-end supply chain control from oil depot to fuel nozzle, promote fail-safe controls over petroleum product losses and reduce fraud risks related to petroleum product management at filling stations and oil depots.
- Rosneft implemented a blockchain-based electronic workflow prototype to better manage relationships with B2B customers and suppliers. It relies on a trusted EDI environment. This solution provides for better management of complementary goods supplies to its oil depot filling stations.

Petrochemicals

- Novokuibyshevsk Petrochemical Company tested a safety monitoring and employee control technology using a combination of computer vision, neural networks and conventional video analytics. It intends to develop this initiative in cooperation with HSE teams.
- Novokuibyshevsk Petrochemical Company developed a mathematical model of a gas fractionation unit whereabouts, personal protective equipment, employee health and physical activity, and environmental conditions. It intends to develop this initiative in cooperation with HSE teams.
- Ufaorgsintez tested a hardware and software system to control personnel whereabouts, personal protective equipment, employee health, and employee control technology using a combination of computer vision, neural networks and conventional video analytics. It intends to develop this initiative in cooperation with HSE teams.

- As part of its Retail Mobility Development of New Retail Technologies project, Rosneft launched a service of fuel payments via a mobile app at more than 120 of its BP-branded oil depots. To enhance its retail services, the Company partnered with banks to introduce mobile app allowing customers to pay for fuel without leaving their car.
Commerce and Logistics

- As part of its efforts to digitalise its fleet, Rosneft successfully implemented a Digital Fleet prototype based on digital scenarios, specifically Failure Detection in Vessel Operations, Smart Monitoring of Cargo Operations, following which it decided to initiate the respective pilot project.
- The Company created the Digital Core for Commerce and Logistics and developed description of target business processes with a book of flowcharts, the list of milestones, matrix of business roles, register of process and policy changes, design concept, prototype documentation package, and the list of improvements required for the second phase of the Full-Scale Web Resource for Commerce and Logistics project.
- As part of the Implementation of a Digital CRM Solution for Trading digital scenario, the Company initiated the respective project, established financial and technical requirements, selected the target platform, and approved the Terms of Reference.

HR Management

- The Company is finalising tests on the Employee’s Personal Account digital scenario based on a mobile app which is set to enhance and facilitate online interactions between employees and the HR function.
- The tests on the HR Bot digital scenario were completed. Rosneft’s employees can now use their workstations and mobile corporate devices to engage in Q&A sessions on HR matters via a dedicated software application, thus providing for fast and efficient communication in a consistent manner.
- The Company continues to test a digital scenario of a modular and contextual self-education platform. Currently, the solution is available in the form of a mobile app for Android and iOS, as well as a web version. It provides employees with uniform content in the form of advisory videos.
- The Company started working on the Digital Tools for Headcount Control digital scenario to source analytics to better manage headcount across its business units. It aims to develop headcount limits using smart systems which process big data in real time.

Capital Construction

In 2019, the Company developed the IT Strategy based on the Programme of IT Projects for Capital Construction Automation within the Remit of the Department of Methodology and Control in Capital Construction in 2019–2021. It sets out the digital transformation priorities to improve the accuracy of project planning and risk assessment. As part of the strategy, the major focus was on the two digital initiatives: (1) the End-to-End Project Planning Efficiency Monitoring and (2) the Construction Delay Risk Prediction. The initiatives will help the Company identify schedule risks in a timely manner and predict delays in construction and installation operations by contractors based on the contractor’s history with the Company.

Following the review, the Company decided to deploy the technology, with pilot testing to commence in 2020.
05

Corporate Governance
Message from the Chairman of the Board of Directors

In 2019, the Company maintained its focus on shareholder return growth, paying out record-high dividends while also reducing leverage.

Amid volatility in international financial markets and elevated uncertainty in global affairs, the Board of Directors and the Company’s management are committed to ensuring Rosneft’s ongoing value appreciation in the long term and to helping the shareholders thrive and prosper.

On 19 December 2019, the Board of Directors approved Rosneft’s financial and business targets for 2020–2021. The key objectives are to develop production and diversify markets while ensuring a balanced financial structure and an unwavering focus on social responsibility.

We have plans to launch major oil and gas exploration and production projects, upgrade oil refining capacities, and move forward with digitalisation and innovations. Operating efficiency improvements and expansion of our sales geography remain our priorities.

Responsibility is a pillar of sustainable development, so the Company takes active part in global discussions on reducing greenhouse emissions and liaises with government bodies and industry peers. In 2019, we developed corporate approaches to carbon management, making sure they were aligned with the UN Sustainable Development Goals. Rosneft also joined the Guiding Principles on Reducing Methane Emissions across the Natural Gas Value Chain – an initiative of international oil and gas majors. Social responsibility is an ongoing area of focus for the Board of Directors.

We aim to continue providing social guarantees for our personnel, improving our health, safety and environment performance, and fostering relations with local communities across our geographies.

Last year, the Board of Directors engaged Ernst & Young as an independent advisor to look into the Company’s management practices. The professionalism of Rosneft’s Board of Directors won strong recognition from the external advisor, but our team still sees areas for improvement. In particular, we intend to hold more in-person meetings of the Board Committees and enhance our succession policy.

Doing well by our shareholders and growing the Company in a sustainable manner remain the long-term priorities for the Board of Directors and the management. To this end, we are targeting a rise in shareholder return vs 2019 as one of our goals in financial and business performance for 2020–2021.

I have every confidence that with diligent planning, ongoing review of internal efficiency, and a focus on business, counterparties, employees and partners, the Company is perfectly positioned to continue delivering on the Rosneft–2022 Strategy.

Key Corporate Governance Principles and Improvements in 2019

The Company’s leading market position, both domestically and globally, and its commitment to long-term sustainable value creation make it of the utmost importance to build a corporate governance framework which will ensure efficient communication and cooperation between the Board members, top managers, employees, business partners, and local communities across the Company’s footprint.

![Key Corporate Governance Principles and Improvements in 2019](image)

<table>
<thead>
<tr>
<th>Key Corporate Governance Principles and Improvements in 2019</th>
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<tr>
<td><strong>The Company’s corporate governance aim</strong> is the long-term</td>
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<td>sustainable growth of its shareholder value.</td>
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![Image of Rosneft logo](image)
Guiding Principles for the Company’s Governing Bodies

**COMMITMENT TO SHAREHOLDERS**

The Company has implemented the best corporate governance practices and complies with the Bank of Russia’s Corporate Governance Code, ensuring:

- equal and fair opportunities for its shareholders to exercise their legal rights;
- strategic management by an efficient and competent Board of Directors, accountable to shareholders, with a sufficient number of independent directors sitting on it;
- efficient risk management and oversight over material corporate actions, including those in controlled entities;
- full disclosure of the Company’s activities most relevant to shareholders and investors.

A substantial share of the Company’s net income is distributed as dividends,

RUB 283 bln was paid to the shareholders in 2019

To support efficient communication with shareholders, the Company has launched Shareholder’s Personal Account.

**INNOVATION AND GLOBAL LEADERSHIP**

As part of its continuous improvement framework, the Company increases its technological capabilities, invests in new technology, and strives to become a global leader.

In 2019, Rosneft demonstrated new developments in IT, refining, exploration, and production.

**FAVOURABLE ENVIRONMENT FOR SUSTAINABLE GROWTH**

The Company cares about its people—employees, their families, members of local communities across its footprint.

The Company takes care of the environment by introducing carbon management initiatives and implementing best waste management practices.

The Company supports scientific research, culture, and sports.

In its relationships with contractors and employees, the Company observes high ethical standards and respects human rights and freedoms, in accordance with generally accepted principles and international law.

**PARTNERSHIP WITH NON-GOVERNMENTAL ORGANISATIONS AND COOPERATION WITH STATE INSTITUTIONS**

The Company is a party to the UN Global Compact.

In 2019, it joined the global initiative on methane emission reduction.

The Company is among Russia’s largest taxpayers.

**PROTECTION OF SHAREHOLDERS AND KEY STAKEHOLDERS**

The Company implements the best internal control and risk management practices, develops technologies for industrial safety and information security, and ensures product safety, protecting its customers and contractors.

**Key Achievements in 2019**

A third-party assessment of the Board of Directors’ performance was conducted and its results were announced.

The Company fully executed the roadmap for incorporating key provisions of the Bank of Russia’s Code in Rosneft’s operations.

The Company’s compliance with provisions of the Bank of Russia’s Code improved since 2014 to reach 95.2%.

The minimum threshold as recommended by the Federal Agency for State Property Management (Rosimushchestvo) is 65% (for evaluation of compliance with the Bank of Russia’s Code see Appendix 3 to this Annual Report).

The Company approved new Internal Control Rules for the Prevention, Detection and Suppression of Illegal Use of Insider Information in Rosneft and/or Market Manipulation and held training sessions for employees.

The Company also launched the Corporate Governance analytical information system, a cutting-edge Russian software that is already helping shareholders exercise their key rights.
The Company operates a two-tier management model where management functions are split between the Board of Directors and executive bodies.

**Board of Directors**
The Board of Directors performs the two key functions:
- oversight of the executive bodies;
- strategic management of a joint stock company, which includes approving strategic documents and material transactions.

**Executive Bodies**
The law requires companies to have a sole executive body (Chief Executive Officer) who, in dealing with third parties, is authorised to act on behalf of Rosneft without a power of attorney.

The Company has established a collective executive body (Management Board) which is chaired by the sole executive body. Pursuant to the laws of the Russian Federation, the Management Board and its members are not authorised to enter into transactions and execute legal acts on behalf of the Company without a power of attorney.

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**GENERAL SHAREHOLDERS MEETING**
Rosneft’s supreme governing body responsible for decision-making on key matters of the Company’s business.

**INTERNAL AUDIT SERVICE**
Assesses the robustness and effectiveness of the Company’s business processes, identifies internal potential for improving the Company’s financial and business performance, including that of the Group Subsidiaries.

**CORPORATE SECRETARY**
Ensures the Company’s compliance with the applicable laws, the Company Charter and internal regulations, which guarantees protection of shareholders’ rights and legitimate interests. Organises the work of the Board of Directors and is responsible for efficient communication between the Company’s shareholders, governing and supervisory bodies, and management.

**CORPORATE GOVERNANCE DEPARTMENT**
A separate business unit exercising functions of the Corporate Secretary Head Office.

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**COORDINATING AND CONSULTATIVE BODIES**
Coordinating and consultative bodies of the Chief Executive Officer, established to conduct preliminary review of matters, address specific tasks, and implement new projects:
- Technological Council;
- Investment Committee;
- Budget Committee;
- Council for Business Ethics;
- Central Procurement Committee;
- Information Technology Expert Council;
- Expert Council for Quality and Safety of Oil Products;
- other coordinating and consultative bodies of the Company.

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**EXTERNAL AUDITOR**
A commercial organisation selected through a procurement process and approved by the General Shareholders Meeting upon recommendation of the Board of Directors based on the Audit Committee’s assessment.

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**EXECUTIVE BODIES**
Manage the day-to-day operations for the benefit of the Company and are accountable to the Board of Directors and the General Shareholders Meeting.

**Chief Executive Officer**
Sole executive body

**Management Board**
Collective executive body

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**COMMITTEES OF THE BOARD OF DIRECTORS**
Prepares recommendations for overseeing the Company’s accounting (financial) statements and other reports; ensuring reliability and effectiveness of internal control and risk management systems, compliance, and corporate governance; and safeguarding the independence and objectivity of the internal and external audit functions.

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**AUDIT COMMISSION**
Oversees the Company’s financial and business operations and performance of its governing bodies, executives, business units and functions, branches and representative offices.
General Shareholders Meeting

In 2019, the Company's supreme governing body met twice – for one Annual and one Extraordinary General Shareholders Meeting.

Annual General Shareholders Meeting

On 4 June 2019, Rosneft's Annual General Shareholders Meeting was held in St. Petersburg and was attended by holders of 51.39% of the Company shares. The meeting reviewed the performance for the period, approved the Annual Report, annual accounting (financial) statements and net income distribution for 2018 (including for dividend payment), elected the Board of Directors and the Audit Commission, determined their remuneration for the period, and approved the Company's Auditor.

Speaking on the agenda items were the Chairman and members of the Board of Directors, Chief Executive Officer, senior management representatives, and external analysts. The Chairman of the Board of Directors and the Chief Executive Officer answered questions coming from the shareholders and commented on the Company's position on key business matters.

For shareholders located in Rosneft’s cities of operation and at the Company’s production facilities, the meeting was broadcast live, enabling viewers to ask questions.

The broadcast was available in the cities and towns of Gubkinsky, Komsomolsk-on-Amur, Krasnodar, Krasnoyarsk, Moscow, Nakhodka, Neftekumsk, Nefteyugansk, Novy Urengoy, Samara, Tyumen, Tuapse, Ufa, Khabarovsk, Yuzhno-Sakhalinsk, and the Vankor field.

Extraordinary General Shareholders Meeting

As part of implementing its dividend policy, on 30 September 2019 the Company held an Extraordinary General Shareholders Meeting by absentee voting, which resolved to pay dividends for the first six months of 2019. The holders of 91.89% of the Company shares took part in the voting.

Rosneft’s Board of Directors

The Board of Directors is responsible for strategic management of the Company's operations for the benefit of all shareholders, and can exercise significant authority in the key areas of the Company's business in line with best practices.

The Board is made up of eleven directors from different countries. Foreign directors representing the Board perfectly fit the Company's international profile and bring a global perspective and broader set of skills and competences. The Board of Directors is diverse in terms of professional experience and qualifications and includes directors with background in public service as well as oil and gas, financial and other sectors.

Four out of eleven directors are independent, as recommended by the Corporate Governance Code of the Bank of Russia. The impartiality and balance of the Board are also ensured by directors nominated by significant minority shareholders – BP and Qatar Investment Authority.

Key competencies of directors

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<th>Strategy</th>
<th>Oil and gas</th>
<th>Corporate governance and M&amp;A</th>
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<tr>
<td>Ivan Glasenberg</td>
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</tbody>
</table>

1 Resigned from the Board of Directors on 4 June 2019.
Members of Rosneft’s Board of Directors

as at 31 December 2019

Gerhard SCHROEDER
Chairman, Independent Director

Involvement in other companies
Chairman of the Shareholders’ Committee of Nord Stream AG (Switzerland), Chairman of the Board of Directors at Nord Stream 2 AG (Switzerland), and Deputy Chairman of the Supervisory Board at Herrenknecht AG (Germany). Holds no shares of Rosneft.

IGOR SECHIN
Deputy Chairman, Chief Executive Officer, Chairman of the Management Board

Born in 1960
Graduated from the Leningrad State University in 1984, holds a PhD in Economics.
2000–2004: Deputy Head of the Russian Presidential Head Office.
2004–2008: Deputy Head of the Russian Presidential Head Office, Aide to the President.
2012–present: Chief Executive Officer, Chairman of the Management Board of Rosneft.
First elected to the Company’s Board of Directors in 2004. Chairman of the Board of Directors in 2004–2011. In November 2012, he was re-elected to the Board of Directors, and from June 2013 holds the position of the Deputy Chairman.

Involvement in other companies
Chairman of Boards of Directors of ROSNEFTGAZ, National Oil Consortium, and Inter RAO, Chairman of the Supervisory Board of CSKA Professional Hockey Club.

Holds 13,489,350 shares of Rosneft (0.1273% of the charter capital).

Involvement in non-profit organisations
Active in the areas of social, scientific, sport and education development, serves as Chairman of the Board of Trustees of SPbU RAS, Deputy Chairman of the Supervisory Board of the Russian Volleyball Federation, member of the Board of Trustees of Lomonosov Moscow State University, Chairman of the Boards of Trustees of the Russian Research Centre for Radiology and Surgical Technologies, National Intellectual Development Foundation, St Petersburg State University, Graduate School of Management of St Petersburg State University, St Petersburg Mining University, Church Construction Support Fund in Moscow, Russian Federal Public Academy of Education, Moscow State Institute of International Relations, Russian Geographical Society, Lomonosov Moscow State University High School, and Primakov Gymnasium, member of the Supervisory Board of the Global Energy Association (International research and energy projects), and member of the Supreme Supervisory Board of the Boxing Federation of Russia.

Holds 13,489,350 shares of Rosneft (0.1273% of the charter capital).

1 For more information about the positions held in the governing bodies of other organisations, see the Management Board section and the Company’s official website.
Committee Member of the Strategic Planning Committee, Faisal ALSUWAIDI of the Audit Committee, and Remuneration Committee, member of Directors, Chairman of the HR Department, Matthias WARNIG Deputy Chairman of the Board of Directors, Chairman of the HR and Remuneration Committee, member of the Audit Committee, independent director

Born in 1955. Graduated from the Bruns Leuschner Higher School of Economics (Berlin) in 1981. 1990-2006 was engaged in the financial activities of Dresdner Bank Group AG in Frankfurt, St. Petersburg, and Moscow and held the positions of President, Chairman of the Board of Directors, and Chief Coordinator of Dresdner Bank AG in Russia. 2006-2016: Managing Director of Nord Stream AG (Switzerland). 2008-present: Director of Interatis AG (Switzerland). 2015-present: Executive Director of Nord Stream 2 AG (Switzerland). Elected to the Board in June 2011. Involvement in other companies Member of the Supervisory Board of VTB Bank, member of the Administrative Council of GAZPROM Schweiz AG (Switzerland), member of the Board of Directors of Transneft, Chairman of the Administrative Council of Gas Project Development Central Asia AG (Switzerland) and Interatis Consulting AG (Switzerland). Holds 92,633 shares of Rosneft (0.0009 % of the charter capital).

Involvement in other companies Member of the Supervisory Board of VTB Bank, member of the Administrative Council of GAZPROM Schweiz AG (Switzerland), member of the Board of Directors of Transneft, Chairman of the Administrative Council of Gas Project Development Central Asia AG (Switzerland) and Interatis Consulting AG (Switzerland). Holds 92,633 shares of Rosneft (0.0009 % of the charter capital).

Born in 1954. Graduated from Merton Technical College (UK) in 1978. Between 1997 and 2010, he held the following positions: Chief Managing Director and Deputy Chairman of the Board of Directors at Qatar Fertilizer Company (QAFECO), Administrative Director at Qatar Petroleum. 2012-2018: President of Research and Development at Qatar Foundation. 2018-present: member of the Qatar University Board of Trustees. 2018-present: Representative of Qatar Investments Authority. Elected to the Board in June 2017. Holds no shares of Rosneft.

Involvement in other companies Active in the areas of entrepreneurship, corporate governance and education; serves as a member of the Supervisory Board of Roscosmos, member of the Supervisory Board of VEB.RF, Chairman of the Supervisory Board of Digital Economy, member of the Supervisory Board of Agency for Strategic Initiatives to Promote New Projects, Deputy Chairman of the Board of Trustees of the So-edinennoe Support Fund for the deaf blind, State Tretyakov Gallery and Holy Trinity Sarapul-Diveevo Convert Eparchy of Nizhny Novgorod of the Russian Orthodox Church (Moscow Patriarchate), and Chairman of the Board of Trustees for the revival of the Sarov Hermitage and the Diveevo cloister of Holy Assumption Monastery of the Sarov Hermitage in Sarov, the Nizhny Novgorod diocese of the Russian Orthodox Church (Moscow Patriarchate). Holds no shares of Rosneft.

Born in 1959. Graduated from Lomonosov Moscow State University in 1981. Doctor of Economics. 2004-present: Chief Researcher (part-time) at the Institute of Economic Forecasting of the Russian Academy of Sciences. 2008-2013: Director of the Department of Economics and Finance of the Russian Government. 2012-2013: Minister of Economic Development of the Russian Federation. 2013-2020: Aide to the President of Russia. 2020-present: First Deputy Prime Minister of the Russian Federation. Elected to the Board in June 2015. Chairman of the Board of Directors from June 2015 to September 2017. Involvement in other companies Active in the areas of social and business development, clergy and culture; serves as a member of the Supervisory Board of Roscosmos, member of the Supervisory Board of VEB.RF, Chairman of the Supervisory Board of Digital Economy, member of the Supervisory Board of Agency for Strategic Initiatives to Promote New Projects, Deputy Chairman of the Board of Trustees of the So-edinennoe Support Fund for the deaf blind, State Tretyakov Gallery and Holy Trinity Sarapul-Diveevo Convert Eparchy of Nizhny Novgorod of the Russian Orthodox Church (Moscow Patriarchate), and member of the Board of Trustees for the revival of the Sarov Hermitage and the Diveevo cloister of Holy Assumption Monastery of the Sarov Hermitage in Sarov, the Nizhny Novgorod diocese of the Russian Orthodox Church (Moscow Patriarchate). Holds no shares of Rosneft.

Born in 1952. Graduated from Lomonosov Moscow State University in 1974, holds PhD in Physics and Mathematics. 2004-2007: Head of the the Federal Service for Financial Markets. 2007-present: Professor at the School of Finance, Department of Economic Sciences, National Research University Higher School of Economics (starting 2019 - on a part-time basis). 2013-2015: Senior Advisor for Russia and CEE at Morgan Stanley Bank (contractor agreement). Elected to the Board in June 2015. Involvement in other companies Active in the areas of entrepreneurship, corporate governance and education; serves as a member of the Board of the Centre for Strategic Research, Agate Youth Entrepreneurship Foundation, member of the Board of Trustees of EUSF Endowment Fund, NES Endowment Fund and Forum Analytical Centre, and member of the Praesidium of National Corporate Governance Council. Holds no shares of Rosneft.

Faisal ALSUWAIDI Member of the Strategic Planning Committee

Matthias WARNIG Deputy Chairman of the Board of Directors, Chairman of the HR and Remuneration Committee, member of the Audit Committee, independent director

Andrey BELOUSOV Member of the Strategic Planning Committee

Oleg VIYUGIN Member of the Strategic Planning Committee, Member of the Audit Committee, independent director

1 For more information about the positions held in the governing bodies of other organisations, see the Company’s official website.
<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Background Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Robert DUDLEY</td>
<td>Chairman of the Strategic Planning Committee</td>
<td>Born in 1955. Graduated from the University of Illinois (USA) in 1977. Holds Master of Science’s Degree in International Management from Thunderbird School of Management (USA) and MBA from Southern Methodist University (USA). 2003–2008: Chairman of the Management Board, President, CEO at TNK-BP Management. 2009–2020: Director and member of the Board of Directors at BP p.l.c. 2016–2020: Chairman of the Oil and Gas Community of the World Economic Forum. 2016–present: Chairman of the Oil and Gas Climate Initiative.</td>
</tr>
</tbody>
</table>

**Elected to the Board in June 2013.**

**Involvement in non-profit organisations**

Active in the areas of geography and related sciences; member of the Board of Trustees of the Russian Geographical Society. Holds no shares of Rosneft.

**Involvement in other companies**

Chairman of Boards of Directors of Gazprom. Involvement in non-profit organisations: Active in the areas of education and sports development, and energy sector; member of the Supervisory Board of Rosatom and the Global Energy Association (International research and energy projects); Chairman of the Board of Trustees of Moscow Power Engineering Institute, member of the Board of Trustees of Siberian Federal University, Gubkin Russian State University of Oil and Gas and Motorcycle Federation of Russia, Chairman of WEC RNC, Russian Basketball Federation and Sokol Archipelago Preservation and Development Foundation, Chairman of the International Sustainable Energy Development Centre under UNESCO auspices and the Chairman of the Board of Trustees of the All-Russian Athletics Federation. Holds no shares of Rosneft.
Changes to the composition of the Board of Directors in 2019.

In 2019, Ivan Glasenberg, CEO of Glencore International AG and Glencore plc, retired from the Board of Directors.

Statement of Ivan Glasenberg, CEO of Glencore International AG and Glencore plc:

It was a great pleasure to work with an esteemed and highly competent team of Rosneft’s directors. I wish all the best to the Company, the Board, and the employees.


Ivan GLASENBERG


Hamad Rashid Al-Mohannadi
Member of the Strategic Planning Committee

Born in 1958. Graduated from Portland State University (USA) in 1981. Between 1985 and 2018, he held the following positions: Head of the downstream business of Qatar Petroleum; Chief Executive Officer of Qatar Petrochemical Company (QAPCO); Chairman of Qatar Shipping Company; Chief Executive Officer of RASGas Company; Member and Chairman of the Board of Trustees of Qatar University. 2015–present: member of the Board of Trustees at the Abdullah Bin Hamad

Directors’ Attendance at Board and Committee Meetings in 2019

<table>
<thead>
<tr>
<th>Director</th>
<th>Board of Directors Status (executive/ non-executive/ independent)</th>
<th>Attendance</th>
<th>Audit Committee and Remuneration Committee</th>
<th>Strategic Planning Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gerhard Schroeder</td>
<td>Independent</td>
<td>24/24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Igor Sechin</td>
<td>Executive</td>
<td>24/24</td>
<td></td>
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</tr>
<tr>
<td>Matthias Warnig</td>
<td>Independent</td>
<td>24/24 18/18 12/13</td>
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<tr>
<td>Fatal Atsuwadi</td>
<td>Non-executive</td>
<td>24/24</td>
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<tr>
<td>Andrey Belousov</td>
<td>Non-executive</td>
<td>24/24</td>
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<tr>
<td>Oleg Vinyugin</td>
<td>Independent</td>
<td>24/24 18/18</td>
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<tr>
<td>Hamad Rashid Al-Mohannadi</td>
<td>Non-executive</td>
<td>12/12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Robert Dudley</td>
<td>Non-executive</td>
<td>24/24</td>
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<tr>
<td>Guillermo Quintero</td>
<td>Non-executive</td>
<td>24/24 13/13</td>
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<tr>
<td>Alexander Novak</td>
<td>Non-executive</td>
<td>23/24</td>
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<tr>
<td>Hans-Joerg Rudloff</td>
<td>Independent</td>
<td>24/24 18/18 13/13</td>
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<tr>
<td>Ivan Glasenberg</td>
<td>Non-executive</td>
<td>12/12</td>
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<td>4/4</td>
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</tbody>
</table>

Note: The first number stands for the number of meetings attended by the director, the second number stands for the total number of meetings they were entitled to attend.

For reference: Gerhard Schroeder, Chairman of the Board, and Igor Sechin, Matthias Warnig, Robert Dudley, Guillermo Quintero, and Hans-Joerg Rudloff, directors, did not vote on a number of agenda items that could involve a potential legal and/or commercial conflict of interest.

Induction

To achieve effective use of the skills and expertise of newly elected directors, the Company ensures their prompt onboarding in line with the established induction procedure.

In 2019, Hamad Rashid Al-Mohannadi, a representative of Qatar Investment Authority, joined the Board of Directors for the first time. The Company’s management explained the confidentiality and insider information requirements, and the procedure for Mr. Al-Mohannadi’s participation in the meetings of the Board of Directors and its committees. It also promptly introduced the newly elected director to the Company’s day-to-day operations, its strategy, corporate and organisational structure, and corporate governance practices.

Activities of the Board of Directors

In 2019, the Board of Directors held 24 meetings (4 in-person and 20 in the form of absentee voting) and considered 130 items (23 at in-person meeting and 107 at meetings held in the form of absentee voting).

The Board of Directors is governed by the Regulations on the Board of Directors of Rosneft Oil Company.
Board Resolutions in Key Focus Areas

In 2019, the Board of Directors conducted the first independent assessment of its performance.

It was based on questionnaires and individual interviews with the Board members and Corporate Secretary, as well as on the analysis of publicly available and internal documents, meeting minutes and materials of the Board of Directors and its committees.

The consultant praised the Board’s practices and presented a report where it identified potential areas for improvement.

In the report, the consultant noted:
- high qualifications of the Board members;
- effective balance of power between independent directors and directors who represent major shareholders;
- strong organisation of the Board and committee meetings.

The procedure for assessing the performance of the Board of Directors is described in Rosneft Oil Company’s Regulation on Evaluation of Rosneft Board of Directors Performance.

The following internal documents were approved/amended:
- Rosneft’s Corporate Governance Code;
- Policy on Offshore Hydrocarbon Exploration and Production;
- Rosneft’s Procedure for Classifying Group Subsidiaries as key Subsidiaries;
- Procedure for Appointment and Activities of Rosneft Board of Directors Committees;
- Rosneft’s Regulations on the Induction of Rosneft Board Members;
- Rosneft’s Regulations on Internal Control Rules for the Prevention, Detection and Suppression of Illegal Use of Insider Information in Rosneft and/or Market Manipulation;
- Rosneft’s Regulations on Annual Bonus to Top Managers and Heads of Standalone Business Units;
- Rosneft’s Regulations on Annual Bonus to Middle Managers, Specialists and Employees of the Company’s Head Office;
- Rosneft’s Regulations on Annual Bonus to the CEO and Top Managers of Rosneft Group Subsidiaries.

Review of the progress of the Action Plan to improve the performance of Rosneft’s Board of Directors.

Review of the roadmap status for incorporating the key provisions of the Bank of Russia’s Code in the Company’s operations.

The roadmap for incorporating the key provisions of the Bank of Russia’s Code in the Company’s operations was completed.

The following programmes and reports were reviewed/approved:
- reports on the Board’s committees activities in 2018–2019;
- report on the progress of Energy Saving Programme 2018–2022 in 2018;
- progress report on the Non-Core Assets Disposal Programme in the fourth quarter of 2018 and the first three quarters of 2019;
- reports on related party transactions entered into by Rosneft in 2018;
- reports on the Company’s HSE activities;
- report on the internal audit performance in 2018 and first six months of 2019;
- report on the Company’s compliance with legislative requirements for countering the abuse of insider information and market manipulation for the second half of 2018 and the first six months of 2019;
- report on the Innovative Development Programme progress in 2018;
- report on introducing Professional Standards in the Company’s Operations as of 1 November 2019;

Approval of amendments to the terms of the mandate agreement for maintaining the register of Rosneft securities holders.

The Board of Directors approved and reviewed around 100 related party transactions.

The following documents and criteria related to remuneration were approved:
- performance indicators of Rosneft’s top managers for 2019;
- normalised KPIs of top managers for the 2018 annual bonus calculation, and their performance and bonus amount for 2018.


Approval of Accounting Function Development Strategy to 2024. It sets out new priorities in improving the efficiency of the Company’s accounting function, including higher quality of services and customer focus of shared services centre while keeping the cost of services below or at the market level.

Review of the audit results for Rosneft’s Long-Term Development Programme performance in 2018.

The Long-Term Development Programme was updated to reflect new strategic targets and its performance in 2018.

Approval of the Company’s business plan for 2020–2021. Its goal is to meet the key objectives of the Rosneft–2022 Strategy, deliver on hydrocarbon production targets while maintaining opex and capex efficiency, leadership, strong HSE performance, and a balanced financial position. The Board of Directors took notice of the preliminary results of the business plan performance and normalisation in 2019.

External assessment of the performance of the Board of Directors and its committees with Ernst & Young as an independent consultant.

To ensure compliance with the orders of the Russian President and the Russian Government, the following items were considered:
- informing relevant federal executive bodies about the value of procurement contracts signed with defence companies for civilian products for the fuel and energy sector not included in the state defence order;
- updating the long-term development programme;
- import substitution of radiation, chemical and biological protection equipment;
- introduction of professional standards in the Company’s activities;
- developing (updating) internal documents regulating the KPIs and remuneration of the Company’s top management;
- improving procurement management.

Approval of business projects to develop Yurubcheno-Tolhomskoye and Tagulskoye fields, Erginsky licence area, the Russkoye and North Komsomoletsyoye fields (PK1 formation).

Approval of the Succession Plan for Directors and the Members of the Management Board to ensure succession in the Company’s management bodies, preservation of the best practices and consistency with the Company’s development strategy.

Evaluation of the independent directors against independence criteria (Heinrich Schroeder, Matthias Warnig, Oleg V'yugin and Hans-Joerg Rudolf).
 Plans for 2020

The Board of Directors approves its work plans and meeting schedule semi-annually.

The work plan takes into account the proposals of members of the Board, executive bodies and top management, and always includes the following matters:

- oversight of the Strategy performance;
- reviewing the business plans and results;
- results/updates of the Long-Term Development Programme;
- approval of management’s collective and individual KPIs;
- assessment of the Board performance;
- preparations for the General Shareholders Meetings, etc.

The Board of Directors considers strategic matters determined by the Charter at in-person meetings.

The Company’s Corporate Governance Code defines the list of additional issues that the Board of Directors seeks to consider in person.

The committees of the Board of Directors plan their activities taking into account the schedule of the Board of Directors’ meetings.

Committees of the Board of Directors

The Board of Directors has three committees:

- Audit Committee;
- HR and Remuneration Committee;
- Strategic Planning Committee.

The Board of Directors sets up the committees and elects committee chairs at the first in-person meeting.

COMMITTEES OF THE BOARD OF DIRECTORS

<table>
<thead>
<tr>
<th>Members of the Audit Committee</th>
<th>Members of the HR and Remuneration Committee</th>
<th>Members of the Strategic Planning Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hans-Joerg Rudloff – Chairman, independent director</td>
<td>Matthias Warnig - Chairman, independent director</td>
<td>Robert Dudley – Chairman</td>
</tr>
<tr>
<td>Matthias Warnig – independent director</td>
<td>Hans-Joerg Rudloff – independent director</td>
<td>Alexander Novak – Deputy Chairman</td>
</tr>
<tr>
<td>Oleg Viyugin – independent director</td>
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<td>Faizal Alsuwaidi</td>
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<td>Andrey Belesov</td>
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<td>Oleg Viyugin – independent director</td>
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<td>Hamad Rashid Al-Mohannadi</td>
</tr>
</tbody>
</table>

Members of the Audit Committee:

Statement of Hans-Joerg Rudloff, Chairman of the Audit Committee:

In 2019, the Company’s management improved control procedures, risk management system, internal control and audit. The quality of materials provided to the Board also gets better all the time.

Key resolutions

The Committee recommended that the Board of Directors approves the proposal to the General Shareholders Meeting regarding the distribution of the Company’s profit for 2018, the amount of dividends for 2018 and the first six months of 2019, and the payout procedure.

To ensure proper preparation of accounting (financial) statement and impartiality and independence of the external audit, the Committee:

- reviewed and performed the relevant audit reports (on a quarterly basis);
- recommended Ernst & Young as the Company’s auditor and the amount of the auditor’s fees.

To ensure efficiency of the risk management and internal control system, the Committee conducted preliminary review of the following:

- reporting on the company-wide financial and operational risks materialised in 2018;
- report on internal investigations conducted by Rosneft in 2018;
- results of the survey on strategic risks in 2019.

To ensure impartiality and independence of the internal audit, the Committee reviewed:

- reports on the internal audit performance in 2018 and first six months of 2019;
- information on assessment and monitoring of potential conflicts of interest in case of the Head of Internal Audit serving on the Management Board (on a quarterly basis).

In the area of corporate governance, the Committee:

- reviewed and recommended for approval amendments to Rosneft’s Corporate Governance Code;
- reviewed Rosneft’s Regulations on Internal Control Rules for the Prevention, Detection and Suppression of Illegal Use of Insider Information in Rosneft and/or Market Manipulation and recommended it for approval by the Board of Directors;
- analysed Rosneft’s Dividend Policy against the global economic trends.

The matters related to financial statements and information provided by the auditor were first discussed during conference calls between the Committee members, management, and representatives of internal and external auditors.

Activities of the Board Committees

Audit Committee

The auditor’s fees for 2019 recommended to the General Shareholders Meeting:

- audit of Rosneft’s RAS accounting (financial) statements - RUB 7,200,000, including VAT;
- audit of Rosneft’s IFRS consolidated financial statements - up to RUB 83,151,780, including VAT.

The external auditor’s actual remuneration for the audit of financial statements and other services is disclosed on the Company’s website in the Corporate governance – Internal control and audit – Company auditor section.

In 2019, the Audit Committee held 18 meetings (3 in person and 15 in the form of absentee voting) and considered 40 items (8 at in-person meetings and 32 at meetings held in the form of absentee voting).

The activities of the Audit Committee are governed by Rosneft Regulation on the Rosneft Board of Directors Audit Committee.
HR and Remuneration Committee

Statement of Matthias Warnig,
Chairman of the HR and Remuneration Committee

The HR and Remuneration Committee and Corporate Secretary have had the performance of the Board of Directors assessed for the first time. The Company’s independent consultant, Ernst & Young, praised strong organisation and high qualifications of the Board members, as well as efficient administrative and information support provided to it. The Committee’s agenda for 2019 also included changes to the Management Board’s composition as part of the scheduled rotation. After performing an analysis of the necessary professional skills, the Committee submitted recommendations to the Board of Directors on new Management Board membership.

Key resolutions

To attract skilled talent to the Company’s management and create conditions for high performance, the Committee:

- reviewed proposals regarding the remuneration of the members of the Board of Directors and Audit Commission for 2018-2019, as well as the compensation of the expenses related to their functions;
- provided recommendations for appointments to the Management Board;
- verified the compliance of candidates to the Board of Directors with independence criteria.

To assess the performance of the Company’s management and governing bodies, the Committee reviewed:

- top management’s collective and individual KPIs for 2019, their normalised KPI performance criteria for 2018, and the results considered in the 2018 annual bonus calculation;
- Rosneft’s Regulations on Annual Bonus to Top Managers and Heads of Standalone Business Units, Regulations on Annual Bonus to Middle Managers, Specialists and Employees of the Company’s Head Office, and Regulations on Annual Bonus to the CEO and Top Managers of Rosneft Group Subsidiaries;
- results of external assessment of the Board and its committees’ performance;
- report on introducing professional standards in the Company’s operations;
- action plan for introducing professional standards in the operations of Rosneft and Group Subsidiaries.

To ensure sustainable development, the Committee approved Rosneft’s Sustainability Report for 2018.

Key matters related to the Committee activities were discussed in person and during conference calls attended by the Committee members and the Company’s management.

In 2019, the HR and Remuneration Committee held 13 meetings (1 in person and 12 in the form of absentee voting) and considered 28 items (1 at an in-person meeting and 27 at meetings held in the form of absentee voting).

Strategic Planning Committee

Statement of Robert Dudley,
Chairman of the Strategic Planning Committee

In 2019, the Strategic Planning Committee reviewed key matters related to strategy performance, the Company’s long-term efficiency, as well as strategic and business planning. We continued to focus on HSE matters in line with the ESG approach, which we regard as our priority.

Key resolutions

To determine the Company’s priorities, the Committee reviewed:

- status of the Rosneft-2022 Strategy;
- updated Long-Term Development Programme;
- business plan for 2020-2021, as well as the results of implementation and normalisation of the business plan for 2019.

Key matters related to the Committee activities were discussed in person and during conference calls attended by the Committee members and the Company’s management.

To promote innovation, the Committee:


When reviewing the key matters, the Chairman and Committee members consulted the Company’s management, requested additional information and received written and oral clarifications.

To promote HSE initiatives, the Committee approved:

- reports on the Company’s HSE activities;
- Policy on Offshore Hydrocarbon Exploration and Production.

To run the Company’s business projects, the Committee recommended that the Board of Directors approves key metrics and budgets for a number of business projects.

In 2019, the Strategic Planning Committee held 10 meetings (3 in person and 7 in the form of absentee voting) and considered 21 items (8 at in-person meetings and 13 at meetings held in the form of absentee voting).
Executive Bodies

As per the Charter, the person performing the functions of the sole executive body and Chairman of the Management Board is the Chief Executive Officer.

Since 2012, the position of the Chief Executive Officer has been held by Igor Sechin. He manages the Company’s day-to-day operations, formulates the Management Boards agenda, and chairs the Boards’ meetings.

The Management Board comprises the heads of key business lines, operation service and support function segments of the Company. The size of the Board totals 11 members. The procedure for Management Board formation, the rights, duties and liability of Management Board members, and proceedings of the Management Board are governed by the Regulations on the Collective Executive Body (Management Board) of Rosneft.

Changes in the Management Board composition in 2019

Zeljko Rupea, Management Board member and First Vice President for Oil, Gas, and Offshore Business Development, was appointed Deputy Chairman of the Management Board. The two newly appointed members of the Management Board are Ural Latypov, Vice President – Head of Security Service, and Andrey Polyakov, Vice President – Chief Geologist.

Board composition

as at 31 December 2019

Igor SECHIN
Chairman of the Management Board, Chief Executive Officer

Born in 1960.
In 1984, graduated from Leningrad State University. PhD in Economics.

Holder of government and ministerial awards:
2000–2004: Deputy Head of the Russian Presidential Head Office.
2004–2008: Deputy Head of the Russian Presidential Head Office, Aide to the President.
2004–2011: Chairman of Rosneft’s Board of Directors.
From 2012: Chief Executive Officer, Chairman of the Management Board, member of the Board of Directors of Rosneft.
From 2013: Deputy Chairman of Rosneft’s Board of Directors.

Holds positions in various non-profits and takes part in social, scientific, sport and education development (for the full list of positions in non-profit organisations, see the Board of Directors section).

Holds 13,489,350 shares of Rosneft (0.1273% of the Company’s charter capital).
1979–1993: held various management positions in Arctic Alaska oilfield and production projects.
1997–2012: held various executive positions in the Sakhalin-1 project in his capacity as Vice President of BP-Mobil Russia Inc.
2012–2019: Vice President of Rosneft for Offshore Projects.
From December 2019: First Vice President for Oil, Gas, and Offshore Business Development of Rosneft.
Member of Rosneft’s Management Board since 2012.
Chairman of the Supervisory Board at PJSC Rosneft Sakhalin.
Chairman of the board of directors at LLC RN-Foreign Projects and JSC RN-Shelf Far East, member of the Board of Directors at PJSCC Bashneft, OJSC Rosneft JSC FSRE, LLC RN-GAS, and LLC RN-Commerce.
Holds 377,318 shares of Rosneft (0.0036% of the Company’s charter capital).

1980–2000: held various executive positions at Schlumberger managing complex projects in the Middle East, Africa, and the Asia-Pacific Region.
2000–2005: Manager of Complex Projects in Russia, managing the offshore services project for Sibur at Schlumberger Offshore Services (Russia).
2006–2013: held various executive positions at TNK-BP, Management, was Vice President of the Yelis Division.
2013–2019: First Vice President of Rosneft overseeing the production business.
From December 2019: Vice President for In-House Services at Rosneft.
Member of Rosneft’s Management Board since 2013.
Chairman of the Boards of Directors at JSC, BerdACHEM, JSC-NC LUKOIL, LLC RN-Upstream, OJSC NGK Slavneft, LLC RN-GAS, LLC RN-Resource, and LLC RN-Foreign Projects.
Holds 583,804 shares of Rosneft (0.0051% of the Company’s charter capital).

Holder of government and ministerial awards.
2004–2012: Assistant to the Prime Minister of the Russian Federation.
2012–2013: Advisor to the President of the Republic of Bashkortostan.
From 2013: Advisor to the President of Rosneft.
From March 2015: Head of Internal Audit at Rosneft.
From June 2016: Vice President –Head of Internal Audit at Rosneft.
Member of Rosneft’s Management Board since 2016.
General Director, member of the Board of Directors at JSC ROSNEFT/TIGAZ, member of the Board of Directors at PJSCC Bashneft, Chairman of the Supervisory Board of OJSC Gubkin National University of Oil and Gas, Chairman of the Audit Commission of PJSC Inter RAO and Internet Initiatives Development Fund, member of the Audit Commission of Agency for Strategic Initiatives to Promote New Projects, member of the Club Council at Autonomous Non-Profit Organization Hockey Club Salavat Yulaev.
Holds no shares of Rosneft.
Gennady Bukaev is not authorised to participate in making decisions related to the Company’s operations, which may potentially be objects of audit / managerial decisions with regard to audited entities (subject to Board of Directors review).

Born in 1966. Graduated with distinction from Ghent University (Belgium) in 1991, and from Ghent University (Belgium) / Lisbon University (Portugal) in 1992.
1996–2005: held executive positions at BP.
2005–2012: held executive positions at TNK-BP.
From May 2012: Vice President of Rosneft.
From March 2013: Vice President for Commerce and Logistics at Rosneft.
From January 2015: Vice President for Refining, Petrochemicals, Commerce and Logistics at Rosneft.
Member of Rosneft’s Management Board since 2012.
Chairman of the Board of Directors at PJSC Saratov Refinery, Rosneft – EP Neftegaz, JSC Casimiro Co., JSC Bashneft, JSC Bashneft-ARMINIA, LLC RN Yenam, LLC RN-Commerce, LLC RN-Refinery, Chairman of the Supervisory Board at PREC LINK, member of the Board of Directors at OJSC NGK Slavneft, PJSC Slavneft-YANOS, Rosneft Global Trade S.A. JSC SPMEX, PJSC Bashneft, LLC RN-Foreign Projects.
Holds 457,598 shares of Rosneft (0.0043% of the Company’s charter capital).
Born in 1992. Graduated from Lomonosov Moscow State University in 1994 and from California State University (Hayward) with an MBA degree in 1998.

2003-2006: Head of Head Office of the Office of the President and Chief Executive Officer, Head of the Office of the President at TNK-BP Management.

2008-2011: Commercial Director at BP Group companies.

2011-2014: worked in procurement performance planning and management at BP America (Houston, USA).


March 2017-present: Vice President, Chief of Staff of Rosneft.

Member of Rosneft’s Management Board since 2017.

Member of the supervisory board at INEX Bank (JSC), member of the Boards of Directors at LLC RN-GAZ, LLC RN-Upstream.

Holds no shares of Rosneft.

Elena ZAVALEEVA
State Secretary, Vice President

Born in 1951. Graduated from the Moscow State Social University of the Ministry of Labour and Social Development in 2003, majoring in Legal.

Holder of government awards.

Works at Rosneft since 2008.

2013-2017: held a number of positions, including Deputy Director – Head of Federal Authorities Relations of the Government and Management Relations Department, First Deputy Director of the Government and Management Relations Department, Acting Director of the Department, Director of the Government and Management Relations Department.

From September 2017: State Secretary, Vice President of Rosneft.

Member of Rosneft’s Management Board since 2018.

Chairman of the Board of Directors at LLC Rosneft-NP, member of the Boards of Directors at PJSC Bashneft, LLC RN-Refining, LLC RN-Upstream.

Holds 5,250 shares of Rosneft (0.000006% of the Company’s charter capital).

Peter LAZAREV
Financial Director


2000-2004: Head of the Promissory Note and Investment Programmes in the Finance Department of Rosneft, Deputy Departmental Director, Head of Securities in the Finance Department.

2004-2012: Head of Treasury at Rosneft.

February 2013-present: Financial Director of Rosneft.

Member of Rosneft’s Management Board since 2011.

Chairman of the Board of Directors at LLC RN-Resource, Deputy Chairman of the Board of Directors at JSC DSRBC, member of the Boards of Directors at PJSC NC Rosneft – MP Nefteproduct, JSC FESRC, JSC TEK-Torg, LLC RN-Upstream, LLC RN-Commerce, LLC RN-Assets, LLC RN-Foreign Projects, Corporate Director at LLC RN-Refining Projects, JSC RN Holding, Executive Financial Director at JSC RN Management.

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

Andrey SHISHKIN
Vice President for Informatisation, Innovation and Localisation


Holder of government and ministerial awards.

1992-2005: held executive positions in various credit and finance organizations.


From July 2012: Vice President of Rosneft.

From March 2013: Vice President of Rosneft for Energy, Health, Safety and Environment.

From August 2014: Vice President of Rosneft for Energy and Localisation.

From April 2016: Vice President of Rosneft for Energy, Localisation and Innovation.

From November 2019: Vice President of Rosneft for Informatisation, Innovation and Localisation.

Member of Rosneft’s Management Board since 2015.

Chairman of the Board of Directors at JSC FESRC, JSC AK SFR, LLC Zvezda-Byanka, JSC Laurus, JSC FSR, LLC Uralsky Sputnik, LLC Zvezda-Sh, Deputy Chairman of the Board of Directors at PJSC Bashneft, member of the Boards of Directors at RIS Research Pvt. Ltd., JSC Rushyros, JSC UDC, LLC NISG, LLC Zvezda Marine Technology, Attaxor Singapore Pte. Ltd., LLC RN-Assets, LLC RN-Upstream, LLC RN-Commerce, LLC RN-Refining, OJSC SPA Burusaya Technika, General Director at LLC RN-Assets, member of the Supervisory Board at NAIT, member of the Board of Trustees at Gubkin National University of Oil and Gas.

Holds 377,114 shares of Rosneft (0.0033% of the Company’s charter capital).
Chairman of the Management Board Yuri Kalinin and Board member Vlada Rusakova have retired and left office.

**Yuri Kalinin**

Born in 1946.

Graduated from the Saratov Institute of Law in 1979.

Holder of government and ministerial awards.


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


2012–2019: Vice President for HR and Social Policy of Rosneft.

2013–2019: member of the Management Board of Rosneft, Deputy Chairman of the Management Board of Rosneft.

January 2020–present: Assistant to the Chief Executive Officer of Rosneft. Holds 203,916 shares of Rosneft (0.00019% of the Company’s charter capital).

**Vlada Rusakova**

Born in 1953.

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

Holder of government and ministerial awards.

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

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

2013–2019: Vice President of Rosneft in charge of the gas business.

2017–2019: member of Rosneft’s Management Board. Holds 4,071 shares of Rosneft (0.00004% of the Company’s charter capital).
Management Board’s Activities in 2019

In 2019, the Management Board held 57 meetings, reviewed 159 matters and adopted a number of decisions, including the following:
- approved establishing a corporate entity for Vostok Oil project;
- approved works to develop a retail distribution network of compressed natural gas to be used as motor fuel, which Rosneft views as one of its key priorities;
- approved the acquisition of a 100% stake in Petersburg Fuel Company;
- approved three field development and construction business projects;
- approved internal regulations on the procedures of the Company’s collective consultative bodies: Business Continuity Commission, Commission on Energy Efficiency, Metrology Board, Command Staff of Civil Defense, Evacuation Commission, Residential Mortgage Commission, Commission for Critical Information Infrastructure Categorisation, etc.;
- approved Rosneft’s organisational structure (as amended);
- approved entering into:
  - two transactions for increasing business projects’ profitability;
  - 73 transactions for oil and oil products deliveries to foreign and domestic markets, supply of gas, propellant, refining of oil, petroleum and other hydrocarbon feedstock, sale of hydrocarbons, oil, sale consignment services, gas sales agency services, etc.;
  - seven charity transactions;
- approved amendments to 22 transactions for oil and petroleum products deliveries, well drilling, construction and installation operations, etc.;
- liquidated / reorganised four Group Subsidiaries as part of the Company’s corporate structure optimisation;
- approved Rosneft’s participation / termination of participation (direct and indirect) in 22 profit and two non-profit organisations;
- approved the Company’s internal regulations, including new versions of internal regulations on:
  - information technologies;
  - insurance of corporate risks;
  - staff skill assessment and development;
  - planning of the best distribution of hydrocarbons, oil and gas and petrochemical products, preparing their production plans;
  - offshore asset and project management;
- Company’s coordinating and consultative bodies activities;
- managing the internal audit function, etc.;
- reviewed results of the Company management activities for 2018 and approved KPIs for heads of Rosneft business units and heads of key Group Subsidiaries for 2019;
- approved nominees to the boards of directors and executive bodies of key Group Subsidiaries.

Management Board Work Planning

The Management Board prepares its work plans quarterly taking into account the Board of Directors’ resolutions and proposals of the Board members, top managers and heads of functional units, including the following matters:
- implementation of business projects, investment programmes, entering into transactions, amending transaction terms, including non-core assets and real estate transactions;
- overseeing the priority areas of the Company’s business;
- Rosneft’s participation / termination of participation in profit and non-profit organisations;
- winding up and reorganisation of the Group Subsidiaries;
- appointment and termination of the sole executive body and members of the collective executive bodies of the Group Subsidiaries.

In 2020, the Management Board will continue implementing the Company’s Development Strategy in accordance with the Board of Directors’ resolutions.

Number of matters considered and meetings held in 2016–2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Meetings held</th>
<th>Matters reviewed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>158</td>
<td>52</td>
</tr>
<tr>
<td>2017</td>
<td>163</td>
<td>53</td>
</tr>
<tr>
<td>2018</td>
<td>195</td>
<td>59</td>
</tr>
<tr>
<td>2019</td>
<td>159</td>
<td>67</td>
</tr>
</tbody>
</table>

Corporate Secretary

Since 2014, the Corporate Secretary has been Corporate Governance Director Svetlana Gritskevich1.

The Corporate Secretary’s function is supported by the Company’s separate business unit – Corporate Governance Department.

The Corporate Secretary is functionally accountable to the Board of Directors, appointed and dismissed by the CEO on the basis of the Board of Directors’ resolution.

Key functions:
- improving the corporate governance system;
- arranging and holding general shareholders’ meetings;
- supporting the activities of the Board of Directors and its committees, acting as the Management Board Secretary;
- preventing corporate conflicts;
- facilitating the exercise of shareholders’ rights;
- implementing the disclosure policy;
- managing the compliance with regulatory and internal requirements for countering the illegal use of insider information;
- managing the compliance with regulatory and internal requirements for countering the illegal use of insider information;
- communicating with the registrar, the government bodies and the corporate relations and securities market regulatory authorities;
- The Corporate Governance analytical information system was put into operation in 2019.
- The Company automated the control rules for prevention, detection and suppression of illegal use of Rosneft’s insider information.
- Shareholders gained access to personal accounts – a handy tool to obtain relevant personal accounts data and to exercise rights under Rosneft securities online.
- The use of advanced information technology in automating the corporate governance processes allows enhancing the Corporate Secretary’s work efficiency for protection and exercise of shareholders’ rights.

Born in 1974.
Graduated from the Institute of Modern Knowledge, Belarus State University (Minsk, Belarus) in 1996 and the Russian Presidential Academy of Public Head Office in 2011.
Has an MBA degree (Moscow International Business School, 2011), extensive corporate governance experience (since 1998) and expertise in fuel and energy companies’ business (since 1996), as well as managerial experience (since 2003) and experience of working as a Board member in a number of joint stock companies.
Rosneft’s Corporate Governance Department Director since 2013.

1 Resolution of Rosneft’s Board of Directors dated 28 April 2014 (Minutes No. 34 of 5 May 2014).

Svetlana
GRITSKEVICH

The Corporate Secretary’s activities are governed by the Regulation On the Corporate Secretary.
Remuneration of Members of the Board of Directors

In 2015, the Board of Directors approved Rosneft’s Regulations on Remunerations and Compensations Payable to Members of the Board of Directors drawing on the recommendations of the Bank of Russia’s Corporate Governance Code which lists all types and terms of payments to directors, thus ensuring a transparent remuneration process.

Since 2015, the company has been paying the following amounts to members of its Board of Directors as fixed remuneration and additional compensation:
- fixed remuneration payable to each Board member and amounting to USD 500,000;
- additional compensation payable for:
  - chairing the Board of Directors and amounting to USD 100,000;
  - membership in the Board committees and amounting to USD 30,000; and
  - chairing the Board committees and amounting to USD 50,000.

The remuneration is payable to directors pro rata to the time served and performance of additional duties.

On 4 June 2019, the Annual General Shareholders Meeting acting on the recommendation of the Board of Directors, pre-approved by the HR and Remuneration Committee, resolved to pay the following amounts to members of its Board of Directors pro rata to the time served:
- Gerhard Schroeder – USD 600,000 (including compensation for chairing the Board of Directors);
- Faisal Alkuwadi – USD 530,000 (including compensation for membership in the Strategic Planning Committee);
- Matthias Warnig – USD 580,000 (including compensation for chairing the HR and Remuneration Committee and membership in the Audit Committee);
- Oleg Vyneg – USD 560,000 (including compensation for membership in the Strategic Planning Committee and the Audit Committee);
- Ivan Glasenberg – USD 530,000 (including compensation for membership in the Strategic Planning Committee);
- Hans-Joerg Rudloff – USD 580,000 (including compensation for chairing the Audit Committee and membership in the HR and Remuneration Committee).

No remuneration for 2018-2019 corporate year was paid to Andrey Belousov, Robert Dudley, Guillermo Quintero, Alexander Novak, Igor Sechin.

The total remuneration paid to members of the Board of Directors for 2017-2018 corporate year amounted to USD 3,380,000.

Remuneration of the Management

The existing complex incentive system for the top management is described in Rosneft’s Standard for Rewards and Compensations to Top Managers and ensures their focus on results and commitment to achieving the Company’s strategic goals.

Top managers’ remuneration depends on the Company’s performance and implementation of major projects, provided that team-based and individual key performance indicators (KPIs) are met.

The KPIs, actual performance and annual bonuses are approved by the Board of Directors on an annual basis with input from the HR and Remuneration Committee.

The KPI framework and its integration with the Company’s Strategy are detailed in Section Company KPIs of this Report.

No loans or borrowings were issued to members of the Board of Directors and the Management Board in the reporting year.

The total remuneration paid to members of the Management Board in 2019 amounted to RUB 3.57 mln, down by 7.4% year-on-year.

Since 2017, the total remuneration payable to members of the Management Board went down by 9%, or RUB 357 mln.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total remuneration payable to members of the Management Board, RUB mln</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>3,927</td>
</tr>
<tr>
<td>2018</td>
<td>3,854</td>
</tr>
<tr>
<td>2019</td>
<td>3,570</td>
</tr>
</tbody>
</table>

1 Information on remuneration and remuneration of expenses paid to the collective executive body (the Management Board) in 2018 was published on 5 February 2019 in accordance with the Russian regulatory requirements for information disclosure by issuers of issue-grade securities as part of Rosneft’s Quarterly Report for Q4 2018.
Civil Liability for the Members of the Board of Directors and the Management

The liability of members of the Board of Directors, executive bodies, employees of the Company and all the Group Subsidiaries is insured by the contract signed with SODGAI in 2017 and approved by the Annual General Shareholders Meeting. This third party liability insurance policy covers all possible risks during the reporting year with a total liability limit of USD 150 mn.

Additional liability limits apply to:
- all independent directors capped at USD 6 mn and each independent director capped at USD 1 mn;
- protection against environmental pollution capped at USD 2.5 mn and environmental management capped at USD 5 mn.

Managing Possible Conflicts of Interest

Possible conflicts of interest are addressed at all corporate governance levels.

Shareholders

For the avoidance of any potential conflicts among its shareholders, the Company provides equal opportunities for exercising shareholder rights established by the applicable laws.

The Corporate Secretary is responsible for shareholder relations of the Company and also contributes to preventing corporate conflicts. The Corporate Secretary has to promptly notify the Board of Directors of any threatened violation of the applicable laws or shareholder rights and any possible conflicts of interest. The Company manages shareholder relations, including shareholders’ requests for explanation.

Board of Directors

The Board of Directors is responsible for managing any conflicts of interest in the Company. The Charter sets out the procedure for considering interested-party transactions by the Board of Directors. The Regulations on the Board of Directors determine the duties of Board members related to prevention and management of any conflicts of interest.

When considering agenda items, members of the Board of Directors assess potential conflict between their interests and those of the Company. With respect to any issue that may, in the opinion of a Board member, result in such a conflict of interest, the director shall not participate in voting and, where necessary, in the discussion of such issue. Board members must report any actual or potential conflicts of interest to the Chairman of the Board of Directors or the Corporate Secretary.

For the avoidance of any potential conflicts among the Company’s employees, the Board of Directors introduced rules for conducting transactions in financial instruments by persons included in the insider list and rules for disclosing insider information and monitors compliance on a regular basis.

Executive Bodies

In accordance with the internal regulations, members of the Management Board and the Chief Executive Officer:
- shall refrain from any actions that may cause a conflict of interest and, should such a conflict arise, immediately notify the Chairman of the Management Board (if the Chairman of the Board of Directors and/or the Corporate Secretary;
- while in office, may not hold and/or control 20 or more percent of voting shares (interests or stakes) in any entity competing with the Company or having any business interest in maintaining relations with the Company;
- may not accept any gifts from persons interested in resolutions passed as part of their duties or otherwise benefit from such persons.

The Board of Directors reviews, on a quarterly basis, information on assessment and monitoring of potential conflicts of interest in case of the Head of Internal Audit serving on the Management Board and considers the Company’s efforts to minimise this risk as adequate.

Top Managers and Employees

The rules for the avoidance and prevention of conflicts of interest are governed by the Code of Business and Corporate Ethics which defines the terms “conflict of interest” and “corruption” and sets out the procedure for preventing corporate fraud. The Company’s Council for Business Ethics also contributes to managing conflicts of interest.

The rules for the avoidance and prevention of conflicts of interest are set forth in the Corporate Governance Code, the Code of Business and Corporate Ethics, and the Regulations on Managing Conflicts of Interest in Rosneft and Group Subsidiaries. Special rules for the prevention of corporate fraud are laid down in the Company’s Policy on Combating Corporate Fraud and Involvement in Corruption Activities. This Policy establishes the key principles and the organisational structure for combating corporate fraud, monitoring procedures, and anti-corruption training for the employees, including response protocols in case of threatened violation of anti-corruption rules.

Special rules aiming to prevent the securities market manipulation and the illegal use of insider information are laid down in Rosneft’s Regulations on Internal Control Rules for the Prevention, Detection and Suppression of Illegal Use of Insider Information in Rosneft, which determine the rules for disclosing insider information and the rules for conducting transactions in financial instruments by persons included in the insider list.

1 In accordance with the Guidelines on Prosecution of Officers for the Failure to Prevent and/or Manage a Conflict of Interest developed by the Russian Ministry of Labour in pursuance of Clause 10 of the National Anti-Corruption Plan.
Anti-corruption Efforts

In 2019, Rosneft continued to focus on countering corruption and corporate fraud and ensuring compliance by the Company’s employees with International and Russian anti-corruption laws, and its internal regulations.

Rosneft was consistently improving its framework for building anti-corruption elements of the corporate culture and organisational structure, as well as rules and procedures intended to prevent corporate fraud and corruption and mitigate reputational risks and risks of sanctions for bribery that might be imposed on the Company.

To this end, Rosneft’s Council for Business Ethics put together and introduced the Comprehensive Anti-Fraud and Anti-Corruption Programme for 2019–2020. In 2019, programme activities included:

- adopting Rosneft’s Guidelines on Prosecution of the Company’s Officers/Employees for the Failure to Prevent and/or Manage a Conflict of Interest;
- drafting and communicating to all employees the Concise Guide to Compliance, including anti-fraud and anti-corruption provisions governing, inter alia, exchange of business gifts and hospitality;
- arranging for and conducting ethical declarations, analysing them and doing selective fact-checking.

Rosneft’s Council for Business Ethics approved the outputs;

- quarterly updating the Company’s employees on typical violations of anti-fraud and anti-corruption rules (including management of conflicts of interests);
- drafting recommendations on anti-fraud and anti-corruption measures and communicating the same to the Group Subsidiaries and joint ventures;
- conducting 405 anti-corruption audits of draft internal regulations and implementation documents;
- publishing the All about Compliance information bulletin (quarterly) and an article devoted to the International Anti-Corruption Day;
- arranging for and conducting an employee survey on combating corporate fraud and involvement in corruption activities;
- developing and launching the new distance learning course – Business Ethics Compliance: Corporate Gifts and Hospitality;
- developing and implementing the Company’s Regulations on Coordinating Anti-Fraud and Anti-Corruption Processes, including the following procedures:
  - assessment of corporate fraud and corruption risks;
  - protection of whistleblowers;
  - reporting of suspected corporate frauds or corruption and investigations;
  - training and communications in combating corporate fraud and corruption;
  - monitoring and control of anti-fraud and anti-corruption processes.

In pursuance of Clause 22 and Subclause b of Clause 28 of the National Anti-Corruption Plan, the Company continued to provide anti-corruption training to its employees, including newly hired staff.

The Company’s in-house coaches held in-person trainings in Managing Conflicts of Interest for heads of business units, including members of the Board of Directors / supervisory boards of the Group Subsidiaries. The Company held in-person trainings for representatives of overseas Group Subsidiaries in Anti-Corruption Compliance: Managing Conflicts of Interest in the context of local anti-corruption laws.


The Company attended the Participation of Organisations in Combating Corruption conference held by the Prosecutor General’s Office and the Ministry of Labour and Social Protection of the Russian Federation which focused on anti-corruption law enforcement practices by organisations tasked with supporting federal executive authorities.

The Company has in place the Code of Business and Corporate Ethics (the Code) and the Policy on Combating Corporate Fraud and Involvement in Corruption Activities (the Policy), both approved by Rosneft’s Board of Directors, which outline Company-wide principles and approaches aiming to ensure compliance with anti-corruption requirements.

The Code reflects the Company’s culture, while underlining its commitment to the highest standards of business ethics and imposing the responsibility for compliance with ethical standards on all employees regardless of their status and position. The Code explains the key terms on how to manage conflicts of interest and exchange corporate gifts.

The Policy imposes the responsibility on all employees and members of the Company’s governing bodies, regardless of their position, for compliance with anti-corruption principles and requirements as well as for actions (omissions) of their subordinates. The Policy also requires employees to report any inducement to corruption offences to the authorised officers and functions.

The Company also has in place the Regulations on Managing Conflicts of Interest in Rosneft and Group Subsidiaries which set out a framework to classify conflicts of interest, including conflicts of interest between shareholders and members of the Company’s governing bodies (e.g., decisions made by corporate governing bodies that might adversely affect the Company’s financial and operating performance; the Company failing to make a statutory disclosure or members of corporate governing bodies underreporting on their positions in governing bodies of other entities, on interests (stakes) held in other entities, or other information required to be disclosed by the applicable laws, the Company’s Charter or internal regulations).

The Company has set up conflict of interest commissions.

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The Company makes organisational arrangements to meet the requirements for hiring former government officials, collect and verify information on income, property, and property-related obligations for certain categories of employees; enhance the commitment of the Company’s management to preventing corruption, including conflicts of interest, by adding relevant provisions into employment contracts, and amending employee job descriptions with provisions on liability for failure to comply with anti-fraud and anti-corruption requirements of the Company’s internal regulations.

The Company operates a 24/7 Security Hotline to report on cases of corporate fraud and corruption.

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Audit Commission
The Audit Commission comprises five members elected annually and monitors the Company’s financial and business activities.

The Audit Commission audits the Company’s financial and business operations, verifies the accuracy and reliability of data included in Rosneft’s annual reports and annual accounting (financial) statements, and prepares proposals and recommendations for improving the asset management efficiency and streamlining the risk management and internal control system.

In 2019, the Audit Commission held two meetings that, among other things, adopted its action plan, approved an audit programme and reviewed audit results.

The findings of the Audit Commission were communicated in the form of an opinion of the Audit Commission on the accuracy and reliability of data included in Rosneft’s Annual Report and annual accounting (financial) statements as at 31 December 2019, and in the report on interested-party transactions entered into in the reporting period.

The annual compensation awarded by the Annual General Shareholders Meeting to the members of the Audit Commission amounted to RUB 440,000 in 2019. No compensation was paid to public officers serving on the Audit Commission.

Chairman
Zakhar Sabantshev
Born in 1974.
Graduated from the Moscow State University of Economics, Statistics, and Informatics. Section Head, Bank Sector Monitoring, Consolidated and Analytical Work Section, Financial Policy Department, Ministry of Finance of the Russian Federation.

Members of the Audit Commission
Olga Andrianova
Born in 1958.
Graduated from the All-Russian State Distance-Learning Institute of Finance and Economics (AROLFD). Holder of a ministerial award – Certificate of Merit of the Russian Ministry of Energy. Chief Accountant – Head of Finance and Economics at JSC ROSNEFTGAS.

Alexander Bogashov
Born in 1989.
Graduated from the State University of Management, Minister of Properties of the Chelyabinsk Region.

Sergey Poma
Born in 1959.
Graduated from Nakhimov Black Sea Higher Naval School and Saint-Petersburg State University. Vice President of the National Association of Securities Market Participants (NALFOP).

Pavel Shumov
Born in 1978.
Graduated from the Moscow State University of Economics, Statistics, and Informatics. Acting Deputy Department Director, Ministry of Economic Development of the Russian Federation.

Risk Management and Internal Control System
The objectives of the Risk Management and Internal Control System (RM&ICS) are set out in the Company’s Policy on the Risk Management and Internal Control System. Drawing on recommendations of international firms engaged in risk management, internal control and audit services, these are intended to provide reasonable assurance that the Company will achieve its goals in four focus areas:

1. Strategic goals contributing to the accomplishment of the Company’s mission
2. Operational goals relating to the Company’s financial and operating performance and asset integrity
3. Goals of maintaining compliance with applicable laws and local regulations, including HSE requirements and requirements for information and personal security
4. Goals of preparing reliable financial statements or non-financial reports and non-financial reports for internal and/or external users in a timely manner

1 Rosneft’s Policy on the Risk Management and Internal Control System No. П4-01 П-01 approved by the Company’s Board of Directors, Minutes No. 8 dated 16 November 2015.
Key Risk Management and Internal Control System (RM&ICS)

Stakeholders

I. GOAL-SETTING AND CONTROL

BOARD OF DIRECTORS AND AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

- Approve RM&ICS focus areas and follow up on their progress
- Approve corporate reports on financial and business risks
- Approve risk appetite
- Monitor the RM&ICS reliability and performance

II. RISK MANAGEMENT AND DECISION-MAKING

CHIEF EXECUTIVE OFFICER

- Validates RM&ICS focus areas
- Validates RM&ICS reports
- Validates risk appetite

RISK MANAGEMENT COMMITTEE

- Validates the RM&ICS issues reported to the Chief Executive Officer
- Resolves RM&ICS operational disputes

MANAGEMENT

- Distributes roles and responsibilities among employees
- Risk management
- Develops and implements control procedures
- Conducts self-assessment of internal controls

III. RISK MANAGEMENT AND IMPLEMENTATION OF DECISIONS

JVS PROVIDING CERTAIN RM&ICS FUNCTIONS

- Prepare and consolidate RM&ICS reports
- Manage the roll-out of RM&ICS elements and develop proposals for the risk management methodology
- Assist the Company’s management in conducting self-assessment of internal controls

EMPLOYEES

- Implement risk management controls and initiatives
- Assist the Company’s management in managing risks
- Help identify, assess and report on risks and internal controls, and conduct self-assessment of internal controls

RISK AND INTERNAL CONTROL EXPERTS

- Steer risk management and internal control processes in business units
- Identify, assess, and develop risk management initiatives
- Develop, implement, and update business process controls
- Develop, implement and monitor initiatives to bridge gaps in business process controls

IV. RM&ICS INDEPENDENT MONITORING AND PERFORMANCE ASSESSMENT

INTERNAL AUDIT FUNCTION

- Assesses the RM&ICS reliability and performance
- Conducts audits
- Monitors the implementation of RM&ICS improvement proposals made by internal auditors
- Assists the Company’s executive bodies in investigating abusive/unlawful practices by the Company’s employees and third parties

AUDIT COMMISSION

- Audits the Company’s financial and business operations, verifies the accuracy and reliability of data included in Rosneft’s annual reports and annual accounting (financial) statements

V. STEERING AND GUIDELINES

RISK AND INTERNAL CONTROL DEPARTMENT

- Plans RM&ICS focus areas
- Develops, implements and updates Company-wide RM&ICS guidelines
- Prepares reports on risks and internal controls
- Manages the RM&ICS roll-out and operation across Rosneft’s business units and Group Subsidiaries
- Provides guidelines to key RM&ICS stakeholders, trains them in risk management and internal controls
- Develops, implements and supports insurance programmes
- Reinsures the Company’s risks in Russian and international insurance markets
- Setstle insurance claims on risks materialised

SECURITY SERVICE

- Develops, updates, and introduces internal anti-fraud and anti-corruption regulations and implementing documents
- Participates in ensuring compliance with internal regulations and implementing anti-fraud and anti-corruption initiatives taken by Rosneft’s executive bodies
- Manages the Security Hotline
- Conducts inspections/investigations into abusive/unlawful practices by the Company’s employees and third parties
Enhancement of the Risk Management and Internal Control System

Owing to ongoing improvements in its RM&ICS, the Company can promptly and adequately respond to changes in the external and internal environment, achieve better performance, and maintain and increase its shareholder value.

The Comprehensive RM&ICS Enhancement Plan covers the short and medium terms. The Plan sets key targets and objectives and outlines critical steps towards the achievement of the Company’s goals for the RM&ICS.

To achieve the ICS objectives, the Company needs to:

1. Define and update key ICS focus areas in alignment with the Company’s needs and stakeholder requirements
2. Develop, adopt and follow controls, including the development of uniform guidelines to support efficient ICS operations
3. Identify shortcomings in existing controls, develop and implement initiatives to address the same, streamline and upgrade controls
4. Develop and implement tools to facilitate communication and information sharing among all RM&ICS stakeholders, including via information systems

Corporate-Wide Risk Management System (CWRMS)

Key CWRMS components

1. ANNUAL PLANNING
2. RISK IDENTIFICATION
3. RISK MANAGEMENT INFRASTRUCTURE
4. ONGOING ENHANCEMENT OF THE CWRMS INFRASTRUCTURE AND PROCESS
5. DISTRIBUTION OF ROLES WITHIN THE CWRMS
6. RESPONDING TO RISKS
7. REGULATIONS AND POLICIES
8. INTERFACES BETWEEN THE CWRMS AND OTHER PROCESSES

RISK MANAGEMENT PROCESS

A combination of risk management elements supported by the existing organisational structure, internal policies and regulations, risk management procedures and techniques that are applied across all management levels and functions of the Company to make its risks acceptable in the context of achieving Rosneft’s strategic goals

Internal Control System

THE INTERNAL CONTROL SYSTEM (ICS) IS AN INTEGRAL PART OF THE RM&ICS

- The both systems have aligned goals.
- The Company relies on these regulations to identify risks inherent in its business processes and implement controls, thus improving manageability and efficiency across business processes, reliability of financial statements, and compliance with the applicable laws and internal regulations.

RM&ICS Enhancement Initiatives in 2019

<table>
<thead>
<tr>
<th>RM&amp;ICS focus areas</th>
<th>Key results</th>
</tr>
</thead>
</table>
| Improving RM&ICS guidelines; Employee trainings | The Company’s internal regulations governing the RM&ICS were updated, including:
- the Company’s Standard on Insurance of Corporate Risks;
- the Company’s Regulations on Development, Implementation and Maintenance of the Internal Control System. 245 employees of Rosneft and Group Subsidiaries were trained in the RM&ICS. |
| Developing the Company’s risk management and internal control infrastructure and procedures | The Company’s quantitative risk assessment models were verified (back-tested). The Company-wide Register of Risks and Control Procedures is maintained and updated. A model (algorithm) was developed to evaluate risks of adverse judgements in litigations against the Company. |
| Implementing and maintaining the Internal Control System | The Company keeps on developing, implementing and streamlining its business process controls. Internal controls were self-assessed in the Retail Sales of Petroleum Products and Complementary Goods and Small-scale Wholesale of Petroleum Products business process and the Accounting Management and Financial Reporting business process. |
| Improving the RM&ICS processes across Group Subsidiaries | The corporate-wide risk management system was implemented by 15 Group Subsidiaries. |
| Developing information resources to support and maintain the RM&ICS | Risk and internal control experts from the Company and Group Subsidiaries were given access to the Risk Management and Internal Control information resources. Risk and internal control experts were trained in using the Risk Management and Internal Control information resources. |
Risk management at Rosneft is governed by the Company’s Policy on the Risk Management and Internal Control System and Standard on the Corporate-Wide Risk Management System (CWRMS).

The CWRMS is a combination of interrelated elements embedded into various business processes of the Company (including strategic and business planning processes) and implemented at all management levels by all employees of the Company.

All key risks of the Company are reported within the CWRMS, including the risks affecting the implementation of its Long-Term Development Programme and the risks related to day-to-day financial and business operations. Risk reports are delivered for review/approval to the members of the Board of Directors and communicated to the management.

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Rosneft’s Risks

<table>
<thead>
<tr>
<th>INDUSTRY-WIDE RISKS</th>
<th>FINANCIAL RISKS</th>
<th>LEGAL RISKS</th>
<th>COUNTRY AND REGIONAL RISKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk of occupational injuries</td>
<td>Risk of market risks</td>
<td>Risk of adverse judgements in legal proceedings to which the Company is a party</td>
<td>Risk related to international projects</td>
</tr>
<tr>
<td>Risk of failure to achieve natural gas and gas condensate production targets</td>
<td>Risk of failure to achieve natural gas sales targets</td>
<td>Risk of breach of competition laws</td>
<td></td>
</tr>
<tr>
<td>Risk related to rising purchase prices for electric power</td>
<td>Risk of counter-party risk related to petroleum products, natural gas, petrochemicals and gas processing products supply contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk of failure to comply with the repair plan in Oil Refining</td>
<td>Risk of low EBITDA from harbour services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk of price restrictions resulting in a lower gross margin from petroleum products sales through Rosneft’s own filling stations and oil depots in Russia</td>
<td>Risk of accidents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk of failure to achieve oil and gas condensate production targets</td>
<td>Risk of failure to achieve natural gas price targets</td>
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</tbody>
</table>

Risk Appetite of the Company

IN 2018, ROSNEFT’S BOARD OF DIRECTORS APPROVED THE COMPANY’S RISK APPETITE FOR 2019:

FINANCIAL AND ECONOMIC PERFORMANCE

The Company strictly complies with its financial covenants. The Company ensures that all its short- and long-term commitments are fulfilled as they fall due.

HEALTH, SAFETY AND ENVIRONMENT

Recognising the nature and scale of the footprint of its business, products and services, the Company feels responsible for safe and accident-free operation and protects health and safety of its employees and local residents in regions of its operation. As part of its commitment to prevent any potential adverse impact on the environment, the Company makes every effort to protect, preserve and restore natural resources.

CORPORATE GOVERNANCE

The Company has zero tolerance for any form or manifestation of corporate fraud and corruption.
Corporate Insurance

Rosneft relies on insurance as a risk management tool enabling it to pass financial losses from the risks materialised on to insurers.

Rosneft’s corporate insurance programme covers:
- fixed assets of the Company;
- civil liability;
- business risks.

Rosneft has insurance coverage in place for its fixed assets against the risk of damage to (loss of) property and potential losses resulting from business interruption due to accidents and other accidental exposures, as well as liability insurance against the risk of legal action by third parties arising out of its onshore and offshore operations.

The most material risks are reinsured with international firms rated A- or higher by S&P, AM Best or Fitch.

Rosneft insures its liability as required by federal laws, including Federal Law No. 223-FZ On Compulsory Insurance of Owners of Hazardous Facilities against Civil Liability for Damage Caused by Accidents at Hazardous Facilities. Cause 1 of Article 1 of the above Law provides for the compulsory insurance of property interests of the Company’s owner and its obligation to indemnify for damage caused to the affected party.

Internal Audit

The Company’s internal audit is governed by the following internal regulations:
- the Company’s Policy on Internal Audit (No. P.04-01 P.02);
- the Company’s Standard on the Organisation of Internal Audit (No. P.04-01 S.0021);
- the Company’s Regulations on the Internal Audit Quality Assurance and Improvement Programme (No. P.04-01 R.0038);
- the Company’s Regulations on the Procedure for Cooperation between the Internal Audit Service and Business Units of Rosneft and Group Subsidiaries When Performing Internal Audit (No. P.04-01 R.0041);
- Rosneft’s Instruction on the Annual Planning of Internal Audits (No. P.04-01 L.01016 Vul-001);
- Rosneft’s Instruction on the Procedure for Internal Audits (No. P.04-01 L.01013 Vul-001);
- Rosneft’s Instruction on the Procedure for In-house Self-assessment of Internal Audit Quality (No. P.04-01 L.01014 Vul-001);
- other internal regulations governing the Company’s internal audit operations.

The Internal Audit Service assists Rosneft’s Board of Directors and its executive bodies in enhancing the Company’s management efficiency and improving its financial and business performance, including through a systematic and consistent approach to the analysis and evaluation of the risk management and internal control system (RMICS) as well as corporate governance, therefore providing reasonable assurance that the Company will achieve its goals. It also helps ensure:
- accuracy, reliability, and integrity of information on the Company’s financial and business operations, including those of Group Subsidiaries;
- efficiency and effectiveness of the Company’s operations, including those of Group Subsidiaries;
- room for improvement available across the Company’s financial and business operations, including those of Group Subsidiaries;
- integrity of the Company’s assets, including those of Group Subsidiaries.

Rosneft’s internal audit function is performed by the Vice President – Head of Internal Audit and the Company’s functional units, specifically the Operational Audit Department, the Corporate Audit Department, the Regional Audit Department, the Internal Audit Methodology and Management Division, and the Economic and Organisational Analysis Division.

In accordance with Rosneft’s organisational structure approved by the Board of Directors, units of the Internal Audit Service report directly to the Head of Internal Audit.

Rosneft’s internal audit plan prioritising internal audit activities based on the risk-oriented approach.
- assessing the RMICS reliability and performance as well as its adequacy given the scale and complexity of the Company’s business;
- assessing corporate governance;
- conducting audits and activities in line with the Internal audit plan approved by Rosneft’s Chief Executive Officer and endorsed by the Board’s Audit Committee;
- performing other inspections as instructed by Rosneft’s Board of Directors (its Audit Committee) and/or the Company’s Chief Executive Officer;
- analysing audit targets to look into and evaluate specific aspects of their activity;
- developing recommendations for streamlining business processes, including their integrity, risk management and internal controls;
- advising the Company’s executive bodies on risk management, internal controls, and corporate governance (provided that the internal audit remains independent and impartial);
- monitoring the Company’s progress in addressing breaches and shortcomings identified during audits.

Reporting and Accountability Lines of Internal Audit

Functionally, the Internal Audit Service reports to Rosneft’s Board of Directors. This implies:
- approving Policy-level internal regulations on internal audit (specifically, the Policy on Internal Audit that sets out its goals, objectives, and roles);
- deciding on the appointment and removal of the Head of Internal Audit;
- reviewing internal audit plans and performance reports;
- approving the Internal Audits’ budget and remuneration of the Head of Internal Audit;
- the Board’s Audit Committee reviewing material limitations of authority and other restrictions likely to adversely affect performance of the Internal Audit Service.

Administratively, the Internal Audit reports to Rosneft’s Chief Executive Officer. This implies:
- allocating necessary funds within the approved budget;
- approving internal audit plans;
- reviewing internal audit performance reports;
- facilitating the cooperation with Rosneft’s and Group Subsidiaries’ business units;
- administering internal audit policies and procedures (e.g. approving internal regulations on internal audit and amendments thereto, approving organisational documents of Rosneft’s Internal Audit, validating business trips, and endorsing the engagement of external experts to work on internal audits).

The existing reporting lines whereby the Head of Internal Audit reports to the Board of Directors and the Company’s executive bodies provide sufficient independence for performing internal audit functions.

Heads of the Internal Audit functional units do not participate in managing functional areas of the Company’s business requiring management decisions on audited entities.

The Head of Internal Audit was appointed by Rosneft’s Board of Directors to its Management Board in July 2016 and was also appointed by Bashneft’s Annual General Shareholders Meeting to Bashneft’s Board of Directors in June 2015. The Head of Internal Audit is not entitled to vote on matters requiring management decisions on audited entities.

The internal auditors provide written confirmation of their personal impartiality to the heads of the Internal Audit functional units and to the Head of Internal Audit at least once a year, thereby raising awareness among the Internal Audit employees about potential conflicts of interest and related issues, as well as response procedures to situations which may influence the independence and impartiality of internal audit.

The Head of Internal Audit provides Rosneft’s Chief Executive Officer, Board of Directors (its Audit Committee) with confirmation of the organisational independence of the Internal Audit Service and individual impartiality of internal auditors at least once a year, as part of the internal audit performance report.
Internal Audit Performance in 2019

The internal audit plan is based on an audit model and uses information and requests received from Rosneft’s executive bodies and Board of Directors, as well as its risk evaluation results. It includes audits and other activities and is subject to approval by Rosneft’s Chief Executive Officer and endorsement by the Board of Directors. Details of the plan are presented to the Company’s Board of Directors as part of the internal audit report for the previous period.

At least twice a year, the Head of Internal Audit procures to prepare and submit this report to Rosneft’s Board of Directors and its executive bodies (including information about material risks, breaches and shortcomings, results and effectiveness of internal auditors’ proposals for eliminating the same, delivery of the internal audit plan, as is assessment, reliability and performance of the Company’s RM&ICS and corporate governance).

The internal audit reports for the first six months and the full year of 2019 were reviewed by the Chief Executive Officer, the Board’s Audit Committee and the Board of Directors of Rosneft.

The Internal Audit Service completed all planned activities in line with its internal audit plan for 2019.

In the reporting period, internal audits covered most of the Company’s corporate risks as well as financial and operational risks, and 56% of Group Subsidiaries’ asset value.

In 2019, the Internal Audit Service ran 17 projects and initiatives seeking to improve the control environment and enhance the efficiency of both the Company and its internal audit. Since 2019, the Internal Audit Service has been implementing preventive independent inspections with a view to making the Company’s procurement processes more efficient.

In the reporting period, it focused on monitoring crude oil and petroleum products inventory management, well cost accounting, disposal of overseas assets, as well as on fostering process management and corporate culture.

Based on results from the risk management and internal control system efficiency assessment, the Internal Audit Service concluded that the RM&ICS ensured overall support of the risk management process and efficient internal control operations, providing reasonable assurance that the Company would achieve its goals.

The assessment results were reviewed by the Board’s Audit Committee and the Board of Directors of Rosneft.

In 2019, Rosneft fully automated its internal audit function across all focus areas ranging from annual planning to monitoring the Company’s progress in addressing breaches and shortcomings identified during audits.

In the reporting period, the Internal Audit Service updated the Assurance Map representing a risk and control matrix across business process broken down in three lines of defence.

In September 2019, the Financial Management Department at Gubkin Russian State University of Oil and Gas launched master’s curriculum in Internal Audit and Control both in-house and extramural, aiming to train internal audit specialists for the oil and gas industry. The graduates who successfully passed the corporate selection procedures became interns at Rosneft’s Internal Audit Service.

All the employees of Rosneft’s Internal Audit Service undergo training in their core business areas.

Key Focus Areas in 2019

Core processes (64% of audits)

- Exploration and production of oil and gas: 36%
- Commerce and logistics: 24%
- Capital construction and investments: 23%
- Oil and gas refining and petrochemicals: 18%

Supporting processes (36% of audits)

- Procurement: 21%
- Energy, localisation, and innovations: 19%
- HSE: 15%
- Corporate services: 40%
- Industrial automation and IT: 5%

In the reporting period, the Internal Audit Service conducted regular in-house self-assessment on its internal audit quality. It was concluded following the self-assessment that the internal audit function was generally in line with the requirements of the Company’s Policy on Internal Audit and other regulations on internal audit, the International Standards for the Professional Practice of Internal Auditing, and the Code of Ethics of the International Institute of Internal Auditors.

The Internal Audit Service ensures effective communication with the Board’s Audit Committee (including face-to-face meetings with its Chairman without attendance by the Company’s management, Rosneft’s Chief Executive Officer (including through personal reports on material audit results), and the management of Rosneft and Group Subsidiaries.

The Head of Internal Audit cooperates with Rosneft’s Audit Commission, external auditor, and audit commissions of Group Subsidiaries.
Information for Shareholders and Investors
Share Capital

The Company’s share capital is divided into 10,598,177,817 ordinary shares with a par value of RUB 0.01 each.

Rosneft shares are traded on the Moscow Exchange. Outside Russia, Company shares are listed on the London Stock Exchange as Global Depositary Receipts (GDRs). As at 31 December 2019, J.P. Morgan, acting as depositary bank, issued GDRs for 5.6% of ordinary shares in the Company.

The Company has over 120 thousand individual and corporate shareholders and more than 500 GDR holders.

The Dividend Policy

The Dividend Policy approved by the Board of Directors formalises the Company’s key principles of, and approaches to, dividend payouts to shareholders and introduces transparent decision-making processes for paying out (declaring) dividends and determining their amount and payment procedure.

Principles of the Dividend Policy:

- ensuring compliance with the requirements of the Russian laws, the Company’s Charter and internal regulations when paying out (declaring) dividends;
- maximising the transparency of the dividend calculation process;
- increasing the Company’s investment appeal;
- maintaining the balance of short- and long-term interests of shareholders;
- supporting shareholder commitment to improving the Company’s profitability;
- ensuring that the dividend payout pattern comfortably reflects an increase in Rosneft’s net profit;
- making dividend payouts in a way most convenient for our shareholders;
- paying out dividends as soon as practicable.

The decision to pay dividends is made by the General Shareholders Meeting of the Company upon recommendation of the Board of Directors.

In 2019, the Company discharged 99.98% of its obligation to pay out dividends. Dividends were paid to all shareholders of record, except for persons who failed to timely notify the issuer’s registrar of changes in the data recorded on their profile.

The Company’s Charter provides for a five-year period during which shareholders may claim dividends declared but not paid due to missing address or banking details, which is longer than required by the applicable laws.

In 2019, the Company continued to increase the amount of annual dividend payout and paid RUB 120.1 bln as final dividend for FY2018 and RUB 162.6 bln as dividend for the first six months of 2019. The total amount of dividends declared was RUB 283 bln.

In 2019, the Company made no changes to its Dividend Policy.

In 2019, the Company continued to increase the amount of annual dividend payout and paid RUB 120.1 bln as final dividend for FY2018 and RUB 162.6 bln as dividend for the first six months of 2019. The total amount of dividends declared was RUB 283 bln.

1 Including the dividend for the first six months of 2019 and the dividend recommended by the Board of Directors to be approved at the Annual General Shareholders Meeting in 2020.
The Company has established a multi-level system to protect the rights of its shareholders.

Shareholder Rights Guaranteed by Law and the Listing Rules

Pursuant to the laws of the Russian Federation, the Company’s shareholders have the right to:
- vote at the General Shareholders Meeting on one-share-one-vote basis;
- propose items for the agenda of the General Shareholders Meeting and nominate candidates to the Board of Directors (if a shareholder owns at least 2% of voting shares);
- exercise pre-emptive right to buy shares in any future issue and issue-grade securities convertible into shares;
- receive dividends declared by the Company, in proportion to the number of shares held;
- review information and materials provided in preparation for the General Shareholders Meeting;
- exercise other rights granted under Russian law.

Additional Rights Guaranteed by the Company’s Charter and Internal Regulations

The Company offers equal and fair opportunities for its shareholders to exercise their legal rights, e.g. by securing additional rights and procedures in the Charter and internal regulations, including the right to:
- receive part of the Company’s profit as dividend;
- obtain information on the Company’s operations upon request and as established by Russian law;
- freely dispose of Rosneft’s shares;
- exercise other rights granted under Russian law.

Independent and Professional Board of Directors

The composition of the Board of Directors and the number of Board members reflect the Company’s shareholding structure. Electing Board members by cumulative voting guarantees the rights and legitimate interests of shareholders.

The Board of Directors consists of four independent directors of internationally recognised business standing.
Official Channels of Communication with Shareholders

The Company has established efficient means of communication with its shareholders.

The Company has several communication channels in place to facilitate the exercise of corporate rights and promote efficient shareholder relations, including:

- 24 hour hotline for Rosneft shareholders (a multichannel phone line to receive and handle calls); 8 800 500 1100 (toll-free within Russia); +7 495 987 3060;
- mailing address for letters: 26/1 Sofyskaya Embankment, Moscow, 117997, Russian Federation;
- E-mail for requests: shareholders@rosneft.ru;
- fax: +7 499 517 8653;
- shareholder account on the Company’s website.

SHAREHOLDER’S PERSONAL ACCOUNT

In 2019, the Company launched Shareholder’s Personal Account – a convenient and safe online information service for shareholders, which provides real-time access to information and facilitates the exercise of rights granted by securities. The new service can be used to:

- participate in the General Shareholders Meeting via online registration, vote on items on the agenda, read materials for the Meeting and submit questions to speakers;
- gain access to one’s personal account in the register of Rosneft shareholders’ to obtain information on the number of shares held, personal data, and bank details for the payment of dividends;
- monitor dividend payouts and promptly claim any unpaid dividends;
- submit questions and obtain advice.

To gain access to their personal accounts, shareholders shall request login and password from the Moscow Head Office or regional branches of the Company’s registrar, LLC Reestr-RN.

For clients of nominee shareholders, access to shareholder accounts is granted by the registrar upon the disclosure of information thereon by relevant nominee shareholders.

The rules governing the procedure of registering a personal account can be found on the website of LLC Reestr-RN or on the Company’s website.

Any questions concerning access to personal accounts shall be addressed to:

- LLC Reestr-RN call centre at: phone: +7 495 411 7911 (email: support@reestr-rn.ru);
- hotline for Rosneft shareholders at: 8 800 500 1100 (toll-free within Russia) and +7 495 987 3060 (email: shareholders@rosneft.ru).

Protecting Shareholders’ Title to Shares

The Company practices reliable and safe methods of recording title to its shares and has engaged a professional registrar to maintain its Shareholder Register.

The registrar is LLC Reestr-RN acting under a perpetual licence to register security holders.

LLC Reestr-RN has been operating in the registrar services market for 18 years and ranks among the top ten Russian registrars. The company keeps registers for more than 2 thousand issuers, with an inventory of 545 thousand personal accounts to record the rights of their shareholders. Shareholder service offices and transfer agent offices of LLC Reestr-RN operate in the regions where the majority of Company shareholders reside and include the Head Office, 13 branches, 44 transfer agent offices at regional branches of LLC Reestr-RN’s partner registrars, 5 transfer agent offices at Rosneft’s partner banks, and a contact and service centre for Rosneft shareholders.

The Company, together with LLC Reestr-RN, regularly notifies its shareholders of the need to update their personal data recorded in the Shareholders Register of Rosneft.
Institutional Investor Relations

Rosneft shares are among the most attractive investment instruments in the Russian stock market. The Company has a free float of 11.32%, including 5.6% in the form of Global Depositary Receipts (GDR) traded on the London Stock Exchange (LSE). Rosneft enjoys a diversified investor base of around 500 institutional investors.

International institutional shareholders of the Company are based in major business and financial hubs, such as New York, Boston, Los Angeles, London, Frankfurt, Stockholm, Hong Kong, Singapore, and Tokyo. For over ten years since its IPO, Rosneft shares have been steadily growing in value. Between 19 July 2016 and 31 December 2019, Rosneft share price on the Moscow Exchange more than doubled.

Relations with the Company’s investors, both existing and potential, are maintained by the Chairman of the Management Board of Rosneft, First Vice President, heads of businesses, and the Investor Relations Department. In 2019, the Company completed an extensive IR Programme, including a number of strategic speeches by the Chairman of the Management Board at major international investment forums, and approximately 180 one-on-one and group meetings between Company executives and top investment funds.

Feedback from investors is reported to Rosneft’s management on a regular basis.

Currently, 21 investment banks provide analytical coverage of the Company. The Chairman of the Management Board of Rosneft and heads of relevant core functions maintain regular communications with the investor community. At such meetings, investors, analysts, and representatives of international rating agencies are updated on strategic trends in the Company’s development, its operations, and financial management directly by the Company’s executives. Rosneft holds quarterly conference calls for investors involving heads of economics, finance, and operations who provide detailed coverage of the Company’s performance in the reporting period. Shareholder and investor materials, such as press releases, presentations, Rosneft’s Annual Report and Sustainability Report, as well as material facts on resolutions of the Company’s Board of Directors are posted on the Company’s website.

As at February 2020, 19 major investment banks recommended to buy or hold Rosneft shares/GDRs.

In 2019, the Company continued building up resources and interacting with its investors on the environmental, social and governance (ESG) investing matters. In April 2019, Rosneft released an updated public statement on its contribution towards achieving the 17 UN Sustainable Development Goals approved by the Company's Board of Directors in December 2018. During the reporting year, Rosneft maintained regular communication with Investors supporting the Climate Action 100+ initiative. The Company held nearly 50 investor calls on ESG matters. In June 2019, Rosneft became the first Russian company to take part in a ESG workshop that was held in Copenhagen and attended by representatives of 31 investment funds and Sustainalytics and IIS-BM ESG rating agencies. Rosneft maintains an ongoing dialogue with 16 international ESG analytical and rating agencies.

2020 PRIORITIES
- Improve disclosure standards
- Enhanced interaction with shareholders and investors
- Promote fast, high-quality, and skilful financial communications

In 2019, the Company’s market capitalisation increased by 17%
(The London Stock Exchange)

2019 IR Highlights

JPMorgan
J. P. Morgan – CEEMA Opportunities Conference (London)

Morgan Stanley

HSBC
HSBC – Non-Deal Roadshow, Miami

JPMorgan
J. P. Morgan – GEM Corporate Conference, Miami

Sberbank CIB
Sberbank CIB – Russia: The Inside track, One-on-One Conference, Moscow

Renaissance Capital
Renaissance Capital – Annual Russia Investor Conference, Moscow

HSBC
HSBC – Rosneft Saudi Arabia and UAE Non-Deal Roadshow, Dubai, Abu Dhabi (UAE)

UBS
UBS – Russia Investors Day, Stockholm, Frankfurt

Renaissance Capital
Renaissance Capital – Annual Russia Investor Conference, Moscow


MAY

FEBRUARY

JUNE

MARCH

AUGUST

SEPTEMBER

OCTOBER

NOVEMBER

DECEMBER

Strategy
Market Overview
Sustainable
Corporate
Information
the Company
and Results
Development
Governance
for Shareholders
and Investors
### Index

**Rosneft Share and Depository Receipt Index Weight as at the end of 2019, %**

<table>
<thead>
<tr>
<th>Index</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI Russia</td>
<td>3.57*</td>
</tr>
<tr>
<td>FTSE Russia IDB</td>
<td>4.24</td>
</tr>
<tr>
<td>MOEX</td>
<td>4.45</td>
</tr>
</tbody>
</table>

* As at February 2020

### List of the Largest Institutional Equity and GDR Investors as at January 2020

<table>
<thead>
<tr>
<th>Capital funds</th>
<th>Free float, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Vanguard Group, Inc.</td>
<td>3.91</td>
</tr>
<tr>
<td>BlackRock Fund Advisors</td>
<td>3.60</td>
</tr>
<tr>
<td>SAFE Investment Co. Ltd.</td>
<td>2.36</td>
</tr>
<tr>
<td>SIGF Funds Management, Inc.</td>
<td>2.00</td>
</tr>
<tr>
<td>GIC Pte Ltd. (Investment Management)</td>
<td>1.84</td>
</tr>
<tr>
<td>Macquarie Investment Management Business Trust</td>
<td>1.74</td>
</tr>
<tr>
<td>Pzena Investment Management LLC</td>
<td>1.48</td>
</tr>
<tr>
<td>JPMorgan Asset Management (UK) Ltd.</td>
<td>1.3</td>
</tr>
<tr>
<td>Amundi Asset Management SA (Investment Management)</td>
<td>1.27</td>
</tr>
</tbody>
</table>

### No  Bank  Recommendation, early 2019  Recommendation, late 2019

<table>
<thead>
<tr>
<th>No</th>
<th>Bank</th>
<th>Recommendation, early 2019</th>
<th>Recommendation, late 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Citi</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>2</td>
<td>BCS</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>3</td>
<td>Renaissance Capital</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>4</td>
<td>ATON</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>5</td>
<td>Veles Capital</td>
<td>Hold</td>
<td>Buy</td>
</tr>
<tr>
<td>6</td>
<td>SOVA Capital</td>
<td>Hold</td>
<td>Buy</td>
</tr>
<tr>
<td>7</td>
<td>HSBC</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>8</td>
<td>Raiffeisen Bank</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>9</td>
<td>Credit Suisse</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>10</td>
<td>UBS</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>11</td>
<td>Gazprombank</td>
<td>Put on review</td>
<td>Buy</td>
</tr>
<tr>
<td>12</td>
<td>Deutsche Bank</td>
<td>Buy</td>
<td>Buy</td>
</tr>
<tr>
<td>13</td>
<td>Merrill Lynch</td>
<td>Hold</td>
<td>Hold</td>
</tr>
<tr>
<td>14</td>
<td>J.P. Morgan</td>
<td>Hold</td>
<td>Hold</td>
</tr>
<tr>
<td>15</td>
<td>Morgan Stanley</td>
<td>Hold</td>
<td>Hold</td>
</tr>
<tr>
<td>16</td>
<td>Wood &amp; Company</td>
<td>Hold</td>
<td>Hold</td>
</tr>
<tr>
<td>17</td>
<td>Goldman Sachs</td>
<td>Buy</td>
<td>Hold</td>
</tr>
<tr>
<td>18</td>
<td>Sberbank</td>
<td>Hold</td>
<td>Hold</td>
</tr>
<tr>
<td>19</td>
<td>URALSIB</td>
<td>Put on review</td>
<td>Hold</td>
</tr>
<tr>
<td>20</td>
<td>Alfa Bank</td>
<td>Put on review</td>
<td>Put on review</td>
</tr>
<tr>
<td>21</td>
<td>VTB Capital</td>
<td>Put on review</td>
<td>Put on review</td>
</tr>
</tbody>
</table>

1 Except for strategic investors.

### Comparative Performance of Rosneft Stocks, the MICEX Index and Brent Quotes (Base Value – 100)

### Rosneft Stock Price and Trading Volumes at LSE and MOEX

1 Stock price is quoted as of the end of month.
Bonds and Credit Ratings of the Company

**BBB–** credit rating by S&P Global

**Baa3** credit rating by Moody’s

As at the end of 2019, Rosneft’s credit ratings by S&P Global and Moody’s international rating agencies were at an investment grade and on par with the sovereign rating of the Russian Federation: BBB–, stable outlook, and Baa3, stable outlook. On top of that, the Company had the highest creditworthiness rating (ruAAA) with a stable outlook from Expert RA rating agency.

In 2012, Rosneft placed two Eurobond issues as part of its Eurobond Programme for a total of USD 10 bn: USD 1 bn maturing in 2017 and USD 2 bn maturing in 2022. Between 2016 and 2018, former subsidiaries of TNK-BP Group placed eight Eurobond issues for a total of USD 5.5 bn maturing in 2011–2020. Two Eurobond series for a total of USD 2.5 bn, issued by Rosneft and its Subsidiaries that had previously been part of TNK-BP Group, remained outstanding as at 31 December 2019.

In 2012–2017, Rosneft launched four Ruble Bond Programmes and completed 41 issues of corporate and exchange-traded rouble bonds for a total of RUB 2.261 bn.

In November 2017, the Company registered its fifth multi-currency Exchange-Traded Bond Programme with a total par value of RUB 1.3 trn. As part of the Programme, Rosneft completed three rouble bond issues for a total of RUB 6.30 bn in December 2017, two rouble bond issues for a total of RUB 70 bn in the first quarter of 2018, and four rouble bond issues for a total of RUB 80 bn in 2019.

In February 2019, following the Company’s deleveraging, S&P Global upgraded its credit rating.

<table>
<thead>
<tr>
<th>Par Value, mln</th>
<th>Currency</th>
<th>Coupon</th>
<th>Series / Issue Number</th>
<th>Issue Date</th>
<th>Maturity Date</th>
<th>Issuer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eurobonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>500 USD</td>
<td>USD</td>
<td>7.25%</td>
<td>Series 8</td>
<td>February 2010</td>
<td>February 2020</td>
<td>Rosneft Finance S.A.</td>
</tr>
<tr>
<td>2,000 USD</td>
<td>USD</td>
<td>4.19%</td>
<td>Series 2</td>
<td>December 2012</td>
<td>March 2022</td>
<td>Rosneft International Finance DAC</td>
</tr>
<tr>
<td>Ruble bonds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20,000 RUB</td>
<td>RUB</td>
<td>7.90%</td>
<td>Series 04, 05</td>
<td>October 2012</td>
<td>October 2022</td>
<td>Rosneft</td>
</tr>
<tr>
<td>35,000 RUB</td>
<td>RUB</td>
<td>7.30%</td>
<td>Series 07, 08</td>
<td>March 2013</td>
<td>March 2023</td>
<td>Rosneft</td>
</tr>
<tr>
<td>40,000 RUB</td>
<td>RUB</td>
<td>7.00%</td>
<td>Series 06, 09, 10</td>
<td>June 2013</td>
<td>May 2023</td>
<td>Rosneft</td>
</tr>
<tr>
<td>50,000 RUB</td>
<td>RUB</td>
<td>6.65%</td>
<td>Series BO-05, BO-06</td>
<td>December 2013</td>
<td>December 2023</td>
<td>Rosneft</td>
</tr>
<tr>
<td>35,000 RUB</td>
<td>RUB</td>
<td>8.96%</td>
<td>Series BO-01, BO-07</td>
<td>February 2014</td>
<td>February 2024</td>
<td>Rosneft</td>
</tr>
<tr>
<td>225,000 RUB</td>
<td>RUB</td>
<td>9.40%</td>
<td>Series BO-02, BO-03, BO-04, BO-08, BO-09, BO-10, BO-11, BO-12, BO-13, BO-14</td>
<td>December 2014</td>
<td>November 2024</td>
<td>Rosneft</td>
</tr>
<tr>
<td>400,000 RUB</td>
<td>RUB</td>
<td>7.85%</td>
<td>Series BO-15, BO-16, BO-17, BO-24</td>
<td>December 2014</td>
<td>December 2020</td>
<td>Rosneft</td>
</tr>
<tr>
<td>400,000 RUB</td>
<td>RUB</td>
<td>8.50%</td>
<td>Series BO-18, BO-19, BO-20, BO-21, BO-22, BO-23, BO-25, BO-26</td>
<td>January 2015</td>
<td>January 2021</td>
<td>Rosneft</td>
</tr>
<tr>
<td>600,000 RUB</td>
<td>RUB</td>
<td>6.60%</td>
<td>001P-01</td>
<td>December 2016</td>
<td>November 2026</td>
<td>Rosneft</td>
</tr>
<tr>
<td>35,000 RUB</td>
<td>RUB</td>
<td>9.39%</td>
<td>001P-02</td>
<td>December 2016</td>
<td>December 2026</td>
<td>Rosneft</td>
</tr>
<tr>
<td>20,000 RUB</td>
<td>RUB</td>
<td>9.50%</td>
<td>001P-03</td>
<td>December 2016</td>
<td>December 2026</td>
<td>Rosneft</td>
</tr>
<tr>
<td>40,000 RUB</td>
<td>RUB</td>
<td>8.65%</td>
<td>001P-04</td>
<td>May 2017</td>
<td>April 2027</td>
<td>Rosneft</td>
</tr>
<tr>
<td>15,000 RUB</td>
<td>RUB</td>
<td>8.60%</td>
<td>001P-05</td>
<td>May 2017</td>
<td>May 2025</td>
<td>Rosneft</td>
</tr>
<tr>
<td>246,000 RUB</td>
<td>RUB</td>
<td>8.50%</td>
<td>001P-06, 001P-07</td>
<td>July 2017</td>
<td>July 2027</td>
<td>Rosneft</td>
</tr>
<tr>
<td>100,000 RUB</td>
<td>RUB</td>
<td>7.10%</td>
<td>001P-08</td>
<td>October 2017</td>
<td>September 2027</td>
<td>Rosneft</td>
</tr>
<tr>
<td>600,000 RUB</td>
<td>RUB</td>
<td>6.60%</td>
<td>002P-01, 002P-02</td>
<td>December 2017</td>
<td>November 2027</td>
<td>Rosneft</td>
</tr>
<tr>
<td>31,000 RUB</td>
<td>RUB</td>
<td>7.75%</td>
<td>002P-03</td>
<td>December 2017</td>
<td>December 2027</td>
<td>Rosneft</td>
</tr>
<tr>
<td>50,000 RUB</td>
<td>RUB</td>
<td>7.50%</td>
<td>002P-04</td>
<td>February 2018</td>
<td>February 2028</td>
<td>Rosneft</td>
</tr>
<tr>
<td>20,000 RUB</td>
<td>RUB</td>
<td>7.30%</td>
<td>002P-05</td>
<td>March 2018</td>
<td>February 2028</td>
<td>Rosneft</td>
</tr>
<tr>
<td>15,000 RUB</td>
<td>RUB</td>
<td>8.70%</td>
<td>002P-06</td>
<td>April 2019</td>
<td>March 2029</td>
<td>Rosneft</td>
</tr>
<tr>
<td>25,000 RUB</td>
<td>RUB</td>
<td>8.70%</td>
<td>002P-07</td>
<td>April 2019</td>
<td>March 2029</td>
<td>Rosneft</td>
</tr>
<tr>
<td>25,000 RUB</td>
<td>RUB</td>
<td>7.95%</td>
<td>002P-08</td>
<td>July 2019</td>
<td>July 2029</td>
<td>Rosneft</td>
</tr>
<tr>
<td>25,000 RUB</td>
<td>RUB</td>
<td>7.10%</td>
<td>002P-09</td>
<td>October 2019</td>
<td>October 2029</td>
<td>Rosneft</td>
</tr>
</tbody>
</table>

1 Coupon rate as at 31 December 2019.
The Information Disclosure, Policy and Transparency

Rosneft is committed to prompt and reliable disclosure of information. The Board of Directors has approved the Company’s Information Policy and monitors compliance therewith to assist its shareholders, investors, and stakeholders with making informed investment and management decisions.

The Company relies on various disclosure channels and methods to ensure free and easy access to information disclosed in accordance with the applicable laws, rules of the Moscow Exchange and the London Stock Exchange, and internal regulations.

To ensure that Russian and foreign shareholders and investors are treated equally, the Company simultaneously discloses all information in Russian and English.

The Company uses its official website and the website of Interfax Corporate Information Disclosure Centre² to publish the Company’s Charter and other internal regulations, annual and quarterly reports, sustainability reports, and relevant Management Discussion and Analysis (MD&A), the analyst handbook, presentations, press releases, information on affiliates, and other data that may have an impact on the performance of Rosneft securities.

The Company has established a reliable system of preventing and curbing the misuse of insider information and regularly monitors persons with access thereto.

The Company is committed to promoting information disclosure by its controlled entities through continuous methodological support and regular training sessions.

The Company also discloses additional information that is not required by law or stock exchange rules:

- data on operating and financial performance with notes of the Company’s top management to annual reports and interim financial statements;
- the Company’s policy on sustainable development, health and safety;
- the Company’s operational structure.

The Company holds conference calls and meetings with institutional investors. Rosneft sends its representatives to investment conferences and roadshows in major international financial hubs and arranges visits to its production sites for members of the investment community.

THE COMPANY PUBLISHED AND HELD:

- 358 press releases and news on its official website;
- 8 media interviews of its top managers and Board members;
- 9 press conferences, media scrums and briefings of the Company’s management and representatives of its major shareholders;
- 4 regular financial performance presentations.

2019 Disclosure Items (298 disclosures)

- Meetings and resolutions of Rosneft’s governing bodies 53
- Completed transactions and projects, including stakes held in other entities 12
- Disclosure of, and access to, the Company’s reports (annual report, quarterly reports, accounting statements, consolidated financial statements, list of affiliates) 27
- Bond issues 28
- Accrued and paid income on bonds and shares 148
- Others 30

Appendix 1
(Consolidated financial statements of Rosneft Oil Company for the year ended December 31, 2019)

Key principles of the Information Policy are prompt disclosure, accessibility, reliability, and relevance of information.

For details see the website at: http://www.e-disclosure.ruportal/company.aspx?id=6505.
Rosneft Oil Company Consolidated balance sheet (in billions of Russian rubles)

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>Notes</th>
<th>As of December 31, 2019</th>
<th>As of December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>18</td>
<td>228</td>
<td>822</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>18</td>
<td>101</td>
<td>12</td>
</tr>
<tr>
<td>Other short-term financial assets</td>
<td>19</td>
<td>701</td>
<td>635</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>20</td>
<td>750</td>
<td>642</td>
</tr>
<tr>
<td>Inventories</td>
<td>21</td>
<td>638</td>
<td>593</td>
</tr>
<tr>
<td>Prepayments and other current assets</td>
<td>22</td>
<td>649</td>
<td>550</td>
</tr>
<tr>
<td>Total current assets</td>
<td></td>
<td>2,396</td>
<td>3,022</td>
</tr>
<tr>
<td>Non-current assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>23</td>
<td>8,713</td>
<td>8,665</td>
</tr>
<tr>
<td>Right-of-use assets</td>
<td>24</td>
<td>190</td>
<td>—</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>25</td>
<td>69</td>
<td>75</td>
</tr>
<tr>
<td>Other long-term financial assets</td>
<td>26</td>
<td>229</td>
<td>239</td>
</tr>
<tr>
<td>Investments in associates and joint ventures</td>
<td>27</td>
<td>803</td>
<td>735</td>
</tr>
<tr>
<td>Bank loans granted</td>
<td>29</td>
<td>291</td>
<td>239</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>15</td>
<td>13</td>
<td>28</td>
</tr>
<tr>
<td>Goodwill</td>
<td>25</td>
<td>85</td>
<td>85</td>
</tr>
<tr>
<td>Other non-current non-financial assets</td>
<td>28</td>
<td>171</td>
<td>295</td>
</tr>
<tr>
<td>Total non-current assets</td>
<td></td>
<td>10,554</td>
<td>10,161</td>
</tr>
<tr>
<td>Total assets</td>
<td></td>
<td>12,950</td>
<td>13,163</td>
</tr>
</tbody>
</table>

| LIABILITIES AND EQUITY | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 29 | 1,362 | 1,150 |
| Loans and borrowings and other financial liabilities | 30 | 795 | 978 |
| Income tax liabilities | | 23 | 23 |
| Other tax liabilities | 31 | 371 | 327 |
| Provisions | 32 | 155 | 155 |
| Prepayment on long-term oil and petroleum products supply agreements | 33 | 332 | 304 |
| Other current liabilities | 34 | 9 | 9 |
| Total current liabilities | | 2,755 | 2,874 |
| Non-current liabilities | | | |
| Loans and borrowings and other financial liabilities | 30 | 3,083 | 3,413 |
| Deferred tax liabilities | 35 | 866 | 857 |
| Provisions | 32 | 565 | 264 |
| Prepayment on long-term oil and petroleum products supply agreements | 33 | 1,072 | 1,072 |
| Other non-current liabilities | 34 | 73 | 66 |
| Total non-current liabilities | | 5,043 | 5,612 |

<table>
<thead>
<tr>
<th>Equity</th>
<th>Notes</th>
<th>As of December 31, 2019</th>
<th>As of December 31, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>36</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td></td>
<td>635</td>
<td>635</td>
</tr>
<tr>
<td>Other funds and reserves</td>
<td>(354)</td>
<td>(191)</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>4,055</td>
<td>3,610</td>
<td></td>
</tr>
<tr>
<td>Rosneft shareholders’ equity</td>
<td>4,917</td>
<td>4,053</td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>16</td>
<td>635</td>
<td>634</td>
</tr>
<tr>
<td>Total equity</td>
<td></td>
<td>5,152</td>
<td>4,677</td>
</tr>
<tr>
<td>Total liabilities and equity</td>
<td></td>
<td>12,950</td>
<td>13,163</td>
</tr>
</tbody>
</table>

Chief Executive Officer  ________________  I. Sechin
February____, 2020
## Rosneft Oil Company Consolidated statement of profit or loss
(in billions of Russian rubles, except earnings per share data, and share amounts)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2019</th>
<th>2018*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues and equity share in profits of associates and joint ventures</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil, gas, petroleum products and petrochemicals sales</td>
<td>8</td>
<td>8,490</td>
</tr>
<tr>
<td>Support services and other revenues</td>
<td></td>
<td>80</td>
</tr>
<tr>
<td>Equity share in profits of associates and joint ventures</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>Total revenues and equity share in profits of associates and joint ventures</td>
<td>8,676</td>
<td>8,238</td>
</tr>
<tr>
<td>Costs and expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Production and operating expenses</td>
<td>715</td>
<td>1,115</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>200</td>
<td>167</td>
</tr>
<tr>
<td>Transportation costs and other commercial expenses</td>
<td>733</td>
<td>638</td>
</tr>
<tr>
<td>Exploration expenses</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>687</td>
<td>635</td>
</tr>
<tr>
<td>Taxes other than income tax</td>
<td>2,046</td>
<td>2,701</td>
</tr>
<tr>
<td>Export customs duty</td>
<td>10</td>
<td>793</td>
</tr>
<tr>
<td>Total costs and expenses</td>
<td>7,371</td>
<td>6,954</td>
</tr>
<tr>
<td>Operating income</td>
<td>1,305</td>
<td>1,284</td>
</tr>
<tr>
<td>Finance income</td>
<td>11</td>
<td>143</td>
</tr>
<tr>
<td>Finance expenses</td>
<td>12</td>
<td>(227)</td>
</tr>
<tr>
<td>Other income</td>
<td>13</td>
<td>11</td>
</tr>
<tr>
<td>Other expenses</td>
<td>13</td>
<td>(155)</td>
</tr>
<tr>
<td>Foreign exchange differences</td>
<td>64</td>
<td>197</td>
</tr>
<tr>
<td>Realized foreign exchange differences on hedge instruments</td>
<td>4</td>
<td>(144)</td>
</tr>
<tr>
<td>Income before income tax</td>
<td>997</td>
<td>832</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>15</td>
<td>(193)</td>
</tr>
<tr>
<td>Net income</td>
<td>805</td>
<td>649</td>
</tr>
</tbody>
</table>

### Notes
- Net income attributable to:
  - Rosneft shareholders: 708, 519
  - non-controlling interests: 16, 97, 109
- Net income attributable to Rosneft per common share (in RUB) – basic and diluted: 17, 66.81, 31.80
- Weighted average number of shares outstanding (millions): 10,396, 10,598

## Rosneft Oil Company Consolidated statement of other comprehensive income (in billions of Russian rubles)

<table>
<thead>
<tr>
<th>Notes</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income</td>
<td>805</td>
<td>649</td>
</tr>
<tr>
<td>Other comprehensive income – to be reclassified to profit or loss in subsequent periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange differences on translation of foreign operations</td>
<td>(88)</td>
<td>4</td>
</tr>
<tr>
<td>Foreign exchange cash flow hedges</td>
<td>6</td>
<td>146</td>
</tr>
<tr>
<td>Income (loss) from changes in fair value of debt financial assets at fair value through other comprehensive income</td>
<td>5</td>
<td>(5)</td>
</tr>
<tr>
<td>Increase in allowance for expected credit losses on debt financial assets at fair value through other comprehensive income</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Equity share in other comprehensive (loss)/income of associates</td>
<td>(4)</td>
<td>1</td>
</tr>
<tr>
<td>Income tax related to other comprehensive income – to be reclassified to profit or loss in subsequent periods</td>
<td>6</td>
<td>(29)</td>
</tr>
<tr>
<td>Total other comprehensive income – to be reclassified to profit or loss in subsequent periods, net of tax</td>
<td>31</td>
<td>156</td>
</tr>
<tr>
<td>Other comprehensive income – not to be reclassified to profit or loss in subsequent periods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from changes in fair value of equity financial assets at fair value through other comprehensive income</td>
<td>7</td>
<td>6</td>
</tr>
<tr>
<td>Income tax related to other comprehensive income – not to be reclassified to profit or loss in subsequent periods</td>
<td>(1)</td>
<td>(1)</td>
</tr>
<tr>
<td>Total comprehensive income – not to be reclassified to profit or loss in subsequent periods, net of tax</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Total comprehensive income, net of tax</td>
<td>812</td>
<td>780</td>
</tr>
<tr>
<td>Total comprehensive income, net of tax, attributable to:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rosneft shareholders</td>
<td>765</td>
<td>688</td>
</tr>
<tr>
<td>non-controlling interests</td>
<td>97</td>
<td>103</td>
</tr>
</tbody>
</table>

1 Some amounts for the twelve months ended December 31, 2018 have been reclassified for compliance with the current period presentation.
Rosneft Oil Company Consolidated statement of changes in shareholders' equity (in billions of Russian rubles, except share amounts)

<table>
<thead>
<tr>
<th></th>
<th>Number of shares (millions)</th>
<th>Share capital</th>
<th>Additional paid-in capital</th>
<th>Other funds and reserves</th>
<th>Retained earnings</th>
<th>Rosneft shareholders' equity</th>
<th>Non-controlling interests</th>
<th>Total equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at January 1, 2018</td>
<td>10,598</td>
<td>1</td>
<td>627 (323)</td>
<td>3,286</td>
<td>3,592</td>
<td>563</td>
<td>4,155</td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total comprehensive income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividends declared (Note 56)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change of interest in subsidiaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other movements (Note 56)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at December 31, 2018</td>
<td>10,598</td>
<td>1</td>
<td>633 (199)</td>
<td>3,610</td>
<td>4,053</td>
<td>634</td>
<td>4,427</td>
<td></td>
</tr>
</tbody>
</table>

Rosneft Oil Company Consolidated statement of cash flows (in billions of Russian rubles)

<table>
<thead>
<tr>
<th>Operating activities</th>
<th>For the years ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Notes</td>
</tr>
<tr>
<td>Net income</td>
<td></td>
</tr>
<tr>
<td>Adjustments to reconcile net income to net cash provided by operating activities</td>
<td></td>
</tr>
<tr>
<td>Depreciation, depletion and amortization</td>
<td>23-25</td>
</tr>
<tr>
<td>Loss on disposal of non-current assets</td>
<td>13</td>
</tr>
<tr>
<td>Dry hole costs</td>
<td></td>
</tr>
<tr>
<td>Offset of prepayments received on oil and petroleum products long term supply agreements</td>
<td>33</td>
</tr>
<tr>
<td>Offset of prepayments made on oil and petroleum products long term supply agreements</td>
<td>138</td>
</tr>
</tbody>
</table>

1 Other funds and reserves include a reserve for foreign exchange differences on translation of foreign operations, a reserve for changes in fair value of equity and debt financial assets at fair value through other comprehensive income, a reserve for expected credit losses on such debt financial assets, a reserve for equity share in other comprehensive income of associates and joint ventures, and a reserve for foreign exchange cash flow hedges.

Appendix No.1

<table>
<thead>
<tr>
<th>Notes</th>
<th>For the years ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Foreign exchange gain on non-operating activities</td>
<td>(91)</td>
</tr>
<tr>
<td>Realized foreign exchange differences on hedge instruments</td>
<td>6</td>
</tr>
<tr>
<td>Offset of other financial liabilities</td>
<td>(172)</td>
</tr>
<tr>
<td>Equity share in profits of associates and joint ventures</td>
<td>27</td>
</tr>
<tr>
<td>Non-cash income from acquisitions, net</td>
<td>13</td>
</tr>
<tr>
<td>Loss from disposal of non-production assets</td>
<td>15</td>
</tr>
<tr>
<td>Changes in provisions for financial assets</td>
<td>-</td>
</tr>
<tr>
<td>Loss from changes in reserves and impairment of assets</td>
<td>-</td>
</tr>
<tr>
<td>Finance expenses</td>
<td>12</td>
</tr>
<tr>
<td>Finance income</td>
<td>11</td>
</tr>
<tr>
<td>Income tax expense</td>
<td>15</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities</td>
<td></td>
</tr>
<tr>
<td>Increase/(decrease) in accounts receivable, gross</td>
<td>(139)</td>
</tr>
<tr>
<td>Increase in inventories</td>
<td>(63)</td>
</tr>
<tr>
<td>Decrease in restricted cash</td>
<td>2</td>
</tr>
<tr>
<td>Increase in prepayments and other current assets</td>
<td>(58)</td>
</tr>
<tr>
<td>Increase in long-term prepayments made on oil and petroleum products supply agreements</td>
<td>(67)</td>
</tr>
<tr>
<td>Increase/(decrease) in accounts payable and accrued liabilities</td>
<td>(11)</td>
</tr>
<tr>
<td>Increase in other tax liabilities</td>
<td>49</td>
</tr>
<tr>
<td>Decrease in other current liabilities</td>
<td>(9)</td>
</tr>
<tr>
<td>Increase in other non-current liabilities</td>
<td>3</td>
</tr>
<tr>
<td>Increase in current reserves</td>
<td>2</td>
</tr>
<tr>
<td>Interest paid on long-term prepayment received on oil and petroleum products supply agreements</td>
<td>(8)</td>
</tr>
<tr>
<td>Net increase in operating assets of subsidiary banks</td>
<td>(61)</td>
</tr>
<tr>
<td>Net increase in operating liabilities of subsidiary banks</td>
<td>4</td>
</tr>
</tbody>
</table>

Net cash provided by operating activities before income tax and interest | 1,299 | 1,640 |

Income tax payments | (216) | (221) |
Interest received | 77   | 67   |
Dividends received | 50   | 16   |
Net cash provided by operating activities | 1,110 | 1,502 |

Investing activities

<table>
<thead>
<tr>
<th></th>
<th>For the years ended December 31,</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Notes</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>(854)</td>
</tr>
<tr>
<td>Acquisition of licenses and auction fee payments</td>
<td>(11)</td>
</tr>
</tbody>
</table>
For the full version of consolidated financial statements of Rosneft as at 31 December 2019 and the independent auditor’s opinion, see the Company’s website at:

## Industry-wide risks

<table>
<thead>
<tr>
<th>No.</th>
<th>Business area</th>
<th>Risk</th>
<th>Risk description</th>
<th>Rosneft’s risk management practice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Occupational health and safety</td>
<td>Risk of occupational injuries</td>
<td>The risk is related to lost-time injuries of the Company’s employees or contractors</td>
<td>Rosneft has a dedicated HSE management system, which brings together resources and procedures essential to both prevent and respond to, hazardous occurrences. The risk management measures include: holding occupational safety trainings; exercising control over the safety of fire, gas hazardous and excavation works when approving the work permits; assessing the related risks; exercising control over equipping vehicles of the Group Subsidiaries and contractors with in-vehicle monitoring systems and two-way dashboard cameras; providing support to the key development funds and projects.</td>
</tr>
<tr>
<td>2</td>
<td>Gas business</td>
<td>Risk of failure to achieve natural gas and gas condensate production targets</td>
<td>The risk is related to the failure to achieve natural gas and gas condensate production targets specified in the Company’s business plan;</td>
<td>Key measures to mitigate the risk of failure to achieve gas and gas condensate production targets include: carrying out regular well logging; planning and executing well interventions; monitoring the financials of Gas business’ contractors for signs of bankruptcy; ensuring timely updates of the routine preventive overhaul plans and budgets and exercising control over preventive repairs.</td>
</tr>
<tr>
<td>3</td>
<td>Gas business Exploration and production, Refining, petrochemicals, commerce and logistics</td>
<td>Risk related to rising purchase prices for electric power</td>
<td>The risk is related to the volatility of the purchase prices for electric power in the wholesale market price zones, indexation of electricity transmission tariffs, and new surcharges to the capacity price</td>
<td>Promoting the need to restrict the price/tariff growth during the energy price discussions with the federal executive bodies, the Market Council and the expert community.</td>
</tr>
<tr>
<td>4</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of failure to comply with the repair plan in Oil Refining</td>
<td>The risk of a decline in financial and operating performance caused by delays in the maintenance works at the Oil Refining production facilities</td>
<td>The risk management measures include: monitoring the contractual delivery times; considering the purchase of available alternatives; ensuring the minimum emergency stock; organizing inspections at the manufacturer’s site during the production of equipment; preparing the procurement and maintenance requests, including the selection criteria (equipment, the availability of qualified personnel, the availability of own repair facilities, etc.).</td>
</tr>
<tr>
<td>5</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of price restrictions resulting from petroleum product sales through Rosneft’s own filling stations and oil depots in Russia</td>
<td>The risk of price restrictions resulting in a lower gross margin from retail sales of petroleum products</td>
<td>The risk is taken into account due to the limited impact on the decision-making regarding fixing (freeing) retail prices for oil products.</td>
</tr>
<tr>
<td>6</td>
<td>Exploration and production</td>
<td>Risk of failure to achieve oil and gas condensate production targets specified in the Company’s business plan</td>
<td>The risk is related to the failure to achieve oil and gas condensate production targets specified in the Company’s business plan</td>
<td>The Company has limited influence on the quality of feedstock supplied to refineries through the Transneft’s trunk pipelines. The Company’s response includes the following risk management measures: stopping the receipt of a given batch of oil and/or its redirection to storage facilities; filing complaints; making adjustments to the processing unit’s operation mode; adjusting the production programme.</td>
</tr>
<tr>
<td>7</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of lower quality of refinery feedstock</td>
<td>Adverse changes in the Company’s financial and operating performance as a result of lower quality of feedstock supplied for refining</td>
<td>The Company’s response includes the following risk management measures: stopping the receipt of a given batch of oil and/or its redirection to storage facilities; filing complaints; making adjustments to the processing unit’s operation mode; adjusting the production programme.</td>
</tr>
<tr>
<td>8</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of failure to achieve natural gas sales targets</td>
<td>The risk is related to the decline in gas and gas condensate sales below the levels projected in the approved business plan;</td>
<td>The risk is taken into account due to the limited impact on potential new restrictions on the supply of natural gas to the pipeline network.</td>
</tr>
<tr>
<td>9</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of counterparties using unconventional pricing terms</td>
<td>The risk stems from the probability that the pricing terms chosen by certain counterparties for the concluded contracts will differ from the Company’s approved business plan;</td>
<td>The risk is taken into account due to the limited impact on the counterparties’ pricing choices under the concluded crude oil and petroleum products supply contracts.</td>
</tr>
<tr>
<td>10</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of lower FOB/Lo to/from harbour services</td>
<td>To compensate for lost profit caused by restrictions of the towboats’ operations in Primorsk and Novorossiysk ports, the following actions will be taken: using towboats on alternative routes to service vessels carrying non-liquid cargo</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Occupational health and safety</td>
<td>Risk of accidents</td>
<td>The risk of the breakdown of the facilities and/or equipment used at hazardous industrial facility, uncontrolled explosion and/or pollutant emissions</td>
<td>Rosneft has a dedicated HSE management system, which brings together resources and procedures essential to both prevent and respond to, hazardous occurrences. The risk management measures include: providing support to the key development funds and projects implementing the insurance Programme for the main production assets repairment, and the expert community.</td>
</tr>
<tr>
<td>12</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of failure to achieve natural gas price targets</td>
<td>The risk is related to potential lack of gas price indexation in the second half of 2020</td>
<td>Supporting the indexation of regulated gas prices when discussing pricing matters with government bodies and the expert community.</td>
</tr>
</tbody>
</table>
### Financial risks

<table>
<thead>
<tr>
<th>No.</th>
<th>Направление деятельности</th>
<th>Наименование риска</th>
<th>Описание риска</th>
<th>Практика управления риском в Компании</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Corporate functions</td>
<td>Exploration and production</td>
<td>Market risks include price, currency and interest rate risks</td>
<td>Rosneft has sufficient capability to redistribute its commodity flows in case of a significant price difference between the domestic and international markets and can promptly cut its capes and open to meet its commitments and obligations if prices for oil, gas, and petroleum products should plummet. Given the FX component of its revenue and liabilities, the Company is also exposed to currency risk. We manage this risk by using an integrated approach enabling the use of natural (economic) hedging. For short-term management of its currency risk, the Company selects a currency for free cash balances from among the Russian ruble, the U.S. dollar and other foreign currencies. The Company analyses exposure to interest rate changes, including the development of various scenarios to assess the influence of interest rate changes on financial indicators.</td>
</tr>
<tr>
<td>14</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Credit risk related to crude oil, petroleum products, natural gas, petrochemicals and gas processing products supply contracts</td>
<td>Risk of losses due to a counterparty's default on, or failure to timely or completely fulfill its obligations owed to the Company under any revenue or expenditure contract entered into by Rosneft or any of the Group Subsidiaries</td>
<td>The Company manages its credit risk by implementing the following risk management measures: using security interests to cover its credit risks (via bank guarantees, letters of credit, etc.), performing more frequent checks to assess the financial position of counterparties to major transactions posing credit risk under unsecured contracts; implementing controls to authorize shipments and shipping orders and ensure that all sales contracts are backed properly by financial instruments.</td>
</tr>
<tr>
<td>15</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Counterparty risk related to long-term advance payment crude oil and petroleum products supply contracts</td>
<td>Risk of losses due to a counterparty's default on, or failure to timely or completely fulfill its obligations owed to the Company under any advance payment expenditure contract</td>
<td>The risk management measures include: monitoring the coverage of outstanding amounts against the planned supplies, discussing and monitoring shipment schedules.</td>
</tr>
<tr>
<td>16</td>
<td>Corporate functions</td>
<td>Risk of tax claims and risk of losing tax benefits</td>
<td>Risk of financial losses due to concerns brought forward by tax authorities of the Company being no longer eligible for tax benefits</td>
<td>Rosneft continuously monitors amendments to tax laws, evaluates and forecasts the degree of their potential impact on its operations, follows the latest legal precedents and adapts to changes in the legislation. The Company’s experts are regularly involved in various working groups responsible for drafting tax legislation.</td>
</tr>
<tr>
<td>17</td>
<td>Corporate functions</td>
<td>Exploration and production</td>
<td>Risk of default/cross-default</td>
<td>The risk management measures include: considering alternative (unconventional) financing opportunities in accordance with the extended set of instruments specified in the Company’s Standard on Managing idle Cash and Short-Term Financing at Rosneft and the Group Subsidiaries; keeping track of payment schedules within the debt and financial derivatives portfolio; monitoring the level of debt covenants specified in the outstanding loan agreements.</td>
</tr>
</tbody>
</table>

### Legal risks

<table>
<thead>
<tr>
<th>No.</th>
<th>Направление деятельности</th>
<th>Наименование риска</th>
<th>Описание риска</th>
<th>Практика управления риском в Компании</th>
</tr>
</thead>
<tbody>
<tr>
<td>18</td>
<td>Corporate functions</td>
<td>Risk of adverse judgments in legal proceedings to which the Company is a party</td>
<td>Risk of financial losses due to adverse court rulings in proceedings to which the Company is a party</td>
<td>Rosneft continuously monitors laws, legal practice and legal precedents, drawing on them heavily to resolve legal issues arising in the course of its business, including protecting its rights and legal interests in court. Rosneft is involved in a number of legal proceedings that arise in the course of its business. If new legal precedents are set, and any adverse judgements are made in proceedings to which the Company is a party, the outcomes of these litigations will likely have a minor impact on the Company’s financial and business performance.</td>
</tr>
<tr>
<td>19</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk of breach of competition laws</td>
<td>Rosneft has a significant share in Russian wholesale markets for petrol, diesel and aviation fuel, and fuel oil and therefore is subject to additional competitive requirements and risks associated with amendments to, and potential violations of anti-trust laws</td>
<td>The risk management measures include: updating internal regulations on pricing and selling petroleum products based on anti-trust laws and regulations and amendments thereto (if necessary); ensuring non-discriminating access of independent market participants to direct supplies of Rosneft petroleum products (creating a level playing field for Group Subsidiaries and third parties, including advance payments for the former); selling required volumes of petroleum products on the exchange, addressing customer requests/complaints, fulfilling necessary requirements to mitigate the risk of being accused of setting non-competitive bulk wholesale prices (selling on the exchange not less than required by a joint order of the Federal Antimonopoly Service and the Russian Ministry of Energy, meeting the criteria for regular and evenly distributed on-exchange sales); being accused, working out a rationale for the Federal Antimonopoly Service; if the rationale is rejected, considering court action; defending the Company’s position with government bodies.</td>
</tr>
</tbody>
</table>

### Country and regional risks

<table>
<thead>
<tr>
<th>No.</th>
<th>Направление деятельности</th>
<th>Наименование риска</th>
<th>Описание риска</th>
<th>Практика управления риском в Компании</th>
</tr>
</thead>
<tbody>
<tr>
<td>20</td>
<td>Exploration and production</td>
<td>Refining, petrochemicals, commerce and logistics</td>
<td>Risk related to international projects</td>
<td>Rosneft is involved in different projects all around the world, and in some regions, there are material risks related to the political, social and economic uncertainty. Should these risks materialize, they might adversely impact such projects’ implementation.</td>
</tr>
</tbody>
</table>

In case of political, economic, or social risks arising in Rosneft’s regions of operation, the Company’s management will take every reasonable step to minimise their potential adverse impact. The actual profile of such measures will be decided on a case-by-case basis and may include conducting negotiations with government bodies, reducing operating costs, optimizing the investment Programme, introducing restructuring initiatives, as well as ensuring the safety of the Company’s employees.
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 (the Report) was reviewed by Rosneft’s Board of Directors at a meeting held on 21 April 2020 (Minutes No.22 dated 22 April 2020) as part of the 2019 Annual Report.

The Board of Directors certifies that this Report contains complete and reliable information on Rosneft’s compliance with the principles and recommendations of the Corporate Governance Code in 2019.

Rosneft assesses its compliance with the Corporate Governance Code as per the guidelines recommended by the Bank of Russia in Letter No. IN-06-52/8 on Disclosure of Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of a Public Joint Stock Company dated 17 February 2016. Key aspects of the Company’s corporate governance model and practice are outlined in Section Corporate Governance of Rosneft’s 2019 Annual Report.

Appendix 3
(Report on Compliance With the Principles and Recommendations of the Corporate Governance Code the Bank of Russia)

### 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 (the Report) was reviewed by Rosneft’s Board of Directors at a meeting held on 21 April 2020 (Minutes No.22 dated 22 April 2020) as part of the 2019 Annual Report.

The Board of Directors certifies that this Report contains complete and reliable information on Rosneft’s compliance with the principles and recommendations of the Corporate Governance Code in 2019.

Rosneft assesses its compliance with the Corporate Governance Code as per the guidelines recommended by the Bank of Russia in Letter No. IN-06-52/8 on Disclosure of Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of a Public Joint Stock Company dated 17 February 2016. Key aspects of the Company’s corporate governance model and practice are outlined in Section Corporate Governance of Rosneft’s 2019 Annual Report.

#### No. 1.1

**Corporate governance principles**: The Company shall ensure equitable and fair treatment of all shareholders exercising their right to participate in managing the Company.

**Criteria for compliance with a corporate governance principle**: The Company provides the best possible conditions for shareholders to participate in General Shareholders Meetings, make informed decisions on agenda items, coordinate their actions and express their opinions on matters under consideration.

**Status of compliance with a corporate governance principle**: Complied with

**Explanations on the failure to meet criteria for compliance with a corporate governance principle**: To maintain effective relations with shareholders, Rosneft provides the following communication channels: a shareholder hotline, mail and email, the Company’s website, access to the Company’s social networks, etc. The Corporate Governance analytical information system was put into operation. It enables shareholders to vote online and interact with the Company and the registrar via shareholder’s personal account.

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td>1.1</td>
<td>The Company shall ensure equitable and fair treatment of all shareholders exercising their right to participate in managing the Company.</td>
<td>The Company provides the best possible conditions for shareholders to participate in General Shareholders Meetings, make informed decisions on agenda items, coordinate their actions and express their opinions on matters under consideration.</td>
<td>Complied with</td>
<td>To maintain effective relations with shareholders, Rosneft provides the following communication channels: a shareholder hotline, mail and email, the Company’s website, access to the Company’s social networks, etc. The Corporate Governance analytical information system was put into operation. It enables shareholders to vote online and interact with the Company and the registrar via shareholder’s personal account.</td>
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### Notes

1. Specifies either the reporting year or, if the report on compliance with the principles and recommendations of the Corporate Governance Code contains data related to the post reporting period up to the date of the Report, the date of the Report.
2. The “complied with” status is assigned only if the Company meets all of the criteria for compliance with a corporate governance principle. Otherwise, the “complied with in part” or “not complied with” status is assigned.
3. Explanations are given for each criterion for compliance with a corporate governance principle if the Company meets only some of the criteria or none of them. If the Company indicates the “complied with” status, no explanations are required.
### Corporate governance principles

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<tr>
<td>13.3</td>
<td>When preparing for and participating in a General Shareholders Meeting, shareholders have unrestricted and timely access to any relevant information and materials, and are able to put questions to the Company’s executive bodies and directors, as well as communicate with one another.</td>
<td>1. In the reporting period, shareholders had the opportunity to put questions to the Company’s executive bodies and directors both before and during the Annual General Shareholders Meeting. 2. The Board of Directors’ opinions (including dissenting opinions recorded in the minutes) on each of the agenda items of the General Shareholders Meetings held in the reporting period were added to the materials for the General Shareholders Meeting. 3. The lists of persons entitled to participate in each General Shareholders Meeting in the reporting period were made available to the shareholders eligible to review such lists as soon as the Company received those.</td>
<td>V Complied with Complied in part Not complied with</td>
<td><img src="https://i.imgur.com/3jGQ5QG.png" alt="" /></td>
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<tr>
<td>13.4</td>
<td>There are no unjustified difficulties preventing shareholders from exercising their rights to convene a General Shareholders Meeting, nominate candidates to the governing bodies and propose items for the agenda.</td>
<td>1. In the reporting period, shareholders had the opportunity to propose items for the agenda of the Annual General Shareholders Meeting during at least 60 days after the end of the respective calendar year. 2. In the reporting period, the Company requested no item proposed for the agenda and no candidate nominated to the Company’s bodies due to misprints or other minor flaws in shareholders’ proposals.</td>
<td>V Complied with Complied in part Not complied with</td>
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<tr>
<td>13.5</td>
<td>Each shareholder is able to exercise their voting right without hindrance, in the simplest and most convenient way.</td>
<td>1. The Company’s internal regulation (corporate policy) authorises each General Shareholders Meeting participant to request a copy of their completed ballot certified by the ballot committee before the end of the respective meeting.</td>
<td>V Complied with Complied in part Not complied with</td>
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<tr>
<td>13.5.1</td>
<td>Shareholders are provided with an equitable and fair opportunity to receive a share of the Company’s profits in the form of dividends.</td>
<td>1. The Company has developed and implemented a transparent and clear procedure to determine the amount of dividends and pay them out. 2. The Company’s Dividend Policy has been developed, approved by the Board of Directors and disclosed. 2. If, in accordance with the Company’s Dividend Policy, the amount of dividends is determined based on the Company’s results recorded in its financial statements, the Dividend Policy shall employ the consolidated financial statements.</td>
<td>V Complied with Complied in part Not complied with</td>
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<td>13.5.1.1</td>
<td>The Company has developed and implemented a transparent and clear procedure to determine the amount of dividends and pay them out.</td>
<td>1. If, in accordance with the Company’s Dividend Policy, the amount of dividends is determined based on the Company’s results recorded in its financial statements, the Dividend Policy shall employ the consolidated financial statements.</td>
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<tr>
<td>13.5.2</td>
<td>The Company does not resolve to pay out dividends if such resolution, though not in breach of the legislation, is not economically viable and may lead to false assumptions about the Company’s operations.</td>
<td>1. The Company’s Dividend Policy clearly stipulates financial/economic circumstances under which the Company should not pay dividends.</td>
<td>V Complied with Complied in part Not complied with</td>
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<tr>
<td>13.5.3</td>
<td>The Company does not allow any negative changes in the dividend rights of its current shareholders.</td>
<td>1. In the reporting period, the Company did not perform any actions causing negative changes in the dividend rights of its current shareholders.</td>
<td>V Complied with Complied in part Not complied with</td>
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<td>13.5.4</td>
<td>The Company makes every effort to prevent shareholders from receiving profit (gain) from the Company other than in the form of dividends and liquidation value.</td>
<td>1. In order to prevent shareholders from receiving profit (gain) from the Company other than in the form of dividends and liquidation value, the Company’s internal regulations provide for controls that ensure timely identification and approval of transactions with affiliates (related parties) of substantial shareholders (persons entitled to exercise votes attached to voting shares), where the law does not formally recognise such transactions as related party transactions.</td>
<td>V Complied with Complied in part Not complied with</td>
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<td>13.5.5</td>
<td>Corporate governance framework and practices ensure equality of all shareholders owning shares of the same class (type), including minority and foreign shareholders, and their equitable treatment by the Company.</td>
<td>1. In the reporting period, the procedures to manage potential conflicts of interest between substantial shareholders were effective, and the Board of Directors paid due attention to conflicts between shareholders, if any.</td>
<td>V Complied with Complied in part Not complied with</td>
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<td>13.5.6</td>
<td>The Company does not perform any actions that will or may result in artificial redistribution of corporate control.</td>
<td>1. The Company has no quasi-treasury shares, or no quasi-treasury shares were used in voting during the reporting period.</td>
<td>V Complied with Complied in part Not complied with</td>
<td><img src="https://i.imgur.com/3jGQ5QG.png" alt="" /></td>
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</table>
1.1. Shareholders are provided with reliable and effective methods of registering their ownership of shares and the opportunity to dispose of their shares freely and without hindrance.

2.1. The Board of Directors is responsible for the strategic management of the Company, formulating key principles of and approaches to risk management and internal controls in the Company, supervising the work of the Company’s executive bodies and performing other core functions.

2.1.1. The Board of Directors is accountable to the Company’s shareholders.

2.1.2. The Board of Directors sets major long-term targets for the Company, as well as assesses and approves its key performance indicators and primary business goals, along with the Company’s strategy and business plans with regard to its core operations.

2.1.3. The Board of Directors formulates the principles of and approaches to risk management and internal controls in the Company.

2.1.4. The Board of Directors determines the Company’s policy on remuneration and/or reimbursement of expenses (compensation) to its directors, executive bodies and other key managers.

The Board of Directors advises the shareholders on the performance of the Board of Directors and the shareholders to the Company’s shareholders.

The Board of Directors manages the Company in an effective and competent manner, and is able to make objective and independent judgements and decisions in the best interests of the Company and its shareholders.

The Board of Directors has approved a regulation on the performance of the Board of Directors and a set of measures for resolving the Board of Directors’ performance assessment carried out in the reporting period.

The Board of Directors has not complied with the Company’s corporate governance principles.
2.3.2 The Company's directors are elected through a transparent procedure providing shareholders with sufficient information on candidates to form an opinion about their personal and professional qualities.

1. As part of the Board of Directors' performance assessment carried out in the reporting period, the Board of Directors reviewed whether the number of directors was in line with the Company's needs and shareholders' interests.

V Compiled with Complied with
V Not complied

2.3.3 The composition of the Board of Directors is balanced, including in terms of directors' expertise, experience, knowledge, and business skills, and worthy of shareholders' trust.

V Compiled with Complied with
V Not complied

2.3.4 The number of directors ensures the most effective arrangement of activities of the Company's Board of Directors, including by way of establishing Committees, and enables a candidate voted for by the Company's substantial minority shareholders to be elected to the Board of Directors.

V Compiled with Complied with
V Not complied

The Board of Directors includes a sufficient number of Independent Directors.

V Compiled with Complied with
V Not complied

2.3.5 The composition of the Board of Directors is balanced, including in terms of directors' expertise, experience, knowledge, and business skills, and worthy of shareholders' trust.

V Compiled with Complied with
V Not complied

Corporate governance principles
Criteria for compliance with a corporate governance principle
Status of compliance with a corporate governance principle
Explanations on the failure to meet criteria for compliance with a corporate governance principle

2.4.2 Independent Directors meet all the independence criteria, with independent Directors being regularly checked against these criteria. Such assessments should be in line with the substance over form principle.

V Complied with Complied with
V Not complied

The Chairman of the Board of Directors ensures that the Board of Directors fulfills its functions in the most effective way.

V Complied with Complied with
V Not complied

2.4.5 The Chairman of the Board of Directors ensures that the Board of Directors perform its functions in the most effective way.

V Complied with Complied with
V Not complied

2.4.6 The Chairman of the Board of Directors ensures that the Board of Directors perform its functions in the most effective way.

V Complied with Complied with
V Not complied

The Chairman of the Board of Directors ensures the Board of Directors fulfills its functions in the most effective way.

V Complied with Complied with
V Not complied

Corporate governance principles
Criteria for compliance with a corporate governance principle
Status of compliance with a corporate governance principle
Explanations on the failure to meet criteria for compliance with a corporate governance principle

2.4.3 Independent Directors make up at least one third of the elected directors.

V Complied with Complied with
V Not complied

2.4.4 Independent Directors play a key role in preventing internal conflicts in the Company and taking material corporate actions by the Company.

V Complied with Complied with
V Not complied

2.5.1 The Chairman of the Board of Directors is an Independent Director, or a Senior Independent Director appointed from among Independent Directors.

V Complied with Complied with
V Not complied

2.5.2 The Chairman of the Board of Directors ensures constructive atmosphere during meetings, facilitates open discussion of agenda items and oversees implementation of the Board of Directors' resolutions.

V Complied with Complied with
V Not complied

2.5.3 The Chairman of the Board of Directors ensures that directors are provided with information required to make informed decisions on agenda items in a timely manner.

V Complied with Complied with
V Not complied

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Directors act reasonably and in good faith in the best interests of the Company and its shareholders, based on sufficient awareness and with due diligence and care.

2.6.1 Directors make decisions taking into account all available information, having no conflict of interest, ensuring equitable treatment of the Company’s shareholders and keeping within the limits of common business risks.

1. The Company’s internal regulations specify that directors shall notify the Board of Directors of any conflict of interest they might have in relation to any agenda item prior to the discussion of that item at a meeting of the Board of Directors or its Committee.
2. The Company’s internal regulations specify that a director shall abstain from voting on any item where they have a conflict of interest.
3. The Company has established a procedure enabling the Board of Directors to get professional advice on matters within its remit at the Company’s expense.

2.6.2 Directors’ rights and responsibilities are clearly stated and set forth in the Company’s internal regulations.

1. The Company has adopted and published an internal regulation clearly specifying directors’ rights and responsibilities.

2.6.3 Directors have sufficient time to perform their duties.

1. Individual attendance of meetings of the Board of Directors and Committees and the time spent to prepare for such meetings were taken into account during the Board of Directors’ assessment in the reporting period.
2. As per the Company’s internal regulations, directors shall notify the Board of Directors of their intention to join the governing bodies of other companies (excluding those controlled by or affiliated with the Company) and of the fact of such an appointment.

2.6.4 All directors have equal access to the Company’s documents and information. Newly elected directors are provided with sufficient information on the Company and the Board of Directors’ activities as soon as practicable.

1. As per the Company’s internal regulations, directors have the right to access documents and make enquiries related to the Company and its controlled entities, and the Company’s executive bodies are obliged to provide the relevant information and documents.
2. The Company has a formalised induction programme for newly elected directors.

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<tbody>
<tr>
<td>2.6.1</td>
<td>Directors make decisions taking into account all available information, having no conflict of interest, ensuring equitable treatment of the Company’s shareholders and keeping within the limits of common business risks.</td>
<td>1. The Company’s internal regulations specify that directors shall notify the Board of Directors of any conflict of interest they might have in relation to any agenda item prior to the discussion of that item at a meeting of the Board of Directors or its Committee.</td>
<td>Compiled with Complied with in part Not complied with</td>
<td></td>
</tr>
<tr>
<td>2.6.2</td>
<td>Directors’ rights and responsibilities are clearly stated and set forth in the Company’s internal regulations.</td>
<td>1. The Company has adopted and published an internal regulation clearly specifying directors’ rights and responsibilities.</td>
<td>Compiled with Complied with in part Not complied with</td>
<td></td>
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<td>2.6.3</td>
<td>Directors have sufficient time to perform their duties.</td>
<td>1. Individual attendance of meetings of the Board of Directors and Committees and the time spent to prepare for such meetings were taken into account during the Board of Directors’ assessment in the reporting period.</td>
<td>Compiled with Complied with in part Not complied with</td>
<td></td>
</tr>
<tr>
<td>2.6.4</td>
<td>All directors have equal access to the Company’s documents and information. Newly elected directors are provided with sufficient information on the Company and the Board of Directors’ activities as soon as practicable.</td>
<td>1. As per the Company’s internal regulations, directors have the right to access documents and make enquiries related to the Company and its controlled entities, and the Company’s executive bodies are obliged to provide the relevant information and documents.</td>
<td>Compiled with Complied with in part Not complied with</td>
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Note: The Company specifies which of the two suggested approaches it uses and why.

Appendix No. 3

The Board of Directors establishes Committees for preliminary consideration of the most important matters related to the Company’s operations.

2.7.1 Meetings of the Board of Directors are held as necessary, given the Company’s scope of operations and objectives at any given time.

1. The Board of Directors held at least six meetings in the reporting year.

2.7.2 The Company’s internal regulations set out a procedure to prepare and hold meetings of the Board of Directors enabling directors to make proper preparations.

1. The Company has approved an internal regulation setting out the procedure to prepare and hold meetings of the Board of Directors and specifying, among other things, that the notice of a meeting shall be generally given at least 5 days prior to the date of the meeting.

2.7.3 The format of a meeting of the Board of Directors is determined taking into account the importance of agenda items. Resolutions on the most important matters are adopted at in-person meetings.

1. The Company’s Charter or another internal regulation specifies that the most important matters (as per the list set out in Recommendation 1.8 of the Code) shall be reviewed at in-person meetings of the Board of Directors.

2.7.4 Resolutions on the most important matters related to the Company’s operations are adopted at meetings of the Board of Directors by a qualified majority vote or by a majority vote of all elected directors.

1. The Company’s Charter specifies that resolutions on the most important matters, as per Recommendation 1.0 of the Code, shall be adopted at meetings of the Board of Directors by a qualified majority of at least three quarters of the votes or by a majority vote of all elected directors.

2.7.5 The range of matters to be resolved by the Board of Directors and the number of matters reviewed by the Board of Directors, the composition of the Board of Directors and the economic sanctions the Company is exposed to, expanding the range to include all matters set out in Recommendation 1.0 of the Code may materially impede or prevent the resolution of matters material to the Company. Therefore, setting a higher quorum as recommended by the Code may result in the Board of Directors not being able to resolve a number of key matters.

At the same time, the number of directors, the structure of the Board of Directors, including four Independent Directors, the procedure to prepare for meetings, discuss matters thereof and disclose information thereon guarantee the protection of rights of all shareholder groups and reflect the Company’s shareholding structure. The Company has no intention to change its approach in the medium term.
The Board of Directors establishes Committees for preliminary consideration of the most important matters related to the Company's operations.

2.8.1 For preliminary consideration of matters related to the monitoring of the Company's financial and business operations, an Audit Committee composed of Independent Directors has been established.

1. The board of directors has a standing audit committee comprised entirely of independent directors.
2. The Company's internal regulations specify the audit committee's objectives, including those set out in Recommendation 172 of the Code.
3. At least one member of the audit committee, who is an independent director, has knowledge and expertise in the preparation, analysis, evaluation and audit of accounting (financial) statements.
4. The audit committee held at least one meeting per quarter during the reporting period.

2.8.2 For preliminary consideration of matters related to the development of an effective and transparent remuneration framework, a Remuneration Committee composed of Independent Directors and chaired by an Independent Director not being the Chairman of the Board of Directors has been established.

1. The board of directors has a standing remuneration committee comprised entirely of independent directors.
2. The remuneration committee is chaired by an independent director who is not the chairman of the board of directors.
3. The Company's internal regulations specify the remuneration committee's objectives, including those set out in Recommendation 183 of the Code.

The principle is not complied with inasmuch as the HR and Remuneration Committee of the Board of Directors is not exclusively composed of independent Directors.

The HR and Remuneration Committee of the Board of Directors is mostly made up of Independent Directors. The elected Chairman of the HR and Remuneration Committee of the Board of Directors is an Independent Director.

The remit of the HR and Remuneration Committee of the Board of Directors includes matters reserved for a Nomination and a Remuneration Committee by the Corporate Governance Code.

Taking into account the three Committees established by the Company (the Audit Committee, the HR and Remuneration Committee, the Strategic Planning Committee) and the recommendations and restrictions set out in the Corporate Governance Code (on the minimum number of Committee members, on the maximum number of Committees a director may sit on, on the minimum number of Independent Directors on a Committee (two), and on the composition of Committees based on directors’ relevant expertise), compliance with the principle of the Corporate Governance Code requiring independence of all members of the HR and Remuneration Committee is impracticable.

At the same time, the Company's internal regulations, including the Regulations on the Board of Directors, specify procedures to prevent any conflict of interest and eliminate the risk of recommendations by the HR and Remuneration Committee of the Board of Directors being affected by the controlling shareholder or executive bodies.

The Company has no intention to change its approach in the medium term.
The composition of Committees enables comprehensive discussion of matters subject to preliminary consideration with due regard to varying opinions. The Board of Directors’ performance assessment included self-assessment or external assessment carried out in the reporting period which were reviewed at an in-person meeting of the Board of Directors.

### Criteria for compliance with a corporate governance principle

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</tr>
</thead>
<tbody>
<tr>
<td>2.8.5</td>
<td>The composition of Committees enables comprehensive discussion of matters subject to preliminary consideration with due regard to varying opinions.</td>
<td>The Board of Directors arranges performance assessment of the Board of Directors, its Committees and directors.</td>
<td>Complied with</td>
<td>As recommended by the Code, the Audit Committee and the HR and Remuneration Committee of the Board of Directors are chaired by Independent Directors. Taking into account the recommendations and restrictions set out in the Code (the minimum number of members (three), on the maximum number of Committees a director may sit on, on the minimum number of Independent Directors on an Audit Committee and an HR and Remuneration Committee, and on the composition of Committees based on directors’ relevant expertise), compliance with the recommendation to have all Committees chaired by Independent Directors is impossible. The Strategic Planning Committee is not chaired by an Independent Director. At the same time, the Strategic Planning Committee arranges independent reviews and engages external experts for the Board of Directors to consider varying opinions when discussing the Committee’s recommendations. Together with independent directors’ involvement with the Strategic Planning Committee, these procedural guarantees ensure the diversity of opinions it takes into account before issuing recommendations. The Company has no intention to change its approach in the medium term.</td>
</tr>
</tbody>
</table>

### Performance assessment of the Board of Directors

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>2.9.2</td>
<td>Performance assessment of the Board of Directors, its Committees and directors is carried out on a regular basis at least once a year. To assess the Board of Directors’ performance on an independent basis, an external organisation (consultant) is engaged at least once over the last three reporting periods.</td>
<td>At a meeting held on 19 December 2019, the Company’s Board of Directors reviewed the results of the Board of Directors’ independent performance assessment carried out by an external consultant, Ernst &amp; Young Valuation and Advisory Services LLC.</td>
<td>Complied with</td>
<td>1. To assess the Board of Directors’ performance on an independent basis, the Company engaged an external organisation (consultant) at least once over the last three years.</td>
</tr>
</tbody>
</table>

### The Company’s Corporate Secretary ensures effective day-to-day interaction with shareholders, coordinates the Company’s efforts to protect shareholder rights and interests, and contributes to the Board of Directors’ efficient work.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>The Corporate Secretary has sufficient knowledge, experience and expertise to perform their duties, as well as impeccable reputation, and enjoys shareholders’ trust.</td>
<td>The Corporate Secretary has sufficient knowledge, experience and expertise to perform the duties assigned to him/her and enjoys shareholders’ trust.</td>
<td>Complied with</td>
<td>2. The Company’s website and Annual Report provide biographical details of the Corporate Secretary comparable to those of the Company’s directors and executives.</td>
</tr>
</tbody>
</table>

### Remuneration paid by the Company is sufficient to attract, motivate and retain employees with the required competence and expertise. Remuneration is paid to the Company’s directors, executive bodies and other key managers in accordance with the remuneration policy adopted by the Company.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Remuneration paid by the Company is sufficient to attract, motivate and retain employees with the required competence and expertise.</td>
<td>Remuneration paid by the Company is sufficient to attract, motivate and retain employees with the required competence and expertise.</td>
<td>Complied with</td>
<td>1. The Company has adopted an internal regulation (regulations) in the form of a remuneration policy (remuneration policies) for its directors, executive bodies and other key managers clearly stating approaches to their remuneration.</td>
</tr>
</tbody>
</table>

*If the functions of the Nomination Committee are performed by another Committee, the Company specifies its name.
4.2.1 The Company pays fixed annual remuneration to its directors. The Company does not pay remuneration for participation in individual meetings of the Board of Directors or its Committees.

1. Fixed annual remuneration was the only form of cash remuneration paid to directors for their work in the reporting period.

V Complied with
Not complied with

4.2.2 Long-term ownership of the Company’s shares ensures best alignment of directors’ financial interests with the interests of shareholders. At the same time, the Company does not link the right to sell shares to achieving certain performance indicators, and directors do not participate in options plans.

1. If the Company’s internal regulation (regulations), namely its remuneration policy (policies), allows (allows) distribution of the Company’s shares to directors, clear rules on share ownership by directors aimed at encouraging their long-term ownership shall be introduced and disclosed.

V Complied with
Not complied with

4.2.3 The Company does not provide any additional payments or compensations to directors in the event of early termination of office due to a transfer of control over the Company or any other circumstances.

1. The Company does not provide any additional payments or compensations to directors in the event of early termination of office due to a transfer of control over the Company or any other circumstances.

V Complied with
Not complied with

4.3.1 Remuneration paid to members of executive bodies and other key managers of the Company ensures best alignment of the interests of shareholders.

1. Remuneration paid to members of executive bodies and other key managers of the Company was maintained at a reasonable and justified balance between the fixed and variable components, with the latter depending on the Company’s performance and an employee’s personal (individual) contribution there.

V Complied with
Not complied with

4.3.2 The Company has introduced a long-term incentive plan for members of its executive bodies and other key managers involving its shares (options or other derivatives with its shares as underlying assets).

1. The Company has introduced a long-term incentive plan for members of its executive bodies and other key managers involving its shares (options or other derivatives with its shares as underlying assets).

V Complied with
Not complied with

4.3.3 Implementation of such plan in the Company will be considered after the results of the pilot are processed.

V Complied with
Not complied with

Explanations on the failure to meet criteria for compliance with a corporate governance principle

1. The Company introduced a long-term incentive plan for members of its executive bodies and other key managers of the Company specifies that the right to sell shares and other financial instruments used in this plan may be exercised no earlier than three years after the date of granting. However, the right to sell them is subject to the achievement by the Company of certain performance indicators.

2. The Company has introduced a long-term incentive plan for members of executive bodies and other key managers of the Company specifies that the right to sell shares and other financial instruments used in this plan may be exercised no earlier than three years after the date of granting. However, the right to sell them is subject to the achievement by the Company of certain performance indicators.

V Complied with
Not complied with
### 5.1. The Company has put in place an effective risk management and internal control system to provide reasonable assurance that it will achieve its goals.

1. **Risk management and internal control functions of the Company’s governing bodies and units** are clearly set out in the Company’s internal regulations / relevant policy approved by the Board of Directors.
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

2. **The Company’s executive bodies** have ensured the distribution of risk management and internal control functions and powers among heads of units and divisions accountable to them.
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

3. **The Company’s risk management and internal control system provides an accurate, fair and clear view of the Company’s current situation and prospects, and ensures integrity and transparency of the Company’s statements, as well as a reasonable and acceptable level of risk-taking.**
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

4. **The Company’s Board of Directors takes the necessary steps to ensure that the Company’s risk management and internal control system functions effectively and is in line with the relevant principles and approaches formulated by the Board of Directors.**
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

5. **The Company conducts internal audits to assess the reliability and effectiveness of its risk management, internal controls, and corporate governance on a regular and independent basis.**
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

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#### 6.1. The Company and its operations are transparent to shareholders, investors and other stakeholders.

1. **The Company’s Board of Directors has approved its Information Policy at least once in the reporting period.**
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

2. **The Company discloses information on its corporate governance system and practices, including detailed information on its compliance with the principles and recommendations of the Code.**
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

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#### 6.2. The Company discloses complete, up-to-date and accurate information on the Company in a timely manner to ensure that its shareholders and investors are able to make informed decisions.

1. **The Company’s Information Policy specifies approaches and criteria used to identify information that may have a material effect on the valuation of the Company and its securities, and procedures ensuring timely disclosure of such information.**
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

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#### 6.3. The Company has implemented a system of rules and practices, including the principles of data accessibility, accuracy, completeness and comparability.

1. **The Company’s rules and practices include an easily accessible channel to inform the Board of Directors or its Audit Committee about violations of law, internal procedures or the Code of Corporate Ethics.**
   - **Criteria for compliance with a corporate governance principle**: V Compiled with
   - **Status of compliance with a corporate governance principle**: Compiled with
   - **Explanations on the failure to meet criteria for compliance with a corporate governance principle**: Not complied with

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#### Appendix No.3

<table>
<thead>
<tr>
<th>No.</th>
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</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
<td>The Company has developed and implemented an Information Policy ensuring effective exchange of information between the Company, its shareholders, investors and other stakeholders.</td>
<td>1. The Company’s Board of Directors has approved its Information Policy in accordance with the Code’s recommendations.</td>
<td>V Compiled with</td>
<td>Not complied with</td>
</tr>
<tr>
<td>6.2</td>
<td>The Company discloses information on its corporate governance system and on the general corporate governance principles it uses, including by disclosing such information on the Company’s website.</td>
<td>1. The Company discloses information on its corporate governance system and on the general corporate governance principles it uses, including by disclosing such information on the Company’s website.</td>
<td>V Compiled with</td>
<td>Not complied with</td>
</tr>
<tr>
<td>6.3</td>
<td>The Company discloses complete, up-to-date and accurate information on the Company in a timely manner to ensure that its shareholders and investors are able to make informed decisions.</td>
<td>1. The Company’s Information Policy specifies approaches and criteria used to identify information that may have a material effect on the valuation of the Company and its securities, and procedures ensuring timely disclosure of such information.</td>
<td>V Compiled with</td>
<td>Not complied with</td>
</tr>
</tbody>
</table>
### Corporate Governance Principles

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>6.3.2</td>
<td>The Company avoids formal approach to information disclosures and discloses material information on its operations even if such disclosures are not required by law.</td>
<td>Complied with</td>
<td>1. In the reporting period, the Company disclosed its IFRS financial statements for the full year and for the six months. The Company's Annual Report for the reporting period includes its full-year IFRS financial statements and auditor's report. 2. In accordance with Recommendation 290 of the Code, the Company discloses full information on its capital structure in the Annual Report and on its website.</td>
</tr>
</tbody>
</table>

### The Company provides shareholders with equal and unhindered access to information and documents as per their request.

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>6.3.1</td>
<td>Complied with</td>
<td>1. The Company’s Annual Report contains information on the key aspects of its operations and its financial results. 2. The Company’s Annual Report contains information on environmental and social aspects of its operations.</td>
</tr>
</tbody>
</table>

### The Company provides shareholders with equal and unhindered access to information and documents as per their request.

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</tr>
</thead>
<tbody>
<tr>
<td>6.3.2</td>
<td>Complied with</td>
<td>1. The company did not refuse to provide shareholders with requested information, or such refusals were justified.</td>
</tr>
</tbody>
</table>

### Material corporate actions include reorganisation of the Company, acquisition of 50% or more of the Company’s voting shares (takeover), major transactions made by the Company, increase or reduction in the Company’s charter capital, listing and delisting of the Company’s shares, and other actions that may result in a material change in the rights of shareholders or be against their interests. The Company’s Charter sets out a list (criteria) of transactions or other actions deemed to be material corporate actions and reserved to the Company’s Board of Directors.

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<tbody>
<tr>
<td>7.1.5</td>
<td>Complied with</td>
<td>1. The Company’s Charter sets out a list of transactions or other actions deemed to be material corporate actions and specifies their relevant criteria. Decision-making with regard to material corporate actions is reserved to the Board of Directors. If and when the law expressly reserves such corporate actions to the General Shareholders Meeting, the Board of Directors provides shareholders with relevant recommendations.</td>
</tr>
</tbody>
</table>

### The Board of Directors plays a key role in making decisions or recommendations with regard to material corporate actions and relies on the opinion of the Company’s Independent Directors.

<table>
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<tbody>
<tr>
<td>7.1.2</td>
<td>Complied with</td>
<td>1. The Board of Directors has established a procedure for Independent Directors to express their opinion on material corporate actions before their approval.</td>
</tr>
</tbody>
</table>

### When taking material corporate actions affecting the rights and legitimate interests of shareholders, the Company ensures equitable treatment of all of its shareholders, and where statutory mechanisms protecting shareholder rights are insufficient, takes additional steps to protect the rights and legitimate interests of the Company's shareholders.

<table>
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</thead>
<tbody>
<tr>
<td>7.1.3</td>
<td>Complied with</td>
<td>1. Given the specific nature of the Company’s operations, its Charter sets out lower than statutory minimum criteria for classifying the Company’s transactions as material corporate actions. 2. In the reporting period, all material corporate actions were duly approved prior to their implementation.</td>
</tr>
</tbody>
</table>
7.2. The Company ensures that material corporate actions are taken in a manner enabling shareholders to receive full information on such actions in due time and influence them, and guarantees respect and due protection of shareholder rights when such actions are taken.

<table>
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<tbody>
<tr>
<td>7.2.1</td>
<td>Information on material corporate actions is disclosed, with an explanation of the relevant reasons, conditions and consequences.</td>
<td>1. In the reporting period, the Company disclosed information on its material corporate actions in a timely and detailed manner, including their rationale and implementation timelines.</td>
<td>Complied with in part</td>
<td>Not complied</td>
</tr>
<tr>
<td>7.2.2</td>
<td>Rules and procedures for taking material corporate actions are set forth in the Company's internal regulations.</td>
<td>1. The Company’s internal regulations set out a procedure for engaging an independent appraiser to determine the value of the property to be sold or purchased in a major transaction or a related-party transaction. 2. The Company’s internal regulations set out a procedure for engaging an independent appraiser to determine the value of the Company’s shares to be purchased or bought back.</td>
<td>Complied with in part</td>
<td>Not complied</td>
</tr>
</tbody>
</table>

The Bank of Russia's Corporate Governance Code was approved at the time when Article 81 of the Federal Law On Joint Stock Companies allowed joint stock companies to include in their charters additional criteria for directors and other persons stipulated by law to be recognised as related parties for the purposes of corporate transactions, whereas the Code’s recommendation to specify additional related-party criteria is impracticable until the Russian legislation is changed accordingly.

Appendix 4

(Information on compliance with instructions issued by the President of the Russian Federation and the Government of the Russian Federation)
2.1. Approval of the Regulation on Procurement. Procurement transparency improvement

Subparagraph 1, paragraph 1 of Instruction of the Board of Directors of the Russian Federation No. 1046p-P-15 dated November 18, 2019

Rosneft is continuously optimizing the portfolio of assets owned by the Company and its subsidiaries.

The Company has developed and is consistently implementing a non-core and non-performing asset divestment programme in accordance with the Company’s Policy on Corporate Property Management and the Company’s Standard on Non-Core and Non-Inefficient Assets Management developed by the Company and approved by the Board of Directors.

The programme outlines key principles of non-core and non-performing asset management, relevant procedures, stages and deadlines for implementation.

The Company annually identifies assets conforming to the criteria of non-core and non-performing assets and performs their appraisal, technical audit, and economic and legal expert analysis.

The registered non-core and non-performing assets of Rosneft and the Group Subsidiaries are maintained and updated on a regular basis in compliance with the non-core and non-performing asset divestment programme.

In 2019, Rosneft’s Board of Directors approved the updated registers of the non-core and non-performing assets scheduled to be divested in 2019–2022 (Minutes No. 6 dated 1 October 2019).

Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.

2. Procurement of goods, works and services

2.1. Approval of the Regulation on Procurement. Procurement transparency improvement

On 30 November 2018, Rosneft’s Board of Directors resolved to approve a revised version of the Company’s Regulations on Procurement of Goods, Works and Services (the full version of the Regulations is posted on the Company’s official website at http://iakupi.ru/rosneft.com nodes/95522) and the Integrated Information System at http://iakupi.ru/vn that:

- sets out the Company’s procurement principles (information openness and transparency, equality, fairness and non-discrimination, no unwarranted restrictions on bidders, targeted and cost-efficient expenditures, prevention of corruption or any abuse in the procurement process);
- describes key elements of the procurement process for goods, works and services, including procedures for preparing and carrying out procurements and procedures for signing and performing procurement contracts;
- sets out certain provisions regulating the participation of small and medium-sized enterprises (SMEs) in procurements;
- provides for the possibility of online procurement.

In 2016, the Company developed procurement standards for goods, works and services set price limits on, and define requirements for the quantity, consumer properties and other specifications of the said goods, works and services. The list of products regulated by the corporate standards is posted on the Company’s official website at http://iakupi.ru/tables.

The Company also monitors the compliance with applicable standards and annually reviews procurement results for their compliance with the standards.

Pursuant to Directions of the Government of the Russian Federation No. 770p-P-15 dated 11 October 2018, the Company’s Regulations on Procurement of Goods, Works and Services provides for the possibility of factoring as a means of financing the procurement of goods, works or services (paragraph 10.4.7.4).

Pursuant to Directions of the Government of the Russian Federation No. 770p-P-15 dated 11 October 2018, the Company’s updated standard procurement documents to allow for specific means of securing vendor obligations under procurement contracts, including suretyship.

Pursuant to Directions of the Government of the Russian Federation No. 1046p-P-15 dated 18 November 2019, the Company updated its standard procurement documents to allow for specific means of securing vendor obligations under procurement contracts, including suretyship.

Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.

2.2. Improving efficiency of procurements from small and medium-sized enterprises, including procurement of innovative and hi-tech products


Instruction of the Government of the Russian Federation No. DM-P-77 dated 13 January 2018 to provide information under subparagraph c, paragraph 11 of Instruction of the President of the Russian Federation No. Pr-2793 dated 31 December 2017


Directives of the Government of the Russian Federation No. 1110p-P-15 dated 5 May 2019

The Company implemented a set of measures to improve procurement efficiency. These measures include:

- establishment of the standing Advisory Board; relevant information about the Board is posted on Rosneft’s official website (more details are available at http://iakupi.ru/rosneft.com/consult);
- development and approval of the following internal documents:
  1. Regulations on Procurement of Goods, Works and Services,
  2. Regulations on Activity of Advisory Board Carrying Out Public Audit of Efficiency of Purchases from Small and Medium-Sized Business Entities,
  3. Regulations on the Procedure and Rules of the One-Stop-Shop System for the Introduction of Innovative Products,
  4. Innovation Classification Principles setting out uniform rules and criteria for classifying the Company’s goods, works and services as innovative subject to Order of the Ministry of Energy of the Russian Federation No. 1026 dated 25 December 2015,
  6. amendments to the corporate procurement regulations specifying the procedure for SMEs to bid for procurement contracts of the Company;
  7. invitation to vendors (including SMEs) to propose innovative solutions through the One-Stop-Shop System on Rosneft’s website (more details are available at https://www.rosneft.com/Development/Scienceandinnovation/Innovation_management/One-Stop-Shop/);
  8. development and approval of the Innovative Product Procurement Plan for 2018–2022 (the Plan is posted in the Integrated Information System at http://iakupi.ru/vn);
  9. approval and introduction of 4% (including the Share of Procurements from SMEs) for the procurement service managers;
  10. as provided for in applicable procurement laws of the Russian Federation, all procurements from SMEs are organised online on the TEK-Torg Electronic Trading Platform (and posted in Rosneft’s section);
  11. pursuant to Directions of the Government of the Russian Federation No. 611p-P-15 dated 8 May 2019; the Company’s Regulations on Procurements of Goods, Works and Services was amended to provide for the possibility of factoring as a means of financing the procurement of goods, works or services from SMEs, regardless of how such procurements were arranged:

- the total value of contracts made between Rosneft and SMEs (including those made by the Group Subsidiaries on behalf of Rosneft), including payments due in 2019, amounted to RUB 16.3 bn, or 60.3% (attributable to the 18% target) and RUB 1.8 bn, or 12% (attributable to the 1% target);
- the total value of contracts for the procurement of innovative products amounted to RUB 8.8 bn (up 10.9% y-o-y), including RUB 0.67 bn (up 12.5% y-o-y) in procurements from SMEs.

Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.
2.3. Increasing procurements of Russian-made products

- The Company’s Board of Directors developed and approved an action plan (a list of measures) aimed at consistent substitution of imported products (including services and goods), and technically similar products, works and services of Russian origin to be used in investment projects and day-to-day operating activities, that is economically and technologically feasible (Minutes No. 55 dated 6 June 2016).


  - the priority of goods, works and services supplied in accordance with applicable laws;
  - the customer’s discretion to specify certain priorities and conditions for the tendered contract if such conditions are expressly stated in the procurement documents or directly set out in applicable laws.

- Additionally, the Company developed and implemented the Import Substitution and Equipment Localisation Programme for Rosneft’s Needs for 2019-2021 with an outlook for 2028.

2.4. Modernization and Innovation


- The Company updated its action plan (a list of measures) for import substitution and localisation to comply with Directive of the Government of the Russian Federation No. 317p-P dated 1 June 2015 and the Guidelines approved by Order of the Russian Ministry of Economic Development No. 219P-U dated 11 August 2016. Key actions (measures) were included in Rosneft’s Long-Term Development Programme as updated and approved by resolution of the Board of Directors (Minutes No. 11 dated 23 December 2019).

- Relevant resolutions (Minutes No. 6 dated 26 August 2016) were made by the Company’s Board of Directors to comply with Directives of the Government of the Russian Federation No. 240p-P dated 17 April 2017.

- Pursuant to Directives of the Government of the Russian Federation No. 792p-P dated 31 December 2016, the Company’s Board of Directors (Minutes No. 15 dated 25 February 2017) instructed the Management Board to strive, and in due course, to influence the Ministry of Energy and the Ministry of Economic Development of the Russian Federation to make long-term contracts for the supply of any products and provide for the procurement of competitive Russian software for Rosneft’s subsidiaries.

- The list of the Long-Term Development Programme KPIs and KPIs for Rosneft’s top managers, including the Chief Executive Officer, were supplemented with an integrated KPI of innovation efficiency.

- In 2018, the Company benchmarked its technology (innovation) level and relevant KPIs for leading Russian and international companies. In 2019, the Ministry of Energy and the Ministry of Economic Development of the Russian Federation were presented with:
  - benchmarking results for Rosneft’s technology level;
  - proposals for adjustments to Rosneft’s Innovation Development Programme to be later incorporated into Rosneft’s Long-Term Development Programme; and
  - plans and actions for future implementation of the integrated KPI of innovation efficiency for 2019.

- In 2019, the Board of Directors considered a report on the progress of Rosneft’s Innovation Development Programme No. 017p-P dated 3 May 2019 summarizing its activities by the cross-department task group (Minutes No. 2 dated 19 September 2019).

- The results of the Group’s activities to ensure consistent substitution of imported products (including works and services) with equivalent and technically similar products, works and services of Russian origin to be used in investment projects and day-to-day operating activities were presented in the Board of Directors’ reports dated 26 December 2016 and 30 May 2017.

- The results of the Group’s Foreign Investment Programme KPIs and KPIs for Rosneft’s top managers, including the Chief Executive Officer, were supplemented with an integrated KPI of innovation efficiency.

- Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.
5.2. Intellectual property rights management

Recommendations as to intellectual property rights management are fully integrated into development programmes approved by resolution of the Government Commission for Advanced Technology and Innovation (Minutes No. 4 dated 3 August 2010).


In 2018, Rosneft’s Board of Directors considered matters related to intellectual property rights management. As part of the Innovation Development Programme, Rosneft adopted an intellectual property rights management programme.

In 2018, Rosneft’s Board of Directors considered matters related to intellectual property rights management as required by Directives of the Government of the Russian Federation No. 917p-П1 dated 12 December 2017 and No. 7050p-P1 dated 30 August 2018.

Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.

5.3. Development and approval of the Company’s strategy and Long-Term Development Programme

In 2017, Rosneft’s Board of Directors approved the Rosneft-2022 Strategy (Minutes No. 8 dated 21 December 2017) aimed at major changes in the Company’s business through advanced management approaches and new technologies while increasing returns on the Company’s existing assets.

The Rosneft-2022 Strategy responds to all of the current challenges faced by the energy industry. The Strategy aims to improve business sustainability by reducing dependence on mature assets and accelerating development of core assets, concentration on key projects, accelerated roll-out of new technology and new management models, and transformations necessitated by digital era challenges.

While developing the Rosneft-2022 Strategy, the Company conducted an in-depth analysis of external environment and challenges faced by each business segment. The Company formulated strategic initiatives across all business segments enabling development and accomplishment of its growth priorities. The fundamental messages of the Rosneft-2022 Strategy were announced by Rosneft’s Chief Executive Officer Igor Sechin at the Annual General Shareholders Meeting on 23 June 2017 and posted on Rosneft’s official website. For key information and provisions of the Rosneft-2022 Strategy, see section _ of the Annual Report.

In 2018, Rosneft’s Board of Directors approved additional initiatives to support the Rosneft-2022 Strategy in view of the Address of President of the Russian Federation Vladimir Putin to the Federal Assembly (Minutes No. 17 dated 28 April 2018). In December 2018, the Board of Directors reviewed Rosneft’s strategic performance and concluded that the goals of the Rosneft-2022 Strategy for 2018 were achieved.

Rosneft’s Long-Term Development Programme was originally established in 2016 pursuant to Instruction of the President of the Russian Federation Vladimir Putin No. Pr-3086 dated 27 December 2013 and Directives of the Government of the Russian Federation No. 15-П1-1925 dated 13 June 2013.


Directives of the Government of the Russian Federation No. 789P-P1 dated 31 October 2014

Paragraph 2, section 1 of Minutes of the Meeting of the Ministry of Industry and Trade and the Government of the Russian Federation No. 4 dated 19 April 2014


Subparagraph b, paragraph 2 of List of Instructions of the President of the Russian Federation No. Pr-1637 dated 1 July 2010


Directives of the Government of the Russian Federation No. 779P-P1 dated 5 November 2014


Directives of the Government of the Russian Federation No. 1510P-P1 dated 7 January 2019

In 2019, the Long-Term Development Programme was updated annually. In 2019, the Long-Term Development Programme was updated to account for:

• the company’s performance in 2018 and an independent auditor’s recommendations following a limited audit on the implementation of the Long-Term Development Programme in 2018;

• changes in the tasks and initiatives for the development of Rosneft’s businesses and corporate functions under the influence of external factors, including the macro environment in global energy markets and its influence on long-term goals of the Company;

• resolutions made by the Board of Directors in respect of the Company’s development plans.


Efficiency improvement initiatives aimed at introducing the lean production methodology are integrated into the existing KPI system for the Company’s top managers and heads of business units. Provisions of the Long-Term Development Programme is aligned with key provisions of Russian government programmes pertaining to the Company’s line of business.

The Company met the requirements of Directives of the Government of the Russian Federation No. 779p-P1 dated 17 January 2019. Its current Long-Term Development Programme accounts for key provisions of the Address of President of the Russian Federation Vladimir Putin to the Federal Assembly and Decrease of the President of the Russian Federation No. 204 of 7 May 2018. Provisions of strategic and national programmes of the Russian Federation are taken into account in annual updates of the Long-Term Development Programme (Minutes of the Meeting of Rosneft’s Board of Directors No. 19 dated 1 April 2019).

For information on the Long-Term Development Programme and audited results of its implementation in 2019, see section _ of the Annual Report.

Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.
5.4. Reduction of operating expenses

Rosneft fully complies with Instructions of the President of the Russian Federation No. 933 dated 24 June 2015, the Company developed, approved and enacted the following documents:

- Policy on Internal Audit;
- Policy on Operational and investment efficiency improvement;
- Policy on Risk Management and Internal Control System;
- Policy on Onshore Oil Production;
- Policy on Offshore Hydrocarbon Exploration and Production;
- Policy on Gas Business;
- the Company’s Standard on the Corporate-Wide Risk Management System (CWRMS);
- Regulations on the Procedure for Developing (Updating) and Implementing Rosneft’s Innovation Development Programme;
- Regulations on the Procedure and Rules of the One-Stop Shop System for the Introduction of Innovative Products;
- Standard on Innovation Efficiency Management;

Rosneft complies with the provisions of the Directives in full.

Important information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.

5.5. Development of internal regulations

Paragraph 2 of List of Instructions of the President of the Russian Federation No. Ph-1015 dated 27 December 2016

In accordance with the guidelines approved by the Government of the Russian Federation (No. 575-PP dated 24 June 2015), the Company developed, approved and enacted the following documents:

- Policy on Internal Audit;
- Policy on Operational and investment efficiency improvement;
- Policy on Risk Management and Internal Control System;
- Policy on Onshore Oil Production;
- Policy on Offshore Hydrocarbon Exploration and Production;
- Policy on Gas Business;
- the Company’s Standard on the Corporate-Wide Risk Management System (CWRMS);
- Regulations on the Procedure for Developing (Updating) and Implementing Rosneft’s Innovation Development Programme;
- Regulations on the Procedure and Rules of the One-Stop Shop System for the Introduction of Innovative Products;
- Standard on Innovation Efficiency Management;

5.6. New export contracts providing for ruble settlement

Paragraph 1, paragraph 1, section 1, of Minutes of the Meeting of the National Financial Stability Board No. 7 dated 10 April 2015


On 30 September 2016 (Minutes No. 7 dated 10 October 2015), the Company’s Board of Directors considered that new export contracts should provide for the possibility of using Russian rouble as a settlement currency and decided on a reasonable minimum share of export transactions denominated in rubles in accordance with Directives of the Government of the Russian Federation No. 807p-PP dated 23 July 2015.

The possibility of rouble settlements is provided for in most of petroleum sale contracts signed by the Group Subsidiaries with buyers from the CIS countries.

As for contracts with buyers from other jurisdictions, the possibility of rouble settlements is provided for with due assessment of customer loss and sales reduction risks (customers refusing to sign contracts due to extra costs associated with currency conversion) and the risk of Russian rouble deterioration that might lead to a reduction in total revenue from petroleum products exports.

5.7. Alignment of corporate activities with the Bank of Russia’s Corporate Governance Code

Paragraph 4 of Minutes of the Meeting Convened by Deputy Prime Minister of the Russian Federation Oleg Bocharov No. 30-OP dated 15 June 2012

Paragraph 5 of Minutes of the Meeting Convened by Deputy Prime Minister of the Russian Federation Oleg Bocharov No. 30-OP dated 15 June 2012

Paragraph 4 of Minutes of the Meeting Convened by Deputy Prime Minister of the Russian Federation Oleg Bocharov No. 30-OP dated 27 June 2012

The Company introduced a KPI-based incentive system for its management in 2009. Also enacted were the Regulations on Annual Bonuses for Rosneft’s Top Managers and Heads of Independent Units.

On 9 December 2016 (Minutes No. 12, Rosneft’s Board of Directors approved the Regulations on the Company’s KPI System in strict compliance with the guidelines of the Federal Agency for State Property Management on the Application of Key Performance Indicators by State Corporations, State Companies, State Unitary Enterprises and Business Entities Where the Aggregate Share of the Russian Federation or a Constituent Entity of the Russian Federation Exceeds 50%.

Rosneft’s KPI system includes:

- financial and economic indicators (EBITDA, ROACE, TSR, Net Debt / EBITDA, and cost reduction indicators);
- industry-wide indicators (hydrocarbon production, reserve replacement, light product yield, an indicator of innovation efficiency, etc.);
- Management bodies of the Company (Board of Directors, Management Board and Chief Executive Officer) annually revise and approve performance indicators for each category of the Company’s managers.

Other employees of Rosneft’s Head Office receive bonuses based on collective KPIs for Rosneft and its businesses, and personal performance evaluation (individual performance factor) for Target KPIs and personal performance of the top management are reviewed annually and approved by the Board of Directors based on the recommendations of the HR and Remuneration Committee of the Board of Directors.

As provided for in the employment contract of Rosneft’s Chief Executive Officer, he is obliged to ensure the implementation of the approved Strategy and Long-Term Development Programme of the Company.

Pursuant to Directives of the Government of the Russian Federation No. 950p-PP dated 2 October 2019, the Company analysed its Regulations on the Company’s KPI System and Standards on Standards on Payments to Top Managers, which set out key performance indicators and remuneration for Rosneft’s top management, for compliance with the guidelines approved by Resolution of the Board of Directors dated 27 June 2016. The analysis showed that the said documents did not need to be updated in 2019 (Minutes of the Meeting of Rosneft’s Board of Directors No. 10 dated 30 December 2019).

Important information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.
5.10. Fulfilment of Resolution of the Government of the Russian Federation No. 332 dated 6 March 2018 with regard to the procedure for approval of plans and programmes by the Ministry for development of the Russian Far East and approval of said documents by the Ministry


On 24 December 2018, pursuant to Directives of the Government of the Russian Federation No. B860p-P13 dated 29 October 2018, Rosneft’s Board of Directors considered the fulfilment of Resolution of the Government of the Russian Federation No. 332 dated 6 March 2018 that requires to introduce a procedure for approval of corporate plans and target programmes by the Ministry for Development of the Russian Far East and to have these documents approved by the said Ministry. It was noted, among other things, that the projects initiated by Rosneft in the Russian Far East as instructed by the President and Government of the Russian Federation are coordinated with the Ministry for Development of the Russian Far East.

Pursuant to the said directive, Rosneft and the Ministry for Development of the Russian Far East signed an agreement on 24 October 2019 to establish a procedure for confidential information exchange. In addition, Rosneft developed and approved the Regulations on the Provision of Summary Information about the Company’s Plans and Target Programmes to the Ministry for Development of the Russian Far East and enacted them in 1 January 2020.

Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.

A. Sustainable development

4.1. Adoption of professional standards


In 2019, Rosneft and Group Subsidiaries took measures to adopt professional standards in accordance with the Action Plan approved by Rosneft’s Board of Directors on 24 December 2018 (Minutes No. 15).

Rosneft’s Board of Directors was twice updated (as at 1 July 2019 and 1 November 2019) on the implementation of the Action Plan in Rosneft and the Group Subsidiaries (Minutes No. 3 dated 1 July 2019 and Minutes No. 12 dated 30 December 2019).

By resolution of the Board of Directors, Rosneft approved the Action Plan for Adoption of Professional Standards at Rosneft and the Group Subsidiaries for 2020 (Minutes No. 12 dated 30 December 2019).

Relevant information is regularly posted on the online interdepartmental portal of the Federal Agency for State Property Management.

4.2. Creation of professional and amateur sports organisations

Subparagraph 6, paragraph 2 of list of Instructions of the President of the Russian Federation No. P-2179 dated 09/1/2016

Paragraph 1 of Instruction of the Government of the Russian Federation No. 15h-P13-8890 dated 24 December 2017

Letter of the Federal Agency for State Property Management No. RB-11/11004ps dated 22 January 2018

In accordance with paragraph 171, Article 5 of the Federal Law on Joint-Stock Companies, matters related to the establishment of, participation in, and withdrawal from commercial and non-commercial organisations fall within the remit of the board of directors or another executive body of a joint-stock company as is provided for in the company’s charter.

Rosneft places special emphasis on the support and development of sports and considers them one of the top priorities of its social policy. In particular, the Company supports sports through charitable activities under social and economic cooperation agreements with regional authorities and by delivering individual charity projects.

For this purpose, the Company traditionally provides finance to support and develop sports organisations, develop and promote mass and children’s sports, build and upgrade ice arenas, ice rinks and recreation centres, and buy sports equipment for children’s sports schools and other educational institutions.

As part of its sponsorship agenda, Rosneft also provides financial support to help organise and hold important international sports competitions. Its initiatives are aimed at supporting and developing hockey, football, biathlon, sambo, boxing, motor racing and other sports.

4.3. Advertising contracts between Rosneft and top Russian athletes


Since Rosneft promotes sports, it provides finance to support and develop sports organisations. Rosneft is a title sponsor of the International SAMBO Federation (FIAS) and finances the official schedule of annual sambo competitions.

The Company supports motor racing and prioritises national teams and car manufacturers, while intending to cover the maximum number of regions with the races organised.

The Company also provides full financial support to the Russian ice hockey club CSKA.

Since 2017, Rosneft has been a title sponsor of the Arsenal Tula Football Club in the Russian football championship.
This Annual Report has been prepared based on the following local (internal) regulations of Rosneft:

Charters:
- Rosneft's Corporate Governance Code;
- Code of Business and Corporate Ethics of Rosneft;
- Regulations on the General Shareholders Meeting of Rosneft;
- Regulations on the Board of Directors of Rosneft;
- Rosnef Regulation on the Rosneft Board of Directors Audit Committee;
- Rosneft Regulations on Human Resources and Remuneration Committee of Rosneft Board of Directors;
- Rosneft Regulation on the Rosneft Board of Directors Strategic Planning Committee;
- Rosneft Regulation on Payment of Remuneration and Compensation of Expenses of the Members of Rosneft Board of Directors;
- Rosneft Regulation Procedure for Formation and Work of Rosneft Board of Directors Committees;
- Regulations on the Collective Executive Body (Management Board) of Rosneft;
- Regulations on the Sole Executive Body (Chief Executive Officer) of Rosneft;
- Company Standard on Payments and Compensations to Top-managers;
- Regulations on the Audit Commission of Rosnef;
- Rosneft Regulation on Remuneration and Compensation to Rosneft Audit Commission Members;
- Rosneft Regulation On Rosneft Corporate Secretary;
- Company Information Policy;
- Rosneft Regulation on Provision of Information to Rosneft Shareholders;
- Rosneft Regulations on Insider Information;
- Rosneft Dividend Policy;
- Company Policy on Combating Corporate Fraud and Involvement in Corruption Activities;
- Company Policy on Internal Audit;
- Company Policy on Risk Management and Internal Control System;
- Company Policy on Environmental Protection;
- Company Policy on Health and Safety.

Appendix 6
(Financial Statements and Auditor’s Report)
Independent auditor’s report

To the Shareholders and Board of Directors of

PJSC Rosneft Oil Company

Opinion

We have audited the financial statements of PJSC Rosneft Oil Company (the “Company”), which comprise the balance sheet as of 31 December 2019, the income statement for 2019, and appendices thereto.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2019 and its financial performance and its cash flows for 2019 in accordance with the rules on preparation of financial statements established in the Russian Federation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

<table>
<thead>
<tr>
<th>Key audit matter</th>
<th>How our audit addressed the key audit matter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions to the charter capital of subsidiaries related to restructuring</td>
<td>The Company made a number of new investments of shares (units of entities that the Company owns and holds on its balance sheet, to the charter capital of its subsidiaries in 2019 in order to create and spin-off management sub-holdings. In accordance with Accounting statement 1970, Financial investments, where it is impossible to determine the cost of assets transferred or transferable by the organization, the value of financial investments received should be determined based on the fair value of assets transferred as a contribution to the charter capital. This matter is one of the most significant in our audit as the respective transactions are significant for financial statements and the calculation of the value of the transferable financial investments requires management to make significant judgments. Information on the above-mentioned transactions is provided in Note 11 to the financial statements.</td>
</tr>
<tr>
<td>Auditor's responsibilities for the audit of the financial statements</td>
<td></td>
</tr>
<tr>
<td>Other information included in the Annual Report</td>
<td></td>
</tr>
<tr>
<td>Responsibilities of management and the Audit Committee of the Board of Directors for the financial statements</td>
<td>Management is responsible for the preparation and fair presentation of these financial statements in accordance with the rules on preparation of financial statements established in the Russian Federation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.</td>
</tr>
</tbody>
</table>

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

Other information included in the Annual Report

Other information consists of the information included in the Annual Report for 2019, other than the financial statements and our auditor’s report thereon. Management is responsible for the other information. The Annual Report is expected to be provided to us after the date of this auditor’s report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information specified above when it is provided to us and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and the Audit Committee of the Board of Directors for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the rules on preparation of financial statements established in the Russian Federation, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

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

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Material misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and related disclosures.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements, or if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee of the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee of the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and have communicated with all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
From the matters communicated with the Audit Committee of the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is D. E. Lobachev.

Details of the audited entity

Name: PJSC Rosneft Oil Company
Record made in the State Register of Legal Entities on 12 August 2002, State Registration Number 1027700443903.
Address: Russia 115035, Moscow; Sofyiskaya nab., 26/1.
Details of the auditor
Name: Ernst & Young LLC
Record made in the State Register of Legal Entities on 5 December 2002, State Registration Number 1027799702703.
Address: Russia 115035, Moscow; Sadovnicheskaya nab., 77, building 1.
Ernst & Young LLC is a member of Self-regulated organization of auditors Association"Sodruzhestvo" ("SRO AAS"); Ernst & Young LLC is included in the controlled copy of the register of auditors and audit organizations, main registration number 1.0006200327.

Balance sheet At 31 December 2019

<table>
<thead>
<tr>
<th>Explanatory Note</th>
<th>Item</th>
<th>Line code</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. NON-CURRENT ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Intangible assets</td>
<td></td>
<td>1110</td>
<td>64,331,957.00</td>
<td>64,299,532.00</td>
<td>23,468,759.00</td>
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<tr>
<td>8. Research and development results</td>
<td></td>
<td>1120</td>
<td>8,950,322.00</td>
<td>6,728,023.00</td>
<td>4,890,565.00</td>
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<tr>
<td>7. Intangible exploration assets</td>
<td></td>
<td>1130</td>
<td>107,773,666.00</td>
<td>99,214,715.00</td>
<td>111,503,011.00</td>
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<tr>
<td>7. Tangible exploration assets</td>
<td></td>
<td>1140</td>
<td>31,160,877.00</td>
<td>20,222,027.00</td>
<td>24,179,268.00</td>
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<tr>
<td>5. Fixed assets</td>
<td></td>
<td>1150</td>
<td>1,125,678,481.00</td>
<td>1,249,210,761.00</td>
<td>1,186,593,970.00</td>
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<tr>
<td>3.11 Income-bearing investments in tangible assets</td>
<td></td>
<td>1160</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>3.11 Financial investments</td>
<td></td>
<td>1170</td>
<td>5,833,560,665.00</td>
<td>6,159,576,705.00</td>
<td>6,003,776,788.00</td>
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<tr>
<td>3.21 Deferred tax assets</td>
<td></td>
<td>1180</td>
<td>118,633,694.00</td>
<td>94,861,893.00</td>
<td>93,042,970.00</td>
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<tr>
<td>9. Other non-current assets</td>
<td></td>
<td>1190</td>
<td>33,162,714.00</td>
<td>31,951,119.00</td>
<td>32,318,324.00</td>
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<tr>
<td><strong>Total for Section I</strong></td>
<td></td>
<td>1100</td>
<td>7,502,520,379.00</td>
<td>7,726,342,875.00</td>
<td>7,483,529,455.00</td>
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<tr>
<td>2. CURRENT ASSETS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Inventories</td>
<td></td>
<td>1210</td>
<td>158,889,760.00</td>
<td>155,426,999.00</td>
<td>142,588,235.00</td>
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<tr>
<td>10. Value added tax on purchased assets</td>
<td></td>
<td>1220</td>
<td>48,808,809.00</td>
<td>70,718,694.00</td>
<td>70,598,720.00</td>
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<tr>
<td>3.15.18 Accounts receivables</td>
<td></td>
<td>1230</td>
<td>5,543,076,666.00</td>
<td>2,635,803,275.00</td>
<td>2,531,306,563.00</td>
</tr>
<tr>
<td></td>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable expected to be settled within 12 months after the reporting date</td>
<td></td>
<td>1231</td>
<td>1,011,356,476.00</td>
<td>1,028,017,670.00</td>
<td>1,119,095,376.00</td>
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<tr>
<td>Accounts receivable expected to be settled in over 12 months after the reporting date</td>
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<td>1232</td>
<td>2,531,722,900.00</td>
<td>1,648,785,648.00</td>
<td>1,411,277,288.00</td>
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<tr>
<td>3.11 Financial investments (other than cash equivalents)</td>
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<td>1240</td>
<td>989,762,575.00</td>
<td>1,100,853,575.00</td>
<td>728,035,665.00</td>
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<tr>
<td>12. Short-term derivative financial instruments at fair value through profit or loss</td>
<td></td>
<td>1241</td>
<td>2,245,018.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>12. Long-term derivative financial instruments at fair value through profit or loss</td>
<td></td>
<td>1252</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>14. Cash and cash equivalents</td>
<td></td>
<td>1260</td>
<td>297,576,000.00</td>
<td>298,543,200.00</td>
<td>116,438,660.00</td>
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<tr>
<td>Other current assets</td>
<td></td>
<td>1261</td>
<td>5,952,039.00</td>
<td>8,605,746.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Unbilled accrued revenue under construction contracts</td>
<td></td>
<td>1261</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total for Section II</strong></td>
<td></td>
<td>1300</td>
<td>6,201,977,944.00</td>
<td>6,582,374,944.00</td>
<td>3,599,888,917.00</td>
</tr>
<tr>
<td><strong>BALANCE</strong></td>
<td></td>
<td>1400</td>
<td>12,324,498,323.00</td>
<td>13,308,717,819.00</td>
<td>11,082,418,372.00</td>
</tr>
</tbody>
</table>
### Income statement for 2019

<table>
<thead>
<tr>
<th>Explanatory Note</th>
<th>Item</th>
<th>Line code</th>
<th>January-December 2019</th>
<th>January-December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>11.14</td>
<td>Revenue</td>
<td>2110</td>
<td>6,827,534,007</td>
<td>6,918,348,944</td>
</tr>
<tr>
<td>11.15</td>
<td>Cost of sales</td>
<td>2120</td>
<td>(5,783,222,071)</td>
<td>(6,875,232,783)</td>
</tr>
<tr>
<td>11.16</td>
<td>Oil and gas reserves exploration and estimation expenses</td>
<td>2150</td>
<td>(6,509,819)</td>
<td>(26,065,234)</td>
</tr>
<tr>
<td>11.17</td>
<td>Gross income (loss)</td>
<td>2100</td>
<td>2,038,744,370</td>
<td>1,348,958,056</td>
</tr>
<tr>
<td>11.18</td>
<td>Selling expenses</td>
<td>2210</td>
<td>(1,198,815,457)</td>
<td>(1,462,674,475)</td>
</tr>
<tr>
<td>11.19</td>
<td>General and administrative expenses</td>
<td>2220</td>
<td>(83,302,902)</td>
<td>(80,583,678)</td>
</tr>
<tr>
<td>11.20</td>
<td>Income (loss) from sales</td>
<td>2230</td>
<td>758,432,167</td>
<td>425,089,083</td>
</tr>
<tr>
<td>11.21</td>
<td>Income from equity participation in other entities</td>
<td>2310</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>11.22</td>
<td>Interest receivable</td>
<td>2320</td>
<td>176,864,100</td>
<td>186,773,010</td>
</tr>
<tr>
<td>11.23</td>
<td>Interest payable</td>
<td>2330</td>
<td>(643,056,371)</td>
<td>(601,831,788)</td>
</tr>
<tr>
<td>11.24</td>
<td>Gains from changes in the fair value of derivative financial instruments</td>
<td>2420</td>
<td>55,301,062</td>
<td>51,166,586</td>
</tr>
<tr>
<td>11.25</td>
<td>Losses from changes in the fair value of derivative financial instruments</td>
<td>2420</td>
<td>0</td>
<td>(10,950,837)</td>
</tr>
<tr>
<td>11.26</td>
<td>Other income</td>
<td>2340</td>
<td>136,792,952</td>
<td>319,329,030</td>
</tr>
<tr>
<td>11.27</td>
<td>Other expenses</td>
<td>2350</td>
<td>(302,893,507)</td>
<td>(294,437,609)</td>
</tr>
<tr>
<td>11.28</td>
<td>Income (loss) before tax</td>
<td>2300</td>
<td>347,541,644</td>
<td>460,784,009</td>
</tr>
<tr>
<td>11.29</td>
<td>Current income tax</td>
<td>2410</td>
<td>9,468,440</td>
<td>63,697</td>
</tr>
<tr>
<td>11.30</td>
<td>Including permanent tax assets (liabilities)</td>
<td>2420</td>
<td>89,379,103</td>
<td>81,505,549</td>
</tr>
<tr>
<td>11.31</td>
<td>Change in deferred tax liabilities</td>
<td>2430</td>
<td>(16,367,835)</td>
<td>(703,195)</td>
</tr>
<tr>
<td>11.32</td>
<td>Change in deferred tax assets</td>
<td>2430</td>
<td>33,791,801</td>
<td>(2,875,837)</td>
</tr>
<tr>
<td>11.33</td>
<td>Other</td>
<td>2460</td>
<td>29,992,758</td>
<td>30,013,766</td>
</tr>
<tr>
<td>11.34</td>
<td>Tax on prior year income</td>
<td>2461</td>
<td>703,325</td>
<td>(20,994)</td>
</tr>
<tr>
<td>11.35</td>
<td>Imputed income tax</td>
<td>2466</td>
<td>0</td>
<td>0.00</td>
</tr>
<tr>
<td>11.36</td>
<td>Income tax re-distribution within consolidated taxpayer group</td>
<td>2465</td>
<td>95,835</td>
<td>1,086,645</td>
</tr>
<tr>
<td>11.37</td>
<td>Tax effect of the results of other operations not included in net income (loss) for the period</td>
<td>2466</td>
<td>29,171,027</td>
<td>29,171,027</td>
</tr>
<tr>
<td>11.38</td>
<td>Net income (loss)</td>
<td>2400</td>
<td>396,526,209</td>
<td>440,786,009</td>
</tr>
</tbody>
</table>

I.I. Sechin  
Chief Executive Officer of PJSC Rosneft Oil Company  
V.A. Surkov  
General Director of LLC RN-Uchet  

[Contract No. 100019/05992D dated 2 January 2020]  

* * 2020
Statement of changes in equity for 2019

1. Changes in equity

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>Charter capital</th>
<th>Treasury shares</th>
<th>Additional capital</th>
<th>Reserve capital</th>
<th>Other funds and reserves</th>
<th>Retained earnings (uncovered loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3100</td>
<td>105,982.00</td>
<td>113,578,543.00</td>
<td>5,399.00</td>
<td>(231,768,689)</td>
<td>1,802,733,923.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For 2019

Total increase in equity:

including:

Net income

Revaluation of property

Earnings directly increasing equity

Additional issue of shares

Increase in the par value of shares

Legal entity reorganization

Total increase in equity: 5,299.00

At 31 December 2019

118,168,247.00

1. Changes in equity

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>Charter capital</th>
<th>Treasury shares</th>
<th>Additional capital</th>
<th>Reserve capital</th>
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<tbody>
<tr>
<td>3100</td>
<td>105,982.00</td>
<td>113,578,543.00</td>
<td>5,399.00</td>
<td>(231,768,689)</td>
<td>1,802,733,923.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

For 2018

Total increase in equity:

including:

Net income

Revaluation of property

Earnings directly increasing equity

Additional issue of shares

Increase in the par value of shares

Legal entity reorganization

Total increase in equity: 1,389,427.00

At 31 December 2018

2,142,102,123.00

2. Adjustment due to changes in the accounting policy and correction of errors

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>At 31 December 2017</th>
<th>Change in equity for 2018</th>
<th>Due to other factors</th>
<th>At 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>3100</td>
<td>105,982.00</td>
<td>113,578,543.00</td>
<td>5,299.00</td>
<td>2,036,470,077.00</td>
<td></td>
</tr>
</tbody>
</table>

3. Net assets

<table>
<thead>
<tr>
<th>Item</th>
<th>Code</th>
<th>Line code</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
</tr>
</thead>
</table>

Net assets

5600 | 5600 | 2181770178 | 2012647017 | 1661370508 |
## Statement of cash flows for 2019

<table>
<thead>
<tr>
<th>Item</th>
<th>Line code</th>
<th>For 2019</th>
<th>For 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>6100</td>
<td>150477582</td>
<td>344801904</td>
</tr>
<tr>
<td>Total proceeds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to shareholders (participants) due to the buyback of shares (interests) in the entity or due to their withdrawal</td>
<td>6321</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividends and other distributions of income among shareholders (participants)</td>
<td>6322</td>
<td>-276350540</td>
<td>-27815615</td>
</tr>
<tr>
<td>Repayment (redemption) of promissory notes and other debt securities, repayment of loans and borrowings</td>
<td>6323</td>
<td>-3549958750</td>
<td>-310277420</td>
</tr>
<tr>
<td>Other payments</td>
<td>6329</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net cash flows from financing activities</td>
<td>6100</td>
<td>-321700998</td>
<td>63415740</td>
</tr>
<tr>
<td>Net cash flows for the reporting period</td>
<td>6100</td>
<td>-420001117</td>
<td>620972737</td>
</tr>
<tr>
<td>Balance of cash and cash equivalents at the beginning of the reporting period</td>
<td>6100</td>
<td>1598542234</td>
<td>156438660</td>
</tr>
<tr>
<td>Balance of cash and cash equivalents at the end of the reporting period</td>
<td>6100</td>
<td>79396164</td>
<td>598544234</td>
</tr>
<tr>
<td>Effect of changes in the exchange rate of foreign currency to the ruble</td>
<td>6100</td>
<td>-</td>
<td>4148237</td>
</tr>
<tr>
<td>I: Sechin</td>
<td>V.A. Surkov</td>
<td>Chief Executive Officer of PJSC Rosneft Oil Company</td>
<td>General Director of LLC RN-Uchet</td>
</tr>
<tr>
<td>(Contract No. 100019/05992D dated 2 January 2020)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>* *</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These Explanatory Notes to the balance sheet and the income statement constitute an integral part of the financial statements of PJSC Rosneft Oil Company for the 2019 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 2019.

1. Entity and types of activity

1.1 Company description

Public joint-stock company Rosneft Oil Company (the “Company”, “Rosneft Oil Company”) was established in accordance with Decree No. 327 of the President of the Russian Federation, On Priority Measures for Improving the Activities of Oil Companies, dated 1 April 1995 and pursuant to Resolution No. 971 of the Government of the Russian Federation, On the Transformation of State Enterprise Rosneft into Open Joint-Stock Company Rosneft Oil Company, dated 29 September 1995. On 8 July 2016, the Company was transformed into public joint-stock company.

The Company is a legal entity that operates on the basis of its Charter and the laws of the Russian Federation. Location of the Company: Moscow, Russian Federation. Address of the Company specified in the Unified State Register of Legal Entities: 26/1 Sofyskaya nab., 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 2019 was formed by the decision of the extraordinary General Shareholders’ Meeting of the Company held on 4 June 2019.

The matter of forming the Board of Directors was not included in the agenda of the annual General Shareholders’ held on 30 September 2019. The current members of the Board of Directors were approved by the General Shareholders’ Meeting on 4 June 2019.

As of 31 December 2019, the Board of Directors of Rosneft Oil Company comprised:

1. Faisal Al bouwadi Member of the Board of Directors of Rosneft Oil Company, representative of Qatar Investors Authority
2. Hamad Rashid Al-Mohannadi Member of the Board of Directors of Rosneft Oil Company, Member of the Board of Trustees at The Abdulrahman bin Hamad Al Attiyah International Foundation for Energy & Sustainable Development of Qatar, Chairman of the Board of Trustees at The Community College of Qatar, representative of the Qatar Investment Authority
3. Andrey Removitch Belousov Member of the Board of Directors of Rosneft Oil Company, First Deputy Prime Minister of the Russian Federation
4. Matthias Arthur Warnig Deputy Chairman of the Board of Directors of Rosneft Oil Company, Independent Director, Director of Intertwix AG (Switzerland), Executive Director of Nord Stream 2 AG (Switzerland)
5. Oleg Vyscheslavovich-Viyugov Member of the Board of Directors of Rosneft Oil Company, Independent Director, professor of the Finance Department of the Economic Faculty of the National Research University Higher School of Economics
6. Robert Warren Dudley Member of the Board of Directors of Rosneft Oil Company, Director and member of the Board of Directors of BP p.l.c., Chief Executive Officer of BP Group
7. Guillermo Ordonez Quijano Member of the Board of Directors of Rosneft Oil Company, Director of ODQ Consultants LTD
8. Alexander Valentinovich Novak Member of the Board of Directors of Rosneft Oil Company, Minister of Energy of the Russian Federation
9. Hans-Joerg Rudloff Member of the Board of Directors of Rosneft Oil Company, Independent Director, Chairman of the Management Board of Marcuard Holding, Executive Director of ABN Capital S.A., President of ABN Capital Eastern Europe S.A.
10. Igor Ivanovich Sechin Chief Executive Officer, Chairman of the Management Board, Deputy Chairman of the Board of Directors of Rosneft Oil Company
11. Gerhard Schroder Chairman of the Board of Directors of Rosneft Oil Company, Independent Director

In accordance with clause 2 of Article 64 of the Federal Law, On Joint-stock Companies, and the Regulation On Payment of Remuneration and Compensation for Expenses to the Members of the Board of Directors of PJSC Rosneft Oil 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 4 June 2019, the annual General Shareholders’ Meeting (meeting minutes w/o number dated 7 June 2019) approved remuneration to the following members of the Board of Directors of the Company for the period during which they performed their duties:

- Gerhard Schroeder – USD600,000
- Faisal Al bouwadi – USD350,000
- Matthias Warning – USD580,000
- Oleg Vyscheslavovich-Viyugov – USD560,000
- Ivan Glasengberg – USD530,000
- Hans-Joerg Rudloff – USD580,000

In addition, on 4 June 2019, the annual General Shareholders’ Meeting (meeting minutes w/o number dated 7 June 2019) approved compensation for all expenses and costs incurred by the members of the Board of Directors of the Company when performing their duties.

As of 31 December 2019, the Company fulfilled its obligation to pay the remuneration to the above members of the Board of Directors of Rosneft Oil Company for the period during which they performed their duties.

In 2019, no remuneration was paid to the members of the Board of Directors of Rosneft Oil Company, namely Andrey Removitch Belousov, a government official at the date of the adoption of the decision to pay remuneration by the General Shareholders’ Meeting, Alexander Valentinovich Novak, who held a public office, and Igor Ivanovich Sechin, the Chairman of the Management Board of Rosneft Oil Company, for performing their duties as members of the Board of Directors of Rosneft Oil Company. In addition, in 2019, no remuneration was paid to the members of the Board of Directors of Rosneft Oil Company representing BP, a shareholder of Rosneft Oil Company, namely Robert Dudley and Guillermo Quijano, for performing their duties as members of the Board of Directors of Rosneft Oil Company, in accordance with their applications filed. Sole executive body of the Company
Chief Executive Director of Rosneft Oil Company is its sole executive body.

Igor Ivanovich Sechin was appointed as the sole executive body of the Company (Minutes No. 22 of the Board of Directors’ meeting dated 23 May 2012) and took office on 24 May 2012. Igor Ivanovich Sechin was appointed as the sole executive body of the Company for a new 5-year period by decision of the Board of Directors of Rosneft Oil Company dated 30 April 2017 (Minutes No. 32 dated 30 April 2017).

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 2019, members of the Management Board of the Company included:

1. Igor Ivanovich Sechin
   - Chief Executive Officer, Chairman of the Management Board, Deputy Chairman of the Board of Directors of Rosneft Oil Company
2. Zelko Runje
   - Deputy Chairman of the Management Board, First Vice President for Oil, Gas, and Offshore Business Development at Rosneft Oil Company
3. Eric Livne
   - Vice President for In-House Services at Rosneft Oil Company
4. Gennady Ivanovich Bulakev
   - Vice President - Head of Internal Audit at Rosneft Oil Company
5. Didier Casimiro
   - Vice President for Refining, Petrochemical, Commerce and Logistics at Rosneft Oil Company
6. Peter Ivanovich Lazarev
   - Financial Director of Rosneft Oil Company
7. Zavaleeva Elena Vladimirovna
   - State Secretary - Vice President at Rosneft Oil Company
8. Yuri Ivanovich Korin
   - Vice President, Chief of Staff at Rosneft Oil Company
9. Andrey Nikolaevich Shishkin
   - Vice President for Informatization, Innovation and Localization at Rosneft Oil Company
10. Andrey Alekseevich Polyakov
    - Vice President - Chief Geologist at Rosneft Oil Company
11. Ural Alfridiyevich Latypov
    - Vice President – Head of Security Service at Rosneft Oil Company

The Board of Directors of Rosneft Oil Company made the following decisions with respect to the Management Board of the Company:
- To appoint Gennady Ivanovich Bulakev, Vice President – Head of Internal Audit at Rosneft Oil Company, as a member of the Management Board of Rosneft Oil Company for three (3) years from 1 July 2019 (Minutes No. 2 dated 1 July 2019).
- To terminate the powers as a member of the Management Board of Rosneft Oil Company of Yuri Ivanovich Kalinin, Deputy Chairman of the Management Board, and Vlada Vovkivna Rusakova, member of the Management Board of Rosneft Oil Company from 26 December 2019.
- To appoint Ural Alfridiyevich Latypov, Vice President – Head of Security Service at Rosneft Oil Company, and Andrey Alekseevich Polyakov, Vice President – Chief Geologist at Rosneft Oil Company, as members of the Management Board of Rosneft Oil Company for three (3) years, and to appoint Zelko Runje, First Vice President for Oil, Gas, and Offshore Business Development at Rosneft Oil Company, as Deputy Chairman of the Management Board from 27 December 2019 (Minutes No. 12 dated 30 December 2019).

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 2019, the Audit Commission of the Company comprised:

Chairman of the Audit Commission:
1. Zalikh Borisovich Sabitov
   - Head of the Bank Sector Monitoring, Consolidated and Analytical Work Section, Financial Policy Department, Ministry of Finance of the Russian Federation

Audit Commission members:
2. Olga Anatolyevna Andrianova
   - Chief Accountant – Head of Finance and Economics Service of JSC ROSNEFTGAS, General Director of LLC Vostokgaz
3. Alexander Yevgenievich Bogoslov
   - Director of the Department for Corporate Governance, Price Environment, Control and Audit Activity in the Energy Sector, Ministry of Energy of the Russian Federation
4. Sergey Ivanovich Poma
   - Vice President of the National Association of Securities Market Participants (NAUFOR)
5. Pavel Gennadyevich Shumov
   - Acting Deputy Director of the Department for State Regulation of Tariffs and Infrastructure Reforms, Ministry of Economic Development of the Russian Federation

On 4 June 2019, the annual General Shareholders’ Meeting (meeting minutes no/number dated 7 June 2019) approved remuneration to the members of the Audit Commission of the Company for the period during which they performed their duties:

- Olga Anatolyevna Andrianova – RUB220,000
- Sergey Ivanovich Poma – RUB220,000

As of 31 December 2019, the Company fulfilled its obligation to pay the remuneration 1.2 Structure of the Company's charter capital

Information about the shareholders of Rosneft Oil Company as of 31 December 2019 is presented below:

<table>
<thead>
<tr>
<th>No.</th>
<th>Name of legal entity or individual</th>
<th>Number of common (voting) shares and interest in the charter capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>JSC ROSNEFTGAS</td>
<td>5,399,088,910 common shares representing 50.00000001% of the total number of common shares and the charter capital of the Company</td>
</tr>
<tr>
<td>2</td>
<td>BP Russian Investments Limited</td>
<td>5,092,810,977 common shares representing 47.95 % of the total number of common shares and the charter capital of the Company</td>
</tr>
<tr>
<td>3</td>
<td>Qi Oil Investments LLC</td>
<td>2,006,045,106 common shares representing 18.93 % of the total number of common shares and the charter capital of the Company</td>
</tr>
<tr>
<td>4</td>
<td>Non-banking Credit Organization Joint Stock Company (nominal holder central depositary)</td>
<td>1,651,624,202 common shares representing 10.96 % of the total number of common shares and the charter capital of the Company</td>
</tr>
<tr>
<td>5</td>
<td>Other legal entities</td>
<td>1,182,555 common shares representing 0.10% of the total number of common shares and the charter capital of the Company</td>
</tr>
<tr>
<td>6</td>
<td>The Russian Federation, acting through the Federal Property Management Agency</td>
<td>1 common share, representing 0.000000009% of the total number of common shares and the charter capital of the Company</td>
</tr>
<tr>
<td>7</td>
<td>Individuals</td>
<td>35,181,243 common shares representing 0.35 % of the total number of common shares and the charter capital of the Company</td>
</tr>
<tr>
<td>8</td>
<td>Account of unidentified individuals</td>
<td>156,683 common shares representing less than 0.01 % of the total number of common shares and the charter capital of the Company</td>
</tr>
</tbody>
</table>

1 Information is based on the data of Rosneft shareholders' register.
1.3 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 (meeting minutes no. 11) with the amendments approved by the General Shareholders’ Meeting of the Company on 15 June 2016 (meeting minutes no. 12), amendments approved by the General Shareholders’ Meeting of the Company on 22 June 2017 (meeting minutes no. 13), amendments approved by the General Shareholders’ Meeting of the Company on 29 September 2017 (meeting minutes no. 14), the Company prospectively, explores, extracts and processes oil, gas and gas condensate, sells oil, gas, gas condensate, and oil and gas products to customers in and outside the Russian Federation, conducts any related activities, and works with precious metals and precious stones. The Company is engaged, in particular, in the following principal activities:

- Geological prospecting and exploration to find the deposits of oil, gas, coal and other minerals; extraction, transportation and processing of oil, gas, coal and other minerals, and timber; production of oil products, petrochemicals and other products, including liquefied natural gas, gas products and gas chemicals, electric power, wood products, consumer goods, and provision of services to the public; storage and sale (including domestic and export sales) of oil, liquefied gaseous gas, oil products, gas products and gas chemicals, coal, electric power, wood products, and other products from hydrocarbons and other raw materials
- Investing, including transactions with securities
- Managing the fulfillment of orders placed by the federal government and regional consumers of the products made by the Company and its subsidiaries, including deliveries of oil, gas and oil products
- Investment management, construction, engineering, technological and other services for upstream and downstream projects, and research and development, procurement and distribution, economic, foreign economic and legal support for the Company, its subsidiaries and third-party customers. Surveying the commodity and services markets, and the securities market, conducting sociological and other research. Regulating and coordinating the activities of subsidiaries
- Leasing out immovable and other property, using leased property
- Assisting in securing the interests of the Russian Federation when it prepares and implements production-sharing agreements for subsurface areas and hydrocarbon deposits
- Managing advertising and publishing activities, conducting exhibitions, fairs, auctions, etc.
- Intermediary, consulting, marketing and other activities, including foreign economic activities (including export/import operations), performing work and providing services on a commercial basis
- Ensuring the protection of the Company’s employees and property
- Using precious metals and precious stones in technological processes as elements of equipment and materials
- Arranging and holding mobilization training and civil defense exercises, working with state secrets and protecting them

At the end of 2019, the average headcount of the Company was 4,537 employees.

2. Basis of preparation

The accounting records are maintained in accordance with Federal Law No. 402-FZ, On Accounting, dated 6 December 2011 and the Statute On Accounting and Reporting in the Russian Federation, approved by Order No. 34n of the Russian Ministry of Finance dated 29 July 1998 (including Information No. FZ-10/2012 of the Russian Ministry of Finance), as well as applicable Accounting Statements. The Company's financial statements for the 2019 reporting year were prepared in accordance with the Law, the Statute and the Accounting Statements.

3. Changes in opening balances in the financial statements for the 2019 reporting year

To ensure the comparability of the financial statements (paragraph 10 of Accounting Statement 4/99), the following reclassifications were made to the data for 2018 due to amendments introduced to the accounting policy for 2019 in terms of presentation of the statement of cash flows:

- In 2019, the approach to presenting data in the statement of cash flows was changed requiring that interest-free loans issued be recognized within other payments on operating activities less the amount repaid in the reporting period.

Table 1. Changes in the statement of cash flows (kRUB)

<table>
<thead>
<tr>
<th>Item</th>
<th>Line</th>
<th>As previously reported for 2018</th>
<th>As currently reported for 2019</th>
<th>Changes</th>
<th>Reason</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash flows from operating activities</td>
<td>4120</td>
<td>(4,762,779,131)</td>
<td>(8,995,354,471)</td>
<td>(135,775,344)</td>
<td>Transactions to provide and repay interest-free loans were reclassified from investing activities to operating activities and were recognized on a net basis</td>
</tr>
<tr>
<td>Including other payments</td>
<td>4129</td>
<td>(77,006,664)</td>
<td>(77,006,200)</td>
<td>(464,274)</td>
<td></td>
</tr>
<tr>
<td>Net cash flows from operating activities</td>
<td>4100</td>
<td>186,582,853</td>
<td>50,807,309</td>
<td>(135,775,544)</td>
<td></td>
</tr>
<tr>
<td>Cash flows from investing activities</td>
<td>4210</td>
<td>2,877,879,280</td>
<td>2,448,910,968</td>
<td>(429,868,212)</td>
<td></td>
</tr>
<tr>
<td>Total proceeds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total payments</td>
<td>4220</td>
<td>(2,646,150,136)</td>
<td>(2,877,879,280)</td>
<td>(231,729,144)</td>
<td></td>
</tr>
<tr>
<td>Transactions for the 2019 reporting year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash disbursements</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total cash flows</td>
<td>4200</td>
<td>367,504,688</td>
<td>347,504,688</td>
<td>(135,775,344)</td>
<td></td>
</tr>
<tr>
<td>Net cash flows from investing activities</td>
<td>4200</td>
<td>367,504,688</td>
<td>347,504,688</td>
<td>(135,775,344)</td>
<td></td>
</tr>
</tbody>
</table>

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 2019 are reflected below in the respective Explanatory Notes to the balance sheet and the income statement for the 2019 reporting year.
5. Fixed assets and capital construction in progress

Assets intended for use in the manufacturing of products, performance of work and provision of services, or for administrative needs over their useful lives of more than 12 months are accounted for as fixed assets.

Fixed assets include buildings, structures, machinery, equipment, measuring and control instruments and devices, computers, vehicles, tools, fixtures and fittings, etc. Fixed assets also include land plots and natural resources. The Russian Classifier of Fixed Assets approved by Order No. 1988 of the Federal Agency on Technical Regulation and Metrology (Rosstandart) dated 12 December 2014 is used to determine the structure and grouping of fixed assets.

Items intended to be leased out are recorded in line 1150, Fixed assets. The net book value of such items was:
- ₽1,885,976,600,420 at the end of the period
- ₽1,885,664,477,177 at the beginning of the period

An asset is recognized as a fixed asset on the date it is ready for operation. Fixed assets the rights to which are subject to state registration are included in the fixed assets at the date of delivery to their final destination, if the asset is ready for operation. Using the substance-over-form principle, the completed capital construction projects and purchased real estate items that are actually accepted by the state authorities are recorded in the balance sheet at their historical cost. The date of delivery is recorded as the date of acceptance by the state authorities, if the date of acceptance is not later than the date of delivery. The cost of real estate items whose title has not yet been registered at the date of delivery is recorded in the balance sheet at the cost incurred for arranging the land plot for the future building or real estate item.

For accounting purposes, fixed assets are depreciated using the straight-line method:
- For assets put into operation before 1 January 2002: at the depreciation rates set by Resolution No. 1027 of the Council of Ministers of the USSR dated 22 October 1990
- For 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
- For assets put into operation after 1 January 2008: at the depreciation rates calculated based on the useful lives set by Resolution No. 1 of the Government of the Russian Federation dated 1 January 2002 as well as based on useful lives indicated in the technical documentation, manufacturers’ recommendations, or based on other relevant information that determines the period during which an item of fixed assets is expected to generate economic benefits.

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 ₽1,890 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
- Assets held as joint shared property or joint property
- Assets held for leasing

Fixed assets are reported in the balance sheet at their net book value.

Fixed assets are not revalued following the completion of the mandatory revaluation of fixed assets in accordance with the Resolutions of the Russian Government.

### Table 2. Information on fixed assets (₽)

<table>
<thead>
<tr>
<th>Group of fixed assets</th>
<th>Period</th>
<th>At the beginning of the period</th>
<th>Additions</th>
<th>Changes for the period</th>
<th>At the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019</td>
<td>2018</td>
<td>2019</td>
<td>2018</td>
<td>2019</td>
</tr>
<tr>
<td>Total fixed assets</td>
<td>1,381,977,942</td>
<td>(913,941,600)</td>
<td>172,208,386</td>
<td>(4,642,609)</td>
<td>1,395,780,554</td>
</tr>
<tr>
<td>Buildings and structures</td>
<td>1,189,607,983</td>
<td>(687,141,600)</td>
<td>136,249,186</td>
<td>(4,642,609)</td>
<td>1,351,240,554</td>
</tr>
<tr>
<td>Machinery, equipment, vehicles</td>
<td>3,952,298,983</td>
<td>(325,600,000)</td>
<td>36,600,000</td>
<td>(4,642,609)</td>
<td>4,214,355,384</td>
</tr>
<tr>
<td>Other fixed assets</td>
<td>64,411,065</td>
<td>(12,600,000)</td>
<td>8,600,000</td>
<td>(4,642,609)</td>
<td>70,471,466</td>
</tr>
<tr>
<td>Including fixed assets that are not depreciated</td>
<td>1,381,977,942</td>
<td>(913,941,600)</td>
<td>172,208,386</td>
<td>(4,642,609)</td>
<td>1,395,780,554</td>
</tr>
</tbody>
</table>

### Table 3. Information on fixed assets requiring state registration (₽)

<table>
<thead>
<tr>
<th></th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed assets whose title has not yet been registered</td>
<td>212,902,736</td>
<td>216,703,282</td>
<td>252,506,069</td>
</tr>
<tr>
<td>Including fixed assets whose registration documents have not yet been accepted by the state authorities</td>
<td>212,902,736</td>
<td>216,703,282</td>
<td>252,506,069</td>
</tr>
</tbody>
</table>

### Table 4. Information on the use of fixed assets (₽)

<table>
<thead>
<tr>
<th>Group of fixed assets</th>
<th>As at 31 December 2018</th>
<th>As at 31 December 2019</th>
<th>As at 31 December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets leased out (historical cost), including</td>
<td>1,157,316,383</td>
<td>1,425,671,602</td>
<td>1,313,163,004</td>
</tr>
<tr>
<td>- Buildings</td>
<td>68,549,015</td>
<td>64,838,617</td>
<td>62,870,787</td>
</tr>
<tr>
<td>- Structures</td>
<td>1,352,192,306</td>
<td>1,203,943,158</td>
<td>1,096,710,747</td>
</tr>
<tr>
<td>- Immobile fixed assets (historical cost)</td>
<td>60,912,487</td>
<td>52,856,121</td>
<td>57,878,598</td>
</tr>
<tr>
<td>Total fixed assets leased (contract or cadstral value), including</td>
<td>200,963,500</td>
<td>184,264,854</td>
<td>76,235,887</td>
</tr>
<tr>
<td>- Land plots</td>
<td>69,123,734</td>
<td>74,301,579</td>
<td>66,137,374</td>
</tr>
<tr>
<td>- Other fixed assets</td>
<td>31,372,766</td>
<td>9,642,085</td>
<td>7,019,022</td>
</tr>
<tr>
<td>Change in the value of fixed assets as a result of supplementary construction, retrofitting, refurbishment, modernization or partial liquidation</td>
<td>21,077,812</td>
<td>22,425,172</td>
<td>23,019,022</td>
</tr>
</tbody>
</table>
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 (combined 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 commonly occurring 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 and other spatial data
- Multimedia products
- Audiolvisual works (cinematic works or works involving media similar to those used in cinema (TV movies, videos, etc.)
- Web sites, etc.
- Other intangible assets

Geological exploration and production licenses (combined 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.


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 related 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 in which the risks of negative results are borne by 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 kRUB296,046
- Exclusive rights to an invention with a historical cost of kRUB7,025
- Digital forest management maps with a historical cost of kRUB1,800
- Multimedia products, websites with a historical cost of kRUB19

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 (combined licenses), provided that the production of mineral resources in the license area is commercially viable: unit-of-production method
- Hydrocarbon production licenses, provided that the production of oil and gas in the license area is commercially viable: unit-of-production method
- Complex items comprising several protected intellectual properties (including those combining exclusive and non-exclusive rights):
  - Multimedia product
  - Audiolvisual works (cinematic works or works involving media similar to those used in cinema (TV movies, videos, etc.)
  - Web site, etc.
- Other intangible assets

Table 5. Information on capital investments in progress (kRUB)

<table>
<thead>
<tr>
<th>Capital investments in progress by type of asset</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equipment for installation</td>
<td>15,897,385</td>
<td>15,431,560</td>
<td>17,028,175</td>
</tr>
<tr>
<td>Construction in progress, including</td>
<td>654,305,095</td>
<td>675,870,168</td>
<td>531,066,851</td>
</tr>
<tr>
<td>Advances issued for construction, acquisition</td>
<td>50,018,285</td>
<td>45,691,538</td>
<td>60,294,328</td>
</tr>
<tr>
<td>Other assets</td>
<td>2,708,196</td>
<td>2,764,517</td>
<td>2,703,997</td>
</tr>
<tr>
<td>Total</td>
<td>683,300,744</td>
<td>631,392,329</td>
<td>571,659,013</td>
</tr>
</tbody>
</table>

In 2019, the value of work performed under capital construction projects amounted to kRUB183,624,014 (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 kRUB8,800,503 (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 kRUB40 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.
Intangible assets are reported in the balance sheet at their net book value.

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 should be revised. The resulting adjustments are recorded and reported as changes in estimates.

The main groups of intangible assets have the following useful lives:

<table>
<thead>
<tr>
<th>Assets</th>
<th>Useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trademarks</td>
<td>4 to 15.5 years</td>
</tr>
<tr>
<td>Patents</td>
<td>11 to 20.1 years</td>
</tr>
<tr>
<td>Exclusive rights to computer software and databases</td>
<td>1.1 to 10 years</td>
</tr>
<tr>
<td>Exploration and production licenses *</td>
<td>3 to 17 years</td>
</tr>
<tr>
<td>Geological prospecting, exploration and production licenses (combined licenses)/</td>
<td>10 to 165 years</td>
</tr>
<tr>
<td>Other mineral licenses (for the abstraction of underground water, construction of gas storage facilities, etc.)</td>
<td>7 to 25 years</td>
</tr>
</tbody>
</table>

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 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.

Intangible assets are reported in the balance sheet at their net book value.

---

Table 6. Information on intangible assets (kRUB)

<table>
<thead>
<tr>
<th>Groups of intangible assets</th>
<th>Period</th>
<th>At the beginning of the period</th>
<th>Changes for the period</th>
<th>At the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Accumulated amortization</td>
<td>Additions</td>
<td>Historical cost</td>
</tr>
<tr>
<td>Total intangible assets</td>
<td>2018</td>
<td>42,800,031 (7,471,231)</td>
<td>1,706,071 (2,566)</td>
<td>7,232 (1,583,693)</td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>35,688,918 (5,683,766)</td>
<td>22,355,341 (3,048)</td>
<td>789 (1,788,354)</td>
</tr>
<tr>
<td>Trademarks</td>
<td>2019</td>
<td>21,306 (11,374)</td>
<td>2,661</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>19,235 (9,128)</td>
<td>2,071</td>
<td>-</td>
</tr>
<tr>
<td>exclusive rights to an invention, utility model or industrial design</td>
<td>2019</td>
<td>750,705 (352,283)</td>
<td>7,025</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>750,695 (211,558)</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Exclusive rights to computer software and databases</td>
<td>2019</td>
<td>2,277,299 (1,281,842)</td>
<td>296,045 (6,949)</td>
<td>6,949 (285,345)</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>1,507,684 (1,165,775)</td>
<td>769,915</td>
<td>-</td>
</tr>
<tr>
<td>Oil and gas production licenses (including combined exploration and production licenses issued after commercial viability is confirmed)</td>
<td>2019</td>
<td>42,772,552 (5,327,500)</td>
<td>66,180</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>23,311,222 (4,048,198)</td>
<td>20,465,364 (1,036)</td>
<td>636 (1,479,781)</td>
</tr>
<tr>
<td>Other licenses</td>
<td>2019</td>
<td>81% (565)</td>
<td>-</td>
<td>(507)</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>91% (597)</td>
<td>-</td>
<td>(97)</td>
</tr>
<tr>
<td>Information received as the result of driving successful onshore appraisal and exploration wells abandoned due to technological reasons</td>
<td>2019</td>
<td>555,770 (6,668)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>58,482 (2,730)</td>
<td>517,288</td>
<td>-</td>
</tr>
<tr>
<td>Results of 2D and 3D seismic surveys at sites after commercial viability is confirmed</td>
<td>2019</td>
<td>1,157,635 (79,032)</td>
<td>1,201,358</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>869,955 (65,026)</td>
<td>497,640</td>
<td>-</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>2019</td>
<td>2,21,812 (790,154)</td>
<td>10,801</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>212,916 (781,029)</td>
<td>3,313 (917)</td>
<td>76 (2,138)</td>
</tr>
</tbody>
</table>

1 Provided that the production of mineral resources in the license area is commercially viable
Table 7. Information on intangible assets created by the Company (kRUB)

<table>
<thead>
<tr>
<th>Historical cost by group of intangible assets</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, including</td>
<td>2,942,467</td>
<td>2,235,864</td>
<td>2,462,703</td>
</tr>
<tr>
<td>Exclusive rights to computer software and databases</td>
<td>2,546,396</td>
<td>2,117,399</td>
<td>1,507,144</td>
</tr>
<tr>
<td>Exclusive rights to an invention, utility model or industrial design</td>
<td>73,538</td>
<td>76,515</td>
<td>79,353</td>
</tr>
<tr>
<td>Other</td>
<td>229,533</td>
<td>210,912</td>
<td>210,912</td>
</tr>
</tbody>
</table>

Table 8. Information on investments in progress made to create intangible assets (kRUB)

<table>
<thead>
<tr>
<th>Investments in progress</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total investments in the creation of individual intangible assets, including by type:</td>
<td>3,762,681</td>
<td>4,130,712</td>
<td>3,445,587</td>
</tr>
<tr>
<td>Exclusive rights to computer software and databases</td>
<td>3,719,159</td>
<td>2,808,236</td>
<td>1,940,991</td>
</tr>
<tr>
<td>3D and 4D seismic surveys</td>
<td>12,502</td>
<td>1,306,261</td>
<td>1,507,560</td>
</tr>
<tr>
<td>Exclusive rights to an invention, utility model or industrial design</td>
<td>872</td>
<td>897</td>
<td>6,087</td>
</tr>
<tr>
<td>Trademarks</td>
<td>2,947</td>
<td>5,103</td>
<td>3,677</td>
</tr>
<tr>
<td>Other intangible assets</td>
<td>12,381</td>
<td>12,325</td>
<td>5,292</td>
</tr>
</tbody>
</table>

Intangible assets received for use are recorded off the balance sheet and are measured on the basis of the amount of remuneration specified in the contract.

Table 9. Information on intangible assets received by the Company for use (kRUB)

<table>
<thead>
<tr>
<th>Cost by group of intangible assets</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, including</td>
<td>9,201,500</td>
<td>8,870,210</td>
<td>7,417,058</td>
</tr>
<tr>
<td>Non-exclusive rights to software programmes, rights of access to information resources</td>
<td>9,201,500</td>
<td>8,870,210</td>
<td>7,417,058</td>
</tr>
</tbody>
</table>

Table 10. Information on fully amortized intangible assets (kRUB)

<table>
<thead>
<tr>
<th>Intangible assets</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total, including</td>
<td>1,227,933</td>
<td>1,346,602</td>
<td>1,115,886</td>
</tr>
<tr>
<td>Exclusive rights to computer software and databases</td>
<td>1,066,381</td>
<td>1,077,022</td>
<td>1,023,677</td>
</tr>
<tr>
<td>Patents</td>
<td>79,032</td>
<td>13,715</td>
<td>10,012</td>
</tr>
<tr>
<td>Oil and gas production licenses</td>
<td>5,483</td>
<td>5,373</td>
<td>623</td>
</tr>
<tr>
<td>Trademarks</td>
<td>7,028</td>
<td>6,361</td>
<td>535</td>
</tr>
<tr>
<td>Other licenses</td>
<td>61</td>
<td>61</td>
<td>61</td>
</tr>
<tr>
<td>Other</td>
<td>171,497</td>
<td>170,070</td>
<td>80,976</td>
</tr>
</tbody>
</table>

7. Oil and gas reserves exploration and estimation costs

Oil and gas reserves exploration and evaluation expenses are recognized using the successful efforts method of accounting, according to which only those costs are capitalized that are directly incurred in the discovery of new fields that will result in future economic benefits, while exploration costs (both direct and indirect), including geological and geophysical costs, are charged to expenses as incurred.

The following oil and gas reserves exploration and evaluation costs should be capitalized:

- Costs related to acquiring of subsoil use rights for oil and gas reserves (geological prospecting and exploration licenses, geological exploration and production licenses)
- Costs related to appraisal/exploration drilling
- Information on the results of drilling successful abandoned appraisal/exploration wells

Capitalized exploration and evaluation costs lead to the creation of exploration assets:

- Appraisal/exploration wells – tangible exploration assets
- Licenses, information on the results of drilling successful abandoned appraisal/exploration wells – intangible exploration assets

Expenses related to the construction of offshore appraisal/exploration wells abandoned as successful in the license areas that 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 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 successful abandoned offshore appraisal/exploration wells are recognized as intangible exploration assets in the form of information received as the result of drilling the offshore appraisal/exploration wells

As of the reporting date, the Company annually tests exploration assets for any indication of impairment when making the decision on the commercial viability of oil and gas production in a licensed area. Impairment testing is performed by field (licensed area). Where there is evidence of impairment, the Company writes down the exploration assets by the amount of the carrying value of the licenses, wells and 3D seismic surveys during the stage of exploration and prospecting of a field (licensed area) or, in the event of the recoverability of exploration assets, to the realizable value.

Once the commercial viability of the subsurface area has been established, exploration assets in this area are subject to reclassification:

- Exploration and production licenses, as well as information on the results of drilling successful abandoned appraisal/exploration wells become intangible assets
- Appraisal/exploration wells become fixed assets (development wells construction in progress)

If production proves to be impractical, exploration assets are subject to impairment and are subsequently written off to other expenses of the Company.

Exploration assets are not depreciated.

The following costs are not capitalized in the value of assets and are taken to current-period expenses as oil and gas exploration and evaluation expenses:

- Costs incurred at the regional stage
- Exploration costs not related to drilling of appraisal/exploration wells or 3D and 4D seismic surveys at commercially recoverable oil and gas fields, including costs for the follow-up exploration of fields which have been put on stream and considered commercially developed
- Costs related to the maintenance of subsurface areas where exploration is being carried out and of fields which are not commercially operated
- Costs related to the preparation of project technical documentation for developing fields which are not commercially operated

The Company derecognizes exploration assets at the respective subsurface area if it proves to be commercially viable or if production is considered impractical.
Table 11. Information on exploration assets (kRUB)

<table>
<thead>
<tr>
<th>Groups of licenses</th>
<th>Period</th>
<th>At the beginning of the period</th>
<th>Changes for the period</th>
<th>At the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Accumulated impairment losses</td>
<td>Additions</td>
<td>Historical cost</td>
</tr>
<tr>
<td>Tangible exploration assets</td>
<td>2019</td>
<td>20,170,737</td>
<td>-</td>
<td>9,606,440</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>34,126,691</td>
<td>-</td>
<td>12,321,977</td>
</tr>
<tr>
<td>Intangible exploration assets, including</td>
<td>2019</td>
<td>99,316,585</td>
<td>(190)</td>
<td>5,076,373</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>111,303,846</td>
<td>(193)</td>
<td>8,387,854</td>
</tr>
</tbody>
</table>

License to use subsurface resources with the right of extraction:
- 2019: 56,623,639
- 2018: 76,185,997

License to use subsurface resources without the right of extraction:
- 2019: 2,621
- 2018: 2,419

Information on the results of drilling of successful abandoned appraisal/exploration well:
- 2019: 42,548,639
- 2018: 35,953,583

Costs related to acquiring of subsoil use rights for oil and gas reserves:
- 2019: 39,566
- 2018: 32,175

Information on tangible exploration assets as of 31 December 2019 is disclosed in line 1140. Tangible exploration assets, including advances issued of kRUB1,865,867 and materials of kRUB4,155 intended for creating tangible exploration assets in the balance sheet.

Change in tangible exploration assets was due to the completion of exploratory drilling in 2019 amounting to kRUB89,604,440, reclassification to intangible exploration assets of information on the results of drilling a successful abandoned appraisal/exploration well in the amount of kRUB472,973, realization of the exploration well in the amount of kRUB69,019 and write-off of expenses due to other expenses in the amount of kRUB82,319, as the Company has no intention to continue 3D seismic surveys.

In 2019, change in intangible exploration assets was primarily due to the acquisition of licenses to use subsurface resources with the exception of the extraction in the amount of kRUB472,973, realization of the exploration well in the amount of kRUB69,019 and write-off of expenses due to other expenses in the amount of kRUB82,319, as the Company has no intention to continue 3D seismic surveys.

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 1/72 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 uses the results of R&D activities in accordance with Order, On writing off R&D expenses, R&D expenses are taken to other expenses.

The write-off period for R&D costs is determined by the Company based on the expected period of use of the results from these activities. This period may not exceed 5 years.

This period for most significant R&D deliverables is as follows:
- Technology for production of highly deamorized white oils 5 years
- Technology for production of oil bases with low chilling temperatures 5 years
- Technology for production of synthetic high-visibility-index base waxy oils 5 years

Table 12. R&D results profile (kRUB)

<table>
<thead>
<tr>
<th>R&amp;D type</th>
<th>Period</th>
<th>At the beginning of the period</th>
<th>Change for the reporting period</th>
<th>At the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Historical cost</td>
<td>Part of the value written off to expenses</td>
<td>Additions</td>
<td>Disposals</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>2019</td>
<td>530,847</td>
<td>(360,890)</td>
<td>535,911</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>523,335</td>
<td>(186,454)</td>
<td>27,912</td>
</tr>
</tbody>
</table>
### 10. Inventories, value added tax, excise duties on self-produced oil 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;
- In-house semi-finished products – by the average cost of production broken down by refinery;
- In-house oil and gas – by the average cost of production broken down by operator.

Special protective clothes handed over for use are accounted for as materials. The value of special protective clothes with the service life of more than 12 months is depreciated using the straight-line method over the specified period of its use. The value of special protective clothes with the service life of less than 12 months is written off when the clothes are handed over for use.

Materials, fuel, spare parts and other material resources are recorded at their actual acquisition cost.

Work in progress and finished products are recorded at their actual cost; goods are recorded at their acquisition cost.

Shipped finished products and shipped goods, the title to which is not yet transferred to the buyer, are recorded within inventories.

Inventories also comprise transportation and procurement costs attributable to the balance of goods at the warehouse and shipped but unsold goods.

Costs to sell (transportation costs, storage costs, intermediary service costs, customs duties etc.) are recorded within inventories where it is possible to relate them to certain consignments of finished products and goods recognized in accounting records before the sale of consignments to which they relate.

The amounts of VAT related to the acquired goods, work, services and property rights to be deducted and not included in the cost of the assets acquired, or in expenses, are recorded in line 1.200 of the balance sheet.

This line also includes the excise duty assessed by Rosneft Oil Company upon accounting for straight-run gasoline, benzene, orthoxyylene, paraxylene subject to appropriate certificate and deductible during their refining/distribution.

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>
<thead>
<tr>
<th>Table 15. Information on VAT and excise duties (kRUB)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax</strong></td>
</tr>
<tr>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>Input value added tax charged</td>
</tr>
<tr>
<td>Excise duty assessed upon accounting for straight-run gasoline, benzene, orthoxyylene, paraxylene</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 16. Information on inventories (kRUB)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Inventories by type</strong></td>
</tr>
<tr>
<td>---------------------------------------------</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
</tr>
<tr>
<td>---------------------------------------------------</td>
</tr>
<tr>
<td>Total inventories</td>
</tr>
<tr>
<td>Raw and other materials</td>
</tr>
<tr>
<td>Costs related to work in progress</td>
</tr>
<tr>
<td>Finished products and goods</td>
</tr>
</tbody>
</table>

**Decrease in inventories** was due to the fact that most of the inventories were used in production and shipped to customers. In 2017–2019, inventories were not pledged.
11. Financial investments

Financial investments are initially recognized at their actual acquisition cost. Subsequently, financial investments whose market value can be determined are remeasured at market value, and financial investments whose market value cannot be determined are not remeasured, but tested for impairment. When a sustained material decline in the value of financial investments is supported by impairment tests, the Company creates (adjusts) an allowance for impairment of such financial investments as of the last day of the quarter (last day of the reporting year). As of 31 December 2019, the allowance for impairment of financial investments amounts to kRUB4,802,708.

The valuation of financial investments whose market value can be determined is adjusted to the current market value on a quarterly basis. Long-term shares and short-term bonds include investments whose market value can be determined. The difference between current market value at the reporting date and previous valuation of financial investments whose market value can be determined as of 31 December 2018 is kRUB1,076,147 (income). The amount of adjustment was taken to the financial result and recorded as other income.

In general, the current market value may be determined if the relevant quotations are available in the securities market. In this case, the current market value of financial investments is their market value determined as appropriate by an organizer of the trade in the securities market.

Financial investments in the form of shares of PJSC Bashneft (“Bashneft”) quoted in the securities market are accounted for following the procedure provided for financial investments, for which the current market value is not determined. It is due to the fact that quotes in the securities market do not represent a market price (control premium). The volume of shares available for free circulation in the market is insignificant and their sales are not representative for appraising the value of the majority shareholding since they are easily manipulated by stock players.

The historical cost of debt securities whose current market value cannot be determined is not adjusted for the difference between the historical cost and nominal value.

Where it is impossible to determine the cost of assets transferred or transferable by the Company, the value of financial investments received by the Company under contracts providing for non-monetary compensation (settlement) is based on the price at which the Company normally purchases similar financial investments under comparable circumstances.

Debt securities and loans issued are not measured at present value. At disposal of assets recognized as financial investments, for which the current market value is determined, the value of such assets is based on their most recent valuation.

Financial investments whose current market value cannot be determined are measured at historical cost of each unit disposed.

Deposits with the maturity period not exceeding 91 days are not considered to be financial investments and are recorded within cash in the financial statements.

Short-term debt related to financial investments is reclassified to long-term debt in cases when the payment terms envisaged by the agreement are revised and increased to exceed 365 days after the reporting date.

Long-term debt related to financial investments is reclassified to short-term debt when the term to maturity under the agreement remains 365 days or less after the reporting date.

The value of all financial investments previously revalued at market value is recorded at the current market value as of the reporting date. The Company did not have in accounting records any financial investments measured at market value with undetermined market value at the reporting date.

Table 17. Information on the movements in allowances for impairment of inventories (kRUB)

<table>
<thead>
<tr>
<th>Item</th>
<th>Period</th>
<th>Allowance at the beginning of the period</th>
<th>Change in the allowance for the reporting period</th>
<th>Allowance at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total allowance</td>
<td>2019</td>
<td>37,646</td>
<td>30,310</td>
<td>976</td>
</tr>
<tr>
<td></td>
<td>2018</td>
<td>50,706</td>
<td>19,162</td>
<td>(30,203)</td>
</tr>
</tbody>
</table>

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 charged 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.

The Company did not have in accounting records any financial investments pledged or transferred to third parties (except for sale). From 1 January 2016, contributions to assets and other investments to improve the financial position of the Group’s entities (financial aid, free of charge transfer of assets, etc.) were subject to capitalization in the cost of the financial investments in the entities in which additional investments were made.

Table 18. Information on financial investments (kRUB)

<table>
<thead>
<tr>
<th>Financial investments by type</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>4,818,912,238</td>
<td>7,240,408,278</td>
<td>4,771,832,453</td>
</tr>
<tr>
<td>Total long-term investments</td>
<td>5,833,160,445</td>
<td>4,159,574,705</td>
<td>4,005,778,788</td>
</tr>
<tr>
<td>Units and shares (interests), including:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares (interests) in subsidiaries and associates</td>
<td>4,409,408,942</td>
<td>3,944,983,553</td>
<td>3,649,024,158</td>
</tr>
<tr>
<td>Long-term loans issued</td>
<td>1,820,705,053</td>
<td>3,923,186,009</td>
<td>3,457,751,929</td>
</tr>
<tr>
<td>Other long-term financial investments</td>
<td>203,380,451</td>
<td>258,329,944</td>
<td>428,946,087</td>
</tr>
<tr>
<td>Total short-term investments</td>
<td>995,792,573</td>
<td>1,100,833,973</td>
<td>723,055,649</td>
</tr>
<tr>
<td>Short-term loans issued</td>
<td>712,967,547</td>
<td>634,165,132</td>
<td>571,777,465</td>
</tr>
<tr>
<td>Deposits</td>
<td>282,824,026</td>
<td>466,668,841</td>
<td>151,278,178</td>
</tr>
<tr>
<td>Promissory notes and bonds received</td>
<td>101,546,135</td>
<td>151,278,178</td>
<td>64,444,958</td>
</tr>
<tr>
<td>Accounts receivable acquired under assignment agreements</td>
<td>–</td>
<td>456</td>
<td>1,056</td>
</tr>
<tr>
<td>Other short-term financial investments</td>
<td>99,035,055</td>
<td>99,016,915</td>
<td>53,391,836</td>
</tr>
</tbody>
</table>

In 2019, the change in the market value of long-term financial investments from kRUB159,574,705 to kRUB533,160,665 was primarily due to the decrease in loans issued of kRUB7,733,365,326, including due to repayment, revaluation and reclassification of debt, decrease in other financial investments of kRUB55,149,103, including due to repayment and revaluation of credit notes and long-term deposits, increase in interests and investments in the charter capital of subsidiaries of kRUB4,523,868, including as part of creating sub-holding asset management structure.

When calculating the value of interests and investments of sub-holdings by adding up the transferred interests and shares of other subsidiaries, the value is based on the price at which the Company normally purchases similar assets under comparable circumstances.

The market value of the transferred interests and shares calculated by an independent appraiser is deemed to be the indicator of such value. The difference between the carrying amount and the market value of the transferred interests and shares is taken to other expenses.

In 2019, the value of investments in LLC RN-Instrumnyie Proekty increased by kRUB181,344,462, in LLC RN-Kommeriya – by kRUB172,694,935, in LLC RN-Aktiv – by kRUB143,056,00, in LLC RN-Pereborotka – by kRUB28,815,311, in LLC RN-Gaz – by kRUB2,829,296 and in LLC RN-Razvedka i Dobycha – by kRUB10,758,173.

In 2019, the change in the value of short-term financial investments from kRUB100,833,573 to kRUB985,762,573 was primarily due to repayment of short-term deposits, reclassification of loans and revaluation of short-term promissory notes.
In managing foreign currency and interest rate risks, the Company entered into cross currency and interest rate swaps to sell US dollars and euro that help match the currency of revenue and the currency of liabilities, and reduced absolute interest rates for the debt financing raised.

Derivative financial instruments are measured at fair value.

The method for determining the fair value of transactions is based on the assessment of the present discounted value of future cash flows using the consensus projections of foreign exchange rates. The consensus projections comprise forecasts of key international banks and agencies. The Bloomberg system is the key source of information for making projections.

Profit or losses arising during the period as adjustments upon change in the fair value are recognized in the income statement.

The change in the fair value of the derivative financial instrument means the difference between the fair value at the beginning of the reporting period (or at the date of acquisition, whichever is more recent) and at the end of the reporting period.

Derivative financial instruments at fair value through profit or loss are recorded as assets (liabilities) in the balance sheet in similar lines depending on their maturity.

As of the reporting date, short-term liabilities on derivative financial instruments include liabilities related to cross currency and interest rate swaps.

Transactions with derivative financial instruments are presented below:

Table 19. Information on transactions with derivative financial instruments

<table>
<thead>
<tr>
<th>Financial instrument</th>
<th>Period</th>
<th>Nominal amount as at 31 December 2019</th>
<th>Interest rate type</th>
<th>Fair value of asset (liability) at 31 December (kRUB)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>kEUR/kUSD</td>
<td></td>
<td>2019</td>
</tr>
<tr>
<td>Swaps</td>
<td>2016</td>
<td>2019</td>
<td>Floating</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2019</td>
<td>2020</td>
<td>EUR/RUB7,13</td>
<td>68,350,378</td>
</tr>
</tbody>
</table>

In 2019, the Company completed transactions with derivative financial instruments entered into in 2014 in the nominal amount of kUSD1,009,518 (kRUB662,494,918) at the CBR official exchange rate as of 31 December 2019.

13. Information on hedging transactions

Managing currency risk related to changes in cash flows from future proceeds in foreign currency

Hedging transactions are operations (set of operations) with term transaction financial instruments (including those of different types), performed to minimize (compensate for) 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 a 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 from 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 future revenue to economically hedge the foreign currency risk exposure. The Company designated part of its US dollar-denominated borrowings as a hedging instrument for export revenue which is likely to be received.

A portion of the future monthly export revenue expected to be received in US dollars was designated as a hedged item. The nominal amounts of the hedged item and the hedging instrument are equal. To the extent that a change in the foreign currency rate impacts the hedging instrument, the effects were recorded in other funds and reserves in accordance with the Company's accounting policy; subsequently these effects should be transferred into profit or loss for the period, in which the hedged revenue is recognized.

According to the strategy for managing foreign currency risk related to cash flows from future proceeds in foreign currency, export revenue should be hedged in the amount of net monetary position denominated in US dollars. The Company regularly aligns the nominal amount of hedging and net monetary position in US dollars. As of 31 December 2019 and 31 December 2018, there were no designated hedging instruments.

Table 20. Information on amounts recognized in other funds and reserves on hedging transactions (kRUB)

<table>
<thead>
<tr>
<th>Item</th>
<th>2019</th>
<th>2018</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recognized in other funds and reserves at the beginning of the year</td>
<td>(115,063,585)</td>
<td>(231,748,689)</td>
<td>(346,812,103)</td>
</tr>
<tr>
<td>Foreign exchange differences on cash flow hedges before tax</td>
<td>-</td>
<td>333,916</td>
<td>333,916</td>
</tr>
<tr>
<td>Reclassified to profit or loss</td>
<td>145,565,010</td>
<td>165,536,429</td>
<td>311,092,479</td>
</tr>
<tr>
<td>Difference between the accounting profit (loss) and the taxable profit (loss) resulting from recognition of hedging transactions</td>
<td>(29,113,002)</td>
<td>(29,171,527)</td>
<td>(58,284,529)</td>
</tr>
<tr>
<td>Recognized in other funds and reserves at the end of the year</td>
<td>1,389,427</td>
<td>(115,063,585)</td>
<td>(333,916)</td>
</tr>
</tbody>
</table>

The forecast of reclassification of amounts from the revaluation of hedges accumulated in other funds and reserves into profit or loss as of 31 December 2019 is presented below:

Table 21. Forecast of revaluations reclassified to profit or loss (kRUB)

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reclassifications</td>
<td>1,990,036</td>
<td>1,756,784</td>
<td></td>
</tr>
<tr>
<td>Income tax</td>
<td>(380,001)</td>
<td>(47,537)</td>
<td></td>
</tr>
<tr>
<td>Total net of income tax</td>
<td>1,520,035</td>
<td>(130,578)</td>
<td>1,389,427</td>
</tr>
</tbody>
</table>

14. Cash and cash equivalents

Cash and cash equivalents include the Company's amounts with banks and credit institutions, in operational and other cash offices, as well as deposits and other cash equivalents with the maturity period not exceeding 91 days.

For the purposes of the statement of cash flows, cash flows are classified based on the criteria specified in clauses 9–11 of Accounting Statement 23/2011. Cash flows that cannot be reliably classified are recognized as cash flows from operating activities.

Foreign currency cash flows are translated into Russian rubles at the official rate of the foreign currency to Russian ruble set by the Central Bank of the Russian Federation at the date of payment or receipt. The average exchange rate is not applied to translate cash flows. There is no cash unavailable for use by the Company.

Table 21. Information on cash and cash equivalents (kRUB)

<table>
<thead>
<tr>
<th>Cash</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>44,681,234</td>
<td>504,178,274</td>
<td>115,347,079</td>
</tr>
<tr>
<td>Including restricted cash</td>
<td>2,333,126</td>
<td>3,366,025</td>
<td>8,295,529</td>
</tr>
<tr>
<td>Deposits with the maturity period not exceeding 91 days and other cash equivalents</td>
<td>50,977,310</td>
<td>94,822,491</td>
<td>1,470,990</td>
</tr>
</tbody>
</table>

1 Recognized in line 2466 of the income statement.
15. Accounts receivable and accounts payable

Accounts receivable and payable are accounted for and recorded in financial statements in accordance with the respective existing agreements. Net result is recognized in the financial statements if there are advances issued/received and accrued accounts receivable/payable under the same agreement.

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.

Allowance for impairment of accounts receivable 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 reclassified 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 reclassified into short-term where the term to maturity under existing contracts becomes 365 days or less.

Similarly, part of long-term accounts receivable and payable is reclassified into short-term if the existing contract provides for repayment by installments in different periods.

Table 23. Information on accounts receivable (kRUB)

<table>
<thead>
<tr>
<th>Accounts receivable by type</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total accounts receivable</td>
<td>5,543,076,446</td>
<td>2,635,855,323</td>
<td>2,531,904,362</td>
</tr>
<tr>
<td>Long-term accounts receivable</td>
<td>2,351,723,190</td>
<td>1,648,781,448</td>
<td>1,411,977,288</td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade accounts receivable</td>
<td>63,354</td>
<td>53,330</td>
<td>89,808</td>
</tr>
<tr>
<td>Advances issued</td>
<td>571,607</td>
<td>592,718</td>
<td>643,756</td>
</tr>
<tr>
<td>Other receivables, including</td>
<td>1,087,046</td>
<td>1,685,175,407</td>
<td>1,710,663,704</td>
</tr>
<tr>
<td>Loans issued to companies within Rosneft Oil Company Group</td>
<td>1,694,500,975</td>
<td>1,350,795,689</td>
<td>1,146,827,101</td>
</tr>
<tr>
<td>Interest on long-term loans, promissory notes</td>
<td>236,672,260</td>
<td>288,968,640</td>
<td>258,056,312</td>
</tr>
<tr>
<td>Short-term accounts receivable</td>
<td>1,411,354,676</td>
<td>1,045,075,927</td>
<td>1,179,929,217</td>
</tr>
<tr>
<td>Including</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade accounts receivable</td>
<td>633,381,531</td>
<td>640,499,629</td>
<td>543,355,746</td>
</tr>
<tr>
<td>Advances issued</td>
<td>42,524,293</td>
<td>57,065,308</td>
<td>38,206,834</td>
</tr>
<tr>
<td>Other receivables, including</td>
<td>973,466,206</td>
<td>1,029,010,210</td>
<td>537,361,677</td>
</tr>
<tr>
<td>Receivables from the budget and state non-budgetary funds</td>
<td>110,317,319</td>
<td>94,076,921</td>
<td>53,261,146</td>
</tr>
<tr>
<td>Loans and promissory notes issued to companies within Rosneft Oil Company Group</td>
<td>197,786,915</td>
<td>196,194,741</td>
<td>139,691,819</td>
</tr>
<tr>
<td>Interest (discount) on deposits, loans, promissory notes</td>
<td>240,049,474</td>
<td>280,156,236</td>
<td>196,716,535</td>
</tr>
<tr>
<td>Settlements under commission agreements, other receivables</td>
<td>99,550,003</td>
<td>83,446,919</td>
<td>79,172,199</td>
</tr>
</tbody>
</table>

Table 24. Information on accounts payable (kRUB)

<table>
<thead>
<tr>
<th>Accounts payable by type</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>2,699,990,572</td>
<td>2,333,146,989</td>
<td>1,783,520,679</td>
</tr>
<tr>
<td>Trade accounts payable</td>
<td>1,681,264,879</td>
<td>1,585,096,789</td>
<td>1,130,736,895</td>
</tr>
<tr>
<td>Payables to the Company’s employees</td>
<td>36,712</td>
<td>35,661</td>
<td>36,691</td>
</tr>
<tr>
<td>Payables to the budget and non-budgetary funds</td>
<td>100,730,046</td>
<td>73,371,917</td>
<td>71,178,709</td>
</tr>
<tr>
<td>Advances received</td>
<td>384,170,032</td>
<td>394,599,901</td>
<td>269,953,078</td>
</tr>
<tr>
<td>Settlements under commission agreements, other payables</td>
<td>347,076,695</td>
<td>339,643,353</td>
<td>286,680,967</td>
</tr>
</tbody>
</table>

In 2019, accounts payable increased by kRUB339,753,801 year-on-year, and of as of 31 December 2019 amounted to kRUB2,699,990,572. The increase in accounts payable was primarily attributed to settlements with the companies within Rosneft Oil Company Group for purchased products and operator service relating to production and processing.

16. Long-term and short-term loans and borrowings, other liabilities and collateral pledged

Loans and borrowings payable are accounted for and recorded in financial statements in accordance with the respective existing agreements.

The Company reclassifies short-term loans and borrowings payable into long-term payables if the repayment period under the existing agreement is revised and increased to exceed 365 days. The Company reclassifies long-term payables into short-term payables where the outstanding period to maturity 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 loan (borrowing) 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 be 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 items of non-current assets, work-in-progress and construction-in-progress which will subsequently be accounted for by the borrower and/or customer (Investor, buyer) as fixed assets (including land), intangible assets, exploration and evaluation costs or other non-current assets.

In 2019, the Company raised loans from Russian banks at floating and fixed rates to replenish working capital. Loans were repaid under relevant agreements both early and in accordance with the schedule.

Loans payable recorded in the financial statements as of the reporting date include the accrued interest.

Borrowing costs included in other expenses amounted to kRUB41,466,674.

Total interest of kRUB81,325,457 was accrued on the Company’s loans for the reporting period. Interest payable increased by kRUB44,709,567 year-on-year.

Interest capitalized in the cost of investment assets created (acquired) was kRUB17,336,510. The amount of interest included in the cost of an investment asset and payable to the lender (creditor) on loans received for purposes other than acquisition, construction and/or production of the investment asset totaled kRUB17,274,260.
Table 25. Information on long-term and short-term loans and borrowings (kRUB)

<table>
<thead>
<tr>
<th>Loans and borrowings by type</th>
<th>Balance at 31 December 2018</th>
<th>Received (accrued)</th>
<th>Change for the reporting period</th>
<th>Reclassified</th>
<th>Balance at 31 December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term loans and borrowings</td>
<td>5,792,761,747</td>
<td>1,763,783,662</td>
<td>(1,633,912,268)</td>
<td>(504,852,834)</td>
<td>5,397,760,107</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Long-term loans</td>
<td>1,243,781,686</td>
<td>104,500,000</td>
<td>(200,291,382)</td>
<td>(242,238,929)</td>
<td>905,750,857</td>
</tr>
<tr>
<td>- Long-term borrowings</td>
<td>1,605,977,864</td>
<td>1,518,728,913</td>
<td>(1,605,276,986)</td>
<td>31,81,683</td>
<td>1,745,174,492</td>
</tr>
<tr>
<td>- Long-term interest accrued under loan and borrowing agreements</td>
<td>91,805,640</td>
<td>40,741,245</td>
<td>(25,573,938)</td>
<td>68,764,426</td>
<td>171,780,471</td>
</tr>
<tr>
<td>- Long-term promissory notes issued</td>
<td>5,018,622</td>
<td></td>
<td>-</td>
<td>(1,097,098)</td>
<td>1,920,84</td>
</tr>
<tr>
<td>- Long-term interest accrued on promissory notes</td>
<td>1,748,705</td>
<td>218,006</td>
<td>-</td>
<td>(480,023)</td>
<td>1,285,684</td>
</tr>
<tr>
<td>- Long-term bonds issued</td>
<td>2,846,710,958</td>
<td>80,000,000</td>
<td>-</td>
<td>(254,763,910)</td>
<td>2,577,847,787</td>
</tr>
<tr>
<td>Short-term loans and borrowings</td>
<td>817,395,056</td>
<td>2,143,422,417</td>
<td>(2,520,142,689)</td>
<td>504,852,834</td>
<td>964,067,618</td>
</tr>
<tr>
<td>including</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Short-term loans</td>
<td>304,400,000</td>
<td>200,000,000</td>
<td>(646,600,000)</td>
<td>220,000,000</td>
<td>80,000,000</td>
</tr>
<tr>
<td>- Short-term borrowings</td>
<td>235,684,391</td>
<td>1,601,983,103</td>
<td>(1,601,468,352)</td>
<td>(31,81,683)</td>
<td>197,271,699</td>
</tr>
<tr>
<td>- Current portion of long-term loans and borrowings</td>
<td>86,392,518</td>
<td></td>
<td>(89,360,077)</td>
<td>222,238,929</td>
<td>219,291,570</td>
</tr>
<tr>
<td>- Current portion of long-term interest accrued under loan and borrowing agreements</td>
<td>1,953,649</td>
<td>69,816,635</td>
<td>(69,816,635)</td>
<td>-</td>
<td>1,926,729</td>
</tr>
<tr>
<td>- Short-term interest accrued under loan and borrowing agreements</td>
<td>91,056,586</td>
<td>35,986,667</td>
<td>(52,647,723)</td>
<td>68,764,426</td>
<td>11,940,482</td>
</tr>
<tr>
<td>- Short-term bonds issued</td>
<td>65,236,819</td>
<td></td>
<td>-</td>
<td>(45,236,819)</td>
<td>-</td>
</tr>
<tr>
<td>- Current portion of long-term bonds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>400,000,000</td>
<td>400,000,000</td>
</tr>
<tr>
<td>- Interest accrued on bonds issued (coupon income)</td>
<td>33,058,990</td>
<td>235,967,477</td>
<td>(235,773,535)</td>
<td>-</td>
<td>25,488,853</td>
</tr>
<tr>
<td>- Short-term promissory notes issued</td>
<td>322,954</td>
<td></td>
<td>-</td>
<td>(322,954)</td>
<td>1,071,028</td>
</tr>
<tr>
<td>- Long-term interest accrued on promissory notes</td>
<td>93,361</td>
<td>76,757</td>
<td>(327,686)</td>
<td>480,023</td>
<td>746,677</td>
</tr>
</tbody>
</table>

Information on RUB-denominated interest-bearing non-convertible bearer bonds issued as of 31 December is provided below:

Table 26. Information on RUB-denominated interest-bearing non-convertible bearer bonds (kRUB)

<table>
<thead>
<tr>
<th>Type of bonds</th>
<th>Series number</th>
<th>Issue date</th>
<th>Total nominal value, kRUB</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds</td>
<td>01, 05</td>
<td>October 2012</td>
<td>20,000,000</td>
<td>20,000,000</td>
<td>20,000,000</td>
</tr>
<tr>
<td>Bonds</td>
<td>07, 08</td>
<td>March 2013</td>
<td>50,000,000</td>
<td>50,000,000</td>
<td>50,000,000</td>
</tr>
<tr>
<td>Bonds</td>
<td>04', 08'</td>
<td>June 2013</td>
<td>60,000,000</td>
<td>700</td>
<td>610,658</td>
</tr>
<tr>
<td>Exchange-traded bonds</td>
<td>BO-07', BO-06'</td>
<td>October 2013</td>
<td>60,000,000</td>
<td>6,650</td>
<td>10,256,899</td>
</tr>
<tr>
<td>Exchange-traded bonds</td>
<td>BO-07, BO-07</td>
<td>February 2013</td>
<td>35,000,000</td>
<td>8,900</td>
<td>35,000,000</td>
</tr>
<tr>
<td>Exchange-traded bonds</td>
<td>BO-02, BO-03, BO-04, BO-08, BO-09, BO-10, BO-11, BO-12, BO-18, BO-19</td>
<td>December 2011, December 2012</td>
<td>225,000,000</td>
<td>9,460</td>
<td>225,000,000</td>
</tr>
<tr>
<td>Exchange-traded bonds</td>
<td>BO-15, BO-16, BO-17, BO-24</td>
<td>December 2013, December 2014</td>
<td>600,000,000</td>
<td>7,350</td>
<td>600,000,000</td>
</tr>
</tbody>
</table>

As of 31 December 2019, guarantees and sureties issued by the Company totaled 4,865,208,765 and included collateral provided in foreign currency in the amount of kUSD466,672 and kEUR7,888 at the CBR exchange rate at the transaction date. Terms pledged as collateral were as follows:

- Loans are partially secured by crude oil export contracts.
Table 29. Information on items pledged as collateral by type of pledge

<table>
<thead>
<tr>
<th>Items pledged as collateral</th>
<th>Share in the total collateral amount, %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue from sales of oil and oil products</td>
<td>50.81</td>
</tr>
<tr>
<td>Surplus</td>
<td>63.79</td>
</tr>
</tbody>
</table>

In the course of operating activities, Rosneft Oil Company follows the unconditional, unlimited and indefinite guarantee (surety) provided to the government of Norway and Norwegian government authorities in 2013, 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 Equinor (before July 2018 – Statoll ASA).

The cooperation between Rosneft Oil Company, Eni S. p. A and Equinor (before July 2018 – Statoll ASA) related to the projects on the Russian continental shelf is governed by mutual limited, unconditional and indefinite guarantees provided in 2013.

The cooperation between Rosneft Oil Company and Equinor (before July 2018 – Statoll ASA) to develop tight oil and gas reserves is governed by mutual unlimited, unconditional and indefinite guarantees of affiliates’ liabilities provided in 2015.

Table 30. Information on other long-term liabilities (kRUB)

<table>
<thead>
<tr>
<th>Other long-term liabilities, by type</th>
<th>Balance at the beginning of the year</th>
<th>Received (accrued)</th>
<th>Repaid (reclassified to short-term debt)</th>
<th>Balance at the end of the year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other long-term liabilities, including:</td>
<td>1,314,390,419</td>
<td>–</td>
<td>(335,366,547)</td>
<td>779,023,872</td>
</tr>
<tr>
<td>Long-term prepayments under crude oil and oil product supply contracts</td>
<td>1,018,520,678</td>
<td>3,267,967</td>
<td>(317,141,597)</td>
<td>744,570,208</td>
</tr>
</tbody>
</table>

In 2013 and 2014, the Company signed a number of long term oil and oil product 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 2019 and 2018, offset of prepayments under these contracts amounted to RUB344 billion and RUB328 billion (USD7.08 billion and USD7.03 billion at the CBR official exchange rate at the dates of prepayments, not subject to revaluation at the current exchange rate).

In the course of performing functions under the technical customer agreements, construction agreements are concluded, one of the terms of which is provisioning by the customer of part of the cost of construction work to be paid to the contractor after acceptance of completed facility. As of 31 December 2019, liabilities totaling RUB811,649,983 are reclassified to long-term accounts payable under the agreements whose terms provide for repayment of the reserved amounts in one year and later.

17. Assets and liabilities denominated in foreign currencies

Changes in foreign exchange rates, particularly in US dollar and euro rates, have a significant effect on the Company’s financial and business performance.

Table 31. Information on changes in RUB/USD and RUB/EUR exchange rates

<table>
<thead>
<tr>
<th>As at 31 December</th>
<th>Exchange rate</th>
<th>USD</th>
<th>EUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td></td>
<td>61.91</td>
<td>49.36</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td>69.47</td>
<td>79.68</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>57.60</td>
<td>68.87</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>60.46</td>
<td>63.81</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>72.88</td>
<td>79.70</td>
</tr>
</tbody>
</table>

For financial reporting purposes, foreign exchange differences are all operations to translate the value of assets and liabilities denominated in foreign currency and are to be recorded as other income or other expenses. The total (net) amount of all operations to translate the value of assets and liabilities denominated in foreign currency was RUB811,649,983 in the reporting period and was 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 RUB1,328 and foreign exchange losses of RUB2,974.

Foreign exchange differences arising in the reporting period from operations involving assets and liabilities denominated in foreign currency, and from translation of such assets and liabilities as of the reporting date, were taken to the other income and expense account, except for liabilities designated as hedging instruments (refer to Note 13).

Currency conversion transactions are recorded separately on a net basis in the income statement; the financial result is recorded either in other income or in other expenses depending on the net amount of income (expense) for each such transaction.

Table 32. Income and expenses from dealing in foreign currency (kRUB)

<table>
<thead>
<tr>
<th>Income and expenses</th>
<th>For 2019</th>
<th>For 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>7,450,735</td>
<td>14,245,972</td>
</tr>
<tr>
<td>Expenses</td>
<td>(54,466,083)</td>
<td>(64,297,541)</td>
</tr>
</tbody>
</table>

18. Taxes and levies, customs duties

The Company’s tax liabilities are recorded in accounting using the periodicity convention.

In 2019, statutory rates of the main taxes were as follows:
- Income tax – 20 %
- Value added tax – 20 %

Since 1 January 2012, Rosneft Oil Company and its 21 subsidiaries were combined into the consolidated taxpayer group. Rosneft Oil Company was appointed responsible participant of the consolidated taxpayer group.

Currently, in accordance with the provisions of the agreement, the number of participants of the consolidated taxpayer group increased to 64 entities.

The mineral extraction tax to be included in the cost of products, goods, work and services sold amounted to RUB851,463,520 in 2019 (RUB821,936,275).

In 2019, the accrued export duty amounted to RUR702,733,622 (2018: RUB993,501,181).

Information on settlements with the budget and state non-budgetary funds is presented in the table below:

Table 33. Settlements with the budget and state non-budgetary funds (kRUB)

<table>
<thead>
<tr>
<th>Item</th>
<th>At 31 December 2019</th>
<th>At 31 December 2018</th>
<th>At 31 December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total receivables from the budget and state non-budgetary funds</td>
<td>110,217,319</td>
<td>96,014,921</td>
<td>53,345,146</td>
</tr>
<tr>
<td>Value added tax (VAT)</td>
<td>95,094,404</td>
<td>91,483,058</td>
<td>50,870,082</td>
</tr>
<tr>
<td>Excise duty</td>
<td>15,043,880</td>
<td>14,532,863</td>
<td>3,475,064</td>
</tr>
<tr>
<td>Income tax</td>
<td>4,335,091</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other taxes and levies receivable</td>
<td>62,225</td>
<td>66,915</td>
<td>1,936,929</td>
</tr>
<tr>
<td>Revenues from state non-budgetary funds</td>
<td>16,808</td>
<td>20,376</td>
<td>35,064</td>
</tr>
<tr>
<td>Total payables to the budget and state non-budgetary funds</td>
<td>100,730,066</td>
<td>72,371,917</td>
<td>71,118,709</td>
</tr>
<tr>
<td>Mineral extraction tax (MET)</td>
<td>70,463,836</td>
<td>69,370,239</td>
<td>66,819,583</td>
</tr>
<tr>
<td>Tax on additional income from extraction of hydrocarbons (additional income tax, AIT)</td>
<td>21,794,247</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>
As of 31 December 2019, taxes and levies receivable increased by RUB14,202,398 year-on-year, primarily due to the introduction of the reverse (negative) excise duty mechanism from 1 January 2019, applied to crude oil refined at refineries.

As of 31 December 2019, taxes and levies payable increased by RUB828,358,149 year-on-year, primarily due to the introduction of the tax on additional income from the extraction of hydrocarbons (AIF).

As of 31 December 2019, 2018 and 2017, the Company did not have any overdue taxes and levies payable.

According to provisions of the Russian Tax Code, desk-top and field tax audits may cover three calendar years preceding the year in which a decision to hold the tax audit is taken. The Company’s management believes that the results of tax audits will not have a material impact on the Company’s financial position because tax liabilities are determined in accordance with requirements of the tax legislation.

### 19. Equity

#### Charter capital

As of 31 December 2019, the Company’s charter capital amounts to RUB105,981,778.17 and is divided into 10,598,177,817 common shares with a par value of RUB.01 each.

#### Reserve and additional capital

The Company’s reserve capital and represents reserve capital in accordance with constituent documents and is equal to 5% of the charter capital. As of 31 December 2019, the reserve capital is fully formed and amounts to RUB85,299.

As of 31 December 2019, the Company’s additional capital (without revaluation) amounts to RUB118,168,244 (31 December 2018: RUB113,279,869) Treasury shares.

The Company may acquire common shares in Rosneft Oil Company in accordance with the Programme for purchasing shares in the open market, including in the form of depositary receipts which confer rights to such shares, in the maximum amount of USD2 billion, approved by the Board of Directors in August 2018 (hereinafter, the ‘Programme’). The Programme will be implemented from the date of the approval by the Board of Directors through 31 December 2020.

The maximum number of shares and global depositary receipts that may be purchased under the Programme will not exceed 340,000,000. The Programme is aimed at securing high returns for the shareholders in case of significant market volatility.

In 2019, there were no transactions to purchase treasury shares.

#### Net assets

As of 31 December 2019, the Company’s net assets amounted to RUB12,261,771.078. The net assets increased by RUB235,300,651 or 12% compared with the prior reporting date (RUB2,026,470,417). As of 31 December 2019, the Company’s net assets exceed its charter capital by RUB12,261,665,096.

### 20. Income and expenses, retained earnings

Revenues from sales of goods, work and services is recognized as and when the goods are shipped, work is performed and services are rendered, and settlement documents are presented to customers (clients).

To ensure timely reflection of business events, if necessary, the Company uses the accrual method in accordance with Accounting Statement 9/99. Revenues of an Organization, provided that the criteria for revenue recognition are met. In this case, revenue is recognized based on updates provided by Company’s business units.

The Company applies a method that involves calculating 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).

From 1 January 2019, the Company realizes its right to refund the excise duty applied to its locally refined crude oil (reverse excise duty). This excise duty was recognized in the income statement within cost of sales by decreasing the cost of sales for the reporting period.

From 1 January 2019, tax on additional income from the extraction of hydrocarbons was introduced with respect to certain license areas of the Company and is subject to recognition within costs included in the cost of sales, without inclusion in the unit cost of finished goods.

Selling expenses are allocated between sold products (goods) and products (goods) that were shipped but not sold, including finished products (goods) at the warehouse.

The Company’s total advertising expenses (not broken down by type of products) are recognized in selling expenses.

The use of profit is recognized in accounting records and financial statements in the year following the reporting year pursuant to the decision of the shareholders’ meeting. A portion of the profit that was not paid out as dividends pursuant to the decision of the shareholders, is recognized in the financial statements in retained earnings (uncovered loss). If this profit is used for capital investments, the total balance of the retained earnings (uncovered loss) is not decreased.

As of 31 December 2019, retained earnings of prior years amounted to RUB1,908,151,961 (31 December 2018: RUB1,208,141,822).

Changes in the profit of prior years resulted mainly from accrued dividends in the amount of RUB120,077,355.

The following income and expenses affected the retained earnings for the reporting year:

#### Table 34. The Company’s income and expenses (RUB)

<table>
<thead>
<tr>
<th>Item</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (net) from the sale of goods, products, work, services (net of value added tax)</td>
<td>6,375,596,407</td>
<td>6,948,268,044</td>
</tr>
<tr>
<td>Including: Principal activities</td>
<td>6,351,266,655</td>
<td>6,727,346,040</td>
</tr>
<tr>
<td>Trading and procurement</td>
<td>1,951,307,874</td>
<td>1,486,550,050</td>
</tr>
<tr>
<td>Income from shareholdings in other entities</td>
<td>561,357,675</td>
<td>371,224,648</td>
</tr>
<tr>
<td>Intermediation</td>
<td>3,050,565</td>
<td>3,220,216</td>
</tr>
<tr>
<td>Cost of goods, products, work and services sold</td>
<td>6,827,526,407</td>
<td>6,415,236,703</td>
</tr>
<tr>
<td>Including: Principal activities</td>
<td>5,393,635,508</td>
<td>3,364,799,999</td>
</tr>
<tr>
<td>Trading and procurement</td>
<td>1,151,586,561</td>
<td>1,115,679,193</td>
</tr>
<tr>
<td>Oil and gas reserves exploration and estimation expenses</td>
<td>6,559,819</td>
<td>2,046,236</td>
</tr>
<tr>
<td>Gross profit</td>
<td>2,018,744,517</td>
<td>2,139,958,036</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>(1,199,875,437)</td>
<td>(1,429,476,675)</td>
</tr>
<tr>
<td>General and administrative expenses</td>
<td>(88,023,929)</td>
<td>(80,683,470)</td>
</tr>
<tr>
<td>Profit (loss) from the sale of goods, work and services</td>
<td>788,406,150</td>
<td>415,499,109</td>
</tr>
<tr>
<td>Profit (loss) from other income and expenses</td>
<td>(601,086,536)</td>
<td>(719,659,999)</td>
</tr>
<tr>
<td>Including:</td>
<td>179,846,160</td>
<td>186,773,202</td>
</tr>
</tbody>
</table>
### Table 36. Deferred and permanent tax assets and liabilities (kRUB)

<table>
<thead>
<tr>
<th>Description</th>
<th>Change for 2019</th>
<th>Change for 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax asset</td>
<td>Accrued (charged)</td>
<td>Accrued (charged)</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>Repaid (written off)</td>
<td>Repaid (written off)</td>
</tr>
<tr>
<td>Permanent tax asset</td>
<td>57,391,738</td>
<td>52,350,639</td>
</tr>
<tr>
<td>Permanent tax liability</td>
<td>(12,055,007)</td>
<td>(52,511,694)</td>
</tr>
</tbody>
</table>

In 2019, contingent income tax expense amounted to kRUB 69,508,329 (2018: kRUB 76,761,618).

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 and written-off deferred tax liabilities and assets that will never be realized. The deferred tax asset includes the Company's losses carried forward, which are not used to reduce income tax in the reporting (tax) period but which will be recognized for taxation purposes in subsequent reporting (tax) periods.

The permanent and temporary differences that led to the adjustment of the contingent income tax expense are presented in the table below.

### Table 37. Permanent and temporary differences that led to the adjustment of the contingent income tax expense (kRUB)

<table>
<thead>
<tr>
<th>Description</th>
<th>Change for 2019</th>
<th>Change for 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deductible temporary differences</td>
<td>Accrued (charged)</td>
<td>Accrued (charged)</td>
</tr>
<tr>
<td>Taxable temporary differences</td>
<td>Repaid (written off)</td>
<td>Repaid (written off)</td>
</tr>
<tr>
<td>Negative permanent differences</td>
<td>487,940,355</td>
<td>460,642,440</td>
</tr>
<tr>
<td>Positive permanent differences</td>
<td>(236,040,835)</td>
<td>(233,716,618)</td>
</tr>
</tbody>
</table>

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 records 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.
22. Dividends

Number of shares and their par value

According to constituent documents, charter capital represents the Company’s capital. The holders of common shares are entitled to one vote per share at shareholders’ meetings.

The Company issued 10,598,177,817 common shares with a par value of RUB50 each, for the total amount of RUB105,981,778.17.

Amount of dividends

In 2019, the Company’s net income amounted to kRUB396,526,209, and net earnings per share amounted to RUB37.41.

In the first half of 2020, the Board of Directors will provide recommendations to the General Shareholders’ Meeting on the amount of dividends on the Company’s shares for 2019.

Based on the Company’s result for 2018, the annual General Shareholders’ Meeting that took place on 4 June 2019 (meeting minutes with number of 7 June 2019) decided that dividends should be paid on Rosneft Oil Company’s common shares in the amount of kRUB120,050,331 or RUB11.33 per share. As of 31 December 2019, the Company paid dividends in the amount of kRUB162,539,622. Dividends were paid to all of the issuer’s registered shareholders except for shareholders who did not promptly notify the issuer’s registrar of changes in relevant data.

As of 31 December 2019, the Company paid dividends in the amount of kRUB120,077,355 or RUB11.33 per share. As of 31 December 2019, the Company paid dividends in the amount of kRUB105,981,778.17.

23. Subsequent events

There were no economic events after 31 December 2019 that have had or may have an effect on the financial position, cash flows or operating results of the Company.


The Company is involved in litigations, which arise from time to time in the course of its business activities. Management of the Company believes that the ultimate result of those litigations will not materially affect the performance or financial position of Rosneft Oil Company.

Due to the pollution of oil in the trunk pipeline “Druzhba” in April 2019 a number of claims from the customers were submitted to Rosneft Oil Company during 2019, stating that the supplied oil substantially exceeded maximum permitted levels of technical regulations and standards.

In addition, the Company received claims from customers that did not receive the contracted amounts of oil due to the oil pumping interruption in the trunk oil pipeline “Druzhba” resulting from the pollution.

Calculation of losses incurred by Rosneft Oil Company can be finalized after the completion of the comprehensive assessment of the impact of the incident on the Company’s activities (including the forced reduction in oil production due to the reduced oil intake into the system of PJSC Transneft), obtaining a complete and legally supported claims from all counterparties and their re-submission to PJSC Transneft for compensation.

A provision is an obligation of the Company with an indefinite amount and/or time of settlement. A provision may arise:

- From laws and other regulations, court rulings or agreements.
- As a result of the Company’s activities which indicate, based on the existing practices or statements of the Company, that the Company undertakes certain obligations and, consequently, is reasonably expected to settle these obligations.

A provision is recognized in accounting records when all of the following criteria are met:

- The Company has an obligation resulting from its past business operations that cannot be avoided in case of doubt concerning such liability, the Company shall recognize an estimated liability if, based on the results of analysis of all circumstances and conditions, including expert opinions, it is more likely than not that a liability exists.
- It is likely that settling the provision will result in an outflow of the Company’s economic benefits (the likelihood is > 50%).
- The amount of the provision can be reliably estimated.

Provisions, contingencies and commitments are not absolute legal obligations of Rosneft Oil Company.

Pursuant to Accounting Statement 8/2010, Provisions, Contingent Liabilities and Contingent Assets (effective from the date of issue of the financial statements in 2011), the Company has environmental provisions.

An environmental provision arises from the environmental impact resulting from the Company’s operations.

The amount of the environmental provision is determined based on the estimated expenditures (planned expenditures) of the Company that are expected to be incurred for settling the provision during restoration of the impacted lands and water bodies as of the reporting date. The estimation is performed based on the Company’s internal (management) reports that form the system of environmental information.

The information about the Company’s provisions is presented in the table below.

### Table 38. Provisions (kRUB)

<table>
<thead>
<tr>
<th>Provision Description</th>
<th>Period</th>
<th>Balance at the beginning of the period</th>
<th>Recognized (accrued) for the reporting period</th>
<th>Written off (repaid) against costs or accounts payable recognized</th>
<th>Increase (–) / decrease (+) of provision, when expense/ income (reversal) of expense is recognized upon recognition of provisions</th>
<th>Balance at the end of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total provisions created from expenses on ordinary activities, including by type of provisions:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
25. Related party transactions

In the normal course of its business, Rosneft Oil Company enters into transactions with entities which are related parties in accordance with Russian law.

The list of related parties was developed based on the relationships between the entities, taking into account the substance over form requirement. 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 IFRS24, 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)
- Principal owners (shareholders holding more than 10% of the voting shares, or having significant impact based on other reasons) and state-controlled entities
- Joint venture participants (that are not a legal entity and proportionately consolidated)
- Other related parties

The Cash flows section of the Table discloses information in the event of significant cash flows by group of related parties (more than 10% of any item of the cash flow statement).

Table 39. Information on transactions with subsidiaries (kRUB)

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>53,750,988.00</td>
<td>58,434,030.00</td>
</tr>
<tr>
<td>Recognition</td>
<td>(1,485,288.00)</td>
<td>(1,264,571.00)</td>
</tr>
<tr>
<td>Balance</td>
<td>52,265,700.00</td>
<td>57,169,459.00</td>
</tr>
</tbody>
</table>

Provision for fixed asset liquidation
- Formed on all immovable oil and gas assets.
- The provision is recognized at present value.
- Total: 56,750,408.00

Environmental provisions
- Obligations to be included in the value of assets (SFR): 1,453,422.00
- Total: 1,656,348.00

The provision for fixed asset liquidation presented in the column Recognized (accrued) for the reporting period in Table 38 includes the provision and expenses on discount amortization (interest) recognized as a result of nearing the settlement date of the provisions. The increase in the provision for the reporting period (interest) as a result of nearing the provision 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, the rate and the discount period are presented in the column Increase (+) / decrease (-) of provision when expense/income (reversal of expense) is recognized upon recognition of provisions in Table 38.

The environmental provision presented in the column Increase (+) / decrease (-) of provision when expense/income (reversal of expense) is recognized upon recognition of provisions in Table 38 includes effects from the revised estimations of value and the extent to which an obligation is settled, effects of discount rate change, reclassification between types of provisions created from expenses on ordinary activities and by increasing asset value.

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 common voting shares, or which are controlled by other means.
Table 40. Assets and liabilities under transactions with subsidiaries (kRUB)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Balance at 31 December 2019</th>
<th>Balance at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>23,905,936</td>
<td>19,088,002</td>
</tr>
<tr>
<td>Accounts receivable, including Oil and gas sales</td>
<td>2,970,445,681</td>
<td>2,085,545,679</td>
</tr>
<tr>
<td>Long-term accounts receivable</td>
<td>2,098,170,151</td>
<td>1,610,680,068</td>
</tr>
<tr>
<td>Advances issued for capital construction and equipment for installation</td>
<td>16,662,208</td>
<td>16,910,643</td>
</tr>
<tr>
<td>Short-term advances issued</td>
<td>7,393,201</td>
<td>7,356,489</td>
</tr>
<tr>
<td>Allowance for impairment of accounts receivable</td>
<td>1,679,073</td>
<td>2,099,318</td>
</tr>
<tr>
<td>Short-term and long-term financial investments, including long-term</td>
<td>4,297,588,772</td>
<td>4,589,546,397</td>
</tr>
</tbody>
</table>

| **Liabilities** |                               |                             |
| Accounts payable | 1,922,556,936 | 1,540,359,642 |
| Short-term and long-term loans and borrowings (including interest) | 1,951,359,028 | 1,849,749,169 |
| Including long-term | 1,732,886,196 | 1,562,977,725 |

| **Proceeds** |                               |                             |
| 9,241,689,608 | 8,834,149,778 |

Table 41. Information on transactions with associates (kRUB)

<table>
<thead>
<tr>
<th>Transactions</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales revenue and other income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil and gas sales</td>
<td>9,950,798</td>
<td>9,915,028</td>
</tr>
<tr>
<td>Petroleum products and petrochemicals sales</td>
<td>200,390,043</td>
<td>205,991,830</td>
</tr>
<tr>
<td>Income from leasing out property</td>
<td>539,993</td>
<td>246,192</td>
</tr>
<tr>
<td>Income from shareholdings in other entities</td>
<td>1,347,139</td>
<td>6,385</td>
</tr>
<tr>
<td>Other income</td>
<td>1,756,620</td>
<td>871,881</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>215,758,393</td>
<td>247,046,100</td>
</tr>
</tbody>
</table>

| **Costs and expenses** | | |
| Oil and gas purchases | 270,540,672 | 275,758,918 |
| Logistics and transportation | 32,394,201 | 21,516,526 |
| Leases of assets | 259,032 | 227,032 |
| Cost of processing | 15,552,240 | 16,351,649 |
| Other expenses | 1,667,546 | 9,076,715 |
| **Total** | 620,042,631 | 616,046,209 |

| **Other transactions** | | |
| Loans and borrowings issued | 6,470,969 | 5,800,336 |
| Repayment of loans and borrowings issued | 2,879,300 | 1,676,200 |
| Proceeds from short-term loans and borrowings | 26,351,823 | 15,370 |
| Repayment of short-term loans and borrowings | 25,235,422 | 46,830 |
| Proceeds from long-term loans and borrowings | 33,577,913 | 9,773,280 |
Table 42. Assets and liabilities under transactions with associates (kRUB)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Balance at 31 December 2019</th>
<th>Balance at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable, including</td>
<td>31,843,180</td>
<td>33,863,180</td>
</tr>
<tr>
<td>Long-term accounts receivable</td>
<td>1,990,904</td>
<td>4,166,926</td>
</tr>
<tr>
<td>Advances issued for capital construction and equipment for installation</td>
<td>1,114,412</td>
<td>65,975</td>
</tr>
<tr>
<td>Allowing for impairment of accounts receivable</td>
<td>6,757,930</td>
<td>5,311,647</td>
</tr>
<tr>
<td>Short-term and long-term financial investments, including long-term</td>
<td>50,341,956</td>
<td>47,825,081</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>317,677,080</td>
<td>317,677,080</td>
</tr>
<tr>
<td>Short-term and long-term loans and borrowings (including interest)</td>
<td>105,000,000</td>
<td>105,000,000</td>
</tr>
<tr>
<td>Including long-term</td>
<td>105,000,000</td>
<td>105,000,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>85,502,815</td>
<td>82,847,765</td>
</tr>
</tbody>
</table>

Table 43. Information on transactions with principal owners and entities controlled by principal owners (kRUB)

<table>
<thead>
<tr>
<th>Transactions</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales revenue and other income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil and gas sales</td>
<td>284,219,192</td>
<td>281,462,006</td>
</tr>
<tr>
<td>Petroleum products and petrochemical sales</td>
<td>136,302,371</td>
<td>108,393,764</td>
</tr>
<tr>
<td>Income from transactions involving term transaction financial instruments</td>
<td>791,800</td>
<td>602,233</td>
</tr>
<tr>
<td>Income from shareholdings in other entities</td>
<td>211,668</td>
<td>155,628</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>321,792</td>
<td>1,533,127</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>359,668,893</td>
<td>310,918,704</td>
</tr>
<tr>
<td><strong>Costs and expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oil and gas purchases</td>
<td>321,248,813</td>
<td>319,342,551</td>
</tr>
<tr>
<td>Oil products purchases</td>
<td>1,386,467</td>
<td>2,910,840</td>
</tr>
<tr>
<td>Logistics and transportation</td>
<td>362,053,540</td>
<td>340,640,445</td>
</tr>
<tr>
<td>Customs duties</td>
<td>728,076,630</td>
<td>973,983,486</td>
</tr>
<tr>
<td>Leases of assets</td>
<td>112,808</td>
<td>126,177</td>
</tr>
<tr>
<td>Expenses from transactions involving term transaction financial instruments</td>
<td>31,432,282</td>
<td>31,477,934</td>
</tr>
<tr>
<td>Other expenses</td>
<td>2,872,510</td>
<td>3,222,638</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,500,529,709</td>
<td>1,616,647,603</td>
</tr>
<tr>
<td><strong>Other transactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings issued</td>
<td>6,572,586</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from short-term loans and borrowings</td>
<td>105,000,000</td>
<td>105,000,000</td>
</tr>
<tr>
<td>Repayment of short-term loans and borrowings</td>
<td>293,000,000</td>
<td>293,000,000</td>
</tr>
<tr>
<td>Proceeds from long-term loans and borrowings</td>
<td>112,500,000</td>
<td>-</td>
</tr>
<tr>
<td>Repayment of long-term loans and borrowings</td>
<td>112,500,000</td>
<td>-</td>
</tr>
<tr>
<td>Deposits placed</td>
<td>3,064,377,555</td>
<td>4,306,853,257</td>
</tr>
<tr>
<td>Deposits repaid</td>
<td>3,171,366,359</td>
<td>4,265,053,607</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>36,321,521</td>
<td>30,642,119</td>
</tr>
<tr>
<td>Interest receivable</td>
<td>9,756,564</td>
<td>11,216,689</td>
</tr>
<tr>
<td><strong>Cash flows</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td>105,000,000</td>
<td>105,000,000</td>
</tr>
<tr>
<td>Interest on debt obligations</td>
<td>36,673,726</td>
<td>36,673,726</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds</td>
<td>36,555,253</td>
<td>49,897,794</td>
</tr>
<tr>
<td>Sale of debt securities (receivables from other parties)</td>
<td>46,727,963</td>
<td>43,973,767</td>
</tr>
<tr>
<td>Other proceeds</td>
<td>36,555,253</td>
<td>49,897,794</td>
</tr>
<tr>
<td>Payments</td>
<td>17,959,569</td>
<td>(8,811,789)</td>
</tr>
<tr>
<td>Related to purchase of debt securities (receivables from other parties), issue of loans to other entities</td>
<td>17,959,569</td>
<td>(8,811,789)</td>
</tr>
<tr>
<td>Exploration assets</td>
<td>(8,646,674)</td>
<td>(1,002,303)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments</td>
<td>36,555,253</td>
<td>49,897,794</td>
</tr>
<tr>
<td>Dividends and other distributions of income among shareholders (participants)</td>
<td>36,555,253</td>
<td>49,897,794</td>
</tr>
</tbody>
</table>

Information on compensation paid to key management personnel

For information disclosure purposes, key management personnel include members of the Management Board and members of the Board of Directors of Rosneft Oil Company. In 2019 and 2018, short-term compensation to the members of the Management Board taking in account the rotation of the management staff, including salary, bonuses and compensations and considering personal income tax, amounted to 9,995,701 and 9,995,701, respectively (social insurance contributions paid to the budget of the Russian Federation under the law, which are not income of the members of the Management Board, amounted to 29,371,128 and 29,371,128, respectively). The amount of short-term compensation to members of the Management Board and members of the Board of Directors for 2019 is disclosed in accordance with the Russian legal requirements for disclosure of information by issuers of securities.

Principal owners and entities controlled by principal owners

This section discloses the information about transactions with principal owners (legal entities and individuals) that hold more than 10% of the total number of votes that relate to voting shares, and entities controlled by principal owners, including state-controlled entities.
Table 44. Assets and liabilities under transactions with principal owners and entities controlled by principal owners (kRUB)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Balance at 31 December 2019</th>
<th>Balance at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>33,562,156</td>
<td>473,944,965</td>
</tr>
<tr>
<td>Accounts receivable, including long-term accounts receivable</td>
<td>528,356,606</td>
<td>173,677,791</td>
</tr>
<tr>
<td>Advances issued for capital construction and equipment for installation</td>
<td>32,809,482</td>
<td>28,237,500</td>
</tr>
<tr>
<td>$\text{- Short-term advances issued}$</td>
<td>35,002,026</td>
<td>29,653,656</td>
</tr>
<tr>
<td>Allowance for impairment of accounts receivable</td>
<td>10,545</td>
<td>9,156</td>
</tr>
<tr>
<td>Short-term and long-term financial investments, including long-term</td>
<td>87,665,845</td>
<td>94,324,665</td>
</tr>
<tr>
<td>Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>6,753,387</td>
<td>10,710,206</td>
</tr>
<tr>
<td>Short-term and long-term loans and borrowings (including interest), including long-term</td>
<td>340,518,402</td>
<td>615,753,497</td>
</tr>
<tr>
<td>Allowance for impairment of accounts payable</td>
<td>10,545</td>
<td>9,156</td>
</tr>
<tr>
<td>Short-term and long-term financial investments, including long-term</td>
<td>87,665,845</td>
<td>94,324,665</td>
</tr>
</tbody>
</table>

Table 45. Information on transactions with other related parties (kRUB)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Balance at 31 December 2019</th>
<th>Balance at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivables</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>3</td>
<td>-</td>
</tr>
</tbody>
</table>

Joint venture participants

There are no transactions with companies involved in joint activities with Rosneft Oil Company for the period of 2018–19. Other related parties

Other related parties include a non-state pension fund operating in the interests of the Company's employees.

Table 46. Assets and liabilities under transactions with other related parties (kRUB)

<table>
<thead>
<tr>
<th>Assets and liabilities</th>
<th>Balance at 31 December 2019</th>
<th>Balance at 31 December 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts receivables</td>
<td>3</td>
<td>-</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>3</td>
<td>-</td>
</tr>
</tbody>
</table>

In the reporting period, Rosneft Oil Company mainly used the monetary form of settlements with related parties.

26. Segment information

The Company, its subsidiaries and associates (hereinafter, the “Rosneft Oil Company Group”) operate as a vertically integrated business. The Rosneft Oil Company Group is principally engaged in the exploration, development, production and sales of oil and gas, as well as the production, transportation and sales of petroleum products in the Russian Federation and abroad. Management information, which is regularly analyzed by those persons with the power to make decisions on resource allocation in the Company and further performance evaluation, is prepared for the business purposes of Rosneft Oil Company Group as a whole. Given the fact that the business of the Company as a legal entity is an integral part of the Group management, management decision-making and resource allocation is performed by the duly authorized persons at the level of Rosneft Oil Company Group; certain management reports reflecting financial performance, the amount of assets and liabilities by segment, which refer only to the Company's operations and are not related to the Group in general, are not prepared for business lines. Therefore, segment information is fully disclosed in the consolidated financial statements of the Rosneft Oil Company Group.

Information on revenue broken down by segment is presented in the explanatory notes below, as this data is provided to the Company's authorized representatives on a regular basis. Segment information was prepared taking into account the economic, foreign currency, credit and price risks the Company may be exposed to.

Table 47. Information on sales revenue by segment (kRUB)

<table>
<thead>
<tr>
<th>Segment</th>
<th>Net revenue for the reporting year (kRUB)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
</tr>
<tr>
<td>Oil</td>
<td>5,547,288,489</td>
</tr>
<tr>
<td>Gas</td>
<td>173,833,584</td>
</tr>
<tr>
<td>Oil products and petrochemicals</td>
<td>2,441,997,768</td>
</tr>
<tr>
<td>Other sales</td>
<td>675,929,966</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,827,536,647</td>
</tr>
</tbody>
</table>

Oil includes sales of oil and gas condensate.

Gas includes sales of natural gas, APG and DSG. Oil products and petrochemicals include sales of oil and gas refinery products.

Other sales include the sales of other goods, public catering products, rendering of services, dividends, lease of fixed assets, etc.

Related information

27. Related information

27.1 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.

27.2 Insurance

The Company continues to insure its property, motor vehicles, cargoes, shipments, construction works and the liability of its officials. 27.3 Energy resources

Information on the total costs related to energy resources used is given below1


2. In accordance with Article 2 of Federal Law No. 261-FZ, an energy carrier 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).
27.4 Risk management

Business environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Russian government.

The Russian economy has been negatively affected by sanctions imposed on Russia by a number of countries. The ruble interest rates remain high. The combination of the above resulted in reduced access to capital, a higher cost of capital and increased uncertainty regarding economic growth, which could negatively affect the Company’s future financial position, operating results and business prospects.

Management is taking appropriate measures to support the sustainability of the Company’s business in the current circumstances.

Risks and opportunities associated with climate change

Within the framework of its corporate risk management system, the Company on an annual basis identifies and evaluates risks and opportunities relevant to its business activities, including those related to climate change.

In the process of investment decision making, the risks associated with health, safety and environment (HSE), ecology, and climate change are analyzed. For large projects, the analysis of the alignment with the Company’s strategic goals, environmental standards and requirements of the Russian legislation and international organizations is performed, as well as the analysis and assessment of external risks related to the impact on the environment (changes in legislation, changes in technologies, market risks, reputational risks, etc.). In addition, the risks and opportunities associated with climate change and the transition to low-carbon energy are considered in the Company’s strategic management and business planning processes (especially for projects located in climate-sensitive regions: marine projects, Arctic projects, etc.) as well as in preparing various development scenarios for the world energy industry.

Table 48. Information on resources used (kRUB)

<table>
<thead>
<tr>
<th>No.</th>
<th>Energy resource</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Electric energy</td>
<td>36,675</td>
<td>33,805</td>
</tr>
<tr>
<td>2</td>
<td>Heat energy</td>
<td>4,908</td>
<td>4,793</td>
</tr>
</tbody>
</table>

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: 02А-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: 1027700043562

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; storage and sale (including sale in the domestic market and export) of oil, gas, oil products, coal, electric power, woodworking products, and other hydrocarbon and other derivatives.

Pursuant to Decree of the Government of the Russian Federation dated August 20, 2009, No. 1226-r, Rosneft has been included into the list of strategic enterprises charged with implementation of uniform public policy in those branches of economy where such entities operate.

Pursuant to Decree of the President of the Russian Federation dated May 21, 2012, No. 688, Rosneft has been included into the list of strategic enterprises and strategic joint stock companies.
CONTACT DETAILS

Full Name:
Public Joint-Stock Company
Rosneft Oil Company

Abbreviated Name:
PSC Rosneft Oil Company

Location of the Company:
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Telex: 114409 ROSNEFT
E-mail: support@rosneft.ru

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Corporate Governance Department, Rosneft
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8-800 000 11-00 (calls from Russia toll-free)
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E-mail: shareholder@rosneft.ru

For Institutional Investors:
Investor Relations Department,
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E-mail: ir@rosneft.ru

IFRS Auditor of the Company:
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77 Sadovo-Spasskaya Embankment,
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Telephone: +44 207 134 65 18

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English Version: www.rosneft.com