

# **Appendix 2**

**(Key Risk Factors)**

No.	Business area	Risk	Risk description	Rosneft's risk management practice
<b>Industry-wide risks</b>				
1	Occupational health and safety	Risk of occupational injuries	The risk is related to lost-time injuries of the Company's employees or contractors	<p>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:</p> <ul style="list-style-type: none"> <li>holding occupational safety trainings;</li> <li>exercising control over the safety of fire, gas hazardous and excavation works when approving the work permits; assessing the related risks;</li> <li>exercising control over equipping vehicles of the Group Subsidiaries and contractors with in-vehicle monitoring systems and two-way dashboard cameras;</li> <li>providing support to the key development funds and projects</li> </ul>
2	Gas business	Risk of failure to achieve natural gas and gas condensate production targets	The risk is related to the failure to achieve natural gas and gas condensate production targets specified in the Company's business plan;	<p>Key measures to manage the risk of failure to achieve gas and gas condensate production targets include:</p> <ul style="list-style-type: none"> <li>carrying out regular well logging;</li> <li>planning and executing well interventions;</li> <li>monitoring the financials of Gas Business' contractors for signs of bankruptcy;</li> <li>ensuring timely updates of the routine preventive overhaul plans and budgets and exercising control over preventive repairs</li> </ul>
3	Gas business Exploration and production Refining, petrochemicals, commerce and logistics	Risk related to rising purchase prices for electric power	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	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
4	Refining, petrochemicals, commerce and logistics	Risk of failure to comply with the repair plan in Oil Refining	The risk of a decline in financial and operating performance caused by delays in the maintenance works at the Oil Refining production facilities	<p>The risk management measures include:</p> <ul style="list-style-type: none"> <li>monitoring the contractual delivery times; considering the purchases of available alternatives; ensuring the minimum emergency stock;</li> <li>organising inspections at the manufacturer's site during the production of equipment;</li> <li>preparing the procurement and maintenance requests, including the selection criteria (equipment, the availability of qualified personnel, the availability of own repair facilities, etc.)</li> </ul>
5	Refining, petrochemicals, commerce and logistics	Risk of price restrictions resulting in a lower gross margin from petroleum product sales through Rosneft's own filling stations and oil depots in Russia	Risk of price restrictions resulting in a lower gross margin from small wholesale and retail sales of petroleum products	The risk is taken into account due to the limited impact on the decision-making regarding fixing (freezing) retail prices for oil products

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6	Exploration and production	Risk of failure to achieve oil and gas condensate production targets	The risk is related to the failure to achieve oil and gas condensate production targets specified in the Company's business plan	<p>Rosneft is a global leader in terms of oil reserves and has significant potential to increase its resource base. For many years, our replacement ratio for proven SEC hydrocarbon reserves has remained over 100%. Rosneft is committed to maintaining the ratio at 100% and above by growing its proven SEC reserves.</p> <p>The risk management measures include:</p> <ul style="list-style-type: none"> <li>ensuring continuous monitoring and timely adjustment of the production drilling Programme;</li> <li>monitoring well interventions, including timely proposal of candidates; the availability of resources (approved funding, the availability of workers); the use of technologies, etc.;</li> <li>monitoring the preparation of engineering design documentation;</li> <li>ensuring continuous monitoring and timely adjustment of the oil delivery schedule; continuous monitoring of oil availability in the tank fleets of the Group's producing Subsidiaries;</li> <li>exercising control over the changes in design solutions during the construction, analysis of the impact the changes in the approved design and estimate documentation would have on the completion date and cost of the construction, and accounting for these changes</li> </ul>
7	Refining, petrochemicals, commerce and logistics	Risk of lower quality of refinery feedstock	Adverse changes in the Company's financial and operating performance as a result of lower quality of feedstock supplied for refining	<p>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:</p> <ul style="list-style-type: none"> <li>stopping the receipt of a given batch of oil and/or its redirection to storage facilities; filing complaints;</li> <li>making adjustments to the processing unit's operation mode; adjusting the production Programme</li> </ul>
8	Refining, petrochemicals, commerce and logistics	Risk of failure to achieve natural gas sales targets	The risk is related to the decline in gas and gas condensate sales below the levels projected in the approved business plan;	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
9	Refining, petrochemicals, commerce and logistics	Risk of counterparties using unconventional pricing terms	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	The risk is taken into account due to the limited impact on the counterparties' pricing choice under the concluded crude oil and petroleum products supply contracts
10	Refining, petrochemicals, commerce and logistics	Risk of lower EBITDA from harbour services	The risk is related to potential restrictions of the towboats' operations in Primorsk and Novorossiysk ports in 2020	<p>To compensate for lost profit caused by restrictions of the towboats' operations in Primorsk and Novorossiysk ports, the following actions will be taken:</p> <ul style="list-style-type: none"> <li>using towboats on alternative routes to service vessels carrying non-liquid cargo</li> </ul>
11	Occupational health and safety	Risk of accidents	The risk of the breakdown of the facilities and/or equipment used at a hazardous industrial facility, uncontrolled explosion and/or pollutant emissions	<p>Rosneft has a dedicated HSE management system, which brings together resources and procedures essential to both prevent, and respond to, hazardous occurrences. The management measures for accident risks include:</p> <ul style="list-style-type: none"> <li>providing support to the key development funds and projects</li> <li>implementing the insurance Programme for the main production assets (reparation of damages)</li> </ul>
12	Refining, petrochemicals, commerce and logistics Gas business	Risk of failure to achieve natural gas price targets	The risk is related to potential lack of gas price indexation in the second half of 2020	Supporting the indexation of regulated gas prices when discussing pricing matters with government bodies and the expert community

№ п/п	Направление деятельности	Наименование риска	Описание риска	Практика управления риском в Компании
<b>Financial risks</b>				
13	Corporate functions Exploration and production Gas business Refining, petrochemicals, commerce and logistics	Market risks	Market risks include price, currency and interest rate risks	<p>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 capex and opex to meet its commitments and obligations if prices for oil, gas, and petroleum products should plummet.</p> <p>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.</p> <p>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</p>
14	Refining, petrochemicals, commerce and logistics	Credit risk related to crude oil, petroleum products, natural gas, petrochemicals and gas processing products supply contracts	Risk of losses due to a counterparty's default on, or failure to timely or completely fulfil its obligations owed to the Company under any revenue or expenditure contract entered into by Rosneft or any of the Group Subsidiaries	<p>The Company manages its credit risk by implementing the following risk management measures:</p> <ul style="list-style-type: none"> <li>using security interests to cover its credit risks (via bank guarantees, letters of credit, etc.);</li> <li>performing more frequent checks to assess the financial position of counterparties to major transactions posing credit risk under unsecured contracts;</li> <li>implementing controls to authorise shipments and shipping orders and ensure that all sales contracts are backed properly by financial instruments</li> </ul>
15	Refining, petrochemicals, commerce and logistics	Counterparty risk related to long-term advance payment crude oil and petroleum products supply contracts	Risk of losses due to a counterparty's default on, or failure to timely or completely fulfil its obligations owed to the Company under any advance payment expenditure contract	<p>The risk management measures include:</p> <ul style="list-style-type: none"> <li>monitoring the coverage of outstanding amounts against the planned supplies;</li> <li>discussing and monitoring shipment schedules</li> </ul>
16	Corporate functions	Risk of tax claims and risk of losing tax benefits	Risk of financial losses due to concerns brought forward by tax authorities or of the Company being no longer eligible for tax benefits	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
17	Corporate functions Exploration and production Gas business Refining, petrochemicals, commerce and logistics	Risk of default/cross-default	Risk of being unable to timely and/or fully meet the Company's obligations under its debt financing agreements or long-term advance payment crude oil and petroleum products supply contracts	<p>The risk management measures include:</p> <ul style="list-style-type: none"> <li>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;</li> <li>keeping track of payment schedules within the debt and financial derivatives portfolios;</li> <li>monitoring the level of debt covenants specified in the outstanding loan agreements</li> </ul>

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<b>Legal risks</b>				
18	Corporate functions	Risk of adverse judgements in legal proceedings to which the Company is a party	Risk of financial losses due to adverse court rulings in proceedings to which the Company is a party	Rosneft continuously monitors laws, judicial 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 for, 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
19	Refining, petrochemicals, commerce and logistics	Risk of breach of competition laws	Rosneft has a significant share in Russian wholesale markets for petrols, 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	<p>The risk management measures include:</p> <ul style="list-style-type: none"> <li>updating internal regulations on pricing and selling petroleum products based on anti-trust laws and regulations and amendments thereto (if necessary);</li> <li>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;</li> <li>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);</li> <li>if 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</li> </ul>
<b>Country and regional risks</b>				
20	Exploration and production  Refining, petrochemicals, commerce and logistics	Risk related to international projects	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 materialise, they might adversely impact such projects' implementation.	<p>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.</p> <p>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, optimising the investment Programme, introducing restructuring initiatives, as well as ensuring the safety of the Company's employees.</p>